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TO AUTHORIZE THE UNITED STATES TO PROVIDE
ADDITIONAL FINANCIAL RESOURCES TO THE ASIAN
DEVELOPMENT BANK AND THE INTER-AMERICAN
DEVELOPMENT BANK

GOVERNMENT

DOCUMENTS

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HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

FIRST SESSION

ON

H.R. 5013

A BILL TO AUTHORIZE UNITED STATES CONTRIBUTIONS TO THE
SPECIAL FUNDS OF THE ASIAN DEVELOPMENT BANK

H.R. 5014

A BILL TO AUTHORIZE PAYMENT AND APPROPRIATION OF
THE SECOND AND THIRD INSTALLMENTS OF THE UNITED
STATES CONTRIBUTION TO THE FUND FOR SPECIAL OPERA-
TIONS OF THE INTER-AMERICAN DEVELOPMENT BANK

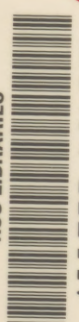
OCTOBER 26, 1971

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COLLEGE

The first of the three main parts of the book is a history of the college from its founding in 1863 to the present. The second part is a description of the college's present state, and the third part is a description of the college's future.

The history of the college is a story of growth and change. It began as a small school for boys, and over the years it has grown into a large university with a wide range of programs and a diverse student body. The college has faced many challenges over the years, but it has always emerged stronger and more resilient.

The present state of the college is one of great achievement. It has a strong reputation for academic excellence, and it has a wide range of programs and services that meet the needs of its students. The college is a place where students can find the resources they need to succeed in their studies and in their lives.

The future of the college is bright. It has a strong foundation, and it has the resources and the talent to continue to grow and to thrive. The college is a place where students can find the resources they need to succeed in their studies and in their lives.

TO AUTHORIZE THE UNITED STATES TO PROVIDE ADDITIONAL FINANCIAL RESOURCES TO THE ASIAN DEVELOPMENT BANK AND THE INTER-AMERICAN DEVELOPMENT BANK

TUESDAY, OCTOBER 26, 1971

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

The subcommittee met pursuant to call, at 10:20 a.m., in room 2128, Rayburn Office Building, Hon. Henry B. Gonzalez (chairman) presiding.

Present: Representatives Gonzalez, Reuss, Ashley, Hanna, Rees, Hanley, and Frenzel.

Mr. GONZALEZ. We have approximately two-thirds of the members who indicated they would be present this morning. Before we recognize the witnesses that are listed to be heard this morning, it might be well for the record and for the benefit of the Members of the Congress who were not here in the last Congress that we set forth some of the history that has transpired with respect to the legislation under consideration.

Last year, the House Banking and Currency Committee favorably reported legislation which, among other things, would have authorized funds for the Asian Development Bank's Special Fund in the amount of \$100 million, to be paid in three annual installments; and also authorized the appropriation of funds which would have provided \$1 billion over a 3-year period for the Inter-American Development Bank.

The legislation passed the House by a record vote of 177 yeas to 140 nays on September 14, 1970.

The comparable legislation passed by the Senate contained no authorization for appropriation for the Asian Development Bank's Special Fund and only \$100 million in authorization for the Inter-American Development Bank.

In conference, the House conferees were forced to recede to the Senate provisions for the Asian Development Bank and the Inter-American Development Bank, namely, no authorization was contained in the conference reported bill for the Asian Development Bank and only a \$100 million authorization for the Inter-American Development Bank for its Fund for Special Operations.

This, then, is the reason why the subcommittee is meeting at this time to consider legislation; namely, H.R. 5014, for the Inter-American Bank and H.R. 5013 for the Asian Development Bank. Briefly, the Inter-American Development Bank legislation would authorize the appropriation of \$900 million over a 2-year period for the Inter-American Development Bank's Fund for Special Operations; and a \$100 million contribution to the Asian Development Bank's Special Fund in two annual installments of \$60 million and \$40 million.

To round out the multilateral lending institution's legislation, you will recall that on July 6, 1971, hearings were held on H.R. 8750, to provide for increased participation by the United States in the International Development Association, and on July 28, by a vote of 10 to 2, the subcommittee referred the bill back to the full committee without amendment.

Last week, on October 14, the Senate Foreign Relations Committee reported favorably the International Development Association legislation, the Asian Development Bank legislation and the Inter-American Development Bank legislation providing authorization for its Funds for Special Operations, and, also, last week the Senate passed these three pieces of legislation.

In each instance the legislation was passed without amendment by the Senate although an attempt was made to amend the Inter-American Development Bank legislation which, if successful, as far as U.S. voting rights are concerned, would have precluded lending to any Latin country through the Inter-American Development Bank which had expropriated without proper compensation American property. The legislation as it passed the Senate authorized over a 3-year period \$960 million for the International Development Association; \$100 million for the Special Fund of the Asian Development Bank over a 2-year period; and funds for the Inter-American Development Bank's Fund for Special Operations in the amount of \$900 million over a 2-year period.

There is some question as to whether or not the House will be able to consider any of these three pieces of legislation on the floor this year. However, it should be noted that both the International Development Association and the Inter-American Development Bank, as far as its Fund for Special Operations is concerned, are both depleted. I am sure that the witness from the Treasury Department will go into this matter in detail. Therefore, I will not say anything further concerning this matter at this time.

For the record and without objection, I shall place copies of the legislation, H.R. 5013, H.R. 5014, and the two National Advisory Council reports on the Asian Development Bank and the Inter-American Development Bank in the record at this time.

(The texts of H.R. 5013, H.R. 5014, and the National Advisory Council's special reports on the Asian Development Bank and the Inter-American Development Bank follow:)

[H.R. 5013, 92d Cong., first sess.]

A BILL To authorize United States contributions to the Special Funds of the Asian Development Bank

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That 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 two annual installments of \$60,000,000 and \$40,000,000, beginning in fiscal year 1971. 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, non-interest-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 \$60,000,000 for fiscal year 1971 and \$40,000,000 for fiscal year 1972, all of which shall remain available until expended."

[H.R. 5014, 92d Cong., 1st sess.]

A BILL to authorize payment and appropriation of the second and third installments of the United States contribution to the Fund for Special Operations of the Inter-American Development Bank

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Inter-American Development Bank Act (22 U.S.C. 283 et seq.) is amended by adding at the end thereof the following new section:

"Sec. 19. (a) The United States Governor of the Bank is authorized to pay to the Fund for Special Operations two annual installments of \$450,000,000 each in accordance with and subject to the terms and conditions of the resolution adopted by the Board of Governors on December 31, 1970, concerning an increase in the resources of the Fund for Special Operations and contributions thereto.

"(b) There are hereby authorized to be appropriated, without fiscal year limitation, the amounts necessary for payment by the Secretary of the Treasury of the two annual installments of \$450,000,000 each for the United States share of the increase in the resources of the Fund for Special Operations of the Bank."

The first part of the report deals with the general situation of the country and the progress of the work of the Commission. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The second part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The third part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The fourth part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

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The ninth part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The tenth part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The eleventh part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The twelfth part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

The thirteenth part of the report deals with the work of the Commission in the various fields of its activity. It is followed by a detailed account of the work of the Commission in the various fields of its activity.

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

COMMUNICATION

FROM

THE SECRETARY OF THE TREASURY
AS CHAIRMAN OF THE
NATIONAL ADVISORY COUNCIL ON
INTERNATIONAL MONETARY
AND FINANCIAL POLICIES

TRANSMITTING

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



FEBRUARY 26, 1970.—Referred to the Committee on Banking and
Currency and ordered to be printed

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WASHINGTON : 1970

LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, February 25, 1970.

HON. JOHN W. McCORMACK,
Speaker, House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: As Chairman of the National Advisory Council on International Monetary and Financial Policies, I am pleased to transmit herewith the Council's special report on the proposed U.S. contribution to the Consolidated Special Funds of the Asian Development Bank. This report has received the unanimous approval of the members of the Council, which includes the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President of the Export-Import Bank.

The Council recommends congressional authorization of a U.S. contribution of \$100 million in three annual installments—\$25 million, \$35 million, and \$40 million—beginning in fiscal year 1970. As indicated in the report, this legislation would permit the United States to join with other donors in providing resources to the Bank for concessional lending to finance high priority developmental projects in Asia. The proposed legislation would contain provisions to assure that the U.S. contribution would represent an equitable share of total contributions, would be properly and effectively used, and would take account of our international financial position.

Copies of the report are also being submitted to the President and to the President of the Senate.

Sincerely yours,

DAVID M. KENNEDY,
Secretary of the Treasury,
Chairman, National Advisory Council
on International Monetary and Financial Policies.

(III)

THE HISTORY OF THE UNITED STATES

OF THE UNITED STATES OF AMERICA

FROM THE FIRST SETTLEMENTS TO THE PRESENT TIME

BY

JOHN F. JOHNSON

NEW YORK: PUBLISHED BY J. JOHNSON, 15 NASSAU ST. 1850

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CHAPTER 1

THEORY

The first part of the chapter discusses the basic principles of the theory. It begins with a definition of the problem and a statement of the objectives. The next section describes the methods used in the study. This is followed by a discussion of the results and a conclusion. The final section of the chapter is a bibliography of the references used.

The second part of the chapter discusses the application of the theory to a specific problem. It begins with a description of the problem and a statement of the objectives. The next section describes the methods used in the study. This is followed by a discussion of the results and a conclusion. The final section of the chapter is a bibliography of the references used.

The third part of the chapter discusses the application of the theory to a specific problem. It begins with a description of the problem and a statement of the objectives. The next section describes the methods used in the study. This is followed by a discussion of the results and a conclusion. The final section of the chapter is a bibliography of the references used.

EXPERIMENT

The first part of the chapter discusses the basic principles of the theory. It begins with a definition of the problem and a statement of the objectives. The next section describes the methods used in the study. This is followed by a discussion of the results and a conclusion. The final section of the chapter is a bibliography of the references used.

SPECIAL 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 multi-lateral 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 (confining 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.—SUBSCRIPTIONS TO CAPITAL STOCK

[In millions of U.S. dollars]

Country	Amount of subscription	Country	Amount of subscription
Regional countries:		Nonregional countries:	
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 Republic of.....	34.00
India.....	93.00	Italy.....	20.00
Indonesia.....	25.00	Netherlands.....	11.00
Japan.....	200.00	Norway.....	5.00
Korea, Republic of.....	30.00	Sweden.....	5.00
Laos.....	0.42	Switzerland.....	5.00
Malaysia.....	20.00	United Kingdom.....	30.00
Nepal.....	2.16	United States.....	200.00
New Zealand.....	22.56		
Pakistan.....	32.00	Subtotal, nonregional.....	355.00
Philippines.....	35.00		
Republic of Vietnam.....	12.00	Total.....	978.00
Singapore.....	5.00		
Thailand.....	20.00		
Western Samoa.....	0.06		
Subtotal, regional.....	623.00		

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.

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.

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.

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 97½ percent. 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.—SUBSCRIPTION TO CAPITAL STOCK AND VOTING POWER
(In thousands of U.S. dollars)

Members	Subscribed		Votes	Percent of total votes
	Par value	Percent of total		
Regional:				
Afghanistan	\$4,780	0.49	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
Hong Kong	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
Vietnam, 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
Non-regional:				
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, totalling \$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 6½ percent per annum. In addition, the Bank levies a commitment charge of ¼ 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.

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

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.)

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

ASSETS			
Cash in Banks:			
Member currencies			\$7, 168, 465
Investments:			
Government and government-guaranteed obligations—amortized cost:			
Maturities not exceeding 1 year (face amount \$40,138,949)	\$39, 906, 815		
Maturities over 1 year (Face amount \$34,699,434)	34, 364, 242	\$74, 271, 057	
Time deposits and certificates of deposit:			
Maturities not exceeding 1 year	126, 554, 984		
Maturities over 1 year	24, 951, 205	151, 506, 189	
		225, 777, 246	
Accrued interest		6, 277, 836	232, 055, 082
Demand Obligations of Members:			
Nonnegotiable, non-interest-bearing obligations in member currencies			167, 846, 730
Other Amounts Receivable From Members:			
Amount required to maintain value of currency holdings			258, 876
Effective Loans:			
Held by Bank	72, 512, 955		
Agreed to be sold	3, 085, 000	75, 597, 955	
Unamortized Funded Debt Issuance Expenses			847, 991
Other Assets			529, 436
Special Reserve Fund Assets:			
Cash in banks	20, 010		
Accrued loan commissions	22, 548	42, 558	
Staff Retirement Plan Assets (Segregated and held in trust)			1, 120, 153
Total			485, 467, 246
LIABILITIES, RESERVES AND CAPITAL			
Liabilities:			
Accounts payable		\$743, 716	
Accrued interest on funded debt		382, 514	
Undisbursed balance of effective loans:			
Held by Bank	\$64, 114, 696		
Agreed to be sold	3, 085, 000	67, 199, 696	
Funded debt		16, 393, 443	84, 719, 371
Special Reserve			42, 558
Staff Retirement Plan Reserve			1, 120, 153

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES BALANCE SHEET, DECEMBER 31, 1969, EXPRESSED
IN UNITED STATES DOLLARS—Continued

LIABILITIES, RESERVES AND CAPITAL—Continued

Capital:		
Capital stock:		
Authorized—55,000 "paid-in" shares and 55,000 "callable" shares		
of \$10,000 par value each:		
Subscribed (97,800 shares).....	\$978,000,000	
Less "callable" shares subscribed (48,900 shares).....	489,000,000	
"Paid-in" shares subscribed (48,900 shares).....	\$489,000,000	
Less subscription instalments not due.....	100,500,000	
Subscription instalments matured:		
Capital authorized to be set aside for special operations.....	\$14,575,000	
Capital for ordinary operations.....	373,925,000	388,500,000
Ordinary Reserve.....		5,531,262
Net income for the year ended Dec. 31, 1969 (to be allocated by the Board of Governors).....	5,503,902	399,585,164
Total.....		485,467,246

ORDINARY CAPITAL RESOURCES—COMPARATIVE STATEMENT OF INCOME AND EXPENSES FOR THE YEARS ENDED
DEC. 31, 1968, AND DEC. 31, 1969

[Expressed in U.S. dollars]

	1968	1969
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.....	7,176,591	12,979,813
Deduct commissions appropriated to Special Reserve.....	2,124	40,434
Unappropriated Gross Income.....	\$7,174,467	\$12,939,379
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.....	577,030	724,949
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.....	2,357,177	3,993,031
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.....	595,386	869,726
Total, administrative expenses.....	3,565,192	5,652,598

ORDINARY CAPITAL RESOURCES—COMPARATIVE STATEMENT OF INCOME AND EXPENSES FOR THE YEARS ENDED
DEC. 31, 1968, AND DEC. 31, 1969—Continued

[Expressed in U.S. dollars]

	1968	1969
Expenses:—Continued		
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 Followup Seminar.....		33,470
Other regional services.....		22,341
Total, services to member countries.....	126,484	1,441,577
Financial Expenses:		
Interest on funded debt.....		317,757
Funded debt issuance and other financial expenses.....		23,545
Total, financial expenses.....		341,302
Gross Expenses.....	\$3,691,676	\$7,435,477
Net Income.....	\$3,482,791	\$5,503,902

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 $\frac{2}{3}$ of the Governors representing $\frac{3}{4}$ of the total vote of the members) of up to 10 percent 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 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 offers of 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 percent 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 percent 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 concessionary 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. contribution 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 procurement eligibility 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 contributed resources should be allocated. The Council believes that contributors to the Bank's Special Funds should avoid specifying too narrowly the functional utilization of their contributions. Therefore, within the burden-sharing requirements outlined 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 intended 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 past 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. CONTRIBUTION

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 U.S. 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.—OFFICIAL NET BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK¹ BY DEVELOPED MEMBERS OF ASIAN DEVELOPMENT BANK, 1967¹
 [In millions of U.S. dollars]

	Australia	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	Norway	Sweden	Switzer- land	United Kingdom	United States	Total	United States, percent of total ¹
Afghanistan.....	\$0.04	\$0.05	-----	\$0.03	\$0.01	\$9.45	\$0.07	\$0.09	-----	-----	\$0.04	\$0.01	\$0.75	\$25	\$35.54	70.3
Cambodia.....	1.34	-----	-----	1.17	-----	9.61	-----	.61	-----	-----	-----	.01	-----	-----	1.94	0
Ceylon.....	1.02	.03	-----	7.60	-----	9.90	-----	2.40	-----	-----	-----	.26	-----	13	45.39	28.6
China (Taiwan).....	.01	-----	\$0.02	1.36	-----	.42	1.42	30.71	-----	\$0.04	.26	.01	11.02	47	80.95	58.1
Hong Kong.....	-----	.01	-----	.05	-----	.08	.01	.04	-----	-----	-----	-----	-----	1	2.17	46.1
India ²	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	1,142.93	72.4
Indonesia.....	4.25	-1.17	.01	.50	-----	45.36	5.99	112.93	18.70	-----	-----	.03	1.93	1	229.53	17.9
Korea (South).....	1.17	-----	.03	.07	.42	12.82	-.62	53.64	-----	.29	.29	-----	1.23	195	263.34	74.0
Laos.....	1.01	-----	.02	.27	-----	4.42	-----	3.24	-----	-----	-----	-----	4.36	58	67.32	86.2
Malaysia.....	2.70	-.22	.02	2.20	-----	4.13	-----	.59	-----	-----	-----	-----	8.97	3	21.39	14.0
Nepal.....	.08	-----	-----	.01	-----	4.40	-----	.07	-----	-----	.07	.31	1.14	11	13.08	84.1
Pakistan ²	1.37	.05	.55	29.29	.25	27.49	6.85	26.44	3.68	-----	3.82	.04	27.22	299	426.05	53.7
Philippines.....	.25	-----	.01	-.57	-----	4.19	.13	61.54	-----	-----	-----	-----	.35	33	98.90	33.4
Singapore.....	.69	-----	.06	-----	.02	9.12	.05	.41	-----	-----	-----	-----	4.64	-----	-----	0
Thailand.....	3.60	-.24	.05	.85	-----	9.58	-.07	4.11	-----	.03	-----	.02	.71	43	61.73	69.7
Vietnam (South).....	2.75	-----	.04	1.09	-----	1.35	-----	-.50	-----	-----	.08	.22	.60	448	453.63	98.8
Western Samoa.....	.08	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	.01	-----	.09	0
Total.....	\$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	\$2,950.68	69.3

¹ Includes: Net official grants, grant-like flows (net), repayment and indemnification payments and net official lending.

² 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 untied 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 in 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 Funds 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 Funds 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 less⁴—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 Ordi-

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

nary 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 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.—SELECTED ECONOMIC INDICATORS OF LESS DEVELOPED COUNTRY MEMBERS OF ASIAN DEVELOPMENT BANK

[Expressed in millions of U.S. dollars]

	Popula- tion ¹	GNP per capita ¹	Gross reserves ²	Total imports ³	Imports from United States ³	Financial	assistance	from	international
						IBRD ¹	IFC ⁴	IDA ⁴	ADB ⁵
Afghanistan	15.6	\$70	\$37	\$63.9	\$9.9			\$8.50	
Cambodia	6.4	130	(^o)	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	(^o)	1,819.0	245.2				
India	511.1	90	682	2,691.3	1,027.7	1,047.71	\$39.33	1,037.62	
Indonesia	110.1	100	(^o)	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	(^o)	37.2	9.2				
Malaysia	10.1	290	515	701.7	54.1	222.70	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	(^o)	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	(^o)	(^o)	(^o)				

¹ Source: World Bank Atlas of Per Capital Product and Population, September 1969.

² Data for Dec. 31, 1968. Source: IMF International Financial Statistics.

³ Data for 1967. Source: IMF Direction of Trade, Annual 1963-67.

⁴ Source: Annual reports 1969.

⁵ Approved loans from Ordinary Capital as of Sept. 30, 1969; excludes \$990,000 special funds loan to Indonesia, June 1969.

⁶ 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.

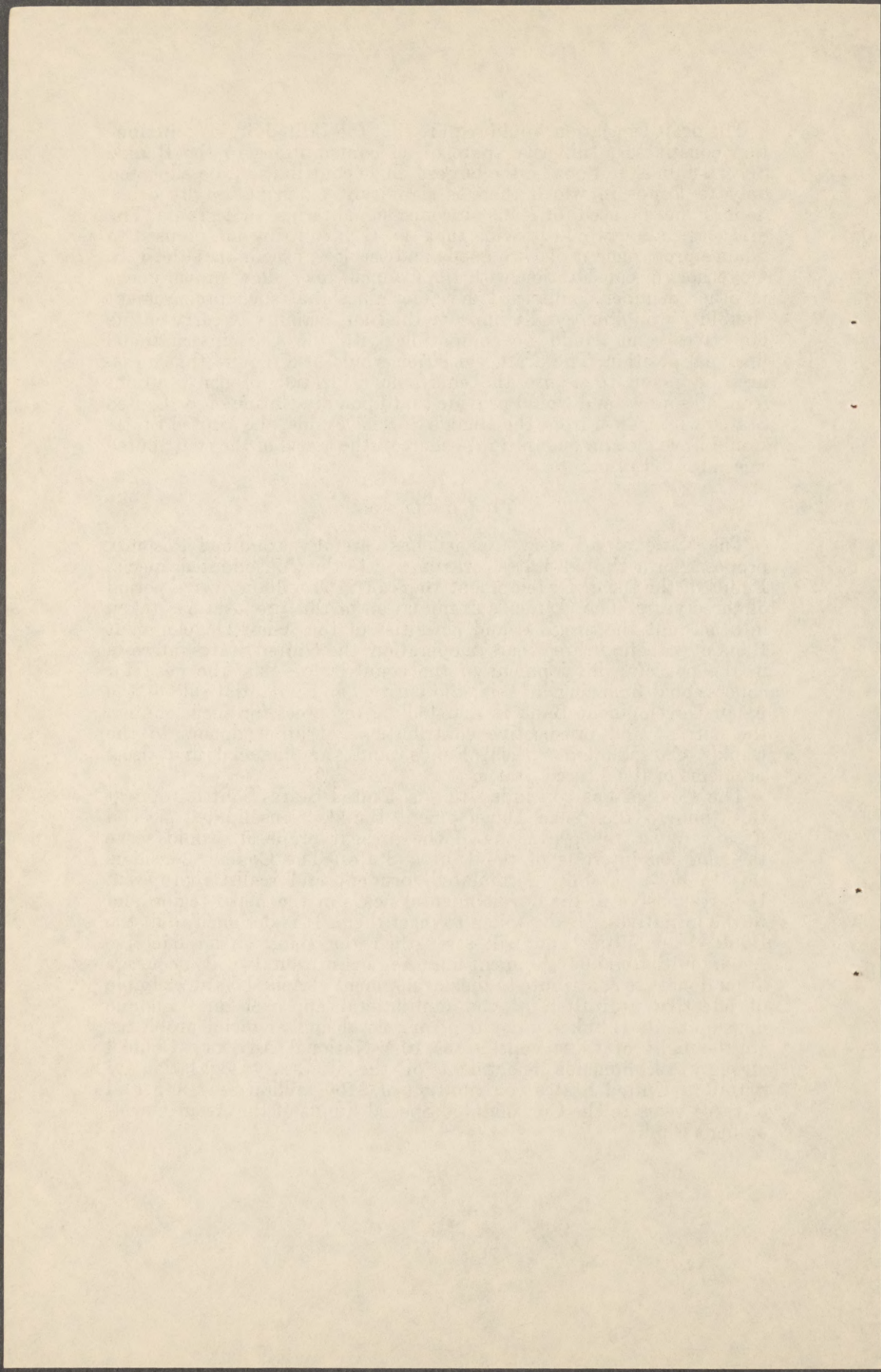
Draft legislation authorizing a U.S. contribution of \$100 million over a period of three years is being submitted to the Congress. This proposed legislation would authorize the United States Governor to enter into an agreement with the Bank providing for a United States contribution to the Bank's Consolidated 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 eligibility 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.



ANNEXES

ANNEX 1

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 exempted securities within the meaning of paragraph (a) (2) of section 3 of the Act of May 27, 1933, as amended (15 U.S.C. 77e), 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.

ANNEX 2

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, subregional 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 hereof. 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) installments of twenty (20) per cent each of such amount. The first installment 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 installment 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) percent 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) percent 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) percent 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 shall¹ 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 after its inaugural meeting, 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 fulfill 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 fulfill 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 communi-

cation 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 any 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.

ANNEX 3

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 relating 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 in consistent 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 (i) 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 Consolidated 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 activities 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.

The first part of the paper discusses the importance of the study of the history of the United States. It is argued that a knowledge of the past is essential for a full understanding of the present. The author then proceeds to discuss the various factors that have shaped the development of the United States, including the role of the government, the influence of the economy, and the impact of the culture.

In the second part of the paper, the author examines the role of the government in the development of the United States. It is argued that the government has played a crucial role in shaping the country's history, from the early years of settlement to the present day. The author then discusses the various ways in which the government has influenced the economy and the culture, and the impact of these influences on the development of the United States.

The third part of the paper discusses the influence of the economy on the development of the United States. It is argued that the economy has played a crucial role in shaping the country's history, from the early years of settlement to the present day. The author then discusses the various ways in which the economy has influenced the government and the culture, and the impact of these influences on the development of the United States.

The fourth part of the paper discusses the impact of the culture on the development of the United States. It is argued that the culture has played a crucial role in shaping the country's history, from the early years of settlement to the present day. The author then discusses the various ways in which the culture has influenced the government and the economy, and the impact of these influences on the development of the United States.

SPECIAL REPORT
ON U.S. PARTICIPATION IN A PROPOSED
REPLENISHMENT OF THE RESOURCES
OF
THE INTER-AMERICAN DEVELOPMENT BANK

LETTER
FROM
THE NATIONAL ADVISORY COUNCIL ON
INTERNATIONAL MONETARY AND
FINANCIAL POLICIES

TRANSMITTING

THE REPORT OF THE NATIONAL ADVISORY COUNCIL ON
INTERNATIONAL MONETARY AND FINANCIAL POLICIES
ON PROPOSED U.S. PARTICIPATION IN A REPLENISHMENT
OF THE RESOURCES OF THE INTER-AMERICAN
DEVELOPMENT BANK



JUNE 2, 1970.—Referred to the Committee on Banking and Currency
and ordered to be printed

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ARTICLE

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LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, June 1, 1970.

Hon. JOHN W. McCORMACK,
Speaker, House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: As Chairman of the National Advisory Council of International Monetary and Financial Policies, I am pleased to transmit herewith the Council's special report on proposed U.S. participation in a replenishment of the resources of the Inter-American Development Bank. This report has been approved unanimously by the members of the Council, which includes the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System and the President of the Export-Import Bank.

The Council strongly recommends that the Congress take the necessary actions described in the report in order to make U.S. participation in the replenishment effective. The new resources provided by the United States together with the Latin American members will permit the Bank to continue and expand its important lending activities in support of hemispheric economic and social development during the first part of the 1970's.

The report is also being submitted to the President and to the President of the Senate.

Sincerely yours,

DAVID M. KENNEDY,
Secretary of the Treasury
and Chairman, National Advisory Council
on International Monetary and Financial Policies.

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SPECIAL REPORT OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES ON U.S. PARTICIPATION IN A PROPOSED REPLENISHMENT OF THE RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK

I. SUMMARY OF PROPOSALS AND RECOMMENDATIONS

In this report, the National Advisory Council recommends U.S. approval of and participation in a further cycle of replenishment of the financial resources of the Inter-American Development Bank (IDB). Such replenishments have become necessary at regular intervals over the past decade as the lending programs of the Bank have been successfully carried out. The present proposal is based on recommendations endorsed by the Board of Governors of the Bank at their 11th annual meeting, held at Punta del Este, Uruguay, April 20-24, 1970.

With the resources made available under the proposed replenishment, the Bank plans to increase its total lending by 50 percent or more over the next several years, i.e., from a recent annual level of roughly \$600 million to \$900 million or higher. The proposed expansion in the Bank's resources is characterized by only very moderate increases above the substantial levels of financial support the United States has been giving the Bank but significant increases in the share and levels of Latin America's own contributions. It will enable the Bank to continue and expand its lending programs to help meet urgent development needs in this hemisphere.

A replenishment of the magnitude proposed is essential if the Bank is to make loan commitments at the desired levels. Such a replenishment does not, however, mean heavy budgetary burdens for the United States at a time when budgetary restraint is of utmost importance for broad economic policy reasons. The form and the timing of the provision and use of our contributions ensure that the budgetary consequences, in expenditure terms, will be deferred for an extended period; for a substantial portion, the callable capital subscription, no expenditures are likely to be required.

In brief, the proposals recommended to governments by the Bank's Governors contemplate the following (see table 1):

Ordinary Capital.—An increase of \$2 billion in the Bank's authorized Ordinary Capital stock consisting of \$400 million of paid-in capital and \$1.6 billion of callable capital (callable capital subscriptions are contingent liabilities of the member governments in the nature of guarantees that enable the Bank to borrow in private capital markets). The paid-in portion of this capital increase would be subscribed by governments in equal and consecutive annual installments, beginning not later than June 30, 1971, over a 3-year period in the case of the larger countries, and over a 5-year period for smaller countries. The callable por-

tion would be subscribed by governments in two equal installments due not later than June 30, 1971, and June 30, 1973, respectively.

The U.S. share of these subscriptions would be \$150 million in the case of the paid-in capital (an amount identical to our paid-in subscription when the Bank was established in 1960) and \$673,520,000 in the case of the callable capital which entails no foreseeable expenditure. The three \$50 million installments of paid-in capital would be paid in the form of letters of credit that would not be encashed until well in the future as disbursement requirements on loans arise.

Latin American member country subscriptions to the paid-in capital increase will total \$236,410,000, or 61.2 percent of the amounts paid in, and will be made half in the form of gold and dollars, and half in national currency. Latin American subscriptions to callable capital will amount to \$879,030,000, or 56.6 percent of the total subscribed.

The proposed increase would raise the Bank's authorized Ordinary Capital stock from \$3,150 million to \$5,150 million and the U.S. subscription from \$1,173,520,000 to \$1,997,040,000. The U.S. subscription would continue to represent approximately 42½ percent of capital actually subscribed. The resources provided by the replenishment would be expected to cover Ordinary Capital needs through 1975.

Fund for Special Operations.—An increase of \$1.5 billion in the Fund for Special Operations (FSO), which is the Bank's "soft loan" window. Contributions to the FSO would be made in three consecutive annual installments beginning not later than June 30, 1971, but the first such installment would be for only 10 percent of the total, while the latter two would be for 45 percent each.

The U.S. share in the FSO increase would be \$1 billion; Latin American countries for their part would make contributions totaling \$500 million, in their national currencies. While the U.S. contribution would be increasing by \$100 million compared to the previous replenishment, the Latin contributions overall would increase by \$200 million. They would thus be putting up \$50 for every \$100 we provide, compared with only \$33 for every \$100 from us in the 1967 replenishment of FSO.

With the new contributions, the size of the FSO would be increased from \$2,328 million to \$3,828 million; the total U.S. contribution would rise from \$1.8 billion to \$2.8 billion, while our share would decline from 77 percent to 73 percent. The resource requirements of the FSO through 1973 or beyond should be met by the proposed replenishment.

TABLE 1.—SUMMARY OF SUBSCRIPTIONS AND CONTRIBUTIONS TO IDB REPLENISHMENT

[In thousands of dollars]

	Fiscal years					Total
	1971	1972	1973	1974	1975	
Paid-in ordinary capital:						
United States.....	50,000	50,000	50,000			150,000
Latin America.....	72,912	72,912	72,914	18,836	18,836	236,410
Unassigned ²	4,530	4,530	4,530			13,590
Total.....	127,442	127,442	127,444	8,836	8,836	400,000
Callable ordinary capital:						
United States.....	336,760		336,760			673,520
Latin America.....	439,515		439,515			879,030
Unassigned ²	23,725		23,725			47,450
Total.....	800,000		800,000			1,600,000
Fund for special operations:						
United States.....	100,000	450,000	450,000			1,000,000
Latin America.....	50,000	225,000	225,000			500,000
Total.....	150,000	675,000	675,000			1,500,000

¹ The 14 Latin American countries whose subscriptions to the increase in paid-in capitals do not exceed \$10,000,000 are allowed, by the terms of the resolution of the Board of Governors, to spread their payments on paid-in capital over 5 years instead of 3 years.

² Available for subscription by new members.

NOTES

1. Latin American subscriptions to paid-in Ordinary Capital are payable half in gold or dollars and half in national currency. Latin American contributions to the Fund for Special Operations are payable in national currencies.

2. The U.S. subscription to paid-in ordinary capital and the U.S. contribution to the Fund for Special Operations will be made in the form of noninterest bearing letters of credit, which will be drawn on later in accordance with operational requirements.

Several significant new policy initiatives accompany the proposal to increase resources. Dollar loans from the Fund for Special Operations in the future are to be repayable in dollars instead of local currencies; the less developed Latin American countries are to have a first priority claim on soft loan resources, while the stronger countries are to rely more on Ordinary Capital financing; the six largest Latin American subscribers to the Bank capital will allow part of their FSO contribution to be used for loan financing in other member countries, compared with four who allowed this previously; and the Bank will place new emphasis on overall country performance by borrowers and on improved coordination with other lending institutions and with the Inter-American Committee for the Alliance for Progress (CIAP). The Council regards these as desirable directions of Bank policy that lend added weight to the case for U.S. participation in the proposed increases.

One additional policy question deserves special mention. At U.S. initiative, the Board of Governors at the Punta del Este meeting discussed the question of possible alterations in the provisions of the Bank's charter that now limit membership in the Bank to countries that are members of the Organization of American States. A special committee of the Governors was created to give intensive study to this question and to report by the end of this year.

Changes that could open the way for membership by other developed countries both within and outside the hemisphere could, without changing the basically regional character of the Bank, lead to a more assured flow of hard and soft loan resources to the Bank from other developed countries and to other benefits. The Council therefore

believes that it is in the interest of U.S. relationships with the Bank as well as in the interest of the Bank itself and of long-range hemispheric development, that the possibility of membership by other developed countries be pursued. U.S. participation in the work of the special committee of Governors on this subject will be directed toward developing a resolution to be placed before the Board of Governors on this subject. If, as is hoped, a satisfactory resolution results from the work of the special committee of Governors, the Council would anticipate a request for legislation which would include authority for the U.S. Governor to accept a change in the Bank's charter to permit membership of other developed countries not members of the Organization of American States.

* * *

The proposed replenishment is of great significance not only for the Bank itself but also for U.S. relations with Latin America.

First, the proposal represents a concrete contribution to the decade of Action for Progress, and reaffirms traditional U.S. concern for the progress of its sister republics. Second, it builds upon a functioning framework of multilateral financial cooperation in the Americas and reflects the important role that Latin America, together with the U.S. assigns to multilateral development finance. Third, through its substantial emphasis on strengthening the Bank's Ordinary Capital operations, it promises new encouragement for private enterprise activities in Latin America self-help and the assumption of greater responsibility for the less advanced Latin countries by the more advanced ones.

The National Advisory Council strongly recommends prompt adoption of legislation to (a) authorize the U.S. Governor of the Inter-American Development Bank—the Secretary of the Treasury—to vote in favor of the proposed resolution to increase the authorized capital stock of the Bank (annex A) and the proposed resolution to increase the resources of the Fund for Special Operations (annex B) as recommended by the Board of Governors at its 11th annual meeting, and (b) authorize the appropriations that will be necessary to make U.S. participation in the replenishment effective.

II. BACKGROUND

The Inter-American Development (IDB) came into legal existence on December 30, 1959, began operations in the fall of 1960, and made its first loan in February 1961.

Members of the Organization of American States are eligible to become members of the IDB. Barbados and Jamaica became the latest members of the Bank last year, bringing total membership, including the United States, to 23. Cuba is not a member.

The establishment of the Bank preceded the 1960 Act of Bogota and the 1961 Charter of Punta del Este, and the Bank's Charter foreshadowed the principles of self-help and mutual cooperation that were embodied in those documents. With the establishment of the Inter-American Committee on the Alliance for Progress (CIAP) at the 1963 Annual Meeting of the Inter-American Economic and Social Council, the Bank was declared to be "the technical arm of the Committee in matters concerning financing of Latin American development."

The Bank has assumed an important and growing role in Latin American development, both from the point of view of actual project financing and from the point of view of development planning and programing. The Bank carries out its financing operations through two lending windows, the Ordinary Capital and the Fund for Special Operations. A third, the Social Progress Trust Fund (SPTF), functioned during the early 1960's with resources provided by the United States, but its functions were absorbed in 1964 by the expanded Fund for Special Operations and no new loans have been made from the SPTF since 1965. In addition, the IDB serves as administrator for special funds provided by nonmember countries (Canada, United Kingdom, Germany, Sweden, and the Vatican).

The *Ordinary Capital* window provides development funds on conventional terms in much the same manner as the World Bank. It commenced operations with governmental subscriptions, but now obtains its funds largely from private financial markets, as does the World Bank.

The *Fund for Special Operations* (FSO) is designed to offer financing for economic and social development (including the areas of activity previously covered by the SPTF) when lending on conventional terms is not appropriate. FSO loans are made on easy repayment terms and are extended entirely from resources provided by the United States and the Latin American members of the Bank.

The Social Progress Trust Fund has been administered by the Bank since mid-1961 on behalf of the United States, which provided all of its funds. Loans from the SPTF were repayable on easy terms and were made in four main sectors of social development—water supply and sanitation, education, housing and land settlement and improved land use. As noted above, the SPTF was not replenished after 1964, and the FSO has assumed its lending responsibilities.

As of the end of 1969, the IDB had authorized a cumulative grand total of 565 loans in an amount of \$3,429.7 million from the following resources:

TABLE 2.—IDB LOANS BY SOURCES OF FUNDS AND PURPOSE (THROUGH DEC. 31, 1969)
[Dollar amounts in millions]

	Number of loans	Amount authorized
Resource:		
Ordinary capital	187	\$1,294.1
Fund for special operations	243	1,581.6
Social progress trust fund	116	496.2
Other resources	19	57.8
Total	565	3,429.7
Purpose:		
Agriculture	126	833.8
Industry and mining	115	577.3
Transportation and communication	43	521.9
Electric power	40	472.7
Water supply and sewerage systems	80	457.4
Urban development and housing	45	322.7
Education	46	136.9
Preinvestment	59	66.0
Export financing	11	41.0
Total	565	3,429.7

The funds necessary to meet U.S. payments on its subscription and contribution obligations are obtained through annual appropriation actions by the Congress.

ORDINARY CAPITAL RESOURCES

The authorized Ordinary Capital of the Bank is \$3,150 million, composed of paid-in capital and callable capital.

The originally authorized paid-in capital was \$400 of which \$388.5 million has been subscribed. The United States has subscribed to \$150 million, and \$238.5 million, has been subscribed by Latin American members. The Latin members pay half of their subscription in dollars and half in their national currencies.

The callable capital originally authorized amounted to \$450 million. The United States subscribed to \$200 million and the Latin American members to \$231.6 million.

In early 1964, an increase of \$1 billion in the authorized callable capital of the Bank became effective. The United States subscribed to \$411.8 million of this increase, and the Latin American members to \$544.9 million.

At the same time, a \$300 million increase—consisting of \$75 million paid-in and \$225 million callable capital—was authorized for potential new members of the Bank.

A second increase of \$1 billion, raising total authorized Ordinary Capital from \$2,150 million to \$3,150 million, became effective June 20, 1968. One half of the increase was subscribed in 1968 and the other half is to be subscribed in 1970. When these subscriptions are completed, the U.S. share of \$411.8 million will raise total U.S. subscriptions to the Bank's Ordinary Capital from \$761.8 million to \$1,173.6 million; Latin American subscriptions will rise from \$1,017 million to \$1,590 million. Table 3 presents a breakdown of the authorized Ordinary Capital stock position of the Bank.

TABLE 3.—IDB ORDINARY CAPITAL RESOURCES

[In millions of dollars]

	Original Structure	Current Structure
1. Paid-in capital:		
United States.....	150.0	150.0
Latin America.....	231.6	238.5
In dollars.....	(115.8)	(119.2)
In national currencies.....	(115.8)	(119.2)
Total subscribed.....	381.6	388.5
Unsubscribed.....	¹ 18.4	² 86.5
Total authorized.....	400.0	475.0
2. Callable capital:		
United States.....	200.0	817.6
Latin America.....	231.6	1,076.2
Total subscribed.....	431.6	1,893.8
Approved 1970 subscription.....		480.7
Unsubscribed.....	¹ 18.4	² 300.5
Total authorized.....	450.0	2,675.0
3. Total authorized Ordinary Capital.....	850.0	3,150.0

¹Originally intended for Cuba.

²Includes amounts unassigned and reserved for new members.

A. Callable Capital

The callable portion of the Ordinary Capital is a contingent liability of the subscribing countries which can be called only, and to the extent necessary, to meet obligations of the Bank. The callable capital therefore constitutes a guarantee arrangement, not requiring a cash outlay by the subscribing countries, which makes it possible for the Bank to issue its own securities in private financial markets or otherwise obtain funds for relending to member countries.

As long as the Bank is able to meet the obligations on its bonds from the proceeds of principal and interest repayments by borrowers on their loans, or from the other resources of the Bank, the callable capital will not impose any burden on member governments. Should calls be necessary they must be uniform in percentage on all capital shares of the respective member governments, but each member is liable up to the full amount of its callable capital subscription. In order to facilitate its borrowings, the Bank has obligated itself, by means of an assurance in its bond Prospectuses, to limit its borrowings and guarantees to the callable capital subscribed by the United States.

Given this limitation on its borrowings, the Ordinary Capital resources effectively available to the Bank were as follows at the end of 1969:

TABLE 4—IDB ORDINARY CAPITAL AVAILABILITIES AS OF DEC. 31, 1969

[In millions of dollars]

	Capital
Paid-in capital:	
Dollars.....	269.2
Other currencies.....	119.2
Total.....	388.5
Callable capital: United States.....	¹ 817.6
Total effective ordinary capital.....	1,206.1
Resources of which:	
Available, Dec. 31, 1969.....	1,155.7
Paid-in.....	(388.5)
Borrowings.....	(767.2)
Unused borrowing authority, Dec. 31, 1969.....	50.4

¹ Does not include \$205,900,000 to be subscribed in 1970.

B. Borrowings

As of December 31, 1969, the Bank had used its borrowing authority under the callable capital for raising gross funds totaling \$881.6 million. Six bond issues, for a total of \$405 million, have been successfully floated in the United States. Borrowings outside the United States have totaled \$476.6 million. With repayments totaling \$114.4 million, net funded debt amounted to \$767.2 million at the end of 1969.

C. Loan Terms

The Ordinary Capital operations constitute the "hard loan" window of the Bank. Loans from the Bank's ordinary resources are required under the Bank's Charter to be repayable in the respective currencies in which they are made. The standard interest rate on dollar loans from the Ordinary Capital resources of the Bank is currently 8 percent. A standard commitment fee of 1¼ percent is charged on the unutilized balance of such loans which commences to accrue 60 days after the

date of signature of the loan contract. Loans from Ordinary Capital resources in currencies of nonmember countries that the Bank has obtained by floating bonds on the capital markets of those countries carry a one-half percent service charge in addition to the standard interest rate and a commitment fee of 2 percent. The Bank's policy with respect to amortization periods is guided by such factors as the nature of the project, the payment capacity of the borrower and the capacity of the country involved to service its external indebtedness. Amortization periods on recent loans have ranged from 5 years to about 20 years, with longer maturities predominating.

FUND FOR SPECIAL OPERATIONS

The Fund for Special Operations (FSO) was initially established with authorized resources of \$150 million. The United States provided \$100 million and the Latin American countries \$46.3 million, half in dollars and half in their national currencies.

In early 1964, a 50-percent increase in FSO resources became effective, raising the total to \$219.5 million. The United States contributed \$50 million and the other members \$23.2 million.

At the 1964 annual meeting, the Governors recommended a \$900 million expansion of the FSO; this increase became effective in March 1965. The U.S. share of the increase was \$750 million and the Latin American members contributed \$150 million in their national currencies, i.e., a ratio of 5:1. This expansion of the FSO was designed to provide sufficient funds for operations during the three calendar years 1965-67. U.S. participation was authorized by Public Law 89-6, approved March 24, 1965.

A further \$1.2 billion expansion of the FSO was proposed at the 1967 annual meeting and became effective on December 29, 1967. The U.S. share was \$900 million and the Latin American share \$300 million, a ratio of 3:1. This expansion of the FSO's resources, payable in three equal annual installments through 1969, was designed to provide adequate funds for FSO operations during the 3-year period from approximately early 1968 to early 1971. The Bank assumed new responsibilities in the promotion of multinational projects and economic integration in accordance with the decisions taken at the April 1967 meeting of American Presidents. U.S. participation was authorized by Public Law 90-88, approved September 22, 1967.

Table 5 summarizes the resources of the Fund for Special Operations.

TABLE 5.—RESOURCES OF THE FUND FOR SPECIAL OPERATIONS

[In millions of dollars]

Contributions	Original fund	Present structure
United States.....	100.0	1,800.0
Latin America.....	46.3	528.0
In dollars.....	(23.2)	(35.6)
In other currencies.....	(23.2)	(492.4)
Total.....	146.3	2,328.0

Loans from the FSO are generally payable in the currency of the borrower, with provisions requiring maintenance of value, and with maturities ranging from 20 to 30 years, at interest charges of 3 percent

per year for social development loans and 4 percent per year for economic development loans. Interest is generally payable in the currency of the borrower, except for the portion comprising a three-fourths percent per year service charge, which is payable in dollars. FSO loans to Mexico and Venezuela have been on a dollar repayable basis for a number of years.

III. ANALYSIS OF THE PROPOSAL

A. Need for Increase

An increase in the resources of the Inter-American Bank is necessary if the Bank is to achieve the economic and social development objectives set forth in the report of the Bank's Board of Executive Directors entitled "Proposal for an Increase in the Resources of the Inter-American Development Bank" (reproduced in full as annex C).

The Executive Directors' report concludes that it would be desirable to increase the lending level of the Bank by roughly 50 percent, from a recent level of approximately \$600 million per year to \$900 million per year or more by 1973.

Both the Ordinary Capital resources of the Bank and those of the Fund for Special Operations would have to be increased to reach and sustain the target level of lending. Ordinary Capital resources are in particularly short supply. As of December 31, 1969, the Bank's total hard currency Ordinary Capital resources available for future loan commitments totaled only about \$25 million. In addition, the Bank had remaining borrowing capacity against already subscribed U.S. callable capital of about \$50 million, and the prospect of receiving during 1970 loan repayments of about \$41 million and a further \$205.9 million of U.S. callable capital subscription. (Appropriation of the latter amount was requested as a fiscal year 1970 supplemental item; final congressional action is expected by the end of June 1970.) After lending operations in 1970 against these resources, the Bank is expected to carry over into calendar year 1971 slightly over \$100 million in Ordinary Capital in hard currencies. Planned Ordinary Capital lending operations in hard currencies during 1971 are expected to exceed the resources available for the year by a wide margin.

Although the Bank entered 1970 with a relatively large volume of uncommitted FSO resources, heavy lending operations in 1970 are expected to reduce uncommitted resources sharply. As a result of these operations, the Bank anticipates that it will have about \$300 million in dollars available for commitment in the Fund for Special Operations at the beginning of 1971. (Dollar repayments to FSO will be very small in the next several years.) Compared with an anticipated dollar program of over \$400 million, an FSO replenishment requirement of roughly \$100 million would exist in 1971. Since this would fully utilize available resources by the end of the year, dollar funding requirements of about \$450 million would for 1972 and 1973.

B. Increase in Ordinary Capital Resources

The Board of Governors agreed to recommend to the Bank's member countries that the authorized capital stock of the Bank be increased by the equivalent of \$2 billion, of which \$1.6 billion would be in the form of callable capital and \$400 million would be paid-in capital. The U.S. share of this proposed increase would be \$673.5 million in callable

capital and \$150 million in paid-in capital. The U.S. subscription to callable Ordinary Capital would be made in two equal installments (requiring no actual cash expenditure) no later than June 30, 1971, and June 30, 1973; our subscription to paid-in Ordinary Capital would be payable in three equal and consecutive annual installments beginning in the first half of 1971. These payments would be in the form of non-interest-bearing letters of credit requiring no immediate cash payment.

The Latin American members of the Bank would subscribe \$879 million to callable capital, and the equivalent of \$236.4 million to paid-in Ordinary Capital. The latter would be paid half in gold or dollars and half in their own currencies. The proposed expansion of authorized capital would become effective only if at least 16 member countries agree by December 31, 1970, to subscribe to at least \$1.5 billion of the increase. Each country's share in the increase is based on the proportion its current subscription represents of total authorized capital stock. The U.S. share is 41.2 percent.

C. Increase in FSO Resources

The proposed \$1.5 billion expansion in the resources of the FSO would raise FSO resources from the present level of \$2,328 million to \$3,828 million. The U.S. share of the increase would be \$1 billion, payable \$100 million by June 30, 1971, and the balance in two equal installments of \$450 million each by June 30, 1972, and June 30, 1973, respectively. As in the case of Ordinary Capital, the U.S. contribution would be paid in the form of non-interest-bearing letters of credit, which would only be drawn on later as operational needs require. The Latin American members of the Bank would contribute the equivalent of \$500 million in their national currencies on the same time schedule (\$50 million would be due on the first payment date and \$225 million on the second and third dates, respectively). The amounts due from individual countries are indicated in the proposed resolution (annex B).

At least 16 members whose new contributions would total not less than \$1,350 million must agree to make their contributions before the increase of resources become effective and the contribution of any member becomes payable.

The FSO replenishment proposal gives strong emphasis to the concept of self-help by the Latin American countries themselves. In terms of absolute amounts, the \$500 million Latin American contribution is \$200 million greater than in the 1967 replenishment—while the U.S. contribution will rise only \$100 million compared with 1967. As a result, in relative terms the Latin American members will now be putting up \$50 for every \$100 contributed, compared with \$33 they put up for each \$100 from the United States in 1967, and only \$20 in the 1964 replenishment.

As an explicit recognition of the importance of mutual self-help among the Latin American countries, the four Latin American members having the largest contribution quotas—Argentina, Brazil, Mexico, and Venezuela—agreed as a part of the last replenishment, that a portion of their new contributions should be used by the Bank in its loans to the other members. The new proposals broaden this policy to include Chile and Colombia, the two members with the next highest quotas.

D. New Policy Initiatives

The proposals to increase the Bank's resources are accompanied by a number of policy initiatives that are of long-range significance to the Bank. Briefly, these include the following:

1. Access to FSO Resources

The Bank proposes to strengthen its existing policy of giving its least developed members priority access to the FSO. The Bank accordingly, will not only give first priority in using its FSO resources to the requirements of the least developed countries but also will assign a larger proportion of its Ordinary Capital resources to the relatively more developed countries.

2. Loan Terms

The Bank proposes a major change in the terms of repayment related to loans from the FSO. Currently, with the exception of Venezuela and Mexico, borrowers have the option of repaying loans in their own currency, with provision for maintenance of value, or in dollars. This raises the possibility that the Fund may at some time be in a position where it would have local currencies in excess to foreseeable lending needs while dollar reflows would be inadequate for new foreign exchange lending. The Bank, accordingly, proposes to shift to dollar repayment terms, while adjusting other loan terms to preserve the concessional nature of FSO lending. Thus, in its report the Board of Executive Directors indicates that it "considers it desirable to establish the payment of amortization in the currencies loaned on new loans to be authorized from the Fund for Special Operations. As a consequence of the above, and in order to maintain the concessionary character of the FSO, a general review of the terms and conditions of these loans will be made with regard to rate of interest, grace periods and amortization periods, with a view to minimizing the impact on the projects as such and on the balance of payments of the beneficiary countries."

No change is proposed in the terms on loans from the Ordinary Capital. However, the proposed subscription of additional paid-in capital should help the Bank in coping with pressures on its lending rates arising from current high interest rates in capital markets. The additional paid-in resources should also allow a normal accumulation of reserves and improve the Bank's debt to equity ratio.

3. Economic Performance

The Bank is prepared to give renewed attention to the overall economic performance of borrowing countries as a factor in making loan decisions. It is also ready to broaden its coordination and cooperation with other development institutions. In this regard, the Executive Directors' report states:

"In its consideration of specific loan applications the Bank, in addition to its analysis of the needs and potentialities of the project under review, will give attention to the members' overall development needs and to its performance in making productive use of existing available resources, domestic and external. The Bank further recognizes the desirability for close harmony among

external assistance agencies so that the contribution of each is complementary to others within a country's overall development program.

"The Bank * * * has lent its support fully to CIAP efforts to bring about improvements in performance which country reviews have revealed to be deficient and an impediment to the sound execution of development programs. * * *

"The Bank will continue its attention to internal problems as an important element affecting development and will support the multilateral efforts of CIAP * * * to encourage the adoption * * * of the policy measures and structural changes which would enable each nation to achieve more effective and enduring progress toward economic development and social improvement."

E. Fields of Lending Activity

The Bank proposes, in general, to continue lending in the fields in which it is already active, utilizing pre-investment financing and technical assistance as important elements in its operations. Agricultural development is expected to continue to require the largest proportion of the Bank's lending resources. Further heavy investment in economic and social infrastructure, as well as in projects related to the integration of Latin America, is also anticipated.

The Bank contemplates increased financial support for industrial development, involving extensive activity with private enterprise. The Bank, accordingly, has sponsored studies on export financing and on mechanisms for promoting industrial enterprise in Latin America. If consideration of these studies leads to additional financial requirements for these activities, it is contemplated that they would be met from available funds and the increased resources now being proposed.

The Bank also foresees increased support for higher and technical education and encouragement of science and technology. More ample lending in such fields as fishing, tourism, and forestry is also anticipated.

F. IDB Operations and the U.S. Balance of Payments

The estimated impact of the IDB on the U.S. balance of payments has been minimal over the past decade. This judgment is believed to be correct despite the evident methodological and statistical difficulties in measuring indirect trade or other effects of the Bank's operations.

Several factors have contributed to keeping the balance-of-payments effects to a minimum, including: the Bank's heavy reliance on borrowings in capital markets outside the United States; its Ordinary Capital procurement policy requiring developed countries wishing to be eligible as procurement sources to make a commensurate volume of lendable resources available; restraint on the level of its lending for local cost financing, resulting in the Bank's remaining well within the guidelines for such financing that were established in connection with the last replenishment; the use of letters of credit instead of cash for making subscription payments; and the fact that goods imported for projects with FSO dollars contributed by the United States must come from the United States or other Latin American countries. The Bank has also used a special letter of credit arrangement in order to relate dollars provided for local cost financing to imports of U.S. goods and services. However, in line with comparable steps taken

recently by the President with respect to U.S. bilateral assistance in Latin America, the United States has agreed to a relaxation of the special letter of credit requirement as it relates to local cost financing.

For the future, some increase in balance-of-payments costs may be anticipated; this will come about as the volume of IDB disbursements rises and requires use of funds whose balance-of-payments impact had been deferred in earlier periods. Much will depend on the continued competitiveness of U.S. suppliers in this area of the world that has been relatively favorable for U.S. trade.

G. Admission of Other Developed Countries to the Bank

At their recent annual meeting, the Board of Governors passed a resolution directing a study by a committee of the Governors of "Measures To Assure an Increased Flow of Resources to the Bank From Nonmember Countries."

The Bank's Charter restricts membership, both original and future, to members of the Organization of American States. Since adoption of the charter, however, the Bank has found it necessary to seek large amounts of capital outside the membership and outside the hemisphere. While the Bank has been reasonably successful in obtaining funds in nonmember countries, these have been obtained almost exclusively from capital markets on commercial terms for Ordinary Capital operations. (Most of these funds have been received since 1967 when the Bank adopted a policy which limits procurement with Bank funds in nonmember developed countries to those which have made corresponding financial contributions to the Bank.) Were other developed countries to become members and participate in the operations of the Bank, both the flow and terms of their contributions would probably improve. In particular, membership would imply regular contributions to the Fund for Special Operations, thus assuring the availability of both hard and soft funds. Any steps taken toward broadened membership would, of course, have to be consistent with the maintenance of the Bank's regional character.

The National Advisory Council favors a broadening of the membership of the Bank to include other developed countries, and hopes that the work of the Special Committee of Governors will result in a proposal to amend the agreement establishing the Bank to make this possible. The simplest approach to doing so would be to provide, with respect to developed countries, that they not be subject to the requirement of membership in the Organization of American States. If a satisfactory resolution is placed before the Board of Governors to allow membership in the Bank by other developed countries, the Council would expect to report to the Congress in support of legislation authorizing the U.S. Governor to indicate his approval.

H. IDB Audit Arrangements

The Bank has a varied system of internal and external controls and audits as an integral part of its operating procedures. The main elements in this system are:

1. An *internal audit staff* with authority and functions similar to internal audit staffs in major private corporations. The scope of the internal audit staff's work is not limited to loan activities but extends to all aspects of the Bank's internal financial management.

2. An *independent external auditor* to conduct, as required by the Bank's charter, a financial audit of the Bank's operations. This service has been performed since the Bank's inception by Price Waterhouse, Inc., an internationally known accounting firm. The results of the Price Waterhouse audit are published in the Bank's annual report.

3. *Supervision of project implementation*, carried out by personnel of the Bank's Loan Administration Division or engineers and consultants retained for this purpose. Field checks are also carried out by personnel whose supervision and inspection activities are financed by the Fund for Special Supervision and Inspection, whose resources are derived from special charges to borrowers.

4. A *comprehensive audit*, broader in concept than a financial audit, to evaluate the conduct of the programs and activities of the Bank in order to appraise the manner in which the Bank is discharging its responsibilities under its charter.

Under section 14(a) of the Inter-American Development Bank Act, the U.S. Executive Director proposed the establishment by the Bank's Board of Executive Directors of the comprehensive audit group. The Bank has now established the Group of Controllers of the Review and Evaluation System. This Group is independent of the management of the Bank; its members are selected by the Board of Executive Directors and it reports directly to the Board.

The Group of Controllers began its work with a study of the sources and uses of the Bank's funds as an initial effort to orient themselves to the Bank's functions and activities. This study was a preliminary step to beginning audits of the Bank's lending program in a particular country or of specific economic or social sectors. The Group has begun an audit of the Bank's activities on a country basis and further audits on a sector basis will be made. These studies are expected to result in audit reports which, in accordance with section 14(c) of the IDB Act, will be appraised by the Council from the point of view of the effectiveness of the implementation and administration of loans made by the Bank and provide a basis for suggestions by the Comptroller General to the Secretary of the Treasury and to the Congress for improving the scope of the audit or auditing and reporting standards as contemplated by the statute.

With the appointment of a new auditor from the United States, replacing the auditor from this country who retired because of ill health, it is expected that the work of the Group of Controllers will move forward promptly. The Council believes that it is vitally important that the Group complete reports on country and sector lending activities of the Bank and looks forward to these reports as a basis for making the appraisals required by section 14(c) of the Inter-American Development Bank Act.

IV. LEGISLATIVE ACTION REQUIRED

Under section 5 of the Inter-American Development Bank Act, Congressional authorization is required to enable the U.S. Governor of the Bank to vote for any increase in either the capital stock of the Bank or resources of the Fund for Special Operations, or to agree to an increase in the U.S. subscription or contribution thereto.

A resolution approved by the Board of Governors at their 11th annual meeting in Punta del Este, Uruguay, recommended that members "take such action as may be necessary and appropriate to give effect to the resolutions proposed" by the Board of Executive Directors entitled "Increase of US\$2,000,000,000 in the Authorized Capital Stock and Subscriptions Thereto" and "Increase of US\$1,500,000,000 in the Resources of the Fund for Special Operations and Contributions Thereto." The resolutions thus took account of the need for legislative approval in various countries, including the United States, before final action can be taken by the Board of Governors.

The National Advisory Council recommends enactment, this year, of legislation which would—

(1) Authorize the U.S. Governor of the Inter-American Development Bank (the Secretary of the Treasury) to—

(a) Vote in favor of the resolution (annex A) to increase the Bank's authorized capital stock by US\$2,000,000,000, and upon adoption of such resolution, to agree on behalf of the United States to subscribe to an additional 82,352 shares of the Bank's authorized capital stock with respect to which \$150,000,000 will be paid-in and \$673,520,000 will be callable.

(b) Vote in favor of the resolution (annex B) to increase the resources of the Fund for Special Operations by the equivalent of US\$1,500,000,000, and upon adoption of such resolution, to agree on behalf of the United States to pay to the Fund for Special Operations the sum of \$1,000,000,000.

(2) Authorize the appropriation of the \$823,520,000 U.S. share of the increase in the authorized capital stock of the Bank and \$1,000,000,000 U.S. share of the increase in the resources of the Fund for Special Operations.

Appropriate legislation to accomplish these recommendations is being submitted.

Favorable votes by the United States on the proposed resolutions are necessary to bring the increase in the Bank's resources into effect. With respect to the increase in Ordinary Capital, 75 percent of the total must be subscribed by at least 16 members. The subscription by the United States of its share, amounting to 41.2 percent of the total, is therefore required. With respect to the increase in the resources of the Fund for Special Operations, at least 16 members must agree to contribute 90 percent of the total, and the U.S. share amounts to 67 percent.

Upon adoption of the above resolutions by the Board of Governors, the United States would be obligated to make available the sums as indicated in table 6 and table 7.

TABLE 6.—AUTHORIZED ORDINARY CAPITAL RESOURCES

In dollars

Country	Paid-in			Callable			Total capital after increase	Percentage of total
	Dec. 31, 1969	Proposed increase	Total	Dec. 31, 1969 ¹	Proposed increase	Total		
Argentina.....	\$51,570,000	\$51,570,000	\$103,140,000	\$294,250,000	\$191,110,000	\$485,360,000	\$588,500,000	12.52
Barbados.....	2,070,000		2,070,000	2,070,000	2,900,000	4,970,000	7,040,000	1.15
Bolivia.....	4,140,000	4,140,000	8,280,000	23,620,000	15,340,000	38,960,000	47,240,000	1.00
Brazil.....	51,570,000	51,570,000	103,140,000	294,250,000	191,110,000	485,360,000	588,500,000	12.52
Chile.....	14,160,000	14,160,000	28,320,000	80,800,000	52,480,000	133,280,000	161,600,000	3.44
Colombia.....	14,150,000	14,150,000	28,300,000	80,730,000	52,430,000	133,160,000	161,460,000	3.44
Costa Rica.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Dominican Republic.....	2,760,000	2,760,000	5,520,000	15,760,000	10,240,000	26,000,000	31,520,000	.67
Ecuador.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
El Salvador.....	2,760,000	2,760,000	5,520,000	15,760,000	10,240,000	26,000,000	31,520,000	.67
Guatemala.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Haiti.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Honduras.....	2,760,000	2,760,000	5,520,000	15,760,000	10,240,000	26,000,000	31,520,000	.67
Jamaica.....	33,150,000	33,150,000	66,300,000	189,150,000	122,850,000	312,000,000	378,300,000	8.05
Mexico.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Nicaragua.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Panama.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Paraguay.....	6,910,000	6,910,000	13,820,000	39,430,000	25,610,000	65,040,000	78,860,000	1.68
Peru.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	23,620,000	.50
Trinidad and Tobago.....	150,000,000	150,000,000	300,000,000	1,023,320,000	673,320,000	1,697,040,000	1,997,040,000	42.47
United States.....	5,530,000	5,530,000	11,060,000	31,550,000	20,490,000	52,040,000	63,100,000	1.34
Uruguay.....	27,630,000	27,630,000	55,260,000	157,650,000	102,390,000	260,040,000	315,300,000	6.71
Venezuela.....								
Subtotal.....	388,480,000	386,410,000	774,890,000	2,374,540,000	1,552,550,000	3,927,090,000	4,701,980,000	100.00
Unassigned.....	86,520,000	13,590,000	100,110,000	300,460,000	47,450,000	347,910,000	448,020,000	-----
Total.....	475,000,000	400,000,000	875,000,000	2,675,000,000	1,600,000,000	4,275,000,000	5,150,000,000	-----

¹ Includes \$480,765,000 to be subscribed during 1970.

TABLE 7.—FUND FOR SPECIAL OPERATIONS

[In dollars]

Country	Contributions as of Dec. 31, 1969	Proposed increase	Contributions after increase
Argentina.....	115,086,000	108,981,000	224,067,000
Barbados.....	414,000	392,000	806,000
Bolivia.....	9,240,000	8,750,000	17,990,000
Brazil.....	115,086,000	108,981,000	224,067,000
Chile.....	31,599,000	29,923,000	61,522,000
Colombia.....	31,578,000	29,903,000	61,481,000
Costa Rica.....	4,620,000	4,374,000	8,994,000
Dominican Republic.....	6,159,000	5,834,000	11,993,000
Ecuador.....	6,159,000	5,834,000	11,993,000
El Salvador.....	4,620,000	4,374,000	8,994,000
Guatemala.....	6,159,000	5,834,000	11,993,000
Haiti.....	4,620,000	4,374,000	8,994,000
Honduras.....	4,620,000	4,374,000	8,994,000
Jamaica.....	6,159,000	5,834,000	11,993,000
Mexico.....	73,989,000	70,064,000	144,053,000
Nicaragua.....	4,620,000	4,374,000	8,994,000
Panama.....	4,620,000	4,374,000	8,994,000
Paraguay.....	4,620,000	4,374,000	8,994,000
Peru.....	15,414,000	14,596,000	30,010,000
Trinidad and Tobago.....	4,620,000	4,374,000	8,994,000
United States.....	1,800,000,000	1,000,000,000	2,800,000,000
Uruguay.....	12,342,000	11,687,000	24,029,000
Venezuela.....	61,665,000	58,395,000	120,060,000
Total.....	2,328,009,000	1,500,000,000	3,828,009,000

The U.S. paid-in capital will be due in three installments of \$50 million not later than June 30, 1971, June 30, 1972, and June 30, 1973. The callable capital will be subscribed in two \$335,760,000 installments, the first not later than June 30, 1971, and the second not later than June 30, 1973. Contributions to the Fund for Special Operations will be made in three installments: the first, \$100,000,000 due not later than June 30, 1971; and the second and third, \$450,000,000 each, due not later than June 30, 1972, and June 30, 1973. Timely appropriations requests will be submitted in order to meet the required payments.

V. CONCLUSION

The proposed replenishment of the resources of the Inter-American Development Bank is a logical and timely further step in the evolution of U.S. support for this instrument of multilateral hemispheric development. Without an input of new resources, the Ordinary Capital lending activities of the Bank, which provide the bulk of the institution's support for private enterprise development, would have to be sharply curtailed at an early date; similarly, the extension of "soft loans" from the Fund for Special Operations would have to be reduced in 1971 below current levels unless new committable funds are provided. It is not in the United States interest to allow the pace of Latin American development to be slowed through failure to meet the financial needs of the Bank.

Latin America is making a larger self-help contribution to its own development, and this is reflected in a reduction in the U.S. percentage share of the proposed replenishment. The amounts which the United States would be called on to provide are well within our long-run resource capabilities. The form and timing in which our contribution is to be made available give assurance that there will be no significant short-run strain on our present budget and fiscal situation.

After carefully examining the financial and other aspects of the proposed replenishment, the National Advisory Council concludes that such a replenishment would help, through the mechanism of the Inter-American Development Bank, to further U.S. national interests related to the economic and social development of Latin America. It therefore recommends strongly that the Congress take prompt action to pass the necessary legislation that will enable the United States to join with other hemispheric nations in supporting the resolutions now pending before the Bank's Governors. We will thereby be assuring a sound financial base for future operations of the Inter-American Development Bank.

ANNEX A

PROPOSED RESOLUTION: INCREASE OF US\$2,000,000,000 IN THE AUTHORIZED CAPITAL STOCK AND SUBSCRIPTIONS THERETO

WHEREAS:

The Board of Executive Directors has studied the possibility of enlarging the resources of the Bank by means of an increase in its authorized capital stock and an increase in the resources of the Fund for Special Operations and has presented a report and recommendations to the Board of Governors;

The Board of Governors of the Bank has concluded that action to increase the authorized callable capital stock of the Bank would be desirable.

Article II, section 2(e), of the agreement establishing the Bank, provides for increase in the capital stock of the Bank;

The Board of Governors

RESOLVES THAT:

SECTION 1. *Increase in the Authorized Capital*

(a) Subject to the provisions of paragraph (b) hereof, the authorized capital stock of the Bank shall be increased by US\$2,000,000,000, in terms of United States dollars of the weight and fineness in effect on January 1, 1959, divided into 200,000 shares having a par value of US\$10,000 each.

(b) Such increase shall become effective only if, on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine, at least 16 members shall have agreed, through the deposit of an appropriate instrument with the Bank, to subscribe at least US\$1,500,000,000 in accordance with section 2 of this resolution.

SECTION 2. *Subscriptions*

(a) In accordance with article II, section 3(b), of the agreement establishing the Bank, each member may subscribe to the respective number of shares as follows:

Country	Paid-in capital shares	Callable shares	Total additional subscription	Country	Paid-in capital shares	Callable shares	Total additional subscription
Argentina.....	5,157	19,111	24,278	Jamaica.....	276	1,024	1,300
Barbados.....		290	290	Mexico.....	3,315	12,285	15,600
Bolivia.....	414	1,534	1,948	Nicaragua.....	207	767	974
Brazil.....	5,157	19,111	24,268	Panama.....	207	767	974
Chile.....	1,416	5,248	6,664	Paraguay.....	207	767	974
Colombia.....	1,415	5,243	6,658	Peru.....	691	2,561	3,252
Costa Rica.....	207	767	974	Trinidad and Tobago.....	207	767	974
Dominican Republic.....	276	1,024	1,300	United States.....	15,000	67,352	82,352
Ecuador.....	276	1,024	1,300	Uruguay.....	553	2,049	2,602
El Salvador.....	207	767	974	Venezuela.....	2,763	10,239	13,002
Guatemala.....	276	1,024	1,300	Unassigned.....	1,359	4,745	6,104
Haiti.....	207	767	974				
Honduras.....	207	767	974	Total.....	40,000	160,000	200,000

(b) Each subscription shall include the full amount of both paid-in capital shares and callable shares assigned to the respective country in paragraph (a) hereof, and each subscribing member shall represent to the Bank that it has taken all necessary action to authorize its subscription and shall furnish to the Bank such information thereon as the latter may request.

(c) The subscription of each member to the additional paid-in capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be US\$10,000 in terms of United States dollars of the weight and fineness specified above.

(ii) Payment of the amount of paid-in capital stock subscribed by each member whose subscription is more than US\$10,000 shall be made in three equal installments, the first of which shall be paid on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine and the remaining two installments shall be paid on such dates during 1972 and 1973 as the Board of Executive Directors shall determine, but not later than June 30, 1972, and June 30, 1973, respectively. The other members may subscribe in five equal installments, the first three of which shall be paid on the dates determined by the Board of Executive Directors as aforesaid and the last two shall be paid no later than one and two years, respectively, after the third of such dates.

(iii) Of each installment, 50 percent shall be paid in gold and/or dollars and 50 percent in the currency of the member.

(iv) The Bank may accept non-negotiable, non-interest-bearing promissory notes or similar securities in the form contemplated in article V, section 4, of the agreement establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock, provided that the Board of Executive Directors, taking into account the purposes of the increase of capital and the disbursement requirements of the loans to which the funds are committed, shall establish a schedule pursuant to which such promissory notes or securities shall be paid to the Bank.

(v) The liability of members for payment of the second and third installments of the paid-in portion of their subscription shall be conditioned upon payment of not less than 75 percent of the total obligation of the members due for the first and second installment, respectively, of the paid-in portion of the subscription.

(d) The subscription of each member to the additional callable capital stock shall be on the following terms and conditions:

(i) The subscription price per share shall be US\$10,000 in terms of United States dollars of the weight and fineness specified above.

(ii) One half of the increase with respect to each member shall be subscribed on or before such date in the calendar year 1971, not later than June 30, as the Board of Executive Directors shall determine, and the other half shall be subscribed on such date in 1973, not later than June 30, as that Board shall establish.

(iii) The subscription of each member shall become effective with respect to each installment thereof as of the date when all the terms and conditions specified in the preceding paragraph of this section have been fulfilled with regard to at least 75 percent of the total of the respective installments of all the members.

ANNEX B

**PROPOSED RESOLUTION: INCREASE OF US\$1,500,000,000 IN THE
RESOURCES OF THE FUND FOR SPECIAL OPERATIONS AND CON-
TRIBUTIONS THERETO**

WHEREAS:

The Board of Executive Directors has studied the possibility of enlarging the resources of the Bank by means of an increase in the authorized capital stock and an increase in the resources of the Fund for Special Operations and presented a report and recommendation to the Board of Governors;

The Board of Governors of the Bank has concluded that action to increase the resources of the Fund for Special Operations would be desirable;

Article IV, section 3 (g), of the agreement establishing the Bank provides for increases in the resources of the Fund through additional contributions by the members;

The Board of Governors

RESOLVES THAT:

(a) Subject to the provisions of this resolution, the resources of the Fund for Special Operations shall be increased in the equivalent of US\$1,500,000,000 through additional contributions by the members as follows:

COUNTRY AND CONTRIBUTIONS (EXPRESSED IN U.S. DOLLARS)

Argentina.....	108,981,000	Jamaica.....	5,834,000
Barbados.....	392,000	Mexico.....	70,064,000
Bolivia.....	8,750,000	Nicaragua.....	4,374,000
Brazil.....	108,981,000	Panama.....	4,374,000
Chile.....	29,923,000	Paraguay.....	4,374,000
Colombia.....	29,903,000	Peru.....	14,596,000
Costa Rica.....	4,374,000	Trinidad and Tobago.....	4,374,000
Dominican Republic.....	5,834,000	United States.....	1,000,000,000
Ecuador.....	5,834,000	Uruguay.....	11,687,000
El Salvador.....	4,374,000	Venezuela.....	58,395,000
Guatemala.....	5,834,000		
Haiti.....	4,374,000	Total.....	1,500,000,000
Honduras.....	4,374,000		

(b) Each member shall make its additional contribution in its own currency, and the entire amount of each contribution shall constitute national currency to which the provisions of article V, sections 1(c) and 4, of the agreement establishing the Bank, shall be applicable.

(c) The additional contributions shall be made in three installments, the first of which shall be one-tenth of the total and shall be paid on a date in 1971 to be determined by the Board of Executive Directors, but not later than June 30, and the balance shall be paid in two equal installments on such dates in 1972 and 1973, respectively, as are determined by the Board of Executive Directors, but not later than June 30 of each year.

(d) None of the additional contributions shall become payable unless at least 16 members whose increased contributions total not less than the equivalent of US\$1,350,000,000 shall each have deposited with the Bank, on or before June 30, 1971, or such earlier date as the Board of Executive Directors may determine, an appropriate instrument setting forth their agreement to their making the contributions to the increase in the Fund for Special Operations in accordance with the terms of this resolution.

ANNEX C

PROPOSAL FOR AN INCREASE IN THE RESOURCES OF THE
INTER-AMERICAN DEVELOPMENT BANK

Report of the Board of Executive Directors to the Board of Governors

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Annex B. Increase of US\$1,500,000,000 in the Resources of the Fund for Special Operations and Contributions Thereto.

RESOLUTION AG-4/70

APPROVAL OF RECOMMENDATIONS IN THE REPORT OF THE BOARD OF EXECUTIVE
DIRECTORS ON THE PROPOSED INCREASE IN THE RESOURCES OF THE BANK

The Board of Governors,

Having considered the report approved by the Board of Executive Directors on April 23, 1970, proposing increases in the authorized resources of the Bank,

Approves the report and recommends that members take such action as may be necessary and appropriate to give effect to the resolutions proposed in said report.

(Approved April 24, 1970.)

I. INTRODUCTION AND MAJOR CONCLUSIONS

- 1.01 In the discharge of its responsibilities, the Board of Executive Directors constantly reviews the availability of resources of the Inter-American Development Bank. On the basis of the present status of these resources, and having regard for the views expressed by the members of the Board of Governors at the Tenth Annual Meeting held in Guatemala City in April 1969, and the observations presented by representatives of member countries at such other meetings as that of the Economic and Social Council of the Organization of American States in Caracas in January 1970, the Board finds that action to increase the resources is necessary and therefore submits the proposal set forth below.
- 1.02 The Board of Executive Directors, in the presentation of this document, has taken due account of the ten year history of the Bank and the programs on which it is currently embarked; the possibility of continuing to expand upon work begun by earlier loans; the availability of existing ordinary resources; the borrowing capacity of the Bank on its callable capital and the worldwide interest rate patterns applicable to such borrowings; the available resources of the Fund for Special Operations and the sectors financed by it; the minimum resources needed by the Bank to finance its future activities and the mechanism for raising such resources; and the practical possibilities of obtaining additional contributions from the member countries in the light of prevailing national and international conditions, bilateral programs and other multilateral financing availabilities. Based on these considerations the Board has also sought to determine the future financing needs of Latin America and the role which the Inter-American Development Bank should play in the earlier part of the 1970's. This analysis indicates:
 - a. Increasing quantities of internal savings are being dedicated to economic and social development projects. Internal savings in Latin America finance the bulk of investment needs for development. However, the demand for development financing is rising and will exceed the resources available from internal savings. A growing amount of external financial resources must be made available to the borrowing member countries to encourage their increasing efforts and to help them with the rising need for development financing.

b. In view of the already large burden on many of the borrowing member countries for servicing external indebtedness, and taking into account the high interest rates prevailing in capital exporting countries, a greater volume of external assistance both of conventional and concessional natures should be provided under terms and conditions compatible with the development needs of the countries in the region.

c. The Bank has become a primary instrumentality for channeling development assistance to its member countries, which in turn has determined an increasing need for resources, at the disposition of the Bank as evidenced by an expanding pipeline of development projects.

d. The Bank should have sufficient resources available to increase substantially its contribution to the economic and social development of its members and such resources should come from financial arrangements in as broad a range as possible of industrialized countries, as well as from the members themselves.

e. The Bank should continue to orient the utilization of its resources to a balanced development of the member countries, giving, however, special attention to the less developed members, particularly in the use of funds of a concessionary nature.

f. In order to be in a position to make sufficient resources available for the development of the members, it is necessary that the lending level of the Bank should be increased so that by 1973 it will be approximately \$900 million per year.

1. 03 As a result of the above analysis, the Board of Executive Directors, considers it advisable that the necessary measures be taken to increase the ordinary capital resources, in both the paid-in as well as the callable portions, and the resources of the Fund for Special Operations.

1. 04 For these purposes, the Board hereby submits for consideration by the Board of Governors the proposed resolutions appended to this report, the principal contents of which are summarized below:

A. With respect to the ordinary capital stock:

- i. there is a need for an increase in the ordinary capital of the Bank;
- ii. the increase should total \$2,000 million and should consist of \$400 million in the paid-in capital and \$1,600 million in callable capital;

iii. the additional paid-in and callable subscriptions of the member countries should be as shown in tables VII and VIII.

iv. the increase in the authorized capital should become effective when 16 member countries have indicated that they agree to subscribe to a minimum of \$1,500 million, including for each subscribing country its specified amount of both paid-in and callable capital;

v. the additional paid-in capital of \$400 million should be paid in three equal annual installments, beginning in early 1971, except that for members whose paid-in capital subscription to the increase is less than \$10 million, payment should be permitted in five equal annual installments. Each member's subscription to paid-in capital should be one half in gold and/or dollars and one half in the member's national currency. (See tables VII and VIII.) Provision should be made for the acceptance by the Bank of noninterest-bearing notes with respect to each subscription;

vi. the increase in the callable capital, amounting to \$1,600 million, should be subscribed by the member countries in two equal installments, in the first half of 1971 and in the first half of 1973.

B. With respect to the Fund for Special Operations:

- i. there is a need for an increase in the resources for the Fund for Special Operations;

ii. the amount of the increase should be \$1.5 billion;

iii. the contributions to the Fund for Special Operations should be made by each country in its national currency;

iv. the contributions of the member countries should be as shown in tables IX and X.

v. the additional contributions to the Fund should be made in three annual installments, the first of \$150 million before June 30, 1971, and the balance in equal annual installments before June 30, 1972 and 1973, respectively;

vi. the increase in the resources of the Fund should become effective when subscriptions have been received from at least 16 member

countries whose increased contributions total not less than the equivalent of \$1.35 billion.

II. RESOURCES AND OPERATIONS OF THE BANK

2. 01 The basic resources available to the Bank consist of its own ordinary capital resources and the Fund for Special Operations. In addition, the Bank administers the Social Progress Trust Fund established by the United States of America and certain funds provided by nonmember countries.

Ordinary Capital

2. 02 The ordinary capital consists of paid-in capital and callable capital. It is used to make loans repayable in the currency lent, on normal banking terms comparable to those of similar financial institutions.

The callable portion of each member's subscription is not available to the Bank for lending but is subject to call if required to meet the Bank's obligations on borrowings or on loans guaranteed by it. Thus the callable capital serves as a guarantee of the obligations incurred by the Bank in borrowing funds in the capital markets. This governmental guarantee behind the Bank's bonds was established to enable the Bank to borrow at favorable near-governmental rates. While the Bank has legal authorization to guarantee loans of third parties, it has not found it appropriate to do so.

2. 03 Initially the available ordinary capital of the Bank consisted of (a) the equivalent of \$381,580,000 paid-in by the member countries as follows: 20 percent by September 30, 1960, 40 percent by October 31, 1961, and the final 40 percent by October 31, 1962, and (b) the callable capital, equivalent to \$431,580,000, which was subscribed by the members at the outset. Each payment of the paid-in capital was made 50 percent in gold and/or United States dollars and 50 percent in the currency of the member and/or non-negotiable, non-interest bearing demand notes. A resolution authorizing a \$1 billion increase in the callable capital stock of the Bank was approved by the Board of Governors on January 28, 1964, which provided for subscription by the member countries in two equal installments not later than December 31, 1964 and 1965, respectively. Under a resolution approved June 20, 1968, the Governors authorized a further \$1 billion increase in the callable capital stock, which provided for subscription by the member countries, again in two equal installments, not later than October 31, 1968, and a date in 1970 to be determined by the Board of Executive Directors. Thus, the authorized ordinary capital stock of the Bank as of December 31, 1969, stood at \$3,150 million, including \$300 million authorized for new members. Of this amount, members had subscribed or agreed to subscribe \$2,763,020,000.

2. 04 As mentioned before, the Bank's Charter provides it with callable capital so that it will be in a position to obtain the major part of its resources for ordinary capital lending in the world's markets. From the very beginning the Bank has made every effort to create and expand a market for its bonds, which are now traded in the exchanges of most of the major financial centers in the world. The United States market has been the largest source of borrowings and \$389.8 million of the Bank's outstanding debt of \$767.2 million is represented by long term bond issues placed in that market. These bonds have been rated triple A by the major rating services and are primarily in the portfolios of large institutional investors thanks to the fact that most States of the United States have passed legislation making these securities legal investments for pension funds, insurance companies, banks and other fiduciary investors. At the same time, the Bank has made borrowings, mostly public, in 11 non-member countries, i.e., Austria, Belgium, Finland, Germany, Holland, Italy, Japan, Spain, Sweden, Switzerland, and the United Kingdom, and has sold short term bond issues to the central banks of the Latin American member countries, Spain and Israel. As of December 31, 1969, \$313.7 million represented borrowings by the Bank in non-member countries and \$63.7 million was owed in Latin America. The outstanding debt by source as of December 31, 1969 is summarized in the following Table:

TABLE I.—OUTSTANDING FUNDED DEBT BY SOURCE AS OF DEC. 31, 1969

[In millions of U.S. dollars]

Funded debt repayable in—	Source			Total
	United States	Latin American Member countries	Non-member countries	
U.S. dollars.....	389.8	63.7	29.1	482.6
Austrian schillings.....			11.5	11.5
Belgian francs.....			6.0	6.0
British pounds.....			9.9	9.9
German marks.....			131.1	131.1
Italian lire.....			72.0	72.0
Japanese yen.....			14.4	14.4
Netherlands guilders.....			8.3	8.3
Swedish kronor.....			6.2	6.2
Swiss francs.....			25.2	25.2
Total:				
Amount.....	389.8	63.7	313.7	767.2
Percent.....	51	8	41	100

2. 05 In 1969 the Bank borrowed the equivalent of \$177.4 million in the world's capital markets, including \$82 million in Germany, \$24 million in Italy, \$15.7 million in the United Kingdom, \$9.2 million in Sweden, \$8 million in Japan, and \$5.8 million in Austria. In addition, the Bank sold its fourth short term bond issue, amounting to \$32.4 million to central banks and other governmental institutions in 14 of its Latin American member countries.

2. 06 The Bank has sold a substantial amount of participations in its ordinary capital loans. As of December 31, 1969, these participations amounted to \$48.4 million.

2. 07 The net income of the ordinary capital resources during 1969 was \$20.2 million raising its total reserves to \$85.2 million. These reserves provide assurance to the holders of the Bank's obligations as to its financial soundness. Repayments on loans amounted to a total of \$51.2 million in 1969, bringing cumulative total repayments at the end of the year to nearly \$153 million, most of which has of course been reloaned.

Fund for Special Operations

2. 08 The Fund for Special Operations (FSO) is used to make loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. Thus loans from the Fund may be made on terms which minimize the impact of the debt on the balance of payments of the country of the borrower, such as repayment in local currency, longer maturities, and lower interest rates than for ordinary capital loans.

2. 09 The initial resources of the Fund for Special Operations, equivalent to \$146.3 million, were contributed by the members in two equal installments by September 30, 1960, and October 31, 1961, respectively. Effective on January 26, 1964, the members increased their contribution to the Fund by the equivalent of \$73.2 million. A further increase equivalent to \$900 million was approved by the Governors on March 31, 1965, payable in three installments by June 30, 1965, December 31, 1965, and December 31, 1966. In 1967 the Board of Governors approved an increase of \$1.2 billion in the Fund, also payable in three equal installments, the last of which was paid by December 31, 1969. The total resources of the Fund as of December 31, 1969, were \$2,328 million. Accumulated reserves of the Fund totaled \$15.4 million at the end of 1969, and the net income for 1969, after providing for technical assistance, was \$4.7 million.

Social Progress Trust Fund

2. 10 The Social Progress Trust Fund (SPTF) was created pursuant to an agreement entered into between the United States of America and the Bank as administrator, on June 19, 1961. The initial assets were \$394 million. The agreement authorized the Bank to make loans in the fields of land settle-

ment and improved land use, housing for low income groups, community water supply and sanitation facilities, and supplementary financing of facilities for advanced education and training related to economic and social development. In addition, the Bank was authorized to provide technical assistance related to those fields and to the mobilization of domestic financial resources. The Bank accepted the administration of the Fund for these purposes, deeming it to be consistent with the provisions of the agreement establishing the Bank and with its efforts to foster greater social progress and balanced economic growth in its member countries. In February of 1964 the United States contributed an additional \$131 million to the Fund. In 1965 the Board of Governors reached the conclusion that no new resources should be sought for the SPTF and decided that in the future the Bank should include in the operations of the FSO financing for social development purposes, including those previously financed through the SPTF. No loans have been made from the SPTF since 1965, but remaining resources have been employed for technical assistance activities. Available resources, including repayments, have also been utilized to purchase participations in FSO loans dedicated to the same purposes as SPTF loans. As of December 31, 1969, the SPTF had purchased \$66.4 million in such participations. Pursuant to the SPTF Agreement, any asset remaining in the Fund at the time of termination, including outstanding loans, shall revert to the United States upon settlement of all accounts due and payable from the SPTF.

Resources from Nonmember Countries

2. 11 From its very outset the Bank has looked to nonmember industrialized countries of the world as possible sources of funds to channel to the development of Latin America. The Bank has obtained through these efforts a substantial volume of resources which have contributed greatly to its operations. The financing involved has included short- and long-term bond issues and a variety of arrangements such as funds in administration, parallel financing arrangements, and sales of participations. As indicated above, the Bank has borrowed in eleven nonmember countries funds totaling the equivalent of \$313.7 million for the ordinary resources.

The Bank has entered into agreements with Canada, Germany, Sweden, the United Kingdom, and the Vatican to administer special funds which they have provided for development projects in Latin America. Loans from these funds are made at very concessional terms. In addition, the Bank also administers an individual loan for \$1.3 million which the Inter-Governmental Committee for European Migration made for agricultural projects in Brazil. As of December 31, 1969, all of these arrangements totaled \$69.8 million. The largest amount included in this total is the Canadian fund in the equivalent of \$46.3 million. The German Government contributed nearly \$9 million for the rehabilitation of the Bolivian tin mines loan under a triangular arrangement administered by the Bank. A \$5 million Swedish Development Fund for Latin America was placed at the Bank's disposal in 1966, as was an agreement for a fund of the United Kingdom in the equivalent of \$7.3 million. On March 26, 1969, the Bank entered into an agreement with the Holy See to administer the Populorum Progressio Fund of US\$1 million assigned to benefit low income sectors in Latin America, initially in the field of agrarian reform.

In total, 19 loans for \$57.8 million have been authorized from these nonmember country funds. Additionally, the Bank has entered into arrangements with Canada and the Netherlands under which it will help channel a total of nearly \$44 million for Latin American development provided by those two countries through independent financing arrangements.

In short, it will be seen that the Bank has made a strong effort to obtain funds in nonmember countries for the benefit of its members and that this activity has met with a high degree of success.

Loan Operations

2. 12 Since the beginning of its activities, the Bank has carried out an intensive and increasing volume of operations. As of December 31, 1969, the total volume of loans committed by the Bank from its own resources and those

it administers amounted to \$3,430 million. The distribution of these loans by resources was: Ordinary Capital resources: 187 loans totaling \$1,294 million; Fund for Special Operations: 243 loans for \$1,582 million; Social Progress Trust Fund: 116 loans for \$496.2 million; other funds in administration: 19 loans for \$57.8 million. The total cost of the projects financed by these loans is estimated to be about \$9,600 million. Thus the Bank's loans are providing 36 percent of the total cost of the projects, with some 64 percent coming from the borrowing countries themselves,

TABLE II.—LOANS APPROVED, LESS CANCELLATIONS, BY FUNDS AND BY YEARS

(In thousands of U.S. dollars)

	Ordinary capital	Fund for special operations	Social progress trust fund	Other	Total
1961.....	115,089	45,109	112,125	-----	272,323
1962.....	78,632	41,068	203,344	-----	323,044
1963.....	167,073	31,698	46,751	-----	245,522
1964.....	150,506	48,937	84,671	-----	284,114
1965.....	118,861	195,951	49,308	4,167	368,287
1966.....	89,096	290,804	-----	3,941	383,841
1967.....	168,284	305,830	-----	12,359	486,473
1968.....	197,675	209,630	-----	27,223	434,528
1969.....	208,893	412,530	-----	10,082	631,505
Total.....	1,294,109	1,581,557	496,199	57,772	3,429,637

- 2.13 The Bank's operations cover a wide variety of sectors. Agriculture is continuing to merit the Bank's priority attention, and in recent years has accounted for about one-third of the Bank's total lending activities reflecting concern to expand production and productivity in Latin America's rural sector to enable it to provide the food and fiber to meet domestic needs as well as to provide foreign exchange. Industry and mining have received 17 percent of the Bank's loans. Another sector which has received special emphasis is economic infrastructure, particularly transportation and electric power. In the social field the Bank has financed housing for low income families, water supply and sewerage projects, improvement in land use and tenure, education and preinvestment. The following table shows the distribution of loans by fields of activities:

TABLE III.—DISTRIBUTION OF LOANS BY FIELDS OF ACTIVITY (CUMULATIVE AS OF DEC. 31, 1969)

(In millions of U.S. dollars)

Fields of activity	Amount	Percent
Agriculture.....	833.8	24.3
Industry and mining.....	577.3	16.8
Transportation and communication.....	521.9	15.2
Electric power.....	472.7	13.9
Water supply and sewerage systems.....	457.4	13.3
Urban development and housing.....	322.7	9.4
Education.....	136.9	4.0
Preinvestment.....	66.0	1.9
Export financing.....	41.0	1.2
Total.....	3,429.7	100.0

- 2.14 Given the availability of resources, the Bank in its lending activity has attempted to strike an appropriate balance between hard and soft loans to social and economic projects, as well as between loans to the public sector and to the private sector. In this respect, the Bank takes into account not only the economic and social circumstances affecting projects in the various sectors but also the payment capacity of the member countries and the recommendations made by the Inter-American Committee for the Alliance for Progress (CIAP). The distribution of loans by country and by fund is shown in table IV.

TABLE IV.—SUMMARY OF APPROVED LOANS, LESS CANCELLATIONS, BY COUNTRIES AND BY FUNDS
(CUMULATIVE AS OF DEC. 31, 1969)

[In thousands of U.S. dollars]

Country	Ordinary capital	Fund for special operations	Social progress trust fund	Other funds	Total
Argentina	241,528	184,713	43,500	700	470,441
Bolivia		81,480	14,600	7,032	103,112
Brazil	311,468	326,541	62,060	14,414	714,483
Chile	102,273	148,635	35,162	8,860	294,930
Colombia	141,910	143,080	49,008	16,500	350,498
Costa Rica	13,070	21,139	11,699		45,908
Dominican Republic	6,000	40,395	8,533		54,928
Ecuador	13,836	37,662	27,470	1,167	80,135
El Salvador	6,958	13,483	21,952	3,000	45,393
Guatemala	11,292	53,804	14,320		79,416
Haiti		7,160			7,160
Honduras	460	46,942	7,603		55,005
Mexico	235,966	169,231	35,067	500	440,764
Nicaragua	19,525	30,450	13,035		63,010
Panama	1,500	32,473	12,862		46,835
Paraguay	6,050	83,563	7,800	740	98,153
Peru	43,384	75,755	45,242	1,359	165,740
Trinidad and Tobago		5,300			5,300
Uruguay	34,352	26,847	10,500		71,699
Venezuela	84,537	24,200	72,861		181,598
C.A.B. for Economic Integration	10,000	28,704	2,925	3,500	45,129
Regional (ADELA)	10,000				10,000
Total	1,294,109	1,581,557	496,199	57,772	3,429,637

2. 15 The Bank has been able to play a dynamic role in the decade of the 1960's in providing Latin America with credits needed to make the agricultural and industrial sectors of the economy viable, with pure water and proper sanitation facilities, with decent housing and other urban and rural community facilities, and with the improved education facilities required in today's technological world.

Loans extended by the Bank up to December 31, 1969, are leading to the realization of the following accomplishments:

—Improving or bringing into production for the first time some 6,450,158 acres of land. As of December 31, 1969, some 3,573,300 acres had already been brought into production and, in addition, the Bank had provided about 729,360 credits through Latin American development institutions to improve output and productivity of small- and medium-scale farms and ranches throughout the region.

—Building or expanding 4,038 private industrial enterprises, ranging from 50 large units financed directly by the Bank, of which 39 had been completed by the end of 1969, to thousands more, small, medium, and large, financed with loans channeled by the Bank through local development institutions.

—Constructing or improving 4,350 miles of highway in the region's principal highway network and building 17,110 miles of farm-to-market roads. In addition Bank loans are helping to modernize eight major ports in Latin America and are providing new or improved grain elevator facilities in six other ports. The Bank is also helping to improve three national telecommunications systems in the region, as well as that of Central America as a whole, and has embarked on a major preinvestment effort designed to interconnect all of Latin America's national telecommunications systems into a unit with standards comparable to those of the more industrialized world.

—Installing 6.7 million kilowatts of electric power generating facilities and stringing 40,000 miles of transmission lines, as well as building distribution lines serving 544 communities in Latin America. As of December 31, 1969, units generating 1.2 million kilowatts were already in operation, 7,250 miles of distribution lines had been installed, and distribution facilities in 160 communities had been completed.

—Building or expanding 3,629 city and rural water systems and 362 sewerage systems. As of December 31, 1969, some 2,499 water and 268 sewerage systems had been completed.

—Building 327,875 housing units for low income families under Bank-financed urban and rural development projects. As of December 31, 1969, some 255,792 units had been completed.

—Modernizing, expanding or improving 559 learning centers composed of 94 universities and 465 technical institutes and vocational schools. Special emphasis is being placed on improving teaching in the basic sciences and in broadening the basic technical and vocational skills required by Latin America's current development effort.

—Financing capital goods exports with an invoice value of \$53.4 million among its Latin American member countries under a program adopted by the Bank in 1963 to stimulate the development of the capital goods industry and foster economic integration in Latin America.

—Approving 232 credits for the execution of studies of specific development projects under loans extended by the Bank to Latin American institutions for the establishment of revolving pre-investment funds. An additional 47 preinvestment studies of individual projects were carried out with other loans made under the Bank's technical assistance program.

2. 16 In addition to providing financing for various economic and social sectors which had previously been neglected, the Bank has also given decisive development support to Latin American areas and countries most in need, in order to benefit their inhabitants and help achieve a balanced development of the region. To mention only a few examples: increased electric power supply in Paraguay, substantial assistance to the northeast of Brazil, financing of basic agricultural projects in northwest Argentina, fostering of development in Indian communities through the Andean mountains, and land settlement and farm support to previously unutilized areas in Central America, Colombia, and Mexico. Preferential attention is given to the relatively less developed member countries with respect to the volume of lending and the terms and conditions of Bank loans. The Bank has become the principal source of official external financing for many of the relatively less developed countries in Latin America.

Economic Integration

2. 17 Latin American economic integration has continued to receive important support in terms of both loans and technical assistance from the Bank. Thus, the Bank has been in the forefront of seeking to bring about the objectives set by the Presidents of the Americas in their April 14, 1967, declaration at Punta del Este, Uruguay, calling for the progressive creation beginning in 1970 of a Latin America common market. The Bank's Board of Governors in 1966 created a Pre-Investment Fund for Latin American Integration financed by the Bank and by contributions from the member countries. As of December 31, 1969, the total resources provided by the Bank in support of Latin American integration amounted to \$397.8 million, as indicated in the following table:

TABLE V.—SUPPORT FOR ECONOMIC INTEGRATION OF LATIN AMERICA, 1960-69, BY FIELDS OF ACTIVITY

[In millions of U.S. dollars]

	Bank Com- mitments	Total cost of projects
Export financing.....	41.0	58.8
Regional investments:		
Infrastructure.....	298.5	564.6
Industry and agriculture.....	36.8	103.4
Education.....	2.9	10.4
Preinvestment studies.....	14.4	24.1
Training and research.....	2.2	3.6
Institutional support.....	2.0	2.1
Total.....	397.8	767.0

2. 18 The major steps which the Bank has undertaken in the area of economic integration have included its lending to improve a basic transportation network which might unite Latin American countries and to assist projects would effect the international interconnection of electric systems and communication systems. With respect to the latter, the Bank is acting as the executing agent for the United Nations Development Program in the carrying out of feasibility preinvestment studies of the requirements of installing

the domestic and international connections needed to link the telecommunication systems of the individual Latin American countries with each other and the rest of the world.

Technical Assistance

2. 19 The operating ability of the Bank during its first decade has been greatly enhanced by its capacity to offer technical assistance. Through this means the Bank has been able to help borrowers to properly prepare projects, to modernize their operations, and to insure the adequate execution of their projects. It has, furthermore, enabled the Bank to support the activities of a wide variety of other regional and national institutions which share responsibility in planning the development programs of the region. Technical assistance has also been the Bank's main instrument in its growing support for the movement toward economic integration of Latin America and the training of the development personnel required by the region.

The Bank's technical assistance operations through December 31, 1969, amounted to \$131.8 million, of which some \$102.6 million was authorized on a reimbursable basis and \$29.2 million was made available through grants.

Lending Level and Resources Available

2. 20 The Board of Governors in 1967 suggested that the Bank follow a pattern of lending which would increase to an average loan commitment rate for the years 1968-70 of approximately \$175 million per year in Ordinary Capital loans and \$400 million in loans of the Fund for Special Operations, rising from figures of \$120 million and \$190 million (including the SPTF), respectively, for the period 1961-66. Loans authorized in 1969 with ordinary capital resources were \$208 million and \$412 million from the Fund for Special Operations. This was some 52 percent higher than in 1968 and in line with the mandate for increased lending activities laid down by the Governors.
2. 21 The following table indicates the resources available up to December 1969 and the total loan commitments to that date:

TABLE VI.—AVAILABLE BANK RESOURCES AND APPROVED LOAN AUTHORIZATIONS AS OF DEC. 31, 1969¹

[In thousands of dollars]

	Available resources (1)	Net loans		Participa- tions and principal repayments (3)	Balance remaining for lending (1-2+3)	Borrowing repay- ments (4)
		Number	Amount			
Ordinary capital.....	² 1,155,643	187	1,294,109	178,406	39,940	³ 50,194
Fund for special operations.....	2,328,009	243	1,581,557	⁴ 103,072	849,524	
Total.....	3,483,652	430	2,875,666	281,478	889,464	50,194

¹ Includes all currencies.

² Paid-in capital plus amounts received from borrowings.

³ Based on present callable capital subscription of the United States. Includes \$16,610,000 of existing borrowing commitments not yet drawn upon.

⁴ Includes \$66,419,000 of participations purchased by the social progress trust fund.

2. 22 The 1970's are foreseen as a decade of growth in Latin America which will bring to the Bank many added responsibilities. Total Bank lending levels are expected to climb above \$900 million annually within the next three or four years, up from the \$630 million recorded in 1969. With the increase of resources recommended in this document the Bank will stand ready to meet the challenge of this significantly expanded loan demand.

New paid-in subscriptions of \$400 million coupled with increasing annual loan recoveries will enable the Bank to meet an important share of its average annual lending total for the ordinary capital of \$300-350 million during the 1971-75 period. The subscription by the members of \$1.6 billion of additional callable capital stock will make possible the extensive borrowings needed to complete the program.

In contrast to the ordinary capital, which is expected to close the year 1970 with both its available resources and unused callable capital nearly

exhausted, the Fund for Special Operations will enter 1971 with available resources of close to \$400 million, making appropriate lower initial member contributions, i.e., one tenth of the recommended increase, or \$150 million, in that year. Contributions of \$675 million in the first half of each of the years 1972 and 1973 will enable the Bank to raise its lending of concessionary resources above the \$650 million level in each of those years.

2. 23 An expansion of the lending program of this magnitude cannot be expected to occur without placing increased demands on the Bank's existing organizational structure, procedures and human resources. The Board Executive Directors intends to take whatever measures may be necessary to reinforce the Bank's administrative capacity to carry this added burden with maximum efficiency and full maintenance of its standards.

Financial Results

2. 24 The Bank has achieved its record of accomplishment with a rate of return which has enabled it to cover all its expenses, spend a substantial amount of its gross income in technical assistance services for its member countries and steadily augment its reserves.

III. ECONOMIC AND POLICY CONSIDERATIONS RELATING TO THE INCREASE OF RESOURCES

Economic Considerations

3. 01 The need to increase the resources of the Bank arises directly from the urgency of accelerating Latin America's economic and social development during the present decade.

In the years 1961 to 1969, the economy of the region evidenced an annual growth rate of 4.9 percent. This rate compares favorably with that reached by the industrially advanced countries during similar periods of their economic history. Nevertheless, because of a high rate of population increase the rate is still far from satisfactory, in terms of per capita growth and improvement of living standards (which rose only by about 1.9 percent per annum). Indeed, it is lower than the 2.5 percent target called for in the Charter of Punta del Este in 1961; and it is even lower than the per capita growth rate of approximately 3 percent reached by the industrialized countries in the last few decades.

3. 02 The high rates of unemployment and underemployment prevailing in most countries of Latin America, which are rendered more acute in their social implications by rapid urban growth, makes the acceleration of the regional economic growth even more imperative. There are well-grounded reasons to believe that a higher and more stable rate of growth should be attainable during the 1970's. First, Latin America has in fact shown an expansion of its rate of growth during the last few years. The overall growth rate of Latin America increased from 4 percent in 1966 to 4.5 percent in 1967 and to approximately 5.7 percent in each of the years 1968 and 1969. Secondly, several efforts are underway which can be expected to contribute to the economic growth of the region in the forthcoming years. Basically these efforts are the following:

- i. The first and most important factor is that, after a period of gradual improvement, the process of planning and programing development in the Latin American countries is reaching higher levels of efficiency. This is being achieved through institutional improvements, the adoption of more adequate development policies and, above all, a higher order of attention on the part of the governments to the problems and objectives of development.

- ii. The second factor is a noticeable change in economic policy now under way in Latin America with regard to industrial development, which involves a very heavy commitment of the private sector. This change tends to assign a relatively higher priority to industrial production for export, rather than continuing the process of import substitution. Several member countries have already adopted effective measures to stimulate this process, which is also being strengthened by measures and policies of regional scope. The orientation of industrial development towards external markets should further a more rapid growth of the industrial sector and therefore contribute to strengthening the foreign trade of the region, which in turn will be reflected in more rapid economic growth.

- iii. The third factor relates to regional economic integration. Despite the problems which have had to be faced, it should be recognized that

integration has become a growing factor of development for several countries of Latin America and has contributed to an important degree towards the intensification of intraregional trade. Moreover, several efforts, such as the Andean Group, are under way which should contribute to the acceleration or at least the sustained progress of the integration process. This should have at least two consequences: first, through the widening of regional markets it should be possible to increase investment opportunities, including those of truly regional scope; second, the resulting economies of scale should allow for a much more efficient utilization of capital resources invested in the region.

3. 03 Undoubtedly, the acceleration of the rate of growth will require a substantial increase of capital formation in Latin America. In the light of the experience of industrialized countries, the present level of the investment coefficient, standing at approximately 18 percent of aggregate gross domestic product, is, although relatively high in comparison with other developing regions of the world, obviously insufficient to sustain a growth rate significantly higher and more stable than that attained in the past decade. To reach this objective, an average investment coefficient of between 22 percent and 25 percent for the region as a whole would undoubtedly be required, and this would imply an increase of investment by about 8 percent per annum.

This rate of expansion of the investment effort seems to be entirely within the reach of the Latin American member countries of IDB. It is well known that an important component of the capacity to productively absorb new investment is a growing stock of investment projects. In this regard, the Bank itself has become increasingly aware that the demand upon it for financing of development projects is continuously expanding beyond the supply of resources presently available.

3. 04 There is, of course, another dimension to absorptive capacity, when relating this concept to external borrowing. This consists of the need to increase domestic savings, an aspect in which Latin America will have to make a considerable effort. The level of between 16 percent and 17 percent of gross domestic product of the recent past will have to grow beyond 20 percent and should approach as closely as possible the level of the investment coefficient.

An objective analysis of the present economic conditions of Latin America permits the conclusion that the growth target of domestic savings appears feasible without restricting consumption; in fact, this increase should originate from further increases in per capita income, a substantial part of which may be channeled toward savings. Since the average level of per capita gross domestic product of Latin America ranges between \$400 and \$500, the region no longer can be said to be bound within what is called "the vicious cycle of poverty." On the other hand, in analyzing the historical figures on savings in Latin America it may be noted that in the decade between 1960 and 1969 the savings coefficient did not increase with respect to the preceding decade. As there was an important improvement in per capita domestic product, this analysis shows that an unused potential of savings exists. The causes for this are several, depending upon situations within individual countries; they include inflationary trends, lack of stimulus for savings, economic instability and others. Whatever the cause, it is a reasonable conclusion to assume that there is no problem of basic capacity to save but that there has not always been, in the fiscal and monetary fields and, generally, in development promotion, an adequate framework of economic development and of policy measures conducive to utilizing the existing potential.

3. 05 It is obvious, however, that a greater development effort of the region must also depend upon an adequate volume of external resources during the present decade. This is justified both because domestic savings cannot be increased substantially in a short period of time, and because of the sluggish rate of growth of the region's foreign trade, which limits the availability of foreign exchange in terms of the requirements for a more accelerated development. Although, as has already been pointed out, Latin America must make a greater effort to mobilize its domestic resources, increased external financing will be indispensable to the attainment of higher rates of economic development.
3. 06 The problem of external financing is, of course, not limited to the volume of available funds. It is also influenced by the conditions under which they are made available and which in turn involve a series of factors. First among

these is the debt repayment capacity of the member countries. The service of the external debt of Latin America has been requiring an increasing proportion of the foreign exchange receipts of most of the countries in the region. In fact, in some countries this proportion may be reaching critical levels. This situation requires that new public capital for external financing of Latin America be furnished to the maximum reasonable extent under conditions conducive to reducing the impact of servicing the foreign debt upon the balance of payments.

Moreover, as large a share as feasible of external financing should be provided to the region on concessionary terms to relieve those sectors, such as education, housing, and sanitation, which do not by themselves generate increased productive capacity, from having to bear the full impact of capital market interest rates and amortization terms. By the same token, continued financing on concessionary terms is required to meet the special needs of the less developed countries of the region.

3. 07 The Bank can expect the economic factors indicated above, including planning, economic growth, and absorptive capacity, to result in a continued expansion of the volume of sound, high priority projects presented for financing. Reinforcing these factors is the decade of experience of the member countries with the Bank and expectation concerning the Bank's role as the regional multilateral financing institution. Present trends in project preparation by the borrowing member countries indicate that well-conceived projects for which Bank financing would be appropriate are reaching magnitudes that will exceed the resources available to the Bank.
3. 08 Therefore, the proposed increase of resources of the Bank is justified not only in terms of enabling the Bank to continue its role of supplementing domestic financial requirements, but also so as to allow the member countries to move toward a process of more balanced growth, both internally and on a regional level.

Policy Considerations

3. 09 The Bank proposes, in general, to continue lending in the fields in which it is already active, utilizing preinvestment financing and technical assistance as important elements in its operations. Agricultural development is expected to continue to require the largest proportion of the Bank's lending resources. Emphasis will be given to directly productive farm investments, essential rural facilities, and applied agricultural research. Opportunities are also foreseen for loans related to fishery resources. Industrial development, for domestic consumption and export, will call for increased financial support, involving extensive activity with private enterprise. In this regard, studies have been sponsored by the Bank on export financing and on mechanisms for further promotion of industrial enterprise in Latin America. If the further consideration of these studies results in additional financial requirements for such activities, they would be met from the increased resources of the Bank proposed in this report.

Further heavy investments in economic infrastructure will be needed. The Bank plans to support the efforts of its member countries to construct and maintain adequate transportation, power, and telecommunications networks. Important steps in the integration of Latin America have been taken through Bank projects in these fields and further advances will be needed in 1971-73.

The Bank will, in accordance with its directives, sustain its concern for social development in Latin America, including popular participation in the development process. In view of growing urban needs, integrated urban development will be encouraged, with careful consideration given to housing, urban transportation, schools, and other related investment needs. The record of the Bank in financing water and sewerage provides a basis for expanded lending activity in these fields, as well as for consideration of support for appropriate elements of national health programs.

The Bank foresees further opportunity to support improvement in the capacities of educational institutions, notably in the fields of higher education and technical education. Special importance is attached to the encouragement of science and technology.

Certain lending activities may represent relatively small proportions of the proposed loan program of the Bank but can be important in the achievement of the development objectives of the member countries. The Bank has, for example, already provided some support for invest-

ments in the field of tourism; more ample lending in this activity is anticipated. Substantially greater benefits may be derived from forestry resources through Bank assistance. Other activities, such as the improvement of basic governmental services, can be given an important stimulus through modest but well directed investments financed by Bank lending.

3. 10 In its report supporting additional resources for the Bank submitted by the Board of Executive Directors to the eighth annual meeting of the Board of Governors in April 1967, the Board noted that many gains had been attained in improving the various governmental instruments essential for uninterrupted economic and social progress but recognized the need for continued improvement of fiscal, monetary, balance-of-payment, price and wage policies, as well as greater efficiency in public administration. Such measures were not regarded as ends in themselves but rather as an assurance that the countries, through improved measures for mobilizing internal resources, would generate the resources required for their own investment in the public and private sectors, as well as increasing their capability to absorb and use efficiently the resources provided by the external lending agencies.

In reaffirming the concern of the Bank for these matters the Board stated that the Bank's intention to work even more closely with CIAP in its role of promoting the mobilization and effective use of financial resources.

The three years which have passed since the adoption of these views by the governing boards of the Bank have witnessed continued efforts by the member countries of the Bank to create a more favorable policy and administrative environment for accelerated development. But although much has been achieved, serious problems still remain. The Bank for its part recognizes the relation between improved country performance and the integrity of its own program, but at the same time is fully aware that its own program is only a part of a country's overall development effort. In its consideration of specific loan applications the Bank, in addition to its analysis of the needs and potentialities of the project under review, will give attention to the member's overall development needs and to its performance in making productive use of existing available resources, domestic and external. The Bank further recognizes the desirability for close harmony among external assistance agencies so that the contribution of each is complementary to others within a country's overall development program.

The Bank over the past three years has lent its support fully to CIAP efforts to bring about improvements in performance which country reviews have revealed to be deficient and an impediment to the sound execution of development programs. The record of Bank action indicates that lending necessarily tends to fall off in those countries with severe performance problems, whose capability to absorb and use development resources has been markedly reduced through inadequate fiscal, monetary, and administrative policies. At the same time, the Bank has held to the view that in some circumstances countries having internal problems may be benefited by continued assistance through technical advice and, in certain situations, continued lending though at a reduced level and only for programs with minimal budgetary impact until the obstacles which impede progress have been reduced or eliminated.

The Bank will continue its attention to internal problems as an important element affecting development and will support the multilateral efforts of CIAP, in cooperation with other international and bilateral lenders, to encourage the adoption, where deemed necessary, of the policy measures and structural changes that would enable each nation to achieve more effective and enduring progress toward economic development and social improvement.

IV. ORDINARY CAPITAL: SPECIFIC ANALYSIS OF INCREASE

4. 01 The callable portion of each member's subscription is subject to call only if required to meet the Bank's obligations on borrowings or on loans guaranteed by it. The full callable capital is, therefore, available as a guarantee of the obligations issued by the Bank in borrowing funds in the capital markets of the world. In actual practice, however, in its various borrowings to date the Bank has pledged that it will limit the outstanding balance of funds borrowed for inclusion in its Ordinary Capital resources and

- guarantees chargeable to such resources to the amount of the subscription of the United States to the callable capital.
4. 02 With the exhaustion of the original paid-in capital contribution by the members, the Bank has extended loans from its Ordinary Capital consistent with its ability to borrow and has become aware through experience that sufficient leeway in the timing of bond issues is essential to permit entrance into the market when conditions are most favorable. If bond issues were scheduled solely on the basis of immediate requirements for funds, the Bank might be in a position of having to borrow at an inconvenient time, probably at a higher cost. The lack of adequate available callable capital on the other hand might force the Bank to defer its borrowings from periods during which access to markets and borrowing rates and terms were relatively relaxed to periods when rates and terms were more stringent and access to markets more difficult. To avoid being penalized by these factors, the Bank must have on hand a balance of its callable capital adequate to cover its borrowing needs.
4. 03 A further problem will confront the Bank in its borrowing efforts even after the adequacy of its callable capital is assured. Rising interest rates on the funds the Bank borrows in world capital markets have obliged the Bank from time to time to raise the interest rates at which it relends borrowed funds. At present, the Bank charges 8 to 8.5 percent on its Ordinary loans, depending on the cost to it of the money lent. The Bank's interest rate on loans normally reflects the cost of money plus a margin of 1.25 percent consisting of 1 percent to cover the commission required by the charter and 0.25 percent to help meet administrative costs.

- Should market conditions oblige the Bank to raise its interest rates beyond current levels, many urgent and meritorious projects would have to be deferred and long-term development objectives might be adversely affected. Clearly, a means must be found to enable the Bank to keep its lending rate within tolerable limits while maintaining the financially sound position that is necessary to continue to enjoy investor confidence. The Executive Directors have examined various possible ways to achieve these ends and have concluded that the only satisfactory course would be to increase the paid-in capital of the Bank. Such a move could find a strong justification even apart from the interest rate question, inasmuch as the paid-in capital has never been increased since the original subscriptions were made, despite the tremendous growth in the Bank's financial structure.
4. 04 An increase in the Bank's paid-in capital should be effected in conjunction with an increase in the callable capital to replenish the ordinary capital resources. The subscription by member countries to increased paid-in capital in an amount comparable to the original subscription¹ would relieve the Bank of its present necessity, born out of the financial situation, of establishing interest charges based on capital market rates when they are rising and would facilitate such adjustment as might be appropriate should they fall and thus would enable borrowers of ordinary resources to continue to obtain these funds at reasonable cost. The provision of such resources would have the subsidiary beneficial effect of improving the Bank's debt to equity ratio, which stood at about 2 to 1 at the end of 1969, and of assisting in the accumulation of reserves at a normal and desirable rate.
4. 05 The size of the increase in both paid-in and callable ordinary capital resources and the timing thereof must be appraised in the light of the Bank's authorized and projected ordinary operations. As of December 31, 1969, cumulative total dollar and nonmember currency resources of the ordinary capital consisted of \$269.2 million paid-in capital and the equivalent of \$767.2 million of borrowed funds, against which a total of \$1,166.7 million in loans had been committed. Taking into account \$154.9 million of sales of participations and repayments on loans, dollars and nonmember currencies available for commitment on that date amounted to approximately \$24.6 million.

¹ It may be noted that the subscription of Barbados to this increase is totally in callable capital. This is the logical consequence of the special conditions fixed by the Board of Governors for the admittance of Barbados to membership in the Bank. Pursuant to Resolution AG-11/68, Barbados subscribed to ordinary capital stock on the same basis as the original members with the lowest subscription without regard to the subsequent increases in callable capital. As a result, Barbados' existing subscription is 50 percent paid-in and 50 percent callable while the percentage of paid-in of the total subscribed capital of the other members is presently approximately 15 percent. With proposed new subscription this percentage would rise to about 17.5 percent, which obviously is still far below the percentage of Barbados. In order not to place a heavy burden on Barbados and to bring it into line more nearly with the subscription of the other members it is suggested that its subscription be totally in callable capital.

Currencies of the Latin American countries, representing the local currency portion of their paid-in capital, amounted to the equivalent of \$119.2 million at December 31, 1969. At that date, after taking into account the \$23.5 million of loan repayment, the equivalent of some \$127.4 million in such currencies had been committed, leaving a balance equivalent to about \$15.3 million.

4. 06 The total callable capital presently subscribed in \$1,893,775,000, of which \$817,640,000 has been subscribed by the United States. Against this amount the Bank had incurred a funded debt of \$767,163,000 at the close of 1969, leaving under the Bank's commitment not to assume obligations in excess of the United States subscription a borrowing capacity of \$50,194,000, after provision for portions of loans sold under guarantee. After the subscription in 1970 to the second quota of the callable capital increase approved in 1968, the total callable capital will increase to \$2,374.5 million and the United States subscription will increase by \$205.9 million, with the unused portion of that subscription rising to \$256.1 million.
4. 07 It is clear from the preceding chapter that the Bank faces in the years ahead the expanding needs of its members for loan funds from its ordinary resources, reaching an average annual loan volume in the range of \$300-\$350 million in the 1971-75 period. In order to fulfill the expanded loan program foreseen, borrowings would be required in substantial amounts during the period. Assuming additional borrowing at normal rates, borrowing capacity will be substantially exhausted well before the end of 1971, notwithstanding the pending increase referred to in the preceding paragraph. To maintain the desirable lending level in the years from 1972 to 1975, inclusive, it is therefore necessary to take measures as soon as possible to authorize an increase of \$1.6 billion in the callable capital stock. Subscriptions to the increase of both paid-in and callable capital would be distributed among the member countries in proportion to their present subscriptions as shown in table VII, with annual installments as shown in table VIII.
4. 08 Once the Bank receives additional paid-in and callable capital resources it will be able to embark on an expanded loan program. Loan principal recoveries per year of \$60 million in 1971 will increase by 1975 to \$130 million and, together with paid-in capital, will provide a significant share of the \$300-\$350 million annual average target for loan commitments during the period. The net borrowings necessary to sustain the balance of the loan program will, in themselves, be made possible through 1975 by the proposed callable capital increase, although this debt will effectively exhaust the Bank's borrowing capacity by the end of that year.
4. 09 The Bank's loans from its ordinary capital resources will continue to be devoted in major part to projects designed to develop the economic infrastructure of the member countries, such as highways, ports, electric power, irrigation works, telecommunications, and to further the expansion of directly productive sectors, such as agriculture, stock raising, fishing, industry, and mining, etc., either by direct loans or through overall lines of credit to public, semipublic or private intermediate credit institutions. The Bank also intends to continue to pursue its intraregional program established for the financing of exports of capital goods under lines of credit extended to institutions in the member countries. These ordinary capital loans will tend as in the past, to be concentrated in those member countries which are relatively more developed and in a position to meet the rates of interest and other terms prevailing on such loans.
4. 10 A considerable portion of the purchases made abroad by borrowers with funds from the Bank's loans are placed in countries which are not members of the Bank. In order to stimulate these nonmember countries to make commensurate resources available to the Bank, the Board of Executive Directors adopted measures, which went into effect on January 1, 1968, under which a nonmember country in a reasonably advanced stage of development is considered eligible as a source of supply of goods and services purchased with funds obtained under loans from the ordinary capital and the unrestricted resources of the Fund for Special Operations in any given period only if, up to a date shortly before the beginning of the period, the country has provided resources to the Bank on reasonable terms in a cumulative amount equal to at least 100 percent of the total procurement already effected in such country. Only a very few developed countries are ineligible as suppliers under this policy since appropriate amounts of finance have been made available from most countries. The

TABLE NO. VII.—AUTHORIZED ORDINARY CAPITAL RESOURCES
[In U.S. dollars]

Country	Paid in		Callable		Total	Total capital after increase	Percent- age of total
	Dec. 31, 1969	Proposed increase	Dec. 31, 1969 ¹	Proposed increase			
Argentina.....	\$51,570,000	\$51,570,000	\$103,140,000	\$294,250,000	\$485,360,000	\$588,500,000	12.52
Barbados.....	2,070,000		2,070,000		4,970,000	7,040,000	0.15
Bolivia.....	4,140,000	4,140,000	8,280,000		38,960,000	47,240,000	1.00
Brazil.....	51,570,000	1,570,000	103,140,000	23,620,000	15,340,000	588,500,000	12.52
Chile.....	14,160,000	14,160,000	28,320,000	294,250,000	191,110,000	485,360,000	3.44
Colombia.....	14,150,000	14,150,000	28,300,000	80,800,000	52,480,000	133,280,000	3.44
Costa Rica.....	2,070,000	2,070,000	4,140,000	80,730,000	52,430,000	133,160,000	3.44
Dominican Republic.....	2,760,000	2,760,000	5,520,000	11,810,000	7,670,000	19,488,000	.50
Ecuador.....	2,760,000	2,760,000	5,520,000	15,760,000	10,240,000	26,000,000	.67
El Salvador.....	2,070,000	2,070,000	4,140,000	15,760,000	10,240,000	31,520,000	.67
Guatemala.....	2,760,000	2,760,000	5,520,000	11,810,000	7,670,000	19,480,000	.50
Haiti.....	2,070,000	2,070,000	4,140,000	15,760,000	10,240,000	26,000,000	.67
Honduras.....	2,760,000	2,760,000	5,520,000	11,810,000	7,670,000	19,480,000	.50
Jamaica.....	33,150,000	33,150,000	66,300,000	189,150,000	122,850,000	321,000,000	8.05
Mexico.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	.50
Nicaragua.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	.50
Panama.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	.50
Paraguay.....	6,910,000	6,910,000	13,820,000	39,430,000	25,610,000	65,040,000	1.68
Peru.....	2,070,000	2,070,000	4,140,000	11,810,000	7,670,000	19,480,000	.50
Trinidad and Tobago.....	150,000,000	150,000,000	300,000,000	1,023,520,000	673,520,000	1,997,040,000	42.47
United States.....	5,530,000	5,530,000	11,060,000	31,550,000	20,490,000	52,040,000	1.34
Uruguay.....	27,630,000	27,630,000	55,260,000	157,650,000	102,390,000	315,300,000	6.71
Venezuela.....							
Subtotal.....	388,480,000	386,410,000	774,890,000	1,374,540,000	1,552,550,000	3,927,090,000	100.00
Unassigned.....	86,520,000	13,590,000	100,110,000	300,460,000	47,450,000	347,910,000	348,020,000
Total.....	475,000,000	400,000,000	875,000,000	2,675,000,000	1,600,000,000	4,275,000,000	5,150,000,000

¹ Includes \$480,765,000 to be subscribed during 1970.

TABLE VIII.—ORDINARY CAPITAL PROPOSED RESOURCES INCREASE
[Expressed in thousands of U.S. dollars]

	Paid-in										Grand Total
	1971		1972		1973		1974		1975		
	Dollars ¹	M/C ²	Dollars	M/C	Dollars	M/C	Dollars	M/C	Dollars	M/C	
Argentina.....	8,595	8,595	8,595	8,595	8,595	8,595					242,680
Barbados.....	414	414	414	414	414	414					2,900
Bolivia.....	8,595	8,595	8,595	8,595	8,595	8,595					19,480
Brazil.....	2,360	2,360	2,360	2,360	2,360	2,360					191,110
Chile.....	2,358	2,358	2,358	2,358	2,359	2,359					242,680
Colombia.....	207	207	207	207	207	207					66,640
Costa Rica.....	276	276	276	276	276	276					66,580
Dominican Republic.....	276	276	276	276	276	276					9,740
Ecuador.....	276	276	276	276	276	276					13,000
El Salvador.....	207	207	207	207	207	207					13,000
Guatemala.....	276	276	276	276	276	276					9,740
Haiti.....	207	207	207	207	207	207					13,000
Honduras.....	207	207	207	207	207	207					9,740
Jamaica.....	276	276	276	276	276	276					9,740
Mexico.....	5,525	5,525	5,525	5,525	5,595	5,595					13,000
Nicaragua.....	207	207	207	207	207	207					156,000
Panama.....	207	207	207	207	207	207					9,740
Paraguay.....	207	207	207	207	207	207					9,740
Peru.....	691	691	691	691	691	691					32,520
Trinidad and Tobago.....	207	207	207	207	207	207					32,520
United States.....	25,000	25,000	25,000	25,000	25,000	25,000					673,520
Uruguay.....	553	553	553	553	553	553					823,520
Venezuela.....	4,605	4,605	4,605	4,605	4,605	4,605					26,020
Total.....	61,456	61,456	61,456	61,456	61,457	61,457	4,418	4,418	4,418	4,418	1,938,960

¹ Gold and/or U.S. dollars.

² M/C=Member currencies.

Board of Executive Directors expects to apply these measures to the increased resources of the ordinary capital which are recommended in this report.

4. 11 (i) The additional paid-in capital of \$400 million should be paid in three equal annual installments beginning in early 1971, except that for members whose respective paid-in capital subscription to the increase is less than \$10 million, payment should be permitted in five equal annual installments. Each member's subscription to paid-in capital should be 50 percent in gold and/or dollars and 50 percent in the member's national currency.
- (ii) For the purpose of minimizing the impact of the paid-in capital subscription on the budgetary situations of the member countries, it is recommended that the resolution specify that the Bank may receive non-negotiable, non-interest-bearing promissory notes or similar securities, in the form contemplated in article V, section 4, of the agreement establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock, provided that the Board of Executive Directors, taking into account the purposes of the increase of capital and the disbursement requirements of the loans to which the funds are committed, shall establish a schedule pursuant to which such promissory notes or securities shall be paid to the Bank.

V. FUND FOR SPECIAL OPERATIONS: SPECIFIC ANALYSIS OF INCREASE

5. 01 At their annual meeting in April 1967, the Board of Governors agreed to recommend to the member governments an increase in the contributions to the Fund for Special Operations. The resolution provided for an increase equivalent to \$1,200 million, of which \$900 million was to be contributed by the United States and the equivalent of \$300 million by the Latin American members of the Bank; all contributions were to be made in the members' own currencies. The total amount was divided into equal annual installments payable not later than December 31, 1967, 1968, and 1969, respectively. This schedule of payments reflected the Governors' determination to provide sufficient funds for the Bank's concessionary loan operations for the three-year period from January 1, 1968, through December 31, 1970. The decision took into consideration the fact that since 1965 the social development functions previously handled through the Social Progress Trust Fund had been incorporated into the scope of the Fund for Special Operations. This exercise was duly completed with all payments from the member countries duly received by December 31, 1969.
5. 02 The Bank anticipates a marked expansion of development projects presented by its member countries in the years ahead. While much of the total loan demand can be satisfied from resources of the ordinary capital, it is expected that the greater portion of the requirements will need financing from concessionary sources. For the immediate future, the Bank looks toward the continuance of the more recent distribution of loans between the two funds, under which about two-thirds of total Bank financing has come from the Fund for Special Operations. This relationship existed during 1969, when loans approved from the resources of the Fund for Special Operations aggregated \$412.5 million out of total loans granted from all sources of \$631.5 million and is reflected in future requirements anticipated for those sectors, activities and countries calling for loans on concessionary terms.

Future loan activity from the resources of the Fund for Special Operations should substantially increase beyond the 1969 figures and would reach up to \$650 million in 1972 and \$750 million in 1973.

Based on this projected upsurge in loan volume, resources available for lending at the close of 1970 are expected to be insufficient to cover 1971 loan activity. In the light of these projections, the Board of Executive Directors believes that an increase in the resources of the Fund for Special Operations equivalent to \$1,500 million payable in three installments is required for the 1971-73 period. Of this increase, \$1 billion would be contributed by the United States and \$500 million by the Latin American members of the Bank in their own currencies. The higher quotas of the Latin American members as compared with the last increase reflect the desirability of strengthening the principle of self-help by the borrowing member countries.

5. 03 The increase in the Fund for Special Operations would be contributed as shown in tables IX and X, which reflect the respective quotas for each

country. As about \$400 million of resources are expected to remain available upon completion of the 1970 loan program, subscription of only one-tenth (i.e., \$150 million) of the proposed increase would be needed in 1971. The remainder of the increase would be subscribed in two equal annual installments of \$675 million each in the first half of 1972 and 1973, respectively. These subscriptions, along with principal recoveries from borrowers, which are expected to reach \$70 million in 1973, would permit fulfillment of the respective loan program objectives.

- 5.04 In recognition of the fact that the bulk of the contributions increase as proposed would come from the United States, attention must be given to the effect of financing local costs with dollars on the balance of payments of that country. The Bank will continue the policy adopted in 1967 of attempting to hold such financing within appropriate proportions so as to minimize its impact on the United States balance of payments. Moreover, as the supply of member currencies other than dollars held in the Fund for Special Operations increases, coming both from member contributions as well as principal recoveries from borrowers, the Bank will employ these resources to the maximum extent possible in completing its projected loan programs. In so doing, the Bank will be able not only to raise the level of its lending but also will be making a meaningful attempt to keep its holding of member currencies other than dollars within manageable levels.
- 5.05 Since one of the Bank's fundamental objectives is to promote the balanced growth of its members, and taking account of the differences in the stage of development and economic potential existing between the various countries, the Board of Executive Directors intends to place strengthened emphasis in the granting of soft loans to the relatively less developed countries. In programming the utilization of these resources, as well as in its operations, the Bank will assign first priority to the requirements of the relatively less developed countries, so as to assure financing on soft terms to these countries. By the same token, the Bank, in the programming of loans and in its operations with ordinary capital resources, will assign a larger proportion thereof to the relatively more developed countries. Preferential attention to the relatively less developed countries will include the financing with soft resources in such countries of projects which, taken individually, could be considered of inherently economic character. In these cases, the benefit of the soft terms of the loans should be made available by the beneficiary countries to promote additional economic and social development in their territories.

TABLE IX.—FUND FOR SPECIAL OPERATIONS

[Expressed in U.S. dollars]

Country	Contributions as of Dec. 31, 1969	Proposed increase	Contributions after increase
Argentina.....	115,086,000	108,981,000	224,067,000
Barbados.....	414,000	392,000	806,000
Bolivia.....	9,240,000	8,750,000	17,990,000
Brazil.....	115,086,000	108,981,000	224,067,000
Chile.....	31,599,000	29,923,000	61,522,000
Colombia.....	31,578,000	29,903,000	61,481,000
Costa Rica.....	4,620,000	4,374,000	8,994,000
Dominican Republic.....	6,159,000	5,834,000	11,993,000
Ecuador.....	6,159,000	5,834,000	11,993,000
El Salvador.....	4,620,000	4,374,000	8,994,000
Guatemala.....	6,159,000	5,834,000	11,993,000
Haiti.....	4,620,000	4,374,000	8,994,000
Honduras.....	4,620,000	4,374,000	8,994,000
Jamaica.....	6,159,000	5,834,000	11,993,000
Mexico.....	73,989,000	70,064,000	144,053,000
Nicaragua.....	4,620,000	4,374,000	8,994,000
Panama.....	4,620,000	4,374,000	8,994,000
Paraguay.....	4,620,000	4,374,000	8,994,000
Peru.....	15,414,000	14,596,000	30,010,000
Trinidad and Tobago.....	4,620,000	4,374,000	8,994,000
United States.....	1,800,000,000	1,000,000,000	2,800,000,000
Uruguay.....	12,342,000	11,687,000	24,029,000
Venezuela.....	61,665,000	58,395,000	120,060,000
Total.....	2,328,009,000	1,500,000,000	3,828,009,000

TABLE NO. X.—FUND FOR SPECIAL OPERATIONS PROPOSED RESOURCES INCREASE
[U.S. dollars in thousands]

Country	1971	1972	1973	Total
Argentina.....	10,899	49,041	49,041	108,981
Barbados.....	38	177	177	394
Bolivia.....	874	3,938	3,938	8,750
Brazil.....	10,899	49,041	49,041	108,983
Chile.....	2,991	13,466	13,466	29,923
Colombia.....	2,989	13,457	13,457	29,904
Costa Rica.....	438	1,968	1,968	4,374
Dominican Republic.....	584	2,625	2,625	5,834
Ecuador.....	438	2,625	2,625	5,831
El Salvador.....	584	1,968	1,968	4,372
Guatemala.....	584	2,625	2,625	5,834
Haiti.....	438	1,968	1,968	4,374
Honduras.....	438	1,968	1,968	4,374
Jamaica.....	584	2,625	2,625	5,834
Mexico.....	7,006	31,529	31,529	70,064
Nicaragua.....	438	1,968	1,968	4,374
Panama.....	438	1,968	1,968	4,374
Paraguay.....	438	1,968	1,968	4,374
Peru.....	1,458	6,569	6,569	14,596
Trinidad and Tobago.....	438	1,968	1,968	4,374
United States.....	100,000	450,000	450,000	1,000,000
Uruguay.....	1,167	5,260	5,260	11,687
Venezuela.....	5,839	26,278	26,278	58,395
Total.....	150,000	675,000	675,000	1,500,000

5. 06 For the purpose of preventing an imbalance in the currency resources of the Fund for Special Operations, as repayments of loans already authorized increase, the Board of Executive Directors considers it desirable to establish the payment of amortization in the respective currencies loaned on new loans to be authorized from the Fund for Special Operations.

As a consequence of the above, and in order to maintain the concessionary character of the FSO, a general review of the terms and conditions of these loans will be made with regard to rate of interest, grace periods and amortization periods with a view to minimizing the impact on the projects as such and on the balance of payments of the beneficiary countries.

5. 07 Pursuant to the agreement reached in connection with the increase of resources in 1967, the four Latin American members with the highest quotas in the Fund have made available part of their contributions to cover local costs in other countries, in addition to financing exports under Bank projects. As a further expression of the principle of mutual self-help as well as an additional measure of preferential treatment for the relatively less developed countries, it is proposed to broaden this policy to include the two members with the next highest quotas in the Fund.

VI. ACTIONS RECOMMENDED AND PROCEDURES FOR VOTING ON PROPOSALS

Basic Recommendation

6. 01 The foregoing analysis shows that in order for the Bank to maintain an increasing level of lending operations from both its ordinary capital and the Fund for Special Operations, action should be taken by the Board of Governors by the end of 1970 to provide sufficient additional funds for 1971-74.

In order to permit the Bank to utilize the resources of the ordinary capital for development projects at a rate of interest commensurate with the purposes of this type of lending and at the same time permit continued utilization of the capital markets of the world as a source for such financing, it is necessary that part of the subscription to the ordinary capital be paid-in.

Such payments by members whose subscription is more than \$10 million should be made in three annual installments, in the first semester of each of the years 1971, 1972, and 1973, and by other members on the three dates mentioned and in early 1974 and 1975.

In order to assure sufficient guarantee authority, it is proposed that the callable capital increases be made in two installments, in the first half of 1971 and 1973, respectively.

Since there will be close to an adequate amount of resources available for lending in the Fund for Special Operations in 1971 only a small amount of the total recommended herein is proposed for payment in that year and the balance should be made available in equal installments in the first half of 1972 and 1973, respectively.

Applicable Provisions of the Agreement

6. 02 The provisions of the Agreement Establishing the Inter-American Development Bank concerning increases in the ordinary capital resources and the Fund for Special Operations may be summarized as follows:

Ordinary Capital Resources.—Article II, section 2 (e), provides that the authorized capital stock of the Bank may be increased when the Board of Governors deems it advisable and in a manner agreed upon by a two-thirds majority of the total number of Governors representing not less than three-fourths of the total voting power of the member countries.

Article II, section 3 (b), provides that in case of an increase in capital pursuant to section 2(e), each member shall have a right to subscribe under such conditions as the Bank shall determine, to a portion of the increase in stock equivalent to the proportion which its stock therefore subscribed bears to the total capital stock of the Bank, but, no member however shall be obligated to subscribe to any part of such increased capital.

Fund for Special Operations.—Article IV, section 3 (g), of the agreement, specifies that the resources of the Fund shall be increased through additional contributions by the members when the Board of Governors considers it advisable by a three-fourths majority of the total voting power of the member countries. The same proportionality provisions which apply to an increase in the ordinary capital resources also apply to an increase in the resources of the Fund for Special Operations.

Resolutions Proposed

6. 03 Accordingly, the Board of Executive Directors recommends that the Board of Governors adopt the draft resolutions attached, namely:

Annex A. Increase of US\$2,000,000,000 in the Authorized Capital Stock and Subscriptions Thereto.

Annex B. Increase of US\$1,500,000,000 in the Resources of the Fund for Special Operations and Contributions Thereto.

Procedure for Voting

6. 04 The resolutions are presented for a vote by the Board of Governors in accordance with the procedure for taking a vote without calling a meeting established in section 5 of the Bylaws of the Bank. Separate votes are required on each resolution. To be valid, the votes for the resolutions must be received at the headquarters of the Bank on or before December 31, 1970.

Specific Actions Required After Adoption of Resolutions

6. 05 If the resolutions are adopted, then the following actions by each subscribing member are required prior to June 30, 1971:

(a) *Ordinary Capital Increase*

(i) deposit of an appropriate instrument to subscribe an appropriate number of shares of paid-in and callable capital stock, in accordance with the terms of the pertinent resolutions;

(ii) payment for the first *tranche* of the paid-in capital;

(iii) subscription to the first *tranche* of the callable capital.

(b) *Fund for Special Operations Increase*

(i) deposit of an appropriate instrument agreeing to the making of the respective contribution to the increase in accordance with the terms of the pertinent resolution;

(ii) payment for the first *tranche* of the increase.

The subscriptions to and payment by the members of these increases in the following years are detailed in the respective resolutions and in tables VII, VIII, IX and X.

(NOTE—Annex A and Annex B to this report of the IDB Board of Executive Directors (containing the proposed Resolutions on increases in the resources of the Ordinary Capital and the Fund for Special Operations, respectively) are reproduced above as Annex A and Annex B of the Special Report of the National Advisory Council.)

Mr. GONZALEZ. We will now hear from our witness. The Treasury Department is represented by its very able Under Secretary, Hon. Charles E. Walker. Mr. Secretary, would you be kind enough to introduce your associates for the record.

STATEMENT BY HON. CHARLS E. WALKER, UNDER SECRETARY OF THE TREASURY; ACCOMPANIED BY JOHN R. PETTY, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS; AND HENRY J. COSTANZO, U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK

Mr. WALKER. Yes, Mr. Chairman, thank you very much. On my right is Mr. John R. Petty, Assistant Secretary of the Treasury for International Affairs, on my left is Mr. Henry J. Costanzo, an officer of the Treasury Department and U.S. Executive Director for the Inter-American Development Bank.

We welcome this opportunity to testify in support of H.R. 5013 and H.R. 5014, bills which provide additional financial resources to the Asian Development Bank and the Inter-American Development Bank, respectively.

The amounts and purposes of the funds called for in these two bills are identical to those in the omnibus bill approved by the committee last year. Although that legislation passed the full House as H.R. 18306, the portions before you today were later deleted by the Senate. Last week, however, the Senate gave its approval not only to the IDB and ADB legislation now before you but also to the IDA Third Replenishment already reported by this subcommittee. This action was extremely heartening to the administration and I have no doubt similarly heartening to the members of this subcommittee who have so strongly supported this legislation. I am here today to urge accomplishment of what this committee, itself, felt should have been accomplished a year ago. Failure again this year to fully authorize our contribution to IDB and Asian Bank special funds would be a serious blow to the concept of multilateralism and to international cooperation in the development finance field. What would have been a timely provision of funds last year has now become, because of the delay, an urgent and even critical financial need.

ASIAN DEVELOPMENT BANK

Events since your consideration and approval of this legislation last year have, if anything, strengthened the case for a U.S. contribution to the Asian Bank special funds. As stability and security increase in Asia, as direct U.S. involvement in Southeast Asia winds down, as the Asian will to develop manifests itself increasingly at the national and regional levels, the need for development funds on realistically generous terms is accelerated.

Viewed in this broad context, a U.S. special funds contribution will give concrete form to our active desire to work together with the nations of Asia. We will, however, be working together toward a goal of peaceful economic and social development in a framework of Asian initiative, growing self-reliance and regional cooperation.

Three recent and more specific factors reinforce this general view: first, the Asian Development Bank has achieved a solid record of ac-

complishment in the 4½ years since its founding. As of today, cumulative loan commitments total more than \$500 million and involve 40 separate projects. The pace of lending activity reached in 1970, representing a rise of 150 percent over 1969, has been maintained in 1971.

No longer can the Bank be criticized for a slow start and low level of lending activities. A sound basis was laid in its startup period for the expanded level of activity, which, as the pace of its lending bears out, has in fact materialized. There can be little doubt, therefore, that our special funds contribution will be under the administration of a prudently managed multilateral institution that has clearly emerged as a sound borrower in international bond markets and as an important financial source of funds for Asian development.

Second, other nations have continued to add to the resources of the special funds during the past year. At the end of 1970, commitments amounts to \$127 million, an increase of \$57 million during the year. Since then, additional contributions have increased this amount to almost \$175 million, with Japan now having committed all of its \$100 million multiyear target. The Asian Bank itself has provided \$24.5 million from its own resources, \$14.57 million in 1970 and \$9.93 million this year, giving life to the provisions of the Bank's charter which envisioned from the beginning that a soft loan window would be a vital part of the Bank's operations. Thus at this point, the proposed U.S. contribution would represent approximately one-third of total soft resources.

The special funds of the Asian Development Bank have not been established in the form of a multilateral agreement. Nevertheless, all the contributors have assumed that the United States would be providing its fair share and some have explicitly based their own legislative justifications on that reasonable expectation. We are today, then, in the awkward position of having encouraged others—particularly Japan—to contribute while not carrying through with our own contribution. Others have set the pace and are now out in front of us. At the Bank's annual meeting in Singapore last April, Belgium, Germany, Italy, and Norway announced initial commitments of funds and the Netherlands expressed the intent to sustain its previous support. I would remind you that the proposed U.S. support originally came before the Congress in 1967.

Third, the President has emphasized that U.S. development assistance should rely more on the multilateral financial institutions. The present proposal is directly in line with this policy, which has long enjoyed broad support in this committee.

Last year's legislation differs from our present request only in that the former proposed that our contribution be in three annual installments of \$25 million, \$35 million, and \$40 million for fiscal years 1970, 1971, and 1972, respectively. Because of the passage of time, the first two installments should now be consolidated into a single fiscal year 1972 installment of \$60 million. The balance of \$40 million would be contributed by a single installment in fiscal year 1973.

None of these funds, contributed in the form of letters of credit, is expected to be drawn during fiscal year 1972, and cash drawings in fiscal year 1973 are not expected to exceed \$10 million. Nevertheless, the full amount of our contribution is needed so that the Bank will have the legal basis for making commitments of funds to borrowers.

Limitations contained in the earlier legislation remain in full effect. The principal ones are: the funds can be used only for loans; the United States is to be a minority contributor and not the largest contributor; repayment of loans from these funds will be in dollars; there must be significantly shared participation by other donors in any special fund to which our contribution is allocated; and, procurement is limited to goods and services from the United States, although there is flexibility to allow procurement outside the United States if the U.S. Governor finds it would be consistent with the U.S. balance-of-payments position.

Mr. Chairman, in resubmitting this legislation to the 92d Congress, and in urging its passage, President Nixon declared that the authorization "will enable the nations of free Asia to assume greater responsibility for the success of their own development." This committee last year found favor with the proposal because it promised a reliable multinational mechanism for channeling U.S. assistance to reconstruction and economic growth in Southeast Asia following the ending of the Indochina war. It will also provide an important means for reassuring friendly Asian nations of continued American interest in their economic progress. We have already lost much valuable time in making available the resources that will permit these objectives to be achieved.

INTER-AMERICAN DEVELOPMENT BANK

H.R. 5014 covers the \$900 million balance of the \$1 billion U.S. pledge to the IDB's Fund for Special Operations. This pledge represents our share of a multinational agreement negotiated in 1970 to replenish the resources of this fund. The first installment of \$100 million on this pledge was authorized last December. The \$900 million authorization we are now seeking represents the second and third installments of \$450 million each, due not later than June 30, 1972 and June 30, 1973, as part of a multilateral arrangement involving mutual financial obligations by both the Latin members and ourselves.

Current estimates makes clear that, even with the \$100 million first installment, FSO dollar resources will run out early in 1972. Unless the requested funds become available, the main source of concessionary financing to Latin America will dry up at that time. This would create a situation that could justifiably be called an emergency in the development process—of the nations in this hemisphere. Neither the economic nor the political interests of the United States would be served if this were allowed to happen.

Because the United States is the only major industrial nation with membership in the Bank, we have been intensely interested in ways of having other such nations make a contribution to the work of this institution. Our efforts in this direction are now bearing fruit. Discussions with the Latin American members of the Bank have now resulted in proposed amendments to its charter that would permit Canada to become a full member and allow other developed countries to be admitted, although with certain limitations yet to be determined. Closely related amendments would broaden the composition of the Bank's board of executive directors in order to reflect changes in membership. In a letter to Chairman Patman, I have requested that H.R. 5014 be amended to give the U.S. Governor authority to vote for amendments to the charter of the Bank implementing these proposals.

All indications are that Canada will promptly join the Bank and make a significant contribution. Discussions with other potential members are being held.

Mr. Chairman, I want to digress at this point to discuss U.S. policy toward expropriation. As you know, this matter has been under intensive study within the administration, and certain recent developments have heightened the need for a clearly enunciated policy. Although I cannot now describe the precise contents of the President's expropriation policy, I can say that—both in terms of substance and implementation—this new policy, which I hope will be announced in the relatively near future, will work in the interests of both the developing countries. On the other hand, it will help prevent the legitimate interest of U.S. citizens.

In conclusion, Mr. Chairman, I strongly urge the committee to make it clear that the United States is prepared to do its share in partnership with others to speed the economic and social progress of the developing countries. I urge you to act favorably again on our ADB and IDB special funds contributions by reporting H.R. 5013 and H.R. 5014.

Thank you very much.

Mr. GONZALEZ. Thank you very much, Mr. Walker, for a very excellent presentation.

At this time, with the unanimous consent of the members, I would like to introduce into the record a copy of a letter addressed to Chairman Patman from the former Secretaries of the Treasury beginning with John W. Snyder and leading right up to David M. Kennedy and also a letter addressed to the Chairman from you, Mr. Walker, containing material on the suggested admission of Canada into the Inter-American Development Bank.

So without any objection I will insert the letters into the record.
(The letters referred to follow:)

OCTOBER 18, 1971.

HON. WRIGHT PATMAN,
*Chairman, House Banking and Currency Committee, House of Representatives,
Washington, D.C.*

DEAR MR. CHAIRMAN: This year the Congress will have before it proposals for increased U.S. subscriptions to the International Development Association, the Inter-American Development Bank and the Asian Development Bank. It will also be considering appropriation requests for the first installments due under these authorizations as well as requests for funds based on prior authorizations.

These proposals are part of an effort to expand United States reliance upon international financial institutions in the provision of development assistance. We know that these proposals build upon a strong foundation. All of us, as United States Governors of these institutions and as Secretaries of the Treasury, contributed to one or more of these institutions as participants in their establishment or in their strengthening by the provision of additional resources.

We have guided their growth and, in our private capacities, have kept careful watch on their expansion. These are eminently financial institutions and their lending, using highly expert staffs, has been based on sound economic criteria. They have strong and highly capable leadership in President McNamara of the World Bank, in President Watanabe of the Asian Bank, and in the new President of the Inter-American Development Bank, Mr. Ortiz Mena of Mexico.

Perhaps most important, the international financial institutions have provided a framework in which the United States can share the burden of providing development finance with other developed countries. Other nations with strengthened capacity to provide development assistance provide, for example, in IDA, 60 percent of the funds committed. In the Inter-American Bank as well, the Latin American countries have substantially increased their contribution so that they put up \$1 for every \$2 provided by the United States in the Fund for Special

Operations. Other countries have already pledged \$180 million to the Asian Development Bank Special Funds and the authorizing proposal specifies that the United States contribution must be a minority of total contributions.

This burden sharing and consequent decision-making based on financial participation is a major achievement and contains the nucleus for further co-operation in the international financial area. Indeed, we regard the present strength and stature of the international financial institutions as one of the most notable achievements of the past twenty-five years. An achievement for which six Presidents and Congresses from the 79th to the present can take full credit—credit which must be shared on a fully bipartisan basis. Partisanship has had no place in the history of our support for these institutions.

However, for the first time since the United States began participating in the international financial institutions Congress failed to appropriate funds necessary to meet authorized subscriptions. Appropriations requests for the Inter-American Development Bank were cut by almost half and World Bank requests were eliminated.

It is no exaggeration to say that unilateral cuts in authorized subscriptions could destroy the international financial institutions and set international financial cooperation back twenty-five years. We feel impelled to warn of the consequences of such a development.

It must be recognized that a failure to meet authorized subscriptions for a multilateral endeavor is a unilateral action by the United States inconsistent with the joint decisions taken by the numerous member governments. Instead of an agreed burden-sharing formula the United States would insist on its own formula; instead of a lending program of agreed dimensions the United States would set the size. Surely all parties would insist on the same rights of unilateral action and international cooperative action would be at an end.

Because each country's contribution is contingent upon that of other countries, it is necessary for the United States to follow through on its agreed share, if other contributors are to do the same. Thus full performance on United States commitments is essential. None of these commitments is undertaken without the authorization of the Congress.

In our experience the path of support for appropriation requests that have been authorized by Congress does not mean an abdication of the functions of Congress in the appropriations area. There are ample ways through which the Congress in the course of its appropriations deliberations can make its policy views on the use of United States funds known to the Executive Branch and through the Executive Branch to the United States Governors and Executive Directors. In the past the concerns of Congress have been fully reflected in the actions of the governing boards of the international institutions and there is every reason to expect that this sensitivity to Congressional policy will continue in the future.

Experience has proved that sharing the burden of international financial co-operation and development assistance through international financial institutions is strongly in the interests of the United States. The achievements to date and potential for the future make continued full support of these institutions an imperative for United States foreign economic policy.

Sincerely yours,

JOHN W. SNYDER.
DOUGLAS DILLON.
JOSEPH W. BARR.
ROBERT B. ANDERSON.
HENRY H. FOWLER.
DAVID M. KENNEDY.

THE UNDER SECRETARY OF THE TREASURY,
Washington, D.C. October 18, 1971.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: On October 7, 1971, a proposed amendment to the Inter-American Development Bank's Articles of Agreement was transmitted to the Bank's Board of Governors. This amendment would permit the admission of Canada as a member of the Bank. It would also permit the admission of other developed countries under terms and conditions to be established. Since May,

1971, a related amendment to the Bank's Articles has been pending before the Governors which would permit the same degree of flexibility in determining the size of the Bank's Board of Executive Directors as exists in the other international financial institutions.

Broadening the membership of the Inter-American Development Bank and thereby improving the burden-sharing aspects of its capital structure has long been a U. S. goal and has frequently received encouragement from the Congress. The Administration is strongly in favor of the changes embodied in the resolutions, which have been endorsed by the National Advisory Council on International Monetary and Financial Policies. By law, the U. S. Governor must obtain legislative authority in order to accept any amendments to the Bank's Charter.

Accordingly, I request that you introduce an amendment to HR 5014 containing appropriate language to authorize the U. S. Governor of the Inter-American Development Bank to accept the proposed amendments relating to expansion of the Bank's membership and to increasing the number of Executive Directors by vote of the Board of Governors. A draft of such language is attached.

I am also attaching copies of the proposed resolutions embodying the text of the two amendments and explanatory materials on each.

Sincerely,

CHARLES E. WALKER.

ADDITIONAL PROVISION TO BE ADDED AT THE END OF H.R. 5014

"Sec. 20. The United States Governor of the Bank is authorized to agree to amendments to the provisions of the articles of agreement as provided in proposed Board of Governors resolutions entitled (a) 'Amendment of the Provisions of the Agreement Establishing the Bank with Respect to Membership and to Related Matters' and (b) 'Amendment of the Provisions of the Agreement Establishing the Bank with Respect to the Election of Executive Directors.'"

RECOMMENDATION FOR AMENDMENT OF THE PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO THE ELECTION OF EXECUTIVE DIRECTORS

The Board of Governors,

Taking into account the fact that the Board of Executive Directors has recommended consideration of amendments, of the provisions of the Agreement Establishing the Bank with respect to the election of Executive Directors,

Recommends: That the member countries take such action as may be necessary to give effect to the following resolution:

AMENDMENT OF THE PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO THE ELECTION OF EXECUTIVE DIRECTORS

The Board of Governors:

Resolves: To make the following amendments to the Agreement Establishing the Bank:

1. To amend subsection (b) of Article VIII, Section 3, as follows:

"(b) (i) Executive directors shall be persons of recognized competence and wide experience in economic and financial matters but who shall not be governors.

(ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank and the others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected, which shall not be less than six, and the procedure for their election shall be determined by regulations adopted by the Board of Governors by a two-thirds majority of the total number of governors representing not less than three fourths of the total voting power of the member countries. Any change in the aforementioned regulations shall require the same majority of votes for its approval.

(iii) Executive directors shall be appointed or elected for terms of three years and may be reappointed or re-elected for successive terms."

2. To eliminate subsection (i) of Article VIII, Section 3.
3. To eliminate Annex C, concerning the election of Executive Directors.

PROPOSED RESOLUTION

RECOMMENDATION FOR AMENDMENT OF CERTAIN PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO MEMBERSHIP AND TO RELATED MATTERS

The Board of Governors,

Taking into account the fact that the Committee of the Board designated by Resolution AG-5/70 has recommended consideration of amendments of certain provisions of the Agreement Establishing the Bank with respect to membership of Canada and to the possible admission of other developed countries to the Bank,

Recommends: That the member countries take such action as may be necessary to give effect to the following proposed resolution:

AMENDMENT OF THE PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO MEMBERSHIP AND TO RELATED MATTERS

The Board of Governors:

Resolves:

1. To make the following amendments to the Agreement Establishing the Bank:

(a) To amend subsection (b) of Article II, Section 1, as follows:

"(b) Membership shall be open to other members of the Organization of American States and to Canada, at such times and in accordance with such terms as the Bank may determine. For the purpose of increasing the resources of Bank, nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and, under such general rules as the Board of Governors shall have established, subject to such limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine."

(b) To amend subsection (b) of Article IV, Section 3, as follows:

"(b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1 (a), Canada and countries that are admitted in accordance with Article II, Section 1 (b) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank."

(c) To amend subsection (c) of Article VIII, Section 3, as follows:

"(c) Each Executive Director shall appoint an Alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternate may be of the same citizenship, except in the case of countries that are not borrowers. Alternates may participate in meeting but may vote only when they are acting in place of their principals."

2. To determine that the foregoing amendments shall enter into force 3 days after the date on which the official communication certifying their adoption has been addressed to the members in accordance with Article XII (c) of the Agreement Establishing the Bank.

INTER-AMERICAN DEVELOPMENT BANK, MEETING OF THE COMMITTEE OF THE BOARD OF GOVERNORS

(Resolution AG-5/70, October 1, 1971)

REPORT ON MEMBERSHIP OF CANADA AND THE POSSIBLE ADMISSION OF OTHER DEVELOPED COUNTRIES TO THE INTER-AMERICAN DEVELOPMENT BANK

By Resolution AG-5/70, adopted by the Board of Governors of the Inter-American Development Bank in its Eleventh Annual Meeting in Punta del Este in April 1970, a committee composed of the Governors for Argentina, Brazil, Mexico, Nicaragua, the United States, Uruguay and Venezuela was appointed to examine various alternatives to assure an increased flow of resources to the Bank from developed countries not presently members of the Institution, including particularly the matter of such countries within the Hemisphere.

In the performance of this assignment between August 1970 and October 1971, the Committee met in Mexico, Caracas, Buenos Aires, Lima and Washington.

At its fifth meeting held at the Bank's headquarters on October 1, the Committee took note of the report of a working group it established to explore with representatives of industrialized countries the possibility of their participating more closely in the work of the Bank. On this same occasion, the Committee also considered a communication addressed to the President of the Bank by the Canadian Secretary of State for External Affairs, stating that one of the ways in which his country is interested in developing and strengthening relations with other countries in this Hemisphere is by widening its development assistance program for Latin America. He further states in this regard that since the Bank plays a key role in the promotion of economic and social development of the region Canada would like to pursue the possibility of becoming a full member of the Bank (Annex I).

The Committee recommends at this time that the Board of Governors amend the Agreement Establishing the Bank to make possible the membership of Canada and, also, the admission of nonregional developed countries for which purpose it submits for the consideration of the Board of Governors the proposed resolution described below.

The Committee furthermore proposes to continue its work concentrating on the terms, rights and obligations under which nonregional developed countries might be admitted to the Bank, as provided for in the proposed amendment of the Agreement.

Relations of the Bank with Canada

The unique importance of the contribution which Canada, as a developed country in the Hemisphere, was in a position to make in furtherance of the economic and social progress of the Bank's developing member countries was recognized from the earlier years of the Bank. Thus it was that from the very outset the Bank established, and has continued to cultivate with that country, special relations which have been very beneficial to the Latin American member countries.

The cooperation received from Canada found its most significant expression in the Agreement of December 1964 with the Government of Canada whereby the Bank was entrusted with the administration of funds that the government would place at its disposal for providing economic, technical and educational assistance to the Latin American member countries. This fund, initially consisting of 10 million Canadian dollars, has been enlarged by means of successive contributions raising it to its present level of 60 million Canadian dollars. The loans authorized with the resources of this fund are granted on highly concessional terms, including amortization periods of up to 50 years, grace periods of 10 years, and no charge for interest. The present resources of the fund are totally obligated, considering loans authorized and projects approved in principle. This assistance granted to Latin America has benefited 10 countries and one sub-regional development institution.

It will also be recalled that in June 1965 an agreement was entered into between the Bank and the Export Development Corporation of Canada (formerly the Export Credits Insurance Corporation) whereby a sum of up to 15 million Canadian dollars was placed at the Bank's disposal for long-term financing of exports of Canadian goods and services to be used in economic development projects in Latin America. A total of 3.8 million Canadian dollars from these resources has been utilized to date for the benefit of two countries.

Moreover, as far back as March 1963, when the first exercise for increasing the resources of the Bank was initiated, consideration was given to the possibility of Canada's being in a position at some time in the future to become a member of the Bank. With this in view, the Board of Executive Directors recommended, and the Board of Governors accepted and put into force by Resolution AG-3/64, a special increase of US\$300 million in the authorized capital of the Bank to be available for subscription by new member countries, including especially Canada. At the same time it was agreed to amend the Agreement Establishing the Bank so as to permit the number of Executive Directors to be increased in the event that the Bank admitted new members having a combined voting power of not less than 22,000.

Since then, various formulas for associating Canada more closely with the work of the Bank have been considered on different occasions. Officials of the Bank have visited Ottawa and the leading Canadian financial centers for this purpose. In addition, Canada designated a member of its Embassy staff in Washington to represent it in the study of operations carried out with resources from the Canadian Government Fund, and in 1968 the ministerial-level mission that traveled through Latin America to study Canada's relations with the area was in contact with the Bank's offices in the countries visited.

Admission of Canada

In 1970, when the question of replenishment of the Bank's resources was again considered in Punta del Este, special consideration was given to the need to examine the various alternatives for increasing the flow of resources for economic and social development of the Bank's member countries in a manner compatible with the preservation of its regional character. The result of this study was the approval of Resolution AG-5/70, mentioned above, which gave rise to the appointment of the Committee. It was agreed on that occasion that the admission of developed countries of the Western Hemisphere, by which Canada was meant, would be compatible with the regional character of the Bank, and it was recommended that, if an agreement on this matter should be reached, the Committee submit the relevant proposal to the Chairman of the Board of Governors for its consideration.

In his letter concerning possible admission of Canada to the Bank, the Secretary of State notes that his government is taking steps to accredit a permanent observer to the Organization of American States in order to strengthen its links with Latin America but that it does not intend at this time to become a member of that regional organization. The Secretary of State further says that Canada would not expect to receive loans from the Bank and that its role would be entirely that of a country contributing resources, a role which his government considers can be most usefully and effectively accomplished if Canada has its own representation in the Board of Executive Directors, rather than sharing representation with countries that are borrowers from the Bank. It should be understood in this regard that the Canadian Director would appoint an alternate of his own nationality.

In light of the background information provided in the preceding section, and taking into account, particularly, the position taken by the Governors on each occasion on which consideration has been given to the possibility of associating Canada more closely with the work of the Bank, the Committee regards the conditions indicated by the Secretary of State in his inquiry as reasonable and is therefore submitting for consideration by the Board of Governors a proposed resolution which would recommend that the member countries take such action as may be necessary to amend certain provisions of the Agreement Establishing the Bank to make possible the membership of Canada on the proposed basis (Annex II).

The admission of nonregional developed countries

It will be recalled that Resolution AG-5/70, which provided for establishment of the Committee, included within the Committee's terms of reference the entire question of developed countries which are not members of the Bank, rather than limiting the terms of reference to Canada. In view of this, the Committee has taken cognizance of proposals formulated by several member countries which relate to the desirability of associating developed countries from outside the region with the Bank as full members, as associate members or as contributors to a multilateral fund to be administered by the Bank. Without anticipating the decision which may be taken on this point, the Committee considers it advisable to take this opportunity to propose that the amendments to the Agreement recommended on this occasion be sufficiently broad so that any decision the Board of Governors may take in the future on the participation of developed countries from outside the region could be implemented without the need to again amend the provisions of the Agreement Establishing the Bank relative to member countries.

Amendment of the agreement establishing the Bank

The proposed resolution submitted for consideration by the member countries recommends the following amendments to the Agreement Establishing the Bank.

Article II, Section 1(b), concerning member countries, provides that: "Membership shall be open to other members of the Organization of American States at such times and in accordance with such terms as the Bank may determine." In order to grant the Canadian request in regard to this point and also provide for possible admission of nonregional developed countries, this section would be amended to read as follows:

"(b) Membership shall be open to other members of the Organization of American States and to Canada, at such times and in accordance with such terms as the Bank may determine. For the purpose of increasing the resources of the Bank, nonregional countries which are members of the International

Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and, under such general rules as the Board of Governors shall have established, subject to such limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine."

It is understood that the limitations on rights and obligations referred to in the last sentence of the new text proposed above for Section 1(b) would be determined notwithstanding any other provisions of the Agreement Establishing the Bank.

Article IV, Section 3(b) on the Fund for Special Operations, provides that: "Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1(a) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank." In this case, it would be necessary to add a reference to Canada and to the nonregional countries so that the text would read as follows:

"(b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1(a), Canada and countries that are admitted in accordance with Article II, Section 1(b) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank."

Article VIII, Section 3 (b) and (j) and Annex C specify the number of Executive Directors that there shall be and the procedure for appointing or electing them. By Resolution AG-6/71 approved in Lima on May 14, 1971, the Board of Governors recommended that the member countries adopt such measures necessary to amend Section 3(b) and to eliminate Section 3(j) and Annex C with a view to incorporating these provisions in special regulations that would be adopted by the Board of Governors and could be amended whenever circumstances made it advisable, without the need to amend the basic charter of the Bank in each case. The wisdom of this procedure is apparent in the present case, since, if Canada becomes a member of the Bank and it is decided to increase the number of Executive Directors by one, the Board of Governors could authorize this increase by amending the special regulations and without the need to consider a further amendment of the Agreement. For this reason it is not necessary to change the amendments proposed by Resolution AG-6/71, which are currently in process of ratification by the member countries and, indeed, have been formally approved by some of them.

Article VIII, Section 3(c) concerning the Board of Executive Directors, includes another provision which, unlike the above, would have to be amended. This section provides in part that: "None of the elected directors and their alternates may be of the same citizenship." As the right requested by Canada, as a developed country contributing resources to elect a Director and an Alternate of the same citizenship would not be extended to borrower countries, the exception could be accommodated by adopting the following language for this part of Section 3(c):

"(c) * * * None of the Executive Directors and their Alternates may be of the same citizenship, except in the case of countries that are not borrowers * * *"

According to Article XII of the Agreement, adoption of the amendments proposed herein requires their approval by a two-thirds majority of the total number of Governors representing not less than three fourths of the total voting power of the member countries and the amendments would enter into force for all members three months after the date when the Bank certified in an official communication that the amendments had been duly adopted, unless the Board of Governors specified a different period. The proposed resolution appended hereto includes a provision to the effect that the amendments would enter into force three days after the date on which they are duly approved.

Procedure

The Committee considers it desirable for the countries to act on this proposal without waiting until the next regular meeting of the Board of Governors. Accordingly, after consulting with the Chairman of the Board of Governors, this report and the proposed resolution are being transmitted to the Board of Executive Directors of the Bank so that they may be submitted to the member countries with a request for a vote on the proposal through the procedure for voting without calling a meeting provided for in section 5 of the By-Laws of the Bank.

As soon as the proposal for amendment is approved and in process of ratification in the member countries, the President of the Bank, in consultation with the Board of Executive Directors, may initiate informal conversations with the

Canadian authorities to determine the amounts of the quotas with which Canada would contribute to the ordinary capital, paid-in as well as callable, and to the fund for Special Operations and to establish the dates on which those quotas would be subscribed and paid.

Subsequently, on the basis of the informal negotiations with Canada and when the Member countries have officially adopted the amendments to the Agreement permitting Canada to join the Bank without being a member of the Organization of American States, the Board of Executive Directors will be in a position to comply with the provisions of Section 11 of the By-Laws of the Bank which state that, in submitting an application for membership to the Board of Governors, the Board of Executive Directors, after consulting the applying country, shall make a recommendation to the Board of Governors concerning the number of shares of capital stock the country should subscribe, the amount of its contribution to the Fund for Special Operations, and any other conditions which, in the opinion of the Board of Executive Directors, the Board of Governors should establish.

The final decision on entry of Canada rests with the Board of Governors since the question involves one of the powers which, according to Article VIII, Section 2(b), may not be delegated to the Board of Executive Directors. At the appropriate time, this decision may be taken either at a meeting of the Board of Governors or through the procedure for voting without calling a meeting.

With regard to the relations of the Bank with nonregional developed countries, the Committee has decided to meet next December in Brasilia, for the purpose of studying the general rules that would apply in the determination of the terms, as well as the rights and obligations, under which said countries may be admitted to the Bank.

ANNEX I

JULY 29, 1971.

MR. ANTONIO ORTIZ MENA,
President, Inter-American Development Bank,
Washington, D.C.

DEAR MR. ORTIZ MENA: Within the context of our review of Foreign Policy, the Canadian Government has, as you know, been examining various ways of developing and strengthening our relations with other countries in this hemisphere. One of the avenues which we would very much like to widen is our development assistance programme for Latin America. Since the Inter-American Development Bank plays such a key role in the promotion of economic and social development of the areas; we have obviously been paying close attention to means whereby we might further our cooperation with you and members of the Bank. As you are aware, Canadian officials have recently had a number of conversations with the Bank about alternative methods of changing our present relationship. I have now had an opportunity to discuss these issues with my Government colleagues and am happy to inform you that we would like to pursue the possibility of Canada becoming a full member of the Inter-American Development Bank.

In our deliberations careful consideration was given to the role we might be able to play within the Bank and the contributions we could make to it. With respect to the financial aspects, I think we would be able to consider an amount in line with the range which has been discussed informally between officials of the Bank and of the Canadian Government.

In the case of the Ordinary Capital our concern would be mainly with the actual cash requirements. We assume that the Bank would also be interested primarily in the addition to its paid-in funds, particularly in the short run. As a result, we have approached the question of Canada's subscription from the standpoint of the paid-in portion rather than suggesting *a priori* what share of the capital stock we should take. We would consider a paid-in contribution of U.S. \$50 million to be reasonable with the total subscription to be determined after agreement on a suitable paid-in/callable ratio.

As to the Fund for Special Operations, since Canadian membership might become effective before the end of the current replenishment period, we assume that it would be desirable to consider our contribution in terms of annual payments, rather than as some prorated share of the replenishment. Similarly, we do not propose that any adjustments be considered to take account of Canada's past contributions to the Bank's funds. On this basis and depending on what the overall size of our annual commitment would turn out to be, Canada would be

prepared to consider a contribution of at least U.S. \$15 million annually to the FSO for the balance of the replenishment period. Both the FSO and Ordinary Capital contributions would, of course, be subject to the authorization of funds by Parliament.

With respect to procurement from the Fund for Special Operations, Canada would be prepared to untie the entire amount of its contribution to the FSO to all members of the Bank and would, of course, expect to be allowed to compete for procurement financed from convertible currency funds contributed by the other Bank members. We recognize that this is a matter of particular interest to the United States and we are, therefore, intending to raise this issue directly with American officials.

We also attach particular importance to the question of representation on the Board of Executive Directors. Canada would not, of course, expect to be a beneficiary under the Bank's operations. In keeping with our wish to play as useful and effective a role as possible, we have concluded that we would best be able to accomplish what I assume is a mutual goal by appointing an Executive Director rather than joining a voting group.

I mentioned earlier that Canada is attempting to strengthen its links with Latin America. A significant step in that direction would be the accrediting of a Permanent Observer to the Organization of American States, which we hope can be accomplished this year in accordance with the resolution on this question adopted earlier this year by the O.A.S. General Assembly. However, as this will not be full membership, it is our understanding that if our prospective discussions were to result in general agreement on the conditions of Canadian membership, the Charter of the Bank would have to be amended.

I hope there will be an opportunity for detailed discussion of these and related issues during the next few months. I would appreciate any assistance you can give in furthering our application to join the Bank, and in particular, advice as to the most useful means of carrying on discussions. It would be particularly helpful to know what role might be played by the Special Committee of the Board of Governors which I understand is planning to visit Ottawa at a mutually convenient date.

I very much hope that our discussions will prove fruitful and will lead to Canadian membership in the excellent institution of which you are President and whose objectives the Canadian Government fully supports.

Yours sincerely,

(Signed) MITCHELL SHARP.

ANNEX II

PROPOSED RESOLUTION

RECOMMENDATION FOR AMENDMENT OF CERTAIN PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO MEMBERSHIP AND TO RELATED MATTERS

The Board of Governors,

Taking into account the fact that the Committee of the Board designated by Resolution AG-5/70 has recommended consideration of amendments of certain provisions of the Agreement Establishing the Bank with respect to membership of Canada and to the possible admission of other developed countries to the Bank,

Recommends: That the member countries take such action as may be necessary to give effect to the following proposed resolution:

AMENDMENT OF THE PROVISIONS OF THE AGREEMENT ESTABLISHING THE BANK WITH RESPECT TO MEMBERSHIP AND TO RELATED MATTERS

The Board of Governors:

Resolves:

1. To make the following amendments to the Agreement Establishing the Bank:

(a) To amend subsection (b) of Article II, Section 1, as follows:

"(b) Membership shall be open to other members of the Organization of American States and to Canada, at such times and in accordance with such terms as the Bank may determine. For the purpose of increasing the resources of the Bank, nonregional countries which are members of the International Monetary Fund, and Switzerland, may also be admitted to the Bank, at such times, in accordance with such terms and, under such general rules as the Board of Governors shall have established, subject to such

limitations on their rights and obligations, relative to those applicable to regional members, as the Bank may determine."

(b) To amend subsection (b) of Article IV, Section 3, as follows:

"(b) Members of the Organization of American States that join the Bank after the date specified in Article XV, Section 1 (a), Canada and countries that are admitted in accordance with Article II, Section 1 (b) shall contribute to the Fund with such quotas, and under such terms, as may be determined by the Bank."

(c) To amend subsection (c) of Article VIII, Section 3, as follows:

"(c) Each Executive Director shall appoint an Alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of countries that are not borrowers. Alternates may participate in meetings but may vote only when they are acting in place of their principals."

2. To determine that the foregoing amendments shall enter into force 3 days after the date on which the official communication certifying their adoption has been addressed to the members in accordance with Article XII (c) of the Agreement Establishing the Bank.

EXPLANATION OF ADDITIONAL INTER-AMERICAN DEVELOPMENT BANK ACT AMENDMENT REGARDING INCREASES IN THE SIZE OF THE BOARD OF DIRECTORS

The Inter-American Development Bank's articles of agreement differ from those of the other major financial institutions, the International Monetary Fund, the World Bank and the Asian Development Bank, in that the articles fix the number of the board of executive directors. In the other institutions, this detail of institutional structure is left to be determined by vote of the board of Governors. The result of this inflexibility in the IDB charter is that changes in election procedures and composition of the board of executive directors requires a charter amendment in each case. The purpose of the new section 20 of the Inter-American Development Bank Act is to authorize the U.S. Governor of the Bank to agree to charter amendments at this time which will provide the flexibility to cover future changes in Bank membership and representation.

This proposal grew out of a study of the composition of the Board of Executive Directors directed to be undertaken by the Board of Governors, in the spring of 1970. The Executive Directors reported at the last annual meeting of the Bank in May, 1971 that it would be advisable to adopt an amendment which would eliminate the need for subsequent changes in the Bank's articles in the event that new circumstances should make it necessary to revise the election system. The amendments proposed by the Executive Directors and recommended to the Bank's members by the Board of Governors set a lower limit of six on the number of elected directors. (This is the current number.) The amendments do not require a change in the current number of Executive Directors. However, it is envisioned that an additional elected Executive Director will be added to the Board of Executive Directors by the Board of Governors after the amendments become effective. Such a change in the number of elected Executive Directors or a change in the election procedures, will require the same qualified majority vote of the Board of Governors as is required for amendment of the Articles, i.e., two-thirds of the total number of Governors representing not less than three-fourths of total voting power.

It should be pointed out that the United States, as the largest shareholder in the Bank, appoints its director, and these amendments, to which it is proposed the United States agree, will in no way affect United States representation or voting power. The amendments are thus of major interest to other members of the Bank and prospective members.

Mr. GONZALES. It may be best if we proceed in order to allow Mr. Walker to get about his many duties. I have some questions I would like to ask.

Mr. Walker, what has been the distribution of the Inter-American Development Bank loans between countries and among the major fields of investment such as agriculture, industry and the like? Obviously the Bank considers the current distribution to be proper and appropriate but would you tell us why you feel this distribution is proper at this

time and what improvements you believe can and should be made by the Bank in this instance?

Mr. WALKER. With your permission I would like to ask our Executive Director, Mr. Henry J. Costanzo, to respond to that.

Mr. COSTANZO. Mr. Chairman, first, let me make a reference to activity of the Bank in 1970. In that year, the sectoral distribution of bank lending showed a very heavy emphasis in the field of agriculture. This has been typical of the Bank's activity since its inception. However, the year 1970 did see a further accentuation of that emphasis with agricultural loans accounting for more than 30 percent of the Bank's lending in that year.

Since the beginning of the Bank, on a cumulative basis through the end of 1970, the Bank's loans in agriculture totaled approximately 25 percent of the total Bank's lending. Other than that, fields of emphasis have included, in the first place, some of the basic infrastructural requirements of Latin America—electric power, transport and communications; some industrial projects, much of which was for small industry; and in addition as you are aware, Mr. Chairman, there has been since the beginning of the Bank great emphasis in the fields of social investment such as waterworks and sanitation facilities, housing, and education. That emphasis has continued through 1970.

That is roughly the pattern that appears at the moment to be suitable and one that we think would probably continue in the immediate future.

The Bank is making an effort to look at some new fields in which it has not been active such as, for example, fisheries development and tourism.

On the country distribution of loans, let me just say that in general the Bank continues to be concerned that the lesser developed countries of the hemisphere receive adequate support and their fair share, I might put it that way, of the resources available here. There have, of course, been problems in the receipt, the flow from these countries of well developed project proposals which the Bank could finance and the Bank is at the current time making a particular effort via its technical assistance program to help in the process of identifying projects and making feasibility studies—getting projects ready for financing.

As a part of the expansion of the Fund for Special Operation proposal before you, the Bank's Board of Executive Directors and the Governors agreed that increasing priority should be given to the lesser developed countries, that the relatively more advanced countries in Latin America should take an increasing share of the finance which they seek from the Bank on ordinary terms, leaving a greater share of funds on concessional terms to the relatively weaker countries.

The Board of Executive Directors has before it right at the moment a specific proposal revising the Bank's criteria and policies in this respect to assure that greater priority will be given to the less developed countries in the future.

Mr. WALKER. We will be happy to submit for the record a complete breakdown of loans along the lines you requested in your question.

Mr. GONZALEZ. I would be grateful to you if you would.

(In response to the request of Mr. Gonzalez, the information on IDB loans by sector (see tables A and B) and by country (see table C) follows:)

TABLE A.—IDB: ORDINARY CAPITAL LOAN COMMITMENTS BY SECTOR, 1961-70

[Millions of dollars]

Sector	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total	Percent
Agriculture.....	20.4	13.6	83.1	26.3	-----	20.5	16.4	42.1	32.0	19.7	274.1	18.4
Industry.....	55.6	36.8	49.5	83.4	57.8	26.6	63.8	44.5	21.8	29.7	469.5	31.6
Power.....	14.7	17.7	18.8	20.8	27.9	22.2	56.6	74.3	30.3	75.5	358.8	24.1
Transportation and telecommunications.....	-----	4.1	10.0	6.0	30.0	.8	26.2	9.4	105.0	57.1	248.6	16.7
Water supply and sewerage.....	23.3	6.4	5.1	5.0	2.6	14.5	-----	11.5	12.2	-----	80.6	5.4
Export financing.....	-----	-----	-----	9.0	.3	3.0	5.1	15.9	7.4	12.5	53.2	3.6
Preinvestment.....	1.1	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.1	.1
Total.....	115.1	78.6	166.5	150.5	118.6	87.6	168.1	197.7	208.7	194.5	1,485.9	100.0

Source: IDB, Summary Statement of Approved Loans.

TABLE B.—IDB: FUND FOR SPECIAL OPERATIONS LOAN COMMITMENTS BY SECTOR, 1961-70

[Millions of dollars]

Sector	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total	Percent
Agriculture.....	15.8	19.8	1.8	14.3	26.4	87.5	127.3	31.1	170.2	215.5	709.7	35.1
Industry.....	23.5	3.0	10.9	16.8	7.2	23.7	20.7	13.1	13.3	17.2	149.4	7.4
Power.....	2.5	-----	14.2	3.5	3.3	9.1	12.5	40.6	78.1	27.9	191.7	9.5
Transportation and telecommunications.....	2.1	-----	-----	-----	80.8	27.5	48.3	67.9	83.6	102.3	412.5	20.4
Water supply and sewerage.....	-----	14.0	3.2	11.4	56.0	47.0	45.0	10.3	24.9	28.9	240.7	11.9
Housing.....	-----	-----	-----	-----	9.0	47.0	13.8	26.0	11.3	28.7	135.8	6.7
Education.....	-----	-----	-----	-----	4.5	29.1	31.9	9.4	26.4	13.5	114.8	5.7
Preinvestment.....	1.2	4.2	3.9	.8	8.8	20.0	6.1	8.3	2.2	9.1	64.6	3.2
Preinvestment (integration).....	-----	-----	-----	-----	-----	-----	.2	-----	2.6	-----	2.8	.1
Total.....	45.1	41.0	34.9	46.8	196.0	290.9	305.8	206.7	412.6	443.1	2,022.0	100.0

Source: IDB, Summary Statement of Approved Loans.

TABLE C.—INTER-AMERICAN DEVELOPMENT BANK LOANS, 1961-70; BY YEAR AND COUNTRY—ORDINARY CAPITAL AND FUND FOR SPECIAL OPERATIONS

[In millions of dollars]

Country	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total
Argentina.....	24.6	9.3	29.2	26.8	43.6	28.7	105.4	41.5	116.9	79.2	505.3
Bolivia.....	14.5	2.6	6.0	3.5	1.3	16.4	18.3	5.4	13.5	5	82.0
Brazil.....	24.1	35.2	18.8	84.4	90.6	88.3	102.2	59.4	134.8	161.1	799.0
Chile.....	18.6	20.2	17.0	11.0	27.7	45.6	36.5	11.9	62.5	3.0	253.9
Colombia.....	12.4	4.2	24.9	12.4	27.3	22.7	27.9	97.6	55.5	22.1	307.1
Costa Rica.....	2.6	8.5	.7	-----	10.7	.4	1.4	-----	10.0	15.6	49.8
Dominican Republic.....	-----	-----	6.0	-----	5.2	-----	4.9	23.3	7.0	4.1	50.5
Ecuador.....	2.2	6.1	-----	6.0	-----	12.0	5.0	-----	17.2	29.7	78.2
El Salvador.....	4.1	-----	-----	-----	3.0	-----	-----	3.0	10.3	2.0	22.4
Guatemala.....	4.9	-----	3.2	.2	-----	16.3	6.0	-----	34.5	-----	65.1
Guyana.....	-----	-----	-----	2.4	-----	1.3	-----	-----	5.1	-----	12.3
Haiti.....	3.5	-----	-----	-----	10.1	9.7	7.5	2.8	7.7	-----	47.4
Honduras.....	3.5	6.0	-----	-----	-----	-----	-----	-----	-----	-----	10.9
Jamaica.....	-----	-----	58.3	12.8	55.0	39.3	68.5	53.5	94.5	91.0	495.9
Nicaragua.....	2.0	-----	-----	10.5	15.5	7.3	-----	7.3	7.4	12.4	62.4
Panama.....	2.9	-----	.1	1.0	9.0	7.7	3.5	-----	9.8	1.7	35.7
Paraguay.....	3.7	.6	16.3	4.0	.7	6.7	14.7	12.4	30.4	-----	89.6
Peru.....	5.4	2.5	6.7	.5	11.2	42.8	19.5	21.6	9.0	58.6	177.7
Trinidad and Tobago.....	-----	-----	-----	-----	-----	-----	.3	5.0	-----	3.6	8.9
Uruguay.....	5.9	8.7	2.5	3.6	3.6	1.5	10.4	24.4	-----	27.5	88.0
Venezuela.....	9.2	8.7	4.7	10.0	-----	20.2	20.5	35.2	.2	87.4	196.1
Regional.....	-----	-----	6.0	8.2	-----	11.5	21.5	-----	-----	22.0	69.2
Total.....	160.2	119.7	200.3	197.3	314.7	378.4	474.1	404.3	621.1	637.5	3,507.6

Note: Total may not add due to rounding.

Source: IDB, Summary Statement of Approved Loans.

Mr. GONZALEZ. In line with that, as you know, several members of the committee and some outside of the committee have been critical of the charge that the Bank loans do not really reach the people in the countries involved, that they reach the governmental level, the governmental sector, the upper social strata and the like. How would you respond to this charge?

Mr. COSTANZO. Mr. Chairman, a very substantial portion of the Bank's loans, particularly in agriculture, but also in what is labeled the industrial area, is made via local development banks, lending institutions in the country, and is specifically limited by the Bank to beneficiaries at the very lowest economic levels. Typically, these loans, and particularly those from the Fund for Special Operations, set limits on the total assets which may be held by a borrower to be eligible for a bank loan. In general, an effort is made to make sure that bank funds are channeled all the way down to the small person.

In addition, the social development efforts of the Bank, which I mentioned earlier, housing, for example, and waterworks, are undertaken with the view of directly affecting the mass of the population, the poorer sections of cities, for example, in connection with some waterworks, so that I believe that since its beginning the Bank actually has pioneered in this effort, and is continuing it, to make sure that the benefits of its loans do get through to the people and are not retained by, say, large industrial entrepreneurs or anything of that sort.

Mr. GONZALEZ. In that connection, Mr. Costanzo, how do you explain or justify the significant interest spread that exists between the rates at which the Bank loans a local bank and then the rates that that bank charges the ultimate borrower in the affected country? As I understand it there is quite a big gap there.

Mr. COSTANZO. There can be what appears on the surface to be fairly large spreads, Mr. Chairman; however, this is something that the Bank reviews carefully in connection with each loan and the spread in each loan may differ with the circumstances.

The major considerations here are, for example, the monetary policies in the country and their legal requirements with respect to interest rates. There is also an economic consideration here and some difficult economic questions to balance in terms of the right rate of interest which would assure that the major economic impact is being made.

In addition, the administrative costs of the relending operation have to be taken into account and the credit risk assumed by the relending institution—and there is a credit risk here because we are in the development area and it would be anticipated that some of these loans might not be repaid or in some cases repaid with difficulty.

In addition, the question of exchange risk is relevant here and who assumes that exchange risk? In many cases the exchange risk, the maintenance of value, is assumed by the development bank locally, and it is not passed on to the final borrower, to the small farmer and businessman. In that case we do have to provide a reasonable spread so that the development bank can cover that risk.

One of the major objectives of these operations, in addition to get-

ting through to the small people, is to establish the institutional basis—strong local development banks that can continue this work progressively on their own with a diminishing need for external and Bank assistance—so that the financial health and strength of the institution itself is also something that we have to assess, and we try to assess, in determining the amount of the spread.

Mr. WALKER. I would like to emphasize that point, Mr. Chairman. I remember a conversation with the President before some of us left for the special meeting of the IDB where the distinguished new President, Mr. Ortiz Mena, was installed in Buenos Aires. I had the privilege of being the special representative of the President at that meeting, and he urged me to tell the group assembled there, which I did, that there must be a heavy reliance on private capital if these nations are to develop. There is simply not sufficient official development money to go around for that purpose, and it is also subject to political forces and whims. Consequently, this last point that Mr. Costanzo made, the effort to develop within these countries strong intermediaries which hopefully can develop a good savings investment process within that country, we view to be very important. They need to operate at some degree of profit if they are going to grow and become stronger. As a result of a colloquy in the other body recently, we ran a sample survey as to how some of these intermediaries were doing and in seven out of 10 sample loans that we reviewed, the intermediary concern was losing money or expecting to from administering the loan.

So we have an awful difficult situation here in trying to make these intermediaries viable and the rate spread is not what it appears to be, considering that objective.

Mr. GONZALEZ. Thank you very much.

Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I noticed that the Secretary has provided a statement which is in response to one made by the gentleman from Wisconsin, Mr. Reuss, on July 6, before this subcommittee. We could probably save ourselves a lot of time if I would ask for unanimous consent to have that statement with respect to deposits in minority banks read into the record along with the list. I then request that this be entered into the record, and I would further ask Mr. Walker if he would have a statement to make on the subject at this time?

Mr. WALKER. I would be glad to, Mr. Frenzel, because on July 6 when I was testifying before this subcommittee, Representative Reuss tied the minority bank deposit problem into the problem facing this committee and went on to say that a program by which I have been managing to move \$35 million in Federal deposits into minority-owned commercial banks over the 12 months ended October, this October, was "a miserable failure."

Later, on September 28, Mr. Reuss inserted a similar statement in the Congressional Record.

I want to state flatly here today that Mr. Reuss is wrong. The record on the program is now almost fully complete and it indicates that the program was a success; in fact, I would say a very big success.

There are 35 minority owned commercial banks, 27 owned by banks, eight by Spanish-speaking Americans, of which half are Mexican Americans, one is Cuban, and I think three or four are Puerto Rican. Their deposits between the end of September 1970 and the end of September 1971 increased from \$397 million to \$552 million. This is a growth of \$156 million or almost 40 percent, and that is a whopping rate of growth in these financial institutions. It was well spread among the banks. This is detailed in the table that I will put into the record.

Furthermore, the specific target for Federal deposits was reached in October and we estimate that at the present time the increase amounts to \$40 million, \$5 million more than the goal we originally set a year ago.

The program for private funds is going well. We estimate there will be \$100 million in private deposits attracted by the Government's program by the end of the year.

The president of the National Bankers Association, which is the trade association for these minority banks—and I have worked with them closely for years—wrote President Nixon on October 15 applauding the success of the program and citing an NBA resolution on the matter.

I would like also to put this letter in the record in which he states that their ability to do the job as minority banks has been enhanced as a result of the program under the President's leadership and he cites a resolution which was signed by all of the minority banks at their meeting here in October.

I simply, because the record was closed in July, Mr. Chairman, did not want that record to stand in the light of the clear, overwhelming, and indicated success of this program regardless of statements made on the basis of insufficient information.

Mr. GONZALEZ. Without objection, so ordered.

Mr. REES. Did you anticipate that question?

Mr. WALKER. I anticipated that anybody who had read the record of July 6, since it was discussed at that time, would think it might come up today, yes.

Mr. FRENZEL. Thank you, Mr. Secretary.

Mr. WALKER. I have copies of the statement for anyone who would like to see it.

(The statement and attachments referred to by Mr. Walker follows:)

STATEMENT ON ADMINISTRATION'S PROGRAM TO INCREASE DEPOSITS IN MINORITY BANKS BY UNDER SECRETARY OF THE TREASURY CHARLS S. WALKER, OCTOBER 26, 1971

On July 6, 1971, in a hearing before the Subcommittee on International Finance of the House Banking and Currency Committee, Representative Henry Reuss stated that the Administration's program to move \$35 million in Federal deposits into minority-owned commercial banks over a 12-month period (October 1970 to October 1971) was "a miserable failure." Later, on September 28, 1971, Mr. Reuss inserted a similar statement into the *Congressional Record*.

Mr. Reuss is wrong. The record on the program is now almost fully complete, and it indicates that the program was a success.

Item: Deposits in the 35 minority-owned commercial banks (27 owned by Blacks, 8 by Spanish-speaking Americans) increased from \$397 million on September 30, 1970 to \$552 million on September 30, 1971. This was a growth of \$156 million, or almost 40 percent. (See following table.)

DEPOSIT TRENDS IN MINORITY-OWNED COMMERCIAL BANKS—TOTAL DEPOSITS

[Dollar amounts in thousands]

Bank	Sept. 30, 1970	Sept. 30, 1971	Percent increase
Bank of Finance, Los Angeles.....	\$14,847	\$17,753	19.6
Pan American National Bank, Los Angeles.....	13,047	15,855	21.5
Industrial Bank, Washington, D.C.....	21,150	25,124	18.8
United Community Bank, Washington, D.C.....	7,014	11,246	60.3
The Bank of Miami.....	14,050	25,593	67.9
Citizens Trust Co., Atlanta.....	24,593	29,337	19.3
Carver State Bank, Savannah, Ga.....	3,348	4,260	27.2
Independence Bank, Chicago.....	13,014	21,891	68.2
Seaway National Bank, Chicago.....	20,677	26,472	28.0
Douglass State Bank, Kansas City, Kans.....	10,027	11,113	10.8
Unity Bank & Trust Co., Roxbury, Mass.....	9,542	10,277	7.7
1st Independence National Bank, Detroit.....	13,900	17,000	335.9
1st Plymouth National Bank, Minneapolis.....	3,575	8,420	135.5
Swope Parkway National Bank, Kansas City, Mo.....	27,000	13,911	98.7
Gateway National Bank, St. Louis.....	9,606	14,325	49.1
Centinel Bank of Taos, N. Mex.....	23,555	5,359	50.7
Banco Credito y Ahorro Ponceno, ³ N. Y.....	5,684	7,574	33.3
Banco de Ponce, ³ N.Y.....	64,169	85,220	32.8
Banco Popular de Puerto Rico, ³ N.Y.....	38,721	53,488	38.1
Freedom National Bank, N.Y.....	38,985	46,207	18.5
Mechanics & Farmers Bank, Durham, N.C.....	20,353	26,636	30.9
Unity State Bank, Dayton, Ohio.....	595	3,071	416.1
Freedom Bank of Finance, Portland, Oreg.....	1,900	3,709	95.2
Victory Savings Bank, Columbia, S.C.....	2,737	3,409	24.6
Tri-State Bank, Memphis, Tenn.....	9,610	13,841	44.0
Citizens Savings Bank & Trust Co., Nashville.....	47,151	6,581	(-8.0)
Pan American National Bank, Houston.....	1,535	4,209	174.2
Riverside National Bank, Houston.....	6,193	7,983	28.9
First State Bank, Danville, Va.....	4,438	5,618	26.6
Consolidated Bank & Trust Co., Richmond.....	11,710	14,180	21.1
Liberty Bank of Seattle.....	3,789	5,847	54.3
Total (31 banks).....	396,515	543,509	37.1
Add banks not open Sept. 30, 1970:			
Banco del Pueblo, Santa Ana.....		1,560	100.0
Pan American National Bank, Union City, N.J.....		2,086	100.0
Atlantic National Bank, Norfolk.....		468	100.0
North Milwaukee State Bank.....		4,379	100.0
Total at Sept. 30, 1971.....		552,002	39.2

¹ Approximate amounts as furnished via phone; actual amounts not available.² Figure not available via phone; amount shown is from Oct. 28, 1970, call report.³ Deposits reported represent New York City offices only.⁴ Includes a large city account which is maintained with several banks on a regular rotating basis and was not with the Citizens Savings Bank & Trust Co. in September 1971.

The growth was spread well among the individual institutions. Thirteen had a growth rate that exceeded the average of 40 percent. Only one experienced a decline in deposits (reflecting primarily the shift of a large rotating city account), and a second had a growth rate of only 7.7 percent (during a year of management reorganization).

Item: The specific target for Federal deposits was reached in October and we estimate that at the present time the increase amounts to \$40 million—\$5 million more than the goal—with additional commitments promising continuing growth in the total.

Item: The Department of Commerce concurrently conducted a campaign to attract \$65 million in private deposits to the banks. As indicated above, non-Federal deposits rose by over \$100 million, not all of which can be attributed to the program. But the Under Secretary of Commerce tells me that the private-sector program will easily have attracted \$100 million (versus the \$65 million goal) by the end of 1971.

Item: The president of the National Bankers Association (trade association for the minority banks) wrote President Nixon on October 15, 1971, applauding the success of the program and citing an NBA resolution on the matter.

(The letter to President Nixon from I. Owen Funderburg, president, National Bankers Association, and the reply follow:)

GATEWAY NATIONAL BANK,
St. Louis, October 15, 1971.

The PRESIDENT OF THE UNITED STATES,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Member Banks of the National Bankers Association are fulfilling an important function as conduits of capital and credit to Black and other minority communities in America. Our ability to do so has been enhanced as a result of a deposit solicitation program of the association.

Your response and leadership, as well as that of other governmental agencies and private industry has contributed immeasurably to the success of the program. In recognition of this, the delegates who attended our annual convention recently held in Washington, went on record expressing appreciation to you and others through the following resolution which was unanimously adopted:

Resolved, That the National Bankers Association hereby expresses its appreciation to the White House, State and local governmental agencies, American industry and Capital Formations, Inc. for their meaningful response to the Deposit Solicitation program of this association in behalf of its Member Banks. These efforts are beginning to reflect themselves through increased deposits and thereby providing resources which can be channeled into effective economic development of minority communities.

Resolved also, That the members of the association, in recognition of the purposes for which this effort is conducted, hereby reaffirm our commitment to meet our responsibility to use these deposits to the maximum extent possible for the growth and development needs of our respective communities and to urge that this important effort be continued, expanded and made a permanent program.

Your schedule permitting, the officers of our association would welcome the opportunity to meet with you personally to report specifically on how these funds have been utilized in our respective communities, and to discuss the possibility of expanding the program and making it permanent.

Sincerely,

I. OWEN FUNDERBURG,
President, National Bankers Association.

THE WHITE HOUSE,
Washington, October 26, 1971.

Mr. I. OWEN FUNDERBURG,
President, National Bankers Association,
President, Gateway National Bank,
St. Louis, Mo.

DEAR MR. FUNDERBURG: Your very kind letter of October 15 has crossed my desk, and I wanted you to know how pleased I was to receive your generous comments about the Administration's role in helping to increase deposits in minority banks.

I understand there has been an increase in such deposits of \$155 million, or 40 percent, in the year ending September 30, 1971. Federal Departments and agencies had promised to try for a goal of \$35,000,000 in these deposits and I have just been told that deposits now total \$36,000,000 with another \$8,000,000 in firm commitments for the near future.

Of course, I am deeply heartened by this splendid achievement, and much credit for the success of this program is due to the superb cooperation of your Association's member banks. Together with the private sector, and State and local government, we have made an encouraging start in this field, and I am certain that together, we shall continue to make that kind of concrete, forward progress in enhancing greater economic opportunities for every segment of our society.

With warm regards,
Sincerely,

(S) RICHARD NIXON.

Conclusion: The program to build deposits in minority banks is off to an excellent start—in fact, there is danger that in some of the institutions deposit growth will outrun capital strength, since sound banking requires the maintenance of adequate capital relative to deposits. This is especially the case for those institutions which are dedicated to serving minority groups, for such loans by their nature tend to be riskier than some other credit extensions.

Nevertheless, the Treasury Department will continue to administer the minority deposit program, with special attention to moving funds that will remain with the institutions for relatively long periods of time.

Mr. GONZALEZ. If I can interject a minute, and pardon me for interrupting you, it might be well, Mr. Secretary, if you could explain to us the nature of these Federal funds on deposit. A lot of people don't know what kind of control you have over that.

Mr. WALKER. I am very glad you raised that point because continuously and to a certain extent in this committee, at least the larger committee, treasurers over the years have been criticized because some of the very large tax and loan balances which we have are not shunted into these minority institutions, and as we tried to explain time and time again the tax and loan account system is simply a mechanism for moving funds from the private sector of the economy into the Government sector without disruption, and actually we do not place a tax and loan account in any bank, that bank gathers that account by receiving tax payments to the Government on the part of its larger customers, by buying Government securities with the funds created to its tax and loan account.

When this administration came in we were very interested in trying to foster a flow of Federal funds to these banks and help these banks so we began an investigation of whether there was not another type of Federal fund other than the tax and loan account which could be used for this purpose. We found that in the Department of Defense, the Department of HEW, Department of HUD, OEO and a wide list across the board, that there was indeed a sizable volume of deposits, so I was asked a little over a year ago to coordinate the program on the Federal level and as a result we now have \$40 million of these funds which have moved into the minority institutions. They are fully Federal funds but they are not the type which if directed in such way would disrupt the monetary process.

Mr. FRENZEL. Thank you, Mr. Secretary.

One of these banks joins my district. We have also been aware of the fact that your Department has worked hard to divert State and local funds into these banks for deposits. We are gratified with the results, but we can always use some more. If you have enough of that money laying around we would be delighted to have it.

Mr. Chairman, I would like to ask you—in view of the fact that we passed certain of these bills last year, that the Senate has passed them this year, that our third replenishment to IDA is apparently languishing, not having been scheduled for hearing before this committee—are we getting ourselves into the old army game where one House passes these bills one year and the other House passes them the other year, or are we going to make a serious effort to get these bills out this year?

Mr. GONZALEZ. I believe the record speaks for itself. The House has acted expeditiously. We felt this year since the Senate was entertaining hearings and going into extremely great detail on the subcommittee level we would wait until they had action as far as this subcommittee was concerned. This is the reason we are having this hearing.

The Senate passed the bills out last week. I am hopeful that it won't result in one House passing it the one year and the other the next. Remember last year was the second session of the 91st Congress and I think that I would not be pessimistic at all. I think we have other prob-

lems that have injected themselves into the scene, but I am hopeful they will be taken care of. So as far as I know I am sure that this committee, the subcommittee and the main committee, will work its will expeditiously. I don't think there will be any attempt to hold back on this legislation.

Mr. FRENZEL. I appreciate that. This subcommittee has an excellent record. From the meetings that we have had since I have been a member I think we have been very determined. I would hate to have the subcommittee or the full committee lose that determination now.

Mr. GONZALEZ. I would hardly expect so. I can state positively as far as I am concerned we are going to have action on this. In fact, if you recall, I scheduled action on the other on July 6 and there was some trepidation. I think in light of what happened on August 15 it was the wise thing to do so the main committee has it. I think that the issue is very clear and it places a very serious responsibility on the legislative branch, but I think with the administration backing and the serious and sober responsibility here on the House side we will get some action.

I said in my statement there is a chance that we will have trouble and the reason I said it is that the Rules Committee has announced that its policy will be not to entertain any motions to schedule bills unless they are declared emergency by the Speaker and the minority leaders. So that could be an obstacle. But I think this legislation falls into the category of emergency now.

Mr. FRENZEL. I hope the chairman will use his vast powers of persuasion on the Speaker to have this declared an emergency.

Mr. GONZALEZ. Well, I can't speak for the overall chairman of the committee, but speaking for the VIP, this very important person I can assure you he will, we will do everything we know how.

Mr. FRENZEL. Mr. Secretary, I think we would have an easier time if the expropriation policy were spelled out. I am wondering when we might have the details on the national policy? Do you have an estimate on that?

Mr. WALKER. To the extent that the people before you today have any influence, at the earliest possible date. I am optimistic that it will be before the bill is reported out of the committee and gets to the floor and I am talking not about if the bill is hung over to next session. I am thinking in the relatively near future.

Mr. FRENZEL. Thank you. In all of our foreign aid adventures we increasingly hear statements from concerned people in this country that what really would do the most good is to try to convince the recipients that some sort of population controls or at least some thinking about them would be very helpful in alleviating some of the economic problems of the recipient. It is not so easy to handle when you are working through these multinational agencies, but I am wondering if that kind of approach is appropriate when you are working through these institutions or whether the question can at least be raised?

I don't want to be the guy who has to sell population controls to the South American Bishops. On the other hand, do you have any opportunity to make some of these points?

Mr. WALKER. Yes, sir; we do. Quite clearly it is something that must be approached very carefully and I must say that I stand in admiration of the approach that President Ortiz Mena is making in the Inter-American Development Bank. He spoke to this issue at the Buenos

Aires meeting in his public statement and I think that reflects his courage and determination.

From what I know—and Mr. Costanzo could go into a little more detail—these institutions recognize the problem. It is a real problem and I think, further, that in both the World Bank and IDB you will see tangible progress in the period ahead.

Mr. FRENZEL. Thank you. And if Mr. Costanzo, Mr. Chairman, with your consent, might have some elaborative material, it might be placed in the record rather than given at this time.

One last question I would ask, are there limitations in the IDB similar to those you listed in your testimony with respect to the ADB? These would be the procurement limitation to goods and services from the United States, shared participation, and so on.

Mr. COSTANZO. In the case of the Inter-American Development Bank—traditionally, and no change is being proposed—the Fund for Special Operation is limited to procurement in the member countries of the Bank. That includes the United States and the Latin American countries.

Mr. WALKER. What about ADB? That is what the gentleman is asking.

Mr. FRENZEL. I was asking about the IDB. You spelled them out in your testimony for the ADB.

Mr. WALKER. I had it backward.

Mr. FRENZEL. Thank you very much.

Mr. GONZALEZ. Thank you.

Next we have a very distinguished member of the subcommittee, and I consider him to be an expert, in fact he has traveled very zealously in pursuit of his further knowledge and personal acquaintance with the situation in the field. It is a great privilege to have with us today Mr. Hanna, who is a very distinguished member of the subcommittee.

Mr. HANNA. Thank you, Mr. Chairman. After that, I am so far ahead I want to quit right now.

Mr. GONZALEZ. You are ahead and you even have the beard to go with it. You just need the Ph. D. to go with it. You just need the Ph. D. title.

Mr. HANNA. I don't believe what you say. It is kind even if it is inaccurate.

I wanted to ask, Mr. Chairman, if you could spell out with any kind of adumbration the limitation to be determined that you spoke of on the new memberships to the IDB?

Mr. Costanzo, do you have those, any idea of those? Canada is going to come in and you said some other Latin American nations with limitation yet to be determined.

Mr. WALKER. Other advanced nations.

Mr. PETTY. Congressman Hanna, this is an interesting negotiation and in fact it goes back to 1967 when the then Finance Minister of Mexico, Mr. Ortiz Mena, proposed expansion of the membership to include Canada. That did not get along very far at the time. Quite recently, in the last year, Canada has changed its attitude and the policy of the Latin American members to welcome Canada has remained strong. Now, at the end of the Fund Bank meeting we had a meeting of the special committee of the Board of Governors of the

IDB, at which time we agreed to the changes which we have submitted in amendment form today, particularly with respect to Canada. We have a new meeting scheduled of this same subgroup of the Board of Governors in Brasilia early in December to spell out exactly the question you raised. There are probably three alternatives. First, an independent fund, independent of the management of the Bank, independent of the corporate structure of the institution, to which other donor countries would make contributions.

Second, membership, almost full membership, with some modest reservations, perhaps the new members couldn't interfere with the capital increase or perhaps they may or may not have a vote on restrictions on certain types of management issues on Board votes. That would be the type of things we are talking about in that category. The third alternative would be a sort of multinational fund more formal than the first suggestion, but just exactly how this will work out is not clear. We are anxious to preserve the Latin American character of the institution. I am quite sure we are not going to jeopardize that in any way.

Mr. HANNA. I think that will be helpful with that kind of language in there. Someone is going to raise that question and it is best we have an answer to which we can refer.

I have a couple of observations, Mr. Chairman, about the operations of the IDB. First of all, in any kind of long-term lending to the poor in Latin America—and I have looked into this, as you suggest, quite thoroughly, in several countries—given the requirements for interest rates that are always present plus the low productivity and the high rate of inflation, you have the problems of the total cost of money through a banking system that is still in its infant stages: you get a predictable lower productivity than if it were in an area where you had so many things already going, and then you have the maintenance of value that Mr. Costanzo talked about. In short, there is just no way that you can get a 20-year housing loan for a peasant in Brazil. It just is impossible and I think anybody that studies that would realize that.

But there is a second point and I think no one either in the Treasury or on the Bank has seen fit to make this point, and I think it is rather an impressive point that would sell well in Congress.

I think that as I look at the situation now, Mr. Chairman, internationally, it is clear that we have an overproduction in the mineral processing fields. Take steel and aluminum. If you took the productivity of the major industrial countries right now they have more production than there is demand in those countries and the industrialized countries. Now if we don't produce market for that production in these underdeveloped countries, you know what will happen, we will cut each other's throats and some very substantial economic interests in all of the industrial countries, including the United States, will suffer very greatly, and this will have a grave effect upon our overall economy. I think it is just a very great shame that this picture isn't seen much more clearly. Am I wrong in these observations?

Mr. WALKER. You couldn't be more correct. We do agree with you and we are concerned about it and it is something that the administration in general and Secretary Connally in particular is keeping in the front of his mind.

Mr. HANNA. I really think the aluminum and steel people are in real serious trouble unless we begin to develop for them a demand and a utilization for their products in those underdeveloped countries and that is as important to their economy as it is to ours, and the place where that demand starts is with the loans through the soft windows, and I think that that is a point that ought to be very strongly stressed, Mr. Chairman, and I have just one last question for Mr. Costanzo.

As I recall our hearings last time there was criticism about the administration within the IDB. Has that been improved to your knowledge?

Some of the criticism they look at a little differently in the light of the changes made in the Bank.

Mr. COSTANZO. Mr. Hanna, as you know, the major development in the Bank in the past year was the election of a new president, President Ortiz Mena, who was formerly Minister of Finance of Mexico. He took office on March 1. Before that, as I think I indicated in the hearings last year, the board of executive directors had decided as a part of this replenishment exercise to make a thorough review and study of the whole organization, structure, procedures, and so on, of the Bank. This process had been gotten underway but it was inevitably delayed somewhat because of the resignation of the former president and the time for the assumption of duties by the new president.

However, that has proceeded and as a part of that study the board decided early this year that there were certain aspects of these questions being looked at on which we could benefit from the advice of leading management consultants. We, therefore, commissioned such a study on these specific points which is now available. The board of executive directors and the new president are currently engaged at this moment, in a review of the results of the consultant study on the whole question.

The president of the Bank has very decided views and has already done a number of things to improve the management, the administration of the Bank. So I think there are some very good developments there and we look forward to substantial changes.

Mr. HANNA. We will be seeing the availability of information relative to the action of the board of directors on the management study very soon; is that correct?

Mr. WALKER. Yes.

Mr. HANNA. I think the quicker the better. That is like this report on expropriation. If we have these things that bolster some of the points that have been previously made and have a very firm answer for it, I think this would be very helpful.

Mr. COSTANZO. I am not sure, Mr. Hanna, that we could have those in the time frame that the Under Secretary indicated on the expropriation problem. There are some complex problems here and, although the board and the president are considering them, we are working toward a target of calendar year 1972—actually, as a part of our budget approval process.

Mr. HANNA. I thank you. Thank you, Mr. Chairman. I would only join you in saying that I certainly think we should urge the passage of this legislation just as quickly as possible because the urgency, as I have tried to point out, is as much on our side as it is on their side in terms of the effects that we might hope to have in this very difficult

process of getting our engine of the economy back in full production.

I thank you, Mr. Chairman.

Mr. GONZALEZ. Thank you, Mr. Hanna.

We have another distinguished member of this subcommittee, and I don't say this facetiously at all, who has vast experience, and even before he came to the Congress in California as a member of the senate there had traveled extensively and on a personal basis has been involved in international trade, and I refer to the Honorable Thomas Rees from California.

Mr. REES. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Hanna referred to the problem of developing demand here to purchase Latin American goods. How does the 10-percent surcharge affect that?

Mr. WALKER. The temporary 10-percent surcharge obviously has some shortrun drawbacks and ramifications from the standpoint of some of our friends in Latin America. This is simply another reason why we want to move as rapidly as possible toward the changes in the international monetary trading system which we think are essential if we are going to have a viable balance-of-payments situation.

Mr. REES. There is no way of being more selective and say exempting Canada and Latin America from the surcharge? It appears that it is the Common Market and Japan we are actually having problems with?

Mr. WALKER. I wouldn't rule that out, Congressman. I wouldn't rule that out. We have not addressed the issue as yet as to whether the surcharge might or might not be removed on a country-by-country basis.

With respect to certain goods, strawberries from Mexico and textiles from Japan, we have put those on a quota list and since the surcharge does not apply to quotas those have been exempted. But as Secretary Connally has stated publicly, it may be, if we cannot work this out multilaterally, we would have to proceed on a country-by-country basis. If we did, I am certain that our friends in this hemisphere would be among the first groups we would discuss this with.

Mr. PETTY. I might add there is a certain selectivity in the structure of the surcharge of itself. The exports of the industrialized countries to the United States are covered upward of 90 percent because they are dutiable, and, therefore, the surtax applies. The exports to the United States of Latin America and Canada are covered about 22 or 23 percent because they are heavily nondutiable. In effect we already have, by the working of it, the bias that your question indicates you prefer.

Mr. Walker. I still think you have a good point.

Incidentally, you know the foreign aid cut does not apply to Latin America.

Mr. REES. Is there a Hickenlooper-type of amendment dealing with the U.S. participation in the Inter-American Development Bank?

Mr. PETTY. Yes.

Mr. WALKER. Yes, sir.

Mr. COSTANZA. There is in the Inter-American Development Bank Act a requirement that the U.S. voting power be used to oppose loans to countries against which the Hickenlooper amendment has been invoked by the President.

Mr. REES. To date the Hickenlooper amendment has never been invoked by any President, has it?

Mr. WALKER. You mean in Latin America?

Mr. REES. Latin America.

Mr. PETTY. That is correct as it pertains to Latin America.

Mr. REES. Tell me, is U.S. foreign policy tied into the vote of the U.S. member on the Inter-American Development Bank?

Mr. WALKER. Well, I would like a little clarification of what you mean by that question. The Secretary of the Treasury instructs the executive director as to the vote. The policymaking apparatus for reviewing this is the National Advisory Council on which the Secretary of State is a member and obviously foreign policy considerations are brought up in the National Advisory Council for that purpose. I hope that is responsive, but I am not quite sure what you mean.

Mr. REES. I mean is that an extension of U.S. foreign policy? For example, after the Peruvian expropriation of the IPC properties it seemed that there weren't many funds forthcoming from the Inter-American Development Bank to Peru. I think there was a dry period of several years in there.

Was this because of the Peruvian expropriation of the oil properties?

Mr. WALKER. I think it is fair to conclude there was some relationship there although there already are other factors involved. When you are talking about making loans under viable operations I think also you have got to consider the point that I made in my previous testimony in some detail and made here in shorter reference today, namely, that if these countries want to develop they have to create a climate that is attractive to private investment. There is a real question whether you are creating a climate attractive to private investment when the entrepreneurs are fearful whatever they develop is going to be taken over even with adequate compensation. In the case of the Peruvian situation, in the case of the Bolivian loan, in the case of the Guyanan loan, all of which we have abstained in connection with, I think it is going too far to say that is simply an extension of U.S. foreign policy, but I would say that it is within the context of the new look in foreign economic policy and would defend it vigorously on that basis.

Mr. REES. Then what about the Chilean situation? There would then be the tendency for the U.S. member not to vote for approval of loans to Chile because Chile isn't doing anything for free enterprise or private business.

Mr. WALKER. No, I wouldn't put it in the context of Chile not doing something for free enterprise. I would put it within the context of an expropriation of property in which there has been absolutely no indication up to this time that the compensation will either be adequate or timely. On that basis if a loan to Chile were to come up today in the Inter-American Development Bank or the World Bank—the World Bank has a rule and they would not lend to Chile under these circumstances, but the IDB has no such rule—there is no doubt in my mind what Secretary Connally's instructions to Mr. Costanzo would be if such a loan were to come up today, which it is not.

Mr. REES. In evaluating an expropriation, when do you consider a piece of property expropriated? For example, in the IPC case in Peru, you haven't invoked Hickenlooper and relations seem to be improving

although there seems to be no negotiations on IPC there. There have been negotiations on other companies, the Grace, ITT, and the Chase Manhattan. You have a mixed bag here. You have one company that was expropriated across the board, no money was paid, and the other ones reached suitable agreement.

Mr. WALKER. I might ask Mr. Petty to comment on that but I want to make a general statement that the answer to your question is both a question of fact and question of judgment within the context of the specific situation that you are referring to. Beyond that I think that the interests of this country and the interests of the other countries would not be served by any specific discussions as to what is happening in any given instance.

Mr. PETTY. Congressman Rees, take the example of Algeria where there were issues outstanding for many years. By not giving up hope and working and assuming a posture of resolution of these problems, the U.S. private corporations that had expropriated property were able to work out adequate compensation arrangements which permitted the Export-Import Bank to commit some resources to financing Algeria. I think that policy shows that there is hope for working these things out.

Mr. WALKER. Let me add another point there because I understand fully that a sovereign nation has the right to expropriate within its borders if it does provide for adequate and timely compensation. But even given that right, and it is a right, I question the wisdom of many of these expropriations—even if reasonably compensated on a timely basis—from the standpoint of the future impact on the inflow of private capital into that country. So I think expropriation policy has to be viewed not just in the light of protecting the U.S. interests, not just in the light of international law being observed, but an understanding of what makes private capital flow. What doesn't make it flow is to confiscate it as soon as it gets into operation.

Mr. REES. Do you evaluate the type of investment, do you evaluate the policy of the company in that country? With Anaconda Kennecott I think you had two copper companies. One was cooperating with the Government, the other was not, yet they are both punished equally under the Chilean law.

Don't you think that it is dangerous to back up certain types of U.S. investment in countries? For example, anything dealing with mining, communications, broadcasting, are all sensitive areas in most countries. I would never advise anyone to go into that type of investment because there is a good chance it might be expropriated. Others such as manufacturing, there isn't that danger.

Do you think there should be some policy of the U.S. Government to more or less put a stamp of approval on the type of U.S. investment in other countries so we can make sure we are not having to back up a U.S. investor who really isn't where he should be, or is perhaps using the wrong policy in terms of his economic—

Mr. WALKER. Well, I would want to think about that before making any definitive comment on it. I would just say off the top of my head I think some of these people have learned something in recent months

and years but I prefer to make the emphasis in the other direction. If these people want to grow, if they want to advance, if they want to develop, they have got to understand what makes private capital flow and what makes it not flow and I think that some of them have just simply gone too far regardless of the nature of the operation. I understand this concern about natural resource utilization and so forth. But after all, their goal is to increase the standard of living of their people and I question whether the actions that have been taken in the Chilean situation are really going to result in that long run goal.

Mr. REES. Well, one last question. Partially the economic policy of Peru and very much the economic policy of Chile is for some type of nationalization, either some nationalized in terms of the workers having control over the company, or wholly nationalized with the Government in control of the company. In Chile you have a government that is Marxist and the Marxist conception is to all little or no private investment relying strictly on public investment. Now does that mean that we are going to withhold all future support and our vote in the Inter-American Development Bank for a country who has an official policy, which is a Marxist policy, which is for state control?

Mr. WALKER. No; not necessarily. We were referring specifically to expropriation policies. To move from that to saying that: "Because of a different form of government we would oppose." No, sir; I don't think it would follow from that.

Mr. REES. You had mentioned the flow of private capital.

Mr. WALKER. Yes, sir.

Mr. REES. You don't have much flow of private capital in Chile.

Mr. WALKER. You are talking about official capital now and our efforts there. But with respect to private capital, I guess I am preaching and simply saying, "Fellow, if you want to help your people you are not going to do it by scaring off private capital."

Mr. REES. I agree with you. I am trying to find your policy.

Mr. WALKER. On what? Our policy with respect to abstention or negative votes in the international financial institutions will be clarified also with respect to the expropriation policy. Certainly the policy of the World Bank, although not always implemented just as we would implement it—we abstained from two World Bank loans because of that—but certainly the World Bank policy of not lending where there has not been adequate and timely compensation, is in and of itself good policy.

Mr. PETTY. Could I add one point regarding the whole issue of developing resources on the west coast of Latin America or other parts of the world? A greater degree of flexibility is required in both national attitudes and the attitudes of U.S. investors. I think this flexibility is being displayed. Here I point out specifically the agreements that Peru is working out with U.S. oil companies, where instead of getting the traditional type of exploration contracts that have been characterized in the past by buying concessions, they have been getting rights to operate in areas and working out contracts with the Peruvian Government. I think that the resources of the country can be developed in a constructive way for the country and in a way

fully consistent with our private enterprise and our mutual objectives.

Mr. REES. Fine. Thank you.

Mr. GONZALEZ. We are fortunate to have with us the distinguished chairman of the Subcommittee on International Trade, and a longtime and ranking member of this subcommittee, Mr. Ashley.

Mr. ASHLEY. Thank you, Mr. Chairman.

Gentlemen, this legislation before us almost came to fruition last year but for problems in conference, and I am wondering what has been the impact of the delay in the U.S. subscription to the increase in ordinary capital and funds for special operation resources as a result of that problem last year?

Mr. WALKER. We are in arrears, Mr. Ashley, and I will ask Mr. Petty and Mr. Costanzo to give a little more.

Mr. PETTY. On the Asian Development Bank, the United States finds it is 2 or 3 years behind in contributions to a special fund where Japan and Western Europe have now committed about \$175 million. This is not a multilaterally negotiated formula the way IDA has been or the way the Fund for Special Operations of the Inter-American Bank has been, so our delayed commitment here is highly conspicuous. It slows the progress of development in Asia, but it is not locked into a multilateral commitment in the same way and doesn't have the effect of postponing the engagement of a legal commitment and getting money from other countries.

Mr. WALKER. It postpones the opening of a multilaterally negotiated soft loan window which all of us want to see.

This first came before the Congress in 1967. This gives some indication of the delay.

Mr. COSTANZO. On IDB, because we missed the first installment, the Bank does not now have the resources which would permit accomplishment of the program earlier projected for 1971. We will not make the 1971 targets. Also, with the uncertainty still prevailing on the appropriations, the question has been posed for the Bank as to what extent it is wise to allocate and commit all of the resources presently available leaving nothing for a carryover into 1972. So that is the present situation.

Mr. ASHLEY. Well, I think it is going to be necessary when we begin going to the floor to be able to answer the specific questions that we no doubt will be confronted with in regard to what the actual provable effect is with respect to the delays resulting from last year's embroglio. There have been several charges that have reached this committee concerning various multilateral lending institutions that one nation or several dominate the institution as far as receiving consulting contracts and project contracts from the Bank.

I wonder if it would be possible for you to supply for the record a list of the consultants and contractors, including their countries of origin, who have contracts with the World Bank, IDB, ADB and IDA?

Mr. WALKER. Yes, sir.

(In response to the information requested by Mr. Ashley, the following information was submitted for the record by Mr. Walker:)

CONSULTING CONTRACTS FINANCED BY INTERNATIONAL FINANCIAL INSTITUTIONS

Below are tables showing U.S. consulting firms employed on projects financed by the World Bank, IDA and IDB, and on contracts on behalf of those institutions themselves. Comparable material has been requested from the Asian Development Bank in Manila, but has not yet been received.

Table A—IBRD/IDA data

Table B—IDB data

TABLE A

U.S. CONSULTING FIRMS EMPLOYED ON IBRD/IDA PROJECTS (JANUARY 1960-DECEMBER 1970)

Country and Loan No.	Project	Amount of loan/ credit	Signed	Consultant
Colombia, 246-CO	Bogota power project	17.6	Jan 20, 1960	J. G. White ¹
Iran, 247-IRN	Dez multipurpose project	42.0	Feb 20, 1960	Development and Resources Corp. ¹
Japan, 248-JA	Expressway	40.0	Mar 17, 1960	Miller-Warden Western. ¹
Colombia, 255-CO	Power project	25.0	May 10, 1960	TAMS; Gibbs & Hill. ¹
Nicaragua, 259-NI	do	12.5	June 22, 1960	Jackson & Moreland. ¹
Honduras, 261-HO	do	8.8	June 29, 1960	Harza Engineers.
India, 262-IN	Railway project	70.0	July 29, 1960	Coverdale & Colpitts; Sanderson & Porter.
El Salvador, 263-ES	Power project	3.84	do	Harz Engineering.
Panama, 264-PAN	Road project	7.2	Aug. 19, 1960	Rader & Associates; Brown & Root.
Israel, 265-IS	Port project	27.5	Sept. 9, 1960	Frederic R. Harris.
Pakistan, 266-PAK	Indus basin project	90.0	Sept. 19, 195	Harza Engineering; TAMS; Tipton & Kaimback. ¹
Peru, 271-PE	Road project	5.5	Dec. 19, 1960	Brown & Root.
Colombia, 282-CO	Power project	22.0	May 12, 1961	Gannett, Fleming, Corddry & Carpenter. ¹
Chile, 287-CH	Road maintenance	6.0	June 27, 1961	International Engineering Co.
Argentina, 288-AR	Road project	48.5	June 30, 1961	TAMS.
Israel, 289-IS	Potash mining	25.0	July 11, 1961	Stearns-Roger Corp.
Columbia, 295-00	Road project	19.5	Aug. 28, 1961	TAMS; Gannett, Fleming, Corddry & Carpenter; Frederick R. Harris; Sverdrup & Parcel; Parsons, Brinckerhoff, Quade & Douglas; Louis Berger. ¹
Philippines, 297-PH	Power project	34.0	Oct. 13, 1961	Harza Engineering; Gilbert Associates.
Costa Rica, 299-CR	Road project	17.6	do	U.S. Bureau of Public Roads.
Japan, 302-JA	Road expressway	40.0	Nov. 29, 1961	Miller-Warden-Western. ¹
Venezuela, 306-VE	do	45.0	Dec. 13, 1961	Do.
Ghana, 310-GH	Volta River project	47.0	Feb. 8, 1962	Kaiser Engineers.
Colombia, 313-CO	Power project	50.0	May 23, 1962	J. G. White. ¹
Mexico, 316-ME	do	130.0	June 20, 1962	Ebasco. ¹
Panama, 322-PAN	do	4.0	Sept. 14, 1962	Harza; Stone & Webster.
Israel, 323-IS	Road project	22.0	Oct. 17, 1962	Gannett, Fleming, Corddry & Carpenter. ¹
Uruguay, 324-UR	do	18.5	Oct. 26, 1962	Amco; Harza/De Leuw Cather; Louis Berger.
Philippines, 325-PH	Power project	3.7	Nov. 7, 1962	Gilbert Associates, Inc.
Thailand, 327-TH	Irrigation project	3.4	Dec. 21, 1962	ECI-Engineering Consultants Inc.
Nicaragua, 322-NI	do	2.6	Mar. 1, 1963	Harza Engineering.
Peru, 334-PE	Railway project	13.25	Mar. 13, 1963	Coverdale & Colpitts.
Colombia, 339-CO	Power project	8.8	June 3, 1963	Gibbs & Hill ¹ ; TAMS.
Thailand, 341-TH	Road project	35.0	June 11, 1963	DeLeuw Cather. ¹
El Salvador, 342-ES	Power project	6.0	June 19, 1963	Harza; Sargent & Lundy. ¹
Colombia, 343-00	Railway project	30.0	June 21, 1963	Madigan Hyland; Coverdale & Colpitts. ¹
Venezuela, 353-VE	Power project	85.0	Sept. 20, 1963	Harza Engineering.
Liberia, 368-LBR	Road project	3.25	Jan. 8, 1964	J. G. White; U.S. Bureau of Public Roads.
Colombia, 369-00	Power project	45.0	Feb. 7, 1964	Harza Engineering. ¹
Ecuador, 379-EC	Road project	9.0	May 26, 1964	TAMS.
Tunisia, 380-TU	Port project	7.0	June 5, 1964	Howell & Co. ¹
Iran, 381-IRN	Road project	18.5	June 10, 1964	Amman & Whitney. ¹
Philippines, 386-PH	Water Supply	20.2	July 22, 1964	Metcalf & Eddy.
Spain, 387-SP	Railway project	65.0	July 31, 1964	A. D. Little. ¹
Venezuela, 390-VE	Road project	30.0	Aug. 28, 1964	Miller-Warden-Western. ¹
Venezuela, 391-VE	Power project	14.0	do	Middle West Service Co. ¹
Paraguay, 396-PA	Road project	2.2	Dec. 11, 1964	Brown & Root. ¹
Honduras, 400-HO	do	6.0	Feb. 2, 1965	Do.
Brazil, 403-BR	Power project	57.0	Feb. 26, 1965	Commonwealth Associates/International Engineering Co.
Jamaica, 408-JM	Road project	5.5	Apr. 8, 1965	Goodkind & O'Dea.
Iran 410-IRN	do	32.0	Apr. 28, 1965	Amman & Whitney. ¹
Peru, 418-PE	Irrigation project	11.0	June 18, 1965	International Engineering Co.
Peru, 425-PE	Road project	33.0	Sept. 17, 1965	TAMS; Brown & Root; Wilbur Smith. ¹

See footnotes at end of table.

TABLE A—Continued

U.S. CONSULTING FIRMS EMPLOYED ON IBRD/IDA PROJECTS (JANUARY 1960–DECEMBER 1970)—Continued

Country and Loan No.	Project	Amount of loan/ credit	Signed	Consultant
East Africa, 428-EA	Port project	38.0	Sept. 29, 1965	A. D. Little.
Malaysia, 434-MA	Irrigation project	45.0	Nov. 17, 1965	Public Administration Services. ¹
Mexico, 436-ME	Power project	110.0	Dec. 15, 1965	Ebasco. ¹
Paraguay, 437-PA	Port project	2.75	Dec. 16, 1965	Thos. Bourne & Co.; Howell & Co. ¹
Paraguay, 443-PA	Road project	2.1	Apr. 4, 1966	Brown & Root; Louis Berger.
Venezuela, 444-VE	Water supply	21.3	Apr. 21, 1966	Gilbert Associates, Inc.
Peru, 446-PE	Port project	9.1	May 13, 1966	Frederic R. Harris; Parsons, Brinckerhoff, Quade & Douglas; Howell & Co.; Tudor Engineering. ¹
Jamaica, 454-JM	Power project	22.0	June 20, 1966	Stone & Webster.
Thailand, 455-TH	Road project	36.0	June 24, 1966	Sverdrup & Parcel. ¹
Honduras, 463-HO	Port project	4.8	Aug. 25, 1966	TAMS; Booz, Allen & Hamilton.
Iceland, 466-IC	Power project	18.0	Sept. 14, 1966	Harza Engineering.
Jamaica, 468-JM	Education project	9.5	Sept. 30, 1966	Caudill, Rowlett, Scott.
Singapore, 473-SI	Power project	10.0	Nov. 4, 1966	R. W. Beck.
Brazil, 474-BR	do	39.0	Dec. 19, 1966	International Engineering Commonwealth Associates.
Brazil, 475-BR	do	6.2	do	International Engineering Co.
Brazil, 476-BR	do	8.1	do	Do.
Brazil, 477-BR	do	41.0	do	Do.
Brazil, 478-BR	do	6.3	do	Do.
Guatemala, 487-GU	do	15.0	Mar. 10, 1967	Middle West Service Co. ¹
Pakistan, 448-PAK	do	21.5	Mar. 15, 1967	Laramore, Douglas & Popham; Bauer Engineering Co. ¹
Thailand, 489-TH	do	5.0	Mar. 24, 1967	Engineering Consultants Inc.
Philippines, 491-PH	do	12.0	Apr. 5, 1967	Gilbert Associates, Inc.; Harza Engineering. ¹
Honduras, 495-HO	Road project	3.6	May 26, 1967	Brown & Root. ¹
Pakistan, 495-PAK	Railway project	13.5	do	Booz, Allen & Hamilton.
Trinidad, 497-TR	Road project	8.6	June 12, 1967	Brown Engineering; Frederic R. Harris.
China, 506-CHA	Telecommunications	17.0	Aug. 2, 1967	Complan Associates.
Spain, 507-SP	Railway project	50.0	Aug. 4, 1967	A. D. Little.
Peru, 511-PE	Power (Matucana project)	17.5	Sept. 11, 1967	Ebasco. ¹
Thailand, 514-TH	Phasom Dam (Nan River irrigation)	26.0	Sept. 19, 1967	Engineering Consultants Inc.
El Salvador, 521-ES	3d highway (sup.)	2.8	Dec. 7, 1967	TAMS; Bartkus & Associates.
Sudan, 522-SU	Roseires power project	24.0	Jan. 15, 1968	Middle West Service Co. ¹
Ethiopia, 523-ET	4th highway	13.5	do	DeLeuw Cather.
Colombia, 536-CO	Bogota water supply	14.0	June 3, 1968	Buck, Seifert & Jost; Black & Veatch; Camp Dresser & McKee. ¹
Honduras, 541-HO	Rio Lindo power	7.5	June 12, 1968	Harza; R. W. Beck; Burns & Roe.
Nicaragua, 543-NI	7th power (ENALUF)	15.250	June 21, 1968	Sandersor & Porter.
Guatemala, 545-GU	Power (Guacalate project)	7.0	June 28, 1968	Middle West Service Co. ¹
Pakistan, 548-PAK	Tarbela	25.0	July 10, 1968	TAMS; Harza Engineering.
Colombia, 550-CO	4th highway	17.2	July 25, 1968	Gannett, Fleming, Corddry & Carpenter; Frederic R. Harris. ¹
Colombia, 551-CO	Railway project	18.3	do	Madigan Hyland; Sverdrup & Parcel. ¹
Ecuador, 555-EC	Fisheries	5.3	Sept. 5, 1968	Southwest Marine.
Turkey, 568-TU	Transmission line	25.0	Oct. 31, 1968	Commonwealth Associates.
Ceylon, 569-CE	Highway project	4.9	Nov. 12, 1968	Commonwealth Transportation Consultants. ¹
Tunisia, 573-TUN	La Goulette Port	8.5	Nov. 29, 1968	Howell & Co. ¹
China, 574-CHA	Tachien power	50.3	Dec. 2, 1968	Commonwealth Associates. ¹
Guatemala, 576-GU	Schools	6.3	Dec. 16, 1968	Paul Rudolph. ¹
Argentina, 577-AR	El Chocón power	82.0	Dec. 19, 1968	Jacobs Associates. ¹
Pakistan, 578-PAK	Highway projects	35.0	Dec. 20, 1968	Howard, Needles, Tammen & Bergendoff.
Tanzania, 586-TA	do	7.0	Feb. 24, 1969	De Leuw Cather; Stanford Research Institute.
Turkey, 587-TU	Seyhan irrigation	12.0	Feb. 28, 1969	Engineering Consultants, Inc.
Iran, 594-IRN	Dez irrigation	30.0	Apr. 18, 1969	Development & Resources Corp.; Morrison Knudsen; Public Advisory Services.
Ethiopia, 596-ET	Finchaa power	23.1	May 9, 1969	Harza Engineering.
Pakistan, 597-PAK	Sui Gas Pipeline	8.0	May 13, 1969	Gulf Interstate Engineering. ¹
Venezuela, 616-VE	Highways	20.0	June 18, 1969	Miller-Warden-Western; Alan Voorhees.
Liberia, 617-LBR	Monrovia Port	3.6	June 20, 1969	Lyon Associates.
Argentina, 619-AR	Highways	25.0	June 24, 1969	TAMS; Louis Berger.
Thailand, 626-TH	do	23.0	June 27, 1969	Sverdrup & Parcel. ¹
Venezuela, 629-VE	Guri power	31.0	June 30, 1969	Harza Engineering.
Costa Rica, 631-CR	Power	12.0	July 10, 1969	Jacobs Associates. ¹
Bolivia, 635-BO	Gas pipeline	23.25	July 22, 1969	Van Houten Associates. ¹
Philippines, 637-PH	Pampanga irrigation	34.0	Aug. 18, 1969	Engineering Consultants, Inc.
Paraguay, 652-PA	Highway maintenance	6.0	Jan. 9, 1970	Roy Jorgensen; Brown & Root.
Ceylon, 653-CE	Mahaweli Ganga irrigation	14.5	Jan. 30, 1970	Engineering Consultants, Inc.

See footnotes at end of table.

TABLE A—Continued

U.S. CONSULTING FIRMS EMPLOYED ON IBRD/IDA PROJECTS (JANUARY 1960–DECEMBER 1970)—Continued

Country and Loan No.	Project	Amount of loan/credit	Signed	Consultant
Thailand, 655–TH	Power	1.5	Feb. 10, 1970	Black & Veatch. ¹
Costa Rica, 664–CR	Highway	15.7	Apr. 2, 1970	U.S. Bureau of Public Roads.
China, 671–CHA	Power	44.5	May 16, 1970	Gibbs & Hill. ¹
Brazil, 677–BR	do	80.0	May 25, 1970	Chas. T. Main; Commonwealth Associates. ¹
Colombia, 680–CO	Highways	32.0	June 4, 1970	TAMS; Gannett, Fleming, Corddry & Carpenter. ¹
Colombia, 682–CO	Water supply	18.5	do	Hazen & Sawyer; Buck, Seifert & Jost. ¹
Liberia, 684–LBR	Power	7.4	do	Sanderson & Porter; Chas. T. Main.
Chile, 688–CH	Highways	10.8	June 10, 1970	International Engineering Co.
Honduras, 692–HO	Power	5.5	June 24, 1970	R. W. Beck; Harza; Brown & Root.
Iran, 697–IRN	Highways	42.0	June 29, 1970	Development & Resources Corp.
Iran, 703–IRN	Industry and mining	50.0	Aug. 7, 1970	Lummus, Bechtel, Fluor.
Iran, 717–IRN	Telecommunications project	36.0	Dec. 18, 1970	Melpar Inc.; Page Communications.
Jamaica, 719–JM	Agriculture project	3.7	Dec. 28, 1970	Kaiser Industries.
IDA CREDITS				
Honduras, 1–HO	Western highway improvement.	9.0	May 12, 1961	Brown & Root; Stanford Research Institute.
India, 3–IN	Highway construction and improvement.	60.0	June 21, 1961	Wilbur Smith & Associates. ¹
Chile, 4–CH	Road construction	19.0	June 28, 1961	International Engineering Co.
Colombia, 5–CO	Road project	19.5	Aug. 28, 1961	TAMS; Gannett, Fleming, Corddry & Carpenter; Frederic R. Harris; Sverdrup & Parcel; Parsons, Brinckerhoff, Quade & Douglas; Louis Berger. ¹
Costa Rica 10–CR	Road construction and maintenance.	5.5	Oct. 13, 1961	U.S. Bureau of Public Roads.
Pakistan, 11–PAK	Dacca irrigation project	1.0	Oct. 19, 1961	International Engineering Co. ¹
Paraguay, 12–PA	Highway improvement and maintenance.	6.0	Oct. 26, 1961	TAMS; Brown & Root. ¹
Pakistan, 16–PAK	Inland ports project	2.0	Nov. 22, 1961	Transportation Consultants Inc. ¹
Jordan, 18–JO	Amman water supply project	2.0	Dec. 22, 1961	Brown Engineers; Metcalf & Eddy. ¹
India, 19–IN	4th DVC project	18.5	Feb. 14, 1962	Burns & Roe
Korea, 25–KO	Railway development.	14.0	Aug. 17, 1962	Booz, Allen & Hamilton.
Nicaragua, 26–NI	Managua water supply project.	3.0	Sept. 7, 1962	Hazen & Sawyer; Metcalf & Eddy.
Pakistan, 30–PAK	Industrial estates project	6.5	Nov. 2, 1962	Stanford Research Institute. ¹
El Salvador, 31–ES	3d highway project	8.0	do	TAMS; Bartkus & Associates; Brown & Root.
Ethiopia, 35–ET	Road development	13.5	Feb. 27, 1963	TAMS; DeLeuw Cather; Public Administration Services; International Engineering Co. ¹
Turkey, 38–TU	Irrigation project	20.0	May 31, 1963	Engineering Consultants, Inc. ¹
Pakistan, 39–PAK	Brahmaputra flood embankment.	5.0	June 26, 1963	Leeds Hill; DeLeuw Cather.
Pakistan, 40–PAK	Chandpur pump	9.0	July 26, 1963	International Engineering Co. ¹
Pakistan, 41–PAK	Dacca water supply and sewerage.	26.0	Aug. 16, 1963	Ralph M. Parsons Corp.; EBS Management Consultants Inc.; Camp, Dresser & McKee. ¹
Pakistan, 42–PAK	Chittagong water supply and sewerage.	24.0	do	Do. ¹
Pakistan, 49–PAK	East Pakistan—Education	4.5	Mar. 25, 1964	Louis Berger; J. R. Snell; Neutra. ¹
Ecuador, 51–EC	2d highway	8.0	May 26, 1964	TAMS.
Pakistan, 53–PAK	East Pakistan—Highways	22.5	June 11, 1964	Amman & Whitney; Harris Boutwell; Louis Berger; DeLeuw Cather; Booz, Allen & Hamilton.
Pakistan 54–PAK	West Pakistan—Highways	17.0	do	Howard, Needles, Tammen & Bergendoff; Booz, Allen & Hamilton; Amman & Whitney; Harris-Boutwell; Louis Berger; Frederic R. Harris. ¹
Pakistan, 56–PAK	East Pakistan—Railways	10.0	June 24, 1964	Booz, Allen & Hamilton.
Turkey, 59–TU	Power—Mersin Thermal & Kadincik Hydro.	20.0	July 14, 1964	Burns & Roe; Erik Floor; Justin Courtney. ¹
Pakistan, 60–PAK	Indus	58.540	July 21, 1964	TAMS; Harza; Tipton & Kalmbach. ¹
Pakistan, 65–PAK	Inland water transportation	5.25	Aug. 26, 1964	Transportation Consultants, Inc. ¹
India, 67–IN	8th railway project	62.0	Oct. 26, 1964	Coverdale & Colpitts.
Afghanistan, 68–AF	Education	3.5	Nov. 23, 1964	Dalton & Dalton.
Honduras, 71–HO	North road project	3.5	Feb. 2, 1965	Brown & Root.
Pakistan, 83–PAK	Grainstorage project	19.2	Feb. 10, 1966	Weitz Hettelsater; Frederic R. Harris.
Pakistan, 87–PAK	Education project	13.0	June 17, 1966	John R. Snell; Stanley Tigerman; Paul Rudolph. ¹
Pakistan, 106–PAK	Water supply project	1.750	May 12, 1967	Booz, Allen & Hamilton. ¹
Korea, 110–KO	2d railway	11.0	Dec. 18, 1967	Do. ¹
Ethiopia, 111–ET	4th highway	7.7	Jan. 15, 1968	DeLeuw Cather.

See footnotes at end of table.

TABLE A—Continued

U.S. CONSULTING FIRMS EMPLOYED ON IBRD/IDA PROJECTS (JANUARY 1960–DECEMBER 1970)—Continued

Country and Loan No.	Project	Amount of loan/credit	Signed	Consultant
Honduras, 116-HO	Rio Lindo power	4.0	June 12, 1963	Harza; R. W. Beck; Burns & Roe.
Togo, 131-TO	Highway maintenance	3.7	Oct. 10, 1963	Development Economic Group. ¹
Ceylon, 133-CE	Highway project	1.3	Oct. 31, 1968	Commonwealth Transportation Consultants. ¹
Pakistan, 136-PAK	Advisory services	2.0	Jan. 13, 1969	Booz, Allen & Hamilton. ¹
Tanzania, 142-TA	Highway project	15.5	Feb. 24, 1969	DeLeuw Cather; Stanford Research Institute. ¹
Turkey, 143-TU	Seyhan irrigation	12.0	Feb. 28, 1969	Engineering Consultants, Inc. ¹
Korea, 151-KO	Schools	14.8	June 4, 1969	Daniel, Mann, Johnson & Mendenhall.
Indonesia, 154-IND	Highway project	28.6	June 20, 1969	Louis Berger. ¹
Sierra Leone, 170-SL	Schools	3.6	Jan. 5, 1970	Wilton Becket.
Ceylon, 174-CE	Mahaweli Ganga irrigation	14.5	Jan. 30, 1970	Engineering Consultants, Inc.
Pakistan, 184-PAK	Chandpur irrigation	13.0	May 14, 1970	Leeds, Hill & Jewett; Deleuw Cather.
Pakistan, 192-PAK	Small industries	3.0	June 10, 1970	Checchi & Co.
Honduras, 201-HO	Power	5.5	June 24, 1970	R. W. Beck; Harza; Burns & Roe. ¹
Pakistan, 213-PAK	Power transmission	23.0	Aug. 14, 1970	Harza Engineering.
Ecuador, 222-EC	Road project	10.0	Dec. 10, 1970	TAMS.
ENGINEERING CREDITS				
Korea, S-4-KO	Highways	3.5	July 24, 1968	Amman & Whitney. ¹
Ghana, S-7-GH	do	1.5	July 29, 1968	Louis Berger. ¹
Pakistan, S-8-PAK	Irrigation	.8	Dec. 15, 1969	Engineering Consultants, Inc.
Pakistan, S-9-PAK	Karachi Port	1.0	June 10, 1970	Frederic R. Harris.
Pakistan, S-10-PAK	Irrigation	2.4	do	International Engineering Co. ¹

¹ With other consulting engineer firms.

IBRD TECHNICAL ASSISTANCE

Country and project	Consultants	Contract signed
Paraguay: Road study	TAMS-Tippetts-Abbott-McCarthy-Stratton	December 1960.
Colombia: Transport study	Parsons, Brinckerhoff, Quade & Douglas/Coverdale & Colpitts.	March 1961.
Peru: Road study	Coverdale & Colpitts	April 1961.
Honduras: Port study	TAMS/James C. Buckley	January 1962.
Philippines: Water and sewerage study	Metcalf & Eddy	June 1962.
Haiti: Port study	James C. Buckley [with Sir Alexander Gibb (United Kingdom)]	March 1961.
Ecuador: Transport study	Parsons, Brinckerhoff, Quade & Douglas	January 1963.
Ecuador: Power authority assistance	J. G. White Engineering Corp.	March 1963.
India: Coal transport	Coverdale & Colpitts/Surveys & Research	February 1963.
Iran: Power authority assistance	Stone & Webster	October 1963.
Turkey: Power authority assistance	Ebasco	November 1964.
Peru: Road study	TAMS [with Sauti (Italy)]	April 1965.
Iran: Port organization study	A. D. Little	Do.
Malaysia: Land settlement study	TAMS [with Huntings (United Kingdom)]	June 1965.
Brazil: Transport study, coordination and railways	Coverdale & Colpitts	October 1965.
Brazil: Steel study	Booz, Allen & Hamilton	December 1965.
Chile: Road study	International Engineering consultants (IECO)	January 1966.
Costa Rica: Port study	TAMS	June 1967.
Turkey: Power industry reorganization	Stone & Webster	August 1967.
Ceylon: Road study	Wilbur Smith	Do.
Ethiopia: Water supply management study	Public Administration Services	August 1969.
Turkey: Power organization accounting study	Arthur Young	November 1970.
Bank/IDA feasibility studies:		
Ivory Coast: Preinvestment studies, roads	Louis Berger	April 1968.

TABLE B.—INTER-AMERICAN DEVELOPMENT BANK CONSULTING FIRMS, UNITED STATES

Number	Project	Name of firm	Amount loan/TA
ARGENTINA			
144/OC-AR(TA)	Power	Arthur Young & Co.	0.1
150/SF-AR(TA)	Transportation	Price Waterhouse & Co.	.1
111/SF-AR	Preinvestment global loan		4.3
	(1) Ports	Soros Associates	
	(2) River basin development	MIT (Mass. Institute of Technology)	
	(3) Education	Price Waterhouse & Co.	
144/OC-AR	Hydroelectric power	Harza Engineering ¹	20.65
158/OC-AR	Roads	Amman & Whitney, TAMS ¹	12.85
135/SF-AR	Irrigation and colonization	Chas. T. Main ¹	22.23
136/SF-AR	do		10.48
139/SF-AR	Power	NRECA	.1
170/SF-AR	Roads	TAMS, Louis Berger, Inc. ¹	21.15
BOLIVIA			
41/SF	Power	Harza Engineering	3.5
159/SF	Water supply	Boyle Engineering	11.0
180/SF	Telecommunications	TELCOM	5.42
3/UK	do	do	4.08
221/SF	Gas pipeline	Harza Engineering	8.5
BRAZIL			
AT/SF-65/53	Industrial	Swindell-Dressler Co.	.2
ATP/SW-832-BR	Sanitary	Pitometer Engineers	.229
ATP/OC-823-BR	Sanitary	do	.271
146/OC-BR, ATP/OC-706-BR	Power	Page Communications Engineers, Arthur Casagrande & Associates.	1.4
ATN/TF-603-BR	Education	Charles F. Gosnell & Associates	.024
162/OC	Water supply-Sao Paulo	Montgomery Engineers	11.5
1/SW	do	Pitometer Engineers, Booz-Allen & Hamilton ¹	5.0
190/OC	Telecommunications	Morcom Systems Inc.	26.0
62/SF	Preinvestment global loan, industrial	Arthur Young	5.0
CENTRAL AMERICA			
AT/SF-626-CA	Project evaluation	Felix T. Davis & Associates	.025
AT/TF-626-CA	do		.075
93/SF	Preinvestment global loan		3.0
	(1) Roads	Miller Warden Western	
	(2) Ports	TAMS	
CHILE			
94/SF-CH, ATP/SF-66/27	Housing	Price Waterhouse & Co.	.100
143/SF, ATP/SF-694	Education	do	.050
184/SF, ATP/SF-846	Agriculture	Michael Schaeffer & Associates	
60/SF	Preinvestment global loan	Price Waterhouse & Co.	.140
	(1) Ports studies	McCreary Koretsky	3.0
	(2) Industry (shoes)	Harbridge House	
	(3) Industry	Battelle Memorial Institute	
	(4) Industrial process	do	
	(5) Industry metallurgy	do	
	(6) Marketing	Mentor International	
	(7) Industry fertilizer	TVA—Tennessee Valley Authority	
	(8) Equipment manufacturing	Battelle Memorial Institute	
	(9) Mining	Boyles Press Drilling Co.	
	(10) Marketing (shoes)	Harbridge House	
	(11) Industry, paper	H. A. Simons	
	(12) Industry paper	Kimberly Clark	
	(13) Industry petroleum-chemical	Fluor Corp.	
	(14) Industry petroleum-chemical	Battelle Memorial Institute	
	(15) Industrial plant	A. G. McKee	
	(16) Industry metals	Foundry Design C.	
	(17) Industry, aluminum	Harbridge House	
	(18) Industry, process	Fry Consultants, Inc.	
	(19) Industry, process	Mentor International	
	(20) Industry, plant	do	
	(21) Industry market studies	Battelle Memorial Institute	

See footnotes at end of table.

TABLE B.—INTER-AMERICAN DEVELOPMENT BANK CONSULTING FIRMS, UNITED STATES—Continued

Number	Project	Name of firm	Amount loan/TA
COLOMBIA			
207/SF-CO.	National planning	Harvard Development Advisory Service	.3
ATP/SF-890-CO.			
174/SF	Preinvestment global loan		3.1
	(1) Water supply	Hazen & Sawyer	
	(2) Tourism	A. D. Little	
	(3) Water supply	Black Crow Eidness	
	(4) Industry, steel	H. K. Ferguson	
	(5) Hydropower	Harza	
	(6) Industry, production	S. J. Capelin	
	(7) Power	Harza	
	(8) Tourism	A. D. Little	
	(9) Industry, plant	S. F. Capelin	
COSTA RICA			
215/SF	Roads	Bureau of Public Roads	7.5
ECUADOR			
216/SF-EC, AT/SF-903-EC	Advanced education	Price Waterhouse & Co.	.17
245/SF-EC, ST/SF-992-EC	Agricultural	University of Florida	.26
92/OC	Roads	TAMS	6.0
101/SF	Water supply	Gannett, Fleming, Corrdry & Carpenter	12.0
GUATEMALA			
129/SF	Roads	Bureau of Public Roads	9.0
243/SF	Water supply	A. A. Mathews Inc., VTN—Voorheis, Trindle, Nelson, Tipton & Kalmbach, Inc.	15.5
HONDURAS			
ATN/SF-61-11	Roads	Brown & Root, SA	.25
ATN/TF-876	Management advisory services	Peat, Marwick & Mitchell	.039
ATN/TF-888	Agricultural	do	.543
53/SF	Roads	Brown & Root	10.13
153/SF	do	McCreary-Koretsky Engineers	5.275
MEXICO			
130/SF	Preinvestment global loan, agriculture	Dunlap & Associates Inc.	5.0
NICARAGUA			
AT/OC-65-57	Agricultural	Peat, Marwick & Mitchell	.355
110/OC	Agriculture	Peat, Marwick & Mitchell, Price Waterhouse & Co.	4.6
63/SF	Rural roads	Bureau of Public Roads	12.0
PANAMA			
ATN/TF-947	Housing	Foundation for Cooperative Housing International Inc.	.04
ATP/SF-66/13	do	International Development Services	.15
PARAGUAY			
AT/SF-63-91	Transportation	Palmer & Baker	.047
AT/SF-65-121, ATR/SF-618-PR	Industrial	M. W. Kellog Co.	.065
44/SF-PR, AT/SF-64/73	Advisory services	A. D. Little	.2
202/SF-PR, ATP/SF-875-PR	Management advisory services	Price Waterhouse & Co.	.1
AT/TF-65-7	Sanitary	J. G. White Engineering Corp.	.2
ATN/TF-65-17	do	do	.065
106/TF-PR, AT/TF-65-19	Education	New York State University	.31
138/SF	Power studies	Engineering Consultants Inc. ¹	.225
202/SF	Water supply and sewerage	L. Berger Inc., Kennedy Engineers	8.3
149/SF	Power	Engineering Consultants Inc. ¹	12.5
97/SF	Preinvestment global loan		0.7
	(1) Water supply	Roscoe Mess Co.	
	(2) Tourism	Consultants for Inter-American Operations	
PERU			
85/SF-PE, AT/SF-66/2	Rural development	Price Waterhouse & Co.	.3
179/SF-PE, ATP/SF-821	Housing	do	.27
ATN/TF-834-SE	Roads	Parsons, Brickerhoff, Quade & Douglas	.19
141/SF	Water supply and sewerage	Tudor Engineering	16.365

See footnotes at end of table.

TABLE B.—INTER-AMERICAN DEVELOPMENT BANK CONSULTING FIRMS, UNITED STATES—Continued¹

Number	Project	Name of firm	Amount loan/TA
TRINIDAD AND TOBAGO			
188/SF-TT, ATP/SF-851-TT	Housing	Peat, Marwick, Mitchell & Co.	.24
ATR/SF-807-TT	Agricultural	Checchi & Co.	.075
ATN/SF-807-TT	do	do	.075
160/SF	Water supply	Metcalf & Eddy	.3
URUGUAY			
157/SF-UR, ATL/766-UR	Management advisory services	Arthur Young & Co.	1.0
108/SF-UR	Preinvestment global loan; power	Ebasco Corp.	1.5
VENEZUELA			
166/SF-VE, ATL/SF/794-VE.	Preinvestment global loan		4.0
	(1) Industry	Slocum & Fuller	
	(2) Agriculture	David Conkey & Associates	
	(3) Agriculture	Economic Research Bureau	
	(4) Mining	R. A. Shafer & Associates	
	(5) Mining	Interamer Research Corp.	
HIRED BY BANK			
135-SF	Irrigation and colonization	Chas. T. Main	23.23
136/SF, Argentina	do		10.48
246/SF, Guatemala	Water supply	A. A. Mathews, Inc.	15.5
141/SF, Peru	do	Tudor Engineering, Kennedy Engineering.	16.365
190/OC, Brazil	Communications	Morcom Systems, Inc.	26.0

¹ With other consulting firms.

Note: These firms are included in the overall listing, and are utilized by the Bank for its Supervision and Inspection of the projects indicated.

Mr. PETTY. I might say at this point, Mr. Ashley, particularly in the area of consultants, the United States does very well in each of those institutions.

Mr. ASHLEY. Well, as I say, the reports that we have are somewhat to the contrary and there is no point in going into it now. I think the record will certainly speak for itself.

Mr. Walker, on page 2 of your statement you indicated that events since last year have strengthened the case for the legislation before us. And it would seem to me that we will be confronted on the floor of the House with the disastrous sequence of events that took place yesterday in the United Nations and also with the policy of expropriation to which you have alluded in your remarks and to which Mr. Rees addressed himself. I would certainly be of the view that the administration policy on expropriation would have to be made known prior to, if not the reporting of this legislation, certainly the scheduling of the legislation for floor action.

Mr. WALKER. I will do my best and I think it can.

Mr. ASHLEY. Well, I think the result might well hinge on the balance.

Mr. WALKER. Yes, sir.

Mr. ASHLEY. And I don't think there is any point in pursuing the events of yesterday other than to say that this most certainly did not enhance the prospect of the kind of legislation we have before us.

Mr. WALKER. Well, I would hope that would not be the case. I think these institutions can continue to serve an important function but I would not belabor the issue, Mr. Ashley.

Mr. ASHLEY. Thank you.

Mr. GONZALEZ. We have three other witnesses, but before we recognize them, I will call on Mr. Reuss. I am sure he has some questions if not some statements to make.

Mr. REUSS. Thank you, Mr. Chairman. I will be very brief.

I commend you, Secretary Walker, for your testimony today and this subcommittee having taken the lead last year in getting these two proposals through the House. I am confident we will do so again.

I think Congressman Ashley does well to point up the possible political effects of yesterday's vote in the United Nations.

I would share your hope that this will be viewed as irrelevant to the issue of replenishing the Asian Development Bank and the Inter-American Development Bank.

Let's see, Taiwan is a member of the Asian Development Bank, is it not?

Mr. WALKER. Yes, sir.

Mr. REUSS. Do you anticipate any difficulties with its membership position as a result of its being ejected from the United Nations?

Mr. WALKER. None whatsoever. There is no connection.

Mr. REUSS. There are plenty of other non-U.N. members who are members of the Asian Development Bank, for instance, like South Vietnam?

Mr. WALKER. U.N. membership is not a prerequisite to membership in the Asian Development Bank.

Mr. REUSS. I thank you also for presenting, as you did in connection with your statement, and I imagine because of my interest in it, the question of minority bank deposits on the part of the Treasury. And you have been energetic about it. What do you have, \$35 million of Federal agencies deposits?

Mr. WALKER. Around \$40 million in Federal funds and as part of their overall growth during the year, of \$150 million. How much of that additional amount beyond the Federal was the private program we can't say, but the banks themselves are very pleased. As a matter of fact, Mr. Reuss, the problem that is emerging is that these institutions might not have a sufficient capital base to support this rapid growth in deposits. You know the ratios that are supposed to be maintained. So I am very pleased that the organized banking community has set up a program to draw capital in. These have to grow together. We are off to a start, it is only a start, and we are going to keep at it in the Treasury Department and in the administration.

Mr. REUSS. Thirty-five million dollars, of course, without sniffing at it is a tiny pepper corn compared to the \$5 or \$10 billion in traditional tax and loan accounts in our banking system.

Mr. WALKER. Well, if the banks don't have the capital to support the deposits, I don't think—

Mr. REUSS. Well said. Obviously even I would not suggest that you load up banks with deposits which will then violate laws with respect to equity capital deposit ratio, but I hope it is your goal, bearing in mind the enormous potential of the \$5 to \$10 billion tax and loan accounts, that you will see that minority banks are in one way or another put in charge of deposits which will match the growth of their capital investment.

Mr. WALKER. In that respect I refer to the last line of my statement. The tax and loan account mechanism results in a very fast

turnover of funds, and when I spoke to the minority bankers at their meeting here very recently I was asked from the floor as to the prospect for getting less volatile funds that would be lodged in the bank for longer periods. That is very important. One, they are not in a position to do the servicing of some of the more volatile accounts, and, second, they need more dependability if they are going to risk funds in admittedly risky areas, particularly in the longer term loans. So I promised them and we will give priority attention in the Treasury Department to try to devise ways of moving funds into the banks that will remain with them for relatively long periods of time. So I think we have two things continuing in the program. One is to continue to really get the banks and the managers of Federal funds throughout the country to know each other and have a long run relationship with deposits and, second, to see how innovative we can be in the Treasury in finding ways to let those funds rest longer for that purpose, and I am optimistic on that.

Mr. REUSS. So your goal, as I understand it, is one, put minority banks in possession of just as much in dollar terms of deposits as they can use in terms of their capital investment, and, two, make it as little volatile as possible.

Mr. WALKER. Right.

Mr. REUSS. Well, I commend you. Those are good goals and I think you will stick to them and in return I am pleased to vote for the Asian Development Bank and the Inter-American Bank.

Mr. WALKER. It is a good day.

Mr. GONZALEZ. Thank you very much, Mr. Walker.

Mr. WALKER. Mr. Costanzo would like to add something for the record.

Mr. COSTANZO. Mr. Chairman, in the hearing last year and in the committee's report several questions were raised or points of concern expressed, some in considerable detail, regarding particular aspects of the Bank's management and operations.

I would be very happy to submit to you, Mr. Chairman, for possible inclusion in the record, if you wish, a kind of a wrap-up of those points raised last year and action that we took, or other developments which might be of interest to the committee.

Mr. GONZALEZ. I am sure it will be welcome and we appreciate that. We will be glad to make that part of the record, if there is no objection. (The material referred to by Mr. Costanzo follows:)

CURRENT STATUS OF CERTAIN ITEMS DISCUSSED IN THE COMMITTEE'S REVIEW IN 1970 OF INTER-AMERICAN DEVELOPMENT BANK OPERATIONS

1. *Staff loan program* (Report, page 25; Hearings, pages 20, 170, and 205-206).

A full review of existing programs of salary advances to Bank staff has been conducted with a view to reducing or eliminating the needs to use Bank funds for this purpose. As a result of this review, decisions were made to continue staff salary advances for purposes of installation and to meet emergencies, but to search for alternative methods, without the use of Bank funds, of meeting needs previously covered by the housing advances.

(a) *Installation*.—Because of the urgent needs experienced for this facility, the Bank will continue advancing up to one month's salary to new employees taking up assignments away from their residence. Such an advance is made on one-time only basis, within 6 months of the establishment of eligibility, and is repayable by monthly salary deductions over 18 months. The Bank has set a ceiling of \$60,000 on the amount of funds which may be outstanding at any one time as advances under this program.

(b) *Emergencies.*—This program will be financed in the future by a fund of \$40,000, which represents rebates received from the Bank's staff insurance policies, including rebates of funds originally paid in by employees. Advances will no longer be made to employees earning a salary of more than \$20,000 per annum. Other employees who can substantiate an emergency need will be advanced up to one month's salary on an appropriate repayment term not in excess of three years.

(c) *Housing.*—The Bank's objective is to terminate this program, but in view of the unusual needs in this respect of Bank employees recruited from member countries other than the United States, the Bank has been engaged in a careful study of possible alternative ways of meeting this need without the use of Bank funds. The principal alternatives being explored are: loans from the staff retirement fund to its participants; arrangements through the credit union formed by Bank employees; and arrangements through one or more local commercial banks. A number of difficult problems have been met in the consideration of each of these three alternatives, but it is anticipated that a final solution and decision will be possible shortly.

2. *Membership of other developed nations* (Report, pages 25–26; Hearings, page 213)

As indicated in Under Secretary Walker's statement, Canada is prepared to join the Bank, and specific Charter Amendments have been proposed to the Committee in order to enable Canadian entry. The proposed Charter Amendments would also provide the general framework for admission of other developed nations, under terms and conditions which are under consideration, after extensive consultations with such nations, by a special Committee of the Bank's Board of Governors.

3. *Broadened export financing* (Report, page 26; Hearings, page 215)

The United States did not agree with proposals for a broadened export financing operation within the Bank, and no such broadened program has been adopted. At their meeting in Lima, the Governors of the Bank made provision for the inclusion of certain technical services (consistent with international practice) within the framework of the existing intra-regional capital goods export finance program.

4. *Latin American Finance Corporation* (Report, pages 26–27; Hearings, pages 214–215)

The United States encouraged, in the discussions of this subject early in 1971, the creation of a finance corporation, separate from and independent of the Bank, with an exclusively Latin American membership, including possibly both Governments and local development finance institutions. There was no unanimity of Latin views on this matter, however, and the subject was remanded to Governments for further consideration, with such assistance from the Bank as might be requested in serving as a clearinghouse for information or as a forum for further discussions of the proposal.

5. *Field Offices and Representatives of the Bank* (Report, page 27; Hearings, pages 15, 184, 205)

The broad question of the functions, responsibilities, and staffing of the Bank's field offices was a major portion of an organization and management study which the Bank engaged a leading U.S. management consulting firm to undertake. The study has been completed and its findings and recommendations are currently under review by the Executive Board and President of the Bank.

With respect to consolidation of offices, the Bank is currently terminating and consolidating with its representation in Uruguay the separate field office heretofore concerned with matters affecting the Latin American Free Trade Area (LAFTA). The establishment of a field office in the newest member of the Bank—Jamaica—is current being held in abeyance pending completion of the overall review of the field office function.

The Executive Board has decided to terminate the two outstanding exceptions to the policy that no Bank representative in a country should be a national of that country. As of November 1, only one exception will remain outstanding and it is anticipated that the second will be terminated shortly.

6. *SPTF Loan Disbursements* (Hearings, page 199)

All loans from the Social Progress Trust Fund (the last of which was authorized in 1965) have now been fully disbursed.

7. *Technical Assistance (Hearings, pages 206-207, and 215-216)*

As a part of its review and approval of the 1971 technical assistance budget, the Executive Board delegated to the President of the Bank authority to approve technical assistance operations in amounts less than \$50,000 only when such operations involve specific training programs or project feasibility studies (the previous delegation encompassed all types of technical assistance activities). Technical assistance commitments authorized by the President under his delegation of authority approximated 45% of total commitments in 1969, and fell to 35% in 1970. Had the more limited delegation of authority approved for 1971 been in effect in 1970, the President's approvals in that year would have been only about 15% of total technical assistance. In the future, under the new delegation, all studies, promotional activities, conferences, and seminars, and all technical assistance for integration are subject to the review and approval of the Executive Board.

As a result of a technical assistance policy review in late 1970, the Bank has taken steps to phase out its budget support, via technical assistance grants, to international organizations which should look to their own membership to provide adequate budgets of their own, without Bank assistance.

Mr. GONZALEZ. Also we will have additional questions to submit to you. There is no use taking your time here, for the record, to be helpful to us in presenting the bill on the floor.

Mr. WALKER. Thank you, Mr. Chairman, and thank you for your very courteous reception.

(The following are written questions submitted by Mr. Gonzalez to Mr. Walker, along with Mr. Walker's answers:)

Question. We are all aware of the rather superb loan repayment record of the Inter-American Development Bank. I believe that there are only two loans in default as of this time, but it would be of interest and important to have spread on the record the bank default record on sub-borrowers. What are the causes and what actions does the Bank take in these situations?

Answer. In order to assist the private enterprise sector and the small borrower in Latin America, the IDB makes loans to intermediate credit institutions which may be government owned, private, or a combination of both. These institutions, under guidelines very clearly described by the lending agreements, then relend to various sub-borrowers, such as, an agricultural cooperative, a pump manufacturer, a local contractor, or even to specific agricultural or industrial operations.

Under such loans it is the intermediate credit institution itself, not the IDB, that assumes the risk of possible defaults by sub-borrowers. To date, the IDB has never experienced a default on any of its loans to intermediate credit institutions.

1. There is a multiplicity of causes for defaults by sub-borrowers, under IDB loans to intermediate credit institutions. In some cases the causes for default are outside the direct influence sphere of sub-borrowers, such as, for instance, weather conditions and crop situations in the case of agricultural loans as well as general price and currency developments of the country itself. Political, economic and social conditions in the country may be responsible for payments difficulties. In industrial loans, delays in installation of new equipment, strikes, difficulties in obtaining raw materials, etc., may be cited. In other cases, the causes for default lie within the administration of sub-borrowers, their lack of experience in new industrial processes or in new agricultural methods. Finally, there are some cases in which the default must be attributed to inadequate policies and procedures of the intermediate credit institutions.

2. The Bank exercises continuing supervision through its project specialists assigned to the various loans in the member countries. It is the duty of the projects specialists to investigate the reasons for delays and defaults whenever such circumstances appear from the periodic reports and to propose to the intermediary institution the adoption of suitable measures, which may include technical assistance.

3. As an integral part of its operating procedures and policies, the Bank periodically evaluates intermediate credit institutions, especially in cases when a new loan is under consideration. Such institutional evaluation includes an analysis of the organization, its financial structure and its operating policies and

procedures, the quality of its executives and technical personnel and the results obtained in the operation. On the basis of such total evaluation, the necessary measures will be recommended to the institution and, in the case of a new operation, be made a condition of the new loan. The Bank is always ready to lend technical assistance and to finance programs serving to improve the portfolio management of intermediary institutions.

The range of defaults and delinquencies, as a percentage of program portfolio, is characteristically the highest among agricultural sub-loan and the lowest for industrial ones. Specifically, Bank records of a number of its intermediate credit sub-borrowers demonstrate that for individual sub-loans the overall range of defaults runs from a high of 28% to a low of .03%.

Question. Since the test of work accomplished by the Bank is measured by its disbursements, what is the record of the Bank in this instance and what steps have been taken to reduce the time lag between commitments and disbursements?

Answer.

Percentage relationship of loan disbursements to loan commitments at end of year

	Percent
1965 -----	38.4
1966 -----	41.7
1967 -----	43.6
1968 -----	48.7
1969 -----	51.2
1970 -----	53.1

This data reflects a continuing improvement in the disbursed amount of the Bank's portfolio and its relationship to the total loans approved by the Bank. This improved picture can be partially attributed to the concerted effort in recent years to approve loans only when they have matured to the point where they are ready to be implemented rather than approving loans with a large number of conditions yet to be met before the loans can be implemented. The Bank also has given greater assistance to its borrowers in carrying out the loan and meeting the requirements of the project.

Question. You have provided us previously with information concerning the range of salaries and tax status of employees of the various multilateral institutions. Also this committee has received information concerning the International Monetary Fund's country club. Please supply for the record the amount of the subsidy which the International Monetary Fund has contributed to the country club and as far as the salaries concerned, the salaries received by the heads of the multilateral institutions in which we participate, and the salary ranges of all professional employees along with their tax status. In answering this question, please give special attention to United States citizens who are employed by these banks.

Answer.

THE IMF SUBSIDY TO THE BRETTON WOODS RECREATION CENTER

In the fiscal year 1971, the International Monetary Fund budgeted \$61,000 to cover the operating deficit of the Bretton Woods Recreation Center. As a result of successful efforts to increase the income of the Club, the amount of the subsidy should be reduced by 39 percent, to \$37,000.

A further increase in income next year, based largely on increased dues, should allow the Fund's support to be reduced to \$21,000.

STAFF SALARIES IN INTERNATIONAL FINANCIAL INSTITUTIONS

The President of the World Bank receives a salary of \$50,000 per year, plus an expense allowance of \$16,000. The President of the Inter-American Development Bank receives \$44,000 per year as personal remuneration, as well as an allowance of \$16,000. The Asian Development Bank pays its president \$40,000 per year. In addition, he is provided with a residence.

The following table shows the salary schedule for the professional staff of each of the international financial institutions. All salaries are expressed on a net-of-tax basis.

Professional staff salaries in the international financial institutions

Directorate World Bank Senior Staff level-----	\$24,450—\$35,880
Level A -----	22,200— 28,580
Level B -----	18,400— 25,050
Level C -----	15,060— 21,700
Level D -----	12,230— 17,860
Level E -----	9,710— 14,600
IDB:	
Unclassified -----	29,000— 33,200
Grade I -----	23,688— 28,680
Grade II -----	20,676— 28,272
Grade III -----	18,072— 25,000
Grade IV -----	15,744— 23,568
Grade V -----	13,788— 20,676
Grade VI -----	12,048— 18,108
Grade VII -----	10,716— 16,104
Grade VIII -----	9,528— 14,232
Grade IX -----	8,484— 12,600
ADB:	
Range A -----	22,000— 28,000
Range B -----	17,000— 24,000
Range C -----	13,000— 20,000
Range D -----	6,000— 16,000

TAXATION OF INTERNATIONAL INSTITUTION EMPLOYEES

International financial institutions offer salaries on a net-of-tax basis, so as to avoid widely differing effective salary levels among employees subject to widely differing national income tax systems.

Salaries of non-U.S. employees are exempt from U.S. or state income taxes, pursuant to the immunities of the charters of the respective institutions, as given effect by Act of Congress. Employees who are U.S. citizens, however, pay full U.S. tax on their income from these institutions, although their tax payments are reimbursed to them by the institutions. Therefore, there is no loss of tax revenue to the U.S. Treasury, while the net-of-tax salary comparability is maintained.

United States citizens who are employees of the Manila-based Asian Development Bank, are subject to the general rules of U.S. income taxation for Americans resident abroad.

All employees of international financial institutions located in the United States are subject to property, sales, excise and other indirect taxes. They are not reimbursed for payments of such taxes.

Question. The President in his recent message indicated that he was calling for a 10% reduction in all foreign aid. What effect does the President's position have on the legislation before us and legislation authorizing or appropriating funds for other multilateral lending institutions?

Answer.

10 PERCENT CUT IN AID FUNDS

The proposed 10 percent aid cut does not affect any of the legislation now before the committee, since the cut is to be applied to FY 1972 budget outlays that relate to authorizations in prior years.

Question. Please provide for the record the total amount of United States funds for both bilateral aid and through the multilateral institutions that have been supplied from initiation of the program to date, and also provide in the same breakdown the amount of military aid that has been provided as compared to economic aid.

Answer. (See table below.)

FOREIGN ASSISTANCE (1946-70)* UNDERDEVELOPED COUNTRIES

[In millions]

	1946-48	1949-52	1953-61	1962-70	1946-70
Economic:					
Bilateral:					
Development loans.....			\$1,986.3	\$9,056.7	\$11,043.0
Technical assistance.....		\$85.6	1,521.9	2,549.1	4,156.6
Contingency fund.....			527.3	854.8	1,382.1
Other.....		319.7	808.5	965.6	2,093.8
Public Law 480, title II.....		53.0	1,949.6	3,962.1	5,964.7
Total economic bilateral.....		458.3	6,793.6	17,388.3	24,640.2
Multilateral:					
IFI's paid in.....	\$635.0		188.9	2,828.6	3,652.5
IFI's callable.....	2,540.0		3,375.0	923.6	6,838.5
Contributions to other agencies.....	492.0	344.1	625.5	1,202.7	2,664.3
Total.....	3,667.0	344.1	4,189.4	4,954.9	13,155.6
Export sales:					
Public Law 480, title I.....			3,592.4	7,907.3	11,499.7
EXIM economic.....	270.6	836.3	3,189.0	3,846.8	8,142.7
EXIM military.....				892.1	892.1
Total.....	270.6	836.3	6,781.4	12,646.2	20,534.5
Military:					
Foreign military sales.....			102.0	1,013.8	1,115.8
Grants.....		783.3	10,775.9	10,107.3	21,666.5
Supporting assistance.....		14,086.2	11,233.8	4,333.1	29,655.1
Total.....		14,871.5	22,111.7	15,454.2	52,437.4

Source: AID and U.S. Treasury.

Question. What is the relationship between amounts requested here for the IDB and ADB and the bilateral aid program for Latin America and Asia?

Answer. (See table below.)

PENDING REQUESTS AND PROPOSED BILATERAL AID

	Fiscal year 1972	Fiscal year 1973
Pending IFI requests:		
IDB-FSO.....	450	450
ADB-special funds.....	60	40
Proposed bilateral program:		
Latin America (development loans).....	1 310	(²)
Asia (development loans).....	1 470	(²)

¹ Administration request figure. House-approved foreign aid bill provided \$287,500,000 for Latin American development loans in fiscal year 1972, and \$337,500,000 for such loans in fiscal year 1973. That bill also provided \$400,000,000 for development loans worldwide (other than Latin America) in fiscal year 1972; and \$450,000,000 for such loans in fiscal year 1973.

² Not available.

Mr. FRENZEL. Mr. Chairman.

Mr. GONZALEZ. Yes.

Mr. FRENZEL. Can you give us some indication of your intentions for future meetings and how quickly we may expect this bill to be processed?

Mr. GONZALEZ. As soon as the business of the full committee will permit us.

As you know, one of the difficulties in setting meetings for the subcommittee has been the scheduled hearings by the full committee so this is the only thing that has kept us from meeting before.

Mr. FRENZEL. The full committee can't pass it until we do, Mr. Chairman.

Mr. GONZALEZ. That is true. But the presence of our subcommittee is possible only under circumstances that will not conflict with the same members having to be in the full committee meeting. But when the full committee is not meeting and when it is feasible for this subcommittee to meet, it is my intention that we do meet, and if we can I would like to have the legislation approved and sent right up to the main committee so that then the main committee can decide for itself.

Mr. FRENZEL. I hate to belabor the point but I do want to repeat my enthusiasm of that legislation, my interest in getting all three of these pieces passed just as soon as possible, particularly in light of the other body's action on them.

Mr. GONZALEZ. I appreciate that and am very much in accord with you and can assure you that I join you in being just as energetic and enthusiastic in the quick passage of this legislation or at least its consideration by the full House.

Thank you very much, Mr. Walker. We deeply appreciate you and your colleagues being here.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. GONZALEZ. We have three other witnesses with us this morning, Dr. N. R. Danielian of the International Economic Policy Association; Mr. Earl W. Clark and Mr. Hoyt Haddock of the Labor Management Maritime Committee.

If you will come forward we will be delighted to hear your presentation.

Mr. DANIELIAN. We are not related.

Mr. GONZALEZ. Pardon?

Mr. DANIELIAN. We three witnesses are not related.

Mr. GONZALEZ. I mentioned that we have Mr. Clark and Mr. Haddock representing the Labor Management Maritime Committee and you, Mr. Danielian representing the International Economic Policy Association.

Mr. DANIELIAN. Yes. What is your wish?

Mr. GONZALEZ. We will recognize you, Mr. Danielian, first. If it is all right, you may proceed with the presentation of your testimony.

STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. DANIELIAN. Mr. Chairman, I appreciate this opportunity to appear before your subcommittee to comment on the requests you are considering which involve an authorization for \$1 billion in increased contributions by the United States to the Inter-American Development Bank (\$900 million) and the Asian Development Bank (\$100 million), both for soft loans. Your subcommittee has already favorably reported to the full committee on the \$960 million authorization for the International Development Association, the soft loan window of the World Bank (IBRD). As we did not have an opportunity to testify on that proposal, my comments today will also apply to IDA.

I need not call your attention to the serious international financial situation which faces the United States and which resulted in the

drastic measures which the President took on August 15, 1971. Your full committee is now holding hearings on some of the steps which may be taken in implementation of the President's program. Representatives of the United States have been participating in meetings of the IMF, the Big Ten, the GATT, and the OECD. Secretary of the Treasury Connally has made it clear that our balance of payments must be improved by at least \$10 billion, if not \$13 billion.

The reason for all this feverish activity is obvious. This year, the United States has been running a basic balance-of-payments deficit at an annual rate of \$9 billion; on a liquidity basis, of nearly \$17 billion; and on an official settlement basis, of \$22 billion. Eurodollars held abroad in an amount variously estimated between \$45 and \$60 billion constituted, until August 15, an immediate demand on our gold reserve of \$10 billion. For the first time in over 80 years, the United States is running a trade deficit at an annual rate of \$11½ to \$2 billion. The U.S. Government has outstanding certificates of indebtedness and Treasury bonds and notes held abroad in dollars and in foreign currencies of over \$16 billion as of the end of September.

What this means is that we are borrowing short abroad and spending the money in wars, troop maintenance costs, and foreign aid on a long-term basis. These authorizations before you are for soft loans which are lent for 40- or 50-year periods, mostly to a few selected countries like India and Pakistan in the case of IDA, and a variety of Latin American countries in the case of the Inter-American Development Bank. It should be remembered Chile was one of the preferred clients of our foreign aid program in the past decade.

Gentlemen, it may come as a surprise to you if I say that we favor foreign aid and that we even favor the multinational approach—provided that steps are taken to safeguard our vital interests in the manner in which these funds are made available and the manner in which they are allowed to be expanded. There are two U.S. vital interests involved in these proposals: (1) to make sure that they do not add to our balance-of-payments deficits; and (2) that they are not used in a way to disestablish American investments abroad.

The first can be accomplished by very hard and fast rules limiting the expenditure of these funds to U.S. procurement. The United States is contributing 37.5 percent of IDA's total funds. Yet IDA procurement in the United States was 15.9 percent of that agency's total credit disbursements in 1969, while Japan supplied 5 percent of the funds and received 9 percent of the business. West Germany supplied 8.6 percent of the funds and received 12.6 percent of the trade. We have been unable to secure comparable figures for the Inter-American Bank.

We are asking other countries to make trade concessions to us in order to have a turnaround in our balance of trade of several billion dollars. It is not too much to ask them to permit us to utilize our own funds in these institutions for procurement in the United States so that the balance-of-payments effects are minimized.

With respect to the second vital reservation, it is important to realize that income on investment is an important factor—in fact the only remaining breadwinner—in our balance of payments. If we allow other countries to undercut our investment base through expropriation, we will be in worse shape than we are now.

The idea abroad, particularly in Latin America, is that they can afford to expropriate our properties and hinder private investments because they feel that their financial needs can be met by loans from international institutions. This is a grievous error on their part, and it is also a dead end proposition for us. If we do not earn money abroad either from exports or from investments, we are not in any position to make foreign aid grants. There is much said in Latin America that private investments are bleeding them white because of the outpayment of dividends and interest. In actual fact, this item amounts to about a billion dollars a year of income to the United States; but we turn around and appropriate an equal amount of money every year in foreign aid. What is received by us through increase in their gross national product and export earnings on the private account, the U.S. taxpayer gives back as public assistance. They must be told that they cannot expropriate American property and at the same time expect that the same taxpayer will keep on financing their economic development by continually going into further debt in Germany, Switzerland, or Japan.

I suggest, therefore, another amendment which will direct the U.S. Governors and the Executive Director to exercise the U.S. voting power in these institutions against granting loans to countries that expropriate American property without full and prompt compensation.

If I may be permitted to comment, Mr. Chairman, on two other factors.

Before the Senate Foreign Relations Committee, Mr. Rudolph Peterson, who studied the foreign aid program for the President, conveyed the message from the President to the committee that the President was not pressing this year for his program of internationalization of foreign aid or the Rudolph Peterson Commission recommendations, but that he would be willing to allow time for the Congress to study this problem.

The second point I want to make is that the delay in this committee has had a very salutary effect.

I can assure you that the studies in the Inter-American Bank for management improvements and the rethinking in the administration of policy toward expropriation has in large part been induced by the fact that the Congress has taken its time on these appropriations.

Now, we have been told over the past several months that the administration is about ready to come up with some specific policy guidelines on this issue but everyone knows that there are divided opinions within the administration and I think perhaps either an amendment by this committee or taking up some more time will force a definitive decision on this issue.

Thank you very much.

Mr. GONZALEZ. Thank you, Mr. Danielian. I believe you were here when Secretary Walker testified.

Mr. DANIELIAN. Yes, sir.

Mr. GONZALEZ. And said they would. We will press him for an administration position. Some of us have indicated for some months now that this is an issue. We raised this issue early in the summer long before the development in Chile or any other country.

Mr. DANIELIAN. I might say that I have complete confidence in both the gentlemen, all three gentlemen who appeared here from the Treasury Department, and in their position on this issue, and also of the President of the Bank. I think one of the greatest things that has happened to the Inter-American Bank is the accession of Mr. Ortiz Mena as President. I have known him over the past 10 years and I think very highly of him, but policy issues have to be determined by governments and not by individuals.

Mr. GONZALEZ. Very true.

Mr. DANIELIAN. And my idea of the Government of the United States is very simple, the President and the Congress of the United States and the Supreme Court, and one of these three branches must speak on this issue.

Mr. GONZALEZ. I agree with you.

Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, as a new member of the committee, I am interested in knowing what the International Economic Policy Association is and who Mr. Danielian speaks for.

Mr. DANIELIAN. Mr. Congressman, the organization was established in 1957 as a group of companies that were devoting themselves to the analysis of the economic problems facing the United States and studying them in depth and making recommendations on those issues.

I will be glad to supply the membership list, if you wish to have it. I do not want to recite them for fear that I might omit some of them.

Mr. FRENZEL. This is an association of corporate membership?

Mr. DANIELIAN. Yes, sir, wholly American companies.

Mr. FRENZEL. Mr. Chairman, if the gentleman would provide a list I personally would be appreciative.

Mr. DANIELIAN. I will be glad to.

Mr. GONZALEZ. Any other questions?

Mr. FRENZEL. I have no further questions.

Mr. GONZALEZ. Thank you.

Mr. Ashley.

Mr. ASHLEY. Thank you, Mr. Chairman.

Mr. Danielian, I quite agree with our chairman with respect to the second constraint that you imposed upon U.S. multilateral lending activities. And as you heard from my questioning of Dr. Walker, I think that the enunciation of clear administration policy with respect to expropriation would most certainly have to deal realistically with specific countries, and I would expect that that policy would certainly be forthcoming before the bill before us would be considered by the House.

I have a little more problem with your first requirement that on a dollar-for-dollar basis U.S. funding of multilateral institutions be pegged to a "buy American" policy. I am not quite sure that this is consonant with the essential purposes of multilateral lending institutions.

Mr. DANIELIAN. We are dealing here with soft loans and not with the capital subscriptions and I think that each donor is entitled to set such limits as they wish on the supplemental funds for soft loans and I think they will be accepted if such limitations were placed.

Mr. ASHLEY. Have you gotten any expression from the Bank itself, from the newly installed Director, or from the administration with respect to this?

Mr. DANIELIAN. I have not personally pursued this with the banking institutions. I consider them international institutions, and, therefore, try to keep away from them. But I think that they try to justify their position by statistical studies that tend to show that they are doing well by the United States but actually our procurement; that is, procurement in the United States from those funds falls short of our contribution.

Three years ago, you remember, that the Congress did place a limitation on IDA but the limitation was something like this: that the amount of contribution would be limited to the U.S. procurement except for the last year's contribution which would come due at the end of the period. So that really it didn't help very much because at the end of the period the whole amount came due.

Mr. ASHLEY. Well, of course, I am interested in both parts of the equation. I am interested in the extent to which the U.S. Directors of the Bank would be able to justify the extent to which U.S. dollar input finds its way back in the way of purchase from the United States. I am also interested, however, in the purpose of the lending institutions with particular regard to the soft lending window; namely, that many countries are in a state of economic plight, they are trying to put in an infrastructure that will support greater economic activity, greater economic self-sufficiency, and it does impose a hardship on them to be required to buy from the country that probably is the most expensive in the world in terms of capital equipment.

Mr. DANIELIAN. Mr. Ashley, as you know, for the last 10 years we have been studying the U.S. balance-of-payments problem and one of my great frustrations has been that I have not been able to convey broadly the basic concept which should govern our international financial dealings. The only way you can help these countries is by transferring resources and when we do not have a current account surplus and when we are borrowing abroad to make loans, and when our currency as a result gets depreciated, the significance of that is that we do not have dollars or credit to give them. I think one of the great mistakes that has been made in the last 10 years is to persuade ourselves that we can keep on giving dollars, which are really manufactured paper currency, and thereby give foreign aid, and what is happening is that the value of that currency is going down because it isn't backed up by real goods and services that we are able to push out of our country.

I have been advocating for the last 10 years that the foreign aid program should be converted to a lend-lease type of program, a lend-lease program as in World War II.

I used to be on the Lend-Lease Budget Committee. We used to sit around the table and did not deal in dollars. We used to figure out what does Russia need for fighting the war, what does England need? They need so many bushels of wheat and so many kilowatts of electric generating capacity, and the next question: Can we produce it and then how can we transport it?

This country has a great deal of unused capacity. We can give a great deal more foreign aid than these bills are providing for if we put

it on the basis of goods and services rather than instruments of credit that are of doubtful value on the international market. And so to say that these people are going to get less for their money, well, of course, they are going to get less because we are now insisting that every other country devalue the dollar by 10 percent. They are going to get even less as a result of this action if they spend it. But the fact is that we simply haven't got the credit to lend them and what we have to lend them is real goods and services.

You can build in Toledo a good many machine tools and in Cleveland you can build roadbuilding equipment and so on, and we can sit around and budget what kind of manufacturing capacity we have and what can we give to these people and then make the credit available to them here and say, go and buy the Euclid roadbuilding equipment, but we have to get away from the concept that the United States now is in any position to pass credit around. We just haven't got credit.

Mr. ASHLEY. Thank you very much.

Mr. GONZALEZ. Thank you.

Mr. REES.

Mr. REES. Just a couple of questions. When you discussed expropriation you said full and prompt compensation. Now, what does that mean?

Mr. DANIELIAN. Well, I think the Foreign Aid Act provides that the Foreign Claims Settlement Commission determine the value of the property expropriated.

Mr. REES. That is our Claims Commission?

Mr. DANIELIAN. Yes, sir.

Mr. REES. I found, especially in Latin America, total reluctance to go before a U.S. Claims Commission to decide the cost of an expropriation in their own country.

Mr. DANIELIAN. That is a determination by the United States to decide whether they are going to continue aid or not. So it doesn't really involve any arguments with the other countries.

Mr. REES. Is your association for legislation such as the Hickenlooper amendment?

Mr. DANIELIAN. Yes, I think we generally support that. We have supported it over the years.

Mr. REES. In my travels in Latin America I didn't find one American businessman who supported the Hickenlooper amendment. When I was in Lima several months ago I found the American Chamber of Commerce of Lima was violently opposed to the so-called Grace amendment in the sugar quota bill as they thought it would put all of U.S. investments in jeopardy.

I found also that the business community had very little sympathy with the IPC, and they were, of course, strongly opposed to any use of the Hickenlooper amendment in that case. There tends to be quite a gap of opinions here.

Mr. DANIELIAN. It all depends on who you talk to and at what level.

Mr. REES. I talked to companies from California such as Standard Oil of California and Occidental Petroleum, that were planning to spend quite a bit of money in oil exploration in Peru. In the case of the Grace amendment there was a letter from the American Chamber

of Commerce of Lima, which I think the membership is with all of the American business community there. I think you had better find a better vehicle than a unilateral U.S. board.

Mr. DANIELIAN. I would in the long run favor the establishment of an internationalized investment guarantee insurance program and I hope that the Inter-American Bank may go into that. In fact, back in 1964 I was the one that brought bad tidings to many of the Latin American countries right after the Foreign Aid Act of 1963 had been passed because of some very tough provisions of that legislation. U.S. Embassy personnel had not dared inform the local governments of the provisions of the law and at that time I came to the conclusion that some of these provisions would be better acceptable if they were managed by international institutions, but unfortunately the World Bank has not had much success primarily because Latin American countries have not been willing to sign up. Perhaps if you can persuade the Inter-American Bank to explore this situation we might be able to get rid of the unilateral aspect of it.

Mr. REES. Well, I think we have to because every country has its own accounting procedures and every country has its own ground rules. In many cases, especially the IPC case, I think the law in Peru is, as it is in Latin America, was pretty explicit on natural resource ownership. I think in many cases U.S. investments might go into a country somewhat skirting what the law of this country is or using bad judgment and then they expect the United States to come along and say if there is an expropriation and bail them out.

Mr. DANIELIAN. In the case of Chile I believe the history is somewhat different. They have been there for many, many years and in the Frei administration they made a very satisfactory arrangement with the local government owning 51 percent and the Americans owning 49 percent on condition that they reinvest the funds that they received in the deal and in good faith they went ahead and reinvested them. When the new government comes along and changes the constitution, overthrows the agreement of its predecessor, I don't think it is fair to blame the American companies for having invested in natural resource developments. Many of these countries welcomed these developments in the past.

Mr. REES. Well, I find the situation in Chile is in such a state of flux it is almost impossible to comment on it. The case is still under appeal.

Thank you very much.

Mr. GONZALEZ. Thank you. Mr. Danielian, one thing. On page 3 of your statement, in the last sentence in the second paragraph, "We have been unable to secure comparable figures for the Inter-American Bank."

Why were you not able to obtain those figures? Are they unobtainable?

Mr. DANIELIAN. They don't break down these figures. At least they are not willing to issue them publicly.

Mr. GONZALEZ. I see. Well, thank you very much, Mr. Danielian. We deeply appreciate your statement and presentation.

We now have Mr. Earl W. Clark and Mr. Hoyt S. Haddock of the Labor Management Maritime Committee.

STATEMENT OF EARL W. CLARK, CODIRECTOR FROM MANAGEMENT, LABOR MANAGEMENT MARITIME COMMITTEE; ACCOMPANIED BY HOYT S. HADDOCK, CODIRECTOR FROM LABOR

Mr. CLARK. Thank you, Mr. Chairman and members of the subcommittee.

My name is Earl W. Clark, I am the codirector from management of our organization and Mr. Hoyt S. Haddock at my right is the codirector from labor. We are the oldest maritime association in the operating field in Washington and appreciate the opportunity to testify on this very important subject having to do with the role of the United States in multilateral assistance programs.

Our organization is composed of both seagoing and shoreside unions and major steamship companies in both the liner and liquid bulk categories. As a purely American institution, we have a general interest in both the extent of multilateral foreign aid and the manner in which it is administered. We have, in addition, a specific interest in the participation of the American merchant marine in transporting to the recipient country the products and commodities engendered by our assistance programs. We are only one of a large group of industry people in industry institutions which addressed an open letter to the Congress under date of September 9, 1971, on this subject. It is a very short letter, 3½ pages, and I believe it would be helpful to the committee to have this in the record to indicate the extent to which our position is being supported.

Mr. GONZALEZ. Without any objection so ordered.
(The letter referred to follows:)

THE NATIONAL AD HOC COMMITTEE ON FOREIGN AID POLICY,
1120 CONNECTICUT AVENUE NW.,
Washington, D.C., September 9, 1971.

An open letter to the Congress:

In the face of clear expressions of caution from Congress the strength of our American economy—its industry and labor—continues to be impaired by administrative measures taken in execution of the foreign aid program.

The Administration's far reaching proposals for restructuring foreign assistance—proposals which would eliminate "buy American" requirements and channel increasing amounts of taxpayer funds to international organizations for distribution on a multilateral basis—have hopefully been shelved for the time being by this Congress. Moreover, President Nixon on August 15th proposed a Bold New Economic Policy to rejuvenate the American economy, including a ten percent cut in foreign economic aid. Nevertheless, *the Administration continues to impose by executive action the measures for which Congress has failed to grant approval*—measures which appear in direct opposition to the new policy.

The directive issued by President Nixon on November 1, 1969, under which AID dollar loans to Central and South America were "untied" from U.S. procurement, still stands; as do subsequent actions taken to broaden the scope of untying to all underdeveloped countries. Also, the Department continues to negotiate abroad and press for the complete untying of foreign assistance under a mutual arrangement with other developed countries.

The Department of State claims that untying procurement will not hurt American industry, and that American suppliers will, in fact, have additional sales opportunities opened up to them through the assistance programs financed by others. We do not believe this to be the case. Past experience shows that under the policy of "tied" procurement, over 90% of AID funds programmed for goods and services have been retained in the United States. Prior to adoption of this policy in 1961 the amount was 42%. There is no doubt that the deteriorating competitive position of U.S. goods in world markets which now exists will result in a percentage much lower than 42% when AID is completely untied.

The same effect is true with respect to the funding of foreign assistance through international organizations. The United States has never shared in

the foreign procurement of these organizations to anywhere near the proportion of its financial contribution. In fact, the channeling of assistance funds through international organizations is just another form of "untying" as far as the U.S. economy is concerned.

The appended analytical study shows that up to 180,000 jobs of U.S. workers are at stake in addition to a further serious decline in our already disastrous deficit in balance of payments. We can and should commit goods and services to assist the less fortunate. However, in times of our own high unemployment, reduced trade balance and serious deficit in international payments, we cannot and should not commit dollars which, without restriction, would be spent abroad for the employment of foreign labor and enrichment of foreign business.

The following organizations, including important segments of American industry and labor, affected by this administrative action, want you to know of their concern. It should not be necessary, but administrative action has made it imperative that legislative measures be taken to direct that AID funds be restricted to the procurement of goods and services in the U.S.

American Institute of Merchant Ship-	International Brotherhood of Painters
ping	& Allied Trades
American Iron & Steel Institute	International Union of Electrical Radio
American Legion	& Machine Workers
American Maritime Association	Labor-Management Maritime Commit-
Bethlehem Steel Corporation	tee
Cast Iron Pipe Research Association	Maritime Trades Department, AFL-
Consulting Engineers Council	CIO
Industrial Union Department, AFL-	Seaman Corporation
CIO	Sheet Metal Workers' International As-
Industrial Union of Marine & Ship-	sociation
builders	Shipbuilders Council of America
International Association Machinists &	The Fertilizer Institute
Aerospace Workers	Transportation Institute
International Brotherhood of Boiler-	United Brotherhood Carpenters & Join-
makers	ers
Iron Ship Builders	Youngstown Sheet & Tube Co.
International Brotherhood of Electrical	
Workers, AFL-CIO, CLC	

Attachment: Analytical Study—"Some Comments on Untying the Foreign Assistance Program."

SOME COMMENTS ON UNTYING THE FOREIGN ASSISTANCE PROGRAM

At a time when the United States is experiencing economic difficulties such as deficits in the balance of payments, loss of confidence in the dollar, inflation and high unemployment, any further untying of foreign aid is ill advised.

The State Department's contention that multilateral untying by the 41 developed countries will increase American exports we believe is unfounded. The State Department argues that the U.S. contributes less to the total aid package than the other development countries and therefore, will gain by more sales opportunities. The fallacy here is that the U.S. share of world exports has steadily dropped since 1958 and is expected to decline further, as shown in the following table.

U.S. share of world exports for manufacturing (1958-1970)

Year:	Percentages
1958	27.7
1959	25.6
1960	25.3
1961	24.1
1962	24.6
1963	23.4
1964	24.0
1965	22.8
1966	23.0
1967	23.3
1968	23.6
1969	22.5
1970	21.3

Source: Commerce Today (May 31, 1971) p. 34.

Basically, there are three areas of the economy which will be adversely affected by untying: the balance of payments, exports, and employment.

1. The overall deficit in the balance of payments totalled \$27.5 billion in the 1960-69 period. Concurrently \$11.4 billion were given by the AID in non-military development funds, \$9.2 billion of which were spent domestically. Had aid been untied in this period and 58 percent of these monies spent abroad as was the case prior to 1961, the total deficit would have been \$34.1 billion or 24 percent higher. As the United States is losing its international competitive position and becoming a net importer of goods, the impact of untying on the balance of payments will undoubtedly be higher in the coming decade. The latest statistic points to a deficit of over \$26 billion in 1971.

2. The \$9.2 billion of AID generated exports has been particularly important to, and made up a significant proportion of the total exports of chemicals, metal, petroleum, rubber, fertilizer and paper products. These industries represent an important segment of the economy. They have contributed greatly to the foreign exchange earnings of the United States. The untying of foreign aid will hasten their decline in the world economy at a time when the U.S. share of world exports of manufacturers is falling. Concurrently, the three principal U.S. trade rivals—Japan, West Germany, and France—expanded their share of world markets.

3. Exports mean jobs for American workers. The BLS estimates that a billion dollars' worth of exports create about 70,000 jobs. In the sixties AID generated exports contributed 64,000 jobs per year. When both the direct and indirect impacts are accounted for tying of foreign aid has created a total of 192,000 jobs annually. Similar findings were reported by the Transportation Institute, a Washington based research organization. Their study showed that the economy benefited from 180,000 jobs annually through the Foreign Assistance program. For the country as a whole the present unacceptable unemployment rate of 5.8 percent would jump to over 6.0 percent with the loss of AID generated exports.

By analyzing the past performance of the economy, it becomes obvious that the repercussions of untying are enormous. These should be brought to the attention of the law makers of America. At a time when the President has announced a new economic policy to bring about full employment, price stability and restore confidence in the dollar, untying of United States Aid is contradictory to these policies.

Mr. CLARK. I beg your indulgence for another inclusion. The Propelier Club of the United States is the grassroots organization of the maritime community in this country. It includes industry, labor, and government members. It is sort of a triparte organization, has taken a very strong position in this matter which I believe would also be helpful to the committee, and as a matter of information I should like to have permission to file it in the record.

Mr. GONZALEZ. Without objection that will be done.

(The position paper of the Propelier Club of the United States follows:)

THE PROPELIER CLUB OF THE UNITED STATES

POSITION NO. 3, 1971—OPPOSITION TO MULTILATERAL AID THROUGH WORLD INSTITUTIONS

BACKGROUND

Under an announced program of "fundamental and sweeping reforms" in our foreign aid program, the current Administration has made drastic changes in the AID dollar loan program. Two basic features are of major importance to the shipping industry, (1) channeling future AID loans through multilateral world organizations and (2) untying procurement from U.S. purchase limitations. Billions of dollars are involved, representing substantial losses in U.S. exports and U.S. flag transportation. This new movement is a reversal of the Eisenhower policy enunciated in late 1960 tying foreign AID loan dollars to U.S. procurement, principally to aid our balance of payments deficit. As a result of this policy, procurement in the U.S. "increased from 41 percent in fiscal year 1958 to 99 percent in 1969." In 1960 only \$42,300,000 out of \$1,040,000,000 were spent in the United States. By 1967, this figure had grown to \$1,350,000,000 out of a total

of \$1,402,000,000 and by 1968 to \$1,143,000,000 out of \$1,161,000,000. The first half of 1970 showed \$483,000,000 in U.S. procurement out of a \$489,000,000 total.

The current Administration on November 1, 1969, untied AID dollar loans to Latin America allowing procurement in South and Central America, as well as in the U.S., permitting up to 50% procurement elsewhere for component parts and paying transportation costs on foreign ships of Latin nations except those of the recipient country.

On September 22, 1970, this procurement untying process was expanded worldwide except for Iron Curtain countries and 41 selected nations where the average annual income exceeded \$1,000. The government is now holding conferences with AID donor nations within the later group to secure reciprocal untying agreements. If successful, further untying processes will follow. A maximization of this concept throughout the world with the resultant internationalization of foreign aid, carries with it substantial losses in exports, production, income, United States flag shipping, employment, balance of payments and even aid identity. Prospects of improved international cooperation and participation, or added dollar purchasing power in international marketing, cannot offset procurement and shipping losses to the United States and the resulting deleterious effects upon the greatest of all the donor nations.

POSITION

The Propeller Club of the United States believes that a nation, donating foreign aid and assistance, should make its gifts in such manner as to emphasize the contribution of its own labor and treasure to international needs. The Propeller Club submits that the act of assisting foreign nations can and should be economically beneficial to both the donor and the recipient. It, therefore, opposes the concept of internationalizing all AID assistance to foreign nations under any policy of abnegation or uncertain assumption of projected long-term results, and supports strong programs of procurement from United States sources including Merchant shipping.

Mr. CLARK. The unusual and far-reaching measures taken by the President in his August 15 economic program constitutes full recognition of the critical problems which face the United States in its international and domestic economy. There is a limit to the contributions which a nation even as powerful as the United States can make to encourage international cooperation. As you well know, since World War II the United States has given \$143 billion in overseas loans and grants while we fought two wars, maintained additional troops abroad at our own expense, and encouraged the creation of the expanding European Common Market, with the knowledge they would be our eventual competitors.

The deficit in the U.S. basic balance of payments for 1970, continuing the recent trend was \$3 billion, and for the first half of 1971 it has been estimated on an annual basis at \$9 billion. Where we had a comfortable surplus in our trade in 1964 of \$6.7 billion, this has diminished to the point that for the first time since 1893 we will have a possible trade deficit, projected at \$3 billion at 1971. Our gold assets have been reduced from \$24 billion shortly after World War II to around \$10 billion, while our liquid liabilities to foreigners now amount to \$60 billion of which \$40 billion is to governments. On top of our international troubles, inflation and unemployment plague us at home.

It is evident that the administration's proposals for untying U.S. aid programs and for channeling increased contributions to the international institutions without any of the conditions which exist in our bilateral aid programs can only add to the problems we now face. These proposals appear to be entirely contrary to the measures more recently recommended by the President to correct our problems, and are, therefore, overtaken by events in the real world, while they still constitute pending business in the Congress.

The Foreign Relations Committee staff has estimated that the administration's total foreign aid requests—including those in other budgets—will average \$10 billion for each of the next 5 years, with most of it channeled to international financial institutions. For the last few years these institutions have received almost one-half billion dollars each year. Your committee has before it bills authorizing additional contributions to international financial institutions which come to more than a total of \$2 billion:

H.R. 5014: \$900 million in two annual installments for the IDB, the fund for special operations.

H.R. 8750: \$960 million over a 3-year period for the IDA, the Soft Loan Window of the World Bank.

H.R. 5013: \$100 million for the ADB special funds.

The House of Representatives on August 3, 1971, approved H.R. 9910, a 2-year extension of the Foreign Assistance Act, authorizing the appropriation of over \$3,400 million for each of fiscal years 1972 and 1973. As you know, there are provisions in the Foreign Assistance Act which control the expenditures of these funds:

Section 604 permits procurement outside the United States only if the President determines that such procurement will not result in adverse effects on the economy of the United States, the labor surplus or the balance of payments.

Section 620(d) prohibits assistance where it would be used in a country to export more than 20 percent of the annual production back to the United States.

Section 620(e) requires the President to suspend assistance to any country that expropriates U.S. property without compensation. I should like to pause here, Mr. Chairman, to say that S. 1657, which is in the Senate, is a bill dealing with multilateral aid. Yet there were—I won't say riders—but there were inclusions in the bill which would apply only to the bilateral provisions that I have just enumerated here, and there is the fourth, one I did not mention, and that is that these funds, a portion of them, should channel abroad, through private industry. I presume that was to keep us from supporting the creation of a socialistic or communistic state. These are provisions that have been in the bilateral assistance program for a long while; yet this Senate bill, which deals purely with multilateral aid, purports to invade this field in the bilateral area, and to say we are going to knock all of these things out, and so help me it does. I would hope—and we testified before the Merchant Marine Fisheries Committee of the House to this effect—that the House would not accede to any bill which destroys these essential items in the bilateral process. I would rather see that they are applied to the multilateral process and expanded to do so.

These prohibitions do not apply to our contributions to international financial institutions, so that the requests for authorization for \$2 billion which is before you only aggravate the problems which gave rise to President Nixon's August 15 economic program.

We, therefore, respectfully suggest that it would appear appropriate for your committee to withhold action on these large authorizations for international financial institutions until we can determine what progress will be made in negotiations with foreign governments regarding the President's program.

Now, I should like to pause again here in the reading of my testimony, to say, that if my records are correct, S. 748 would move from \$300 to \$450 million annually for IDB. In the Asian Development Bank, S. 749 would move from practically zero I believe, to \$100 million, 3 years, special loans, soft loans, World Bank's IDA, from \$160 million to \$320 million. I believe the 3-year total of some \$960 million.

Now, this is what we fear. I want to make this clear, that our committee is not opposing multilateral aid as such. You won't find in this testimony nor in the documentation that we have presented in this hearing, opposition to multilateral aid as such. I think our country must join with other nations in reasonable programs of multilateral aid. Our position is that we do not like to see these great huge expansions, suddenly, which I think will eventually do great damage to the bilateral program. I would point out to you that when our organization did this document here—and I am going to hold this up—it is entitled, "Bread Upon the Waters, Whence the Returns," we gave it to your committee. If the program announced by the President sometime past goes into effect, that procurement of goods will be in the lowest cost countries of the world, and he says so. The President says, in effect, make the most of the dollar and let them buy as cheap as they can anywhere in the world. That is what the purport of it is.

If you continually respond to channeling these billions of dollars through these multilateral institutions—which to me are great "financial blood banks"—the dollars will flow out and they will not flow back.

Now, I understand when the untying process was started there were stages. First of all, they untied in South America. That was the first step. That was November 1, 1969. And on September 15, 1970, this untying process was expanded to the other underdeveloped countries of the world and that was measured in terms of countries who had \$1,000 or less annual per capita; I believe.

The third process, proposed untying in all the rest of the countries, some 41 developed countries outside of the Iron Curtain. And I don't see why these countries wouldn't buy this because they certainly will lick us on a competitive basis. Our high standard of living will not allow us to compete with some of the low labor costs that we have around the world if you are going to turn all of these dollars loose. So this is what we fear. And I pause here, Mr. Chairman, merely to indicate I didn't want the committee to have the idea from our testimony that we are opposing all multilateral aid as such.

It is essential that the United States obtain assurances that our balance of payments will be protected by assuring us a fair share of sales of American commodities for the large sums which we contribute to these institutions. In the interest of our balance of payments and American labor, now suffering from serious unemployment, a fair proportion of these dollars should be used to buy American goods. Also, our contributions should not be increased until we can be sure that American investments abroad are protected and that American taxpayers' dollars are not used to take over American enterprises which have been confiscated without compensation.

We hope that you and your committee will give favorable consideration to our recommendation that no action be taken on authorizing legislation for additional U.S. contributions to international financial

institutions until our current problems have been resolved and then only upon condition that some limitations be placed upon the authorization of such funds to the effect that contributions not exceed the amounts expended in the United States.

We thank the committee for the privilege of making this statement.

I would like to say, Mr. Chairman at this point, if I may. I note in the H.R. 5013, section 13(c)—this is the Asian Development Bank proposed legislation—I believe, that there is provision here for procurement in the United States.

Now, I am attributing that—if you can please enlighten me—I am attributing that to the very good judgment and good sense of the Congress in placing that in there because I think in most multilateral programs we do not have this provision, and I should like to see that provision placed in all of the multilateral aid programs with which we are dealing. But I do note that and wanted to make it a point in passing at this point.

Mr. Chairman, that concludes my statement and I and Mr. Haddock will be glad to answer any questions which the subcommittee might have.

Mr. GONZALEZ. Thank you very much, Mr. Clark. We appreciate your statement.

Mr. Frenzel.

Mr. FRENZEL. Mr. Clark, your statement indicates that you are recommending that no action be taken on authorizing legislation until certain problems have been solved. Does that mean you would like us to solve them in the legislation? Is that your first preference? Or is your first preference there be no legislation?

Mr. CLARK. We would certainly take no position that there be no legislation. As I indicated earlier, we are not opposing multilateral aid as such. It is the manner in which it is given and the manner in which it is administered, and we should like to see, principally, sufficient safeguards placed in this legislation, particularly as you have done in H.R. 5013. I don't know how it got in there, whether you did it or the executive.

We should like to see those safeguards placed in there to see that there is some mutual—I use this term advisedly—mutual beneficiality. I think when you give soft loans for however, many years it be, 40, 50 or 60, at 2 percent or 1 percent, then you say we are going to turn that loose, we are going to untie everything as has been the practice, I think, in most of the multilateral programs.

These dollars are not going to flow back to the United States and there will be no mutual beneficiality.

I turn to the condition that our country is in today. At this point with your permission may I read something very, very briefly:

Our national debt is at its highest level, our balance of payments is in substantial deficit, our trade balance on the wane, our Eurodollar market in distinct trouble, unemployment at high levels, many U.S. industries in retrenchment, our current national budget in massive deficit and our mounting domestic needs taxing our economy. Concomitantly, there is a growing feeling that we should not be so unwise as to untie all U.S. procurement from our assistance dollars and dispense them through multilateral "financial blood bank" processes to be spent preponderantly with our foreign competitors through the international bankers. Such a move would be wholly inconsistent with the President's new economic policy.

Mr. FRENZEL. Would you mind telling us what you are quoting from?

Mr. CLARK. I am quoting from a document, sir, from hearings held before the Merchant Marine and Fisheries Committee of the House of Representatives on October 5, 1971. I read this into the record there.

Mr. FRENZEL. Thank you very much. I suppose it would be unfair to suggest that some of our current difficulties on both coasts aren't helping our balance-of-payments problem either. I question the fact that we don't get some useful benefit out of these dollars spent other than in terms of 100-percent return on your "Buy American" thesis here, and I suspect that Mr. Hanna's statement in response to earlier testimony probably comes closer to expressing my thoughts about some of the values to be gained in creating or expanding overseas markets for the commodities and services which we produce.

Mr. CLARK. Yes, sir.

Mr. FRENZEL. And I guess I can't accept fully that for every dollar we put into this thing we have to expect somebody to buy a dollar's worth of items when it may or may not be competitive, and it may or may not do the job that is needed in the foreign countries.

Mr. CLARK. Well, I would say on that I would hope that somewhere between the position which has been announced in the President's policy, both with respect to the complete untying process—this is the announcement of the President's program earlier. Somewhere between that point of view and the more restricted point of view which we have placed here on this table this morning that the Congress in its good judgment would find some means by which you will assure this country some mutual beneficiality. I admit we went all the way.

I think Mr. Danielian went all the way in saying we ought to equate it to that but certainly something short of that equating which would not permit complete untying as I think the President's program does. I think this other thing has become a cropper—I think the President's program, and I am very fond of the President, I am not criticizing him unduly—but I oppose that program of untying procurement all over the world, and they even suggest doing away with any cargo preference on American ships, which is of vital interest to us. The untying program has become a cropper since they have now ceased to go forward with step No. 3. Step No. 3 is where you get the other 41 developed countries to also untie. So that I think there is some receding from the Government's earlier position.

Mr. FRENZEL. I am glad to know you think there may be a middle ground. I am interested in progressing, the other point which I am sure is of great interest to you, and that is the proportion of these things that move from the United States in your bottoms, and I am wondering what is your proportion of business in the International Development Bank?

Mr. CLARK. Well, as I read the law, Mr. Frenzel, and I have done some research on this—all of the laws that deal with cargo preference—I can't find anything that says in the case of the International Development Bank that the cargo preference applies there. Now, their general counsel advised me sometime past—

Mr. FRENZEL. What I really asked you is how much are you getting? I didn't say how much are you supposed to get.

Mr. CLARK. I am sorry. Well, I think those figures are available. I don't have them here this morning. But I would say this to you: that under the untying process we are going to get much less. We are getting much less than our share now because most of the South American countries have also very restrictive maritime laws. I think most of them have more restrictive laws than we do. The only way we can get our share of traffic down there is through bilateral agreements of some kind.

Mr. FRENZEL. You have a little problem because you are a little higher cost than everybody, isn't that true?

Mr. CLARK. So does U.S. Steel cost more and so does International Harvester Co. and so does General Motors and maybe this is the reason why they are building plants overseas. This isn't helping our economy.

Mr. FRENZEL. I don't contest that statement at all but I do think it is a matter of fact that it is difficult for us to justify this kind of transportation and I think it is not unexpected when people in other countries are a little bit concerned about paying a good deal more for transportation via our system than some other. I take note of our trade with Russia where we had to have 50 percent of American bottoms. That was great. We got all of the business of which there was none between 1964 and now. It was such a neat agreement that nobody got any business. I hope you aren't leading us down that trail with respect to this kind of trade as well.

Mr. CLARK. No, the trade with Russia was a special situation and I think you will find, sir, quite a little grain did move—through Continental Grain and the Cargill Co.—and quite a little grain did move under that program.

Mr. FRENZEL. Until 1964 when the Russians found out how much it cost and not a pound moved after that.

Mr. CLARK. Well, that is true in the Russian case. However, I would point out to you that in our trade with Latin America, wherever we have steamship conferences the rate is the same.

Mr. FRENZEL. Well, great, and I don't want to push this either. All I wanted to say when you get too tough on this nothing moves and nobody gains and that is the point I am trying to make.

Mr. CLARK. We certainly don't want that but we also don't want everything to move without us.

Mr. FRENZEL. Neither do I. Thank you, Mr. Chairman.

Mr. GONZALEZ. Thank you.

Mr. Ashley.

Mr. ASHLEY. Thank you, Mr. Chairman.

Mr. Chairman, there has been a question with respect to the extent to which IDB may be required to transport American commodities in American bottoms, and that question appears to remain unanswered. There are Treasury representatives in the room. They, I understand, would have this information and, Mr. Costanzo, would it be possible to provide such information as you have for the record both with respect to the specific requirement and with respect to the extent to which that requirement has been met?

Mr. COSTANZO. Yes.

Mr. ASHLEY. You can do that for the record.

(In response to the request of Mr. Ashley, the following information was submitted for the record by Mr. Costanzo):

REPLY RECEIVED FROM MR. COSTANZO

In accordance with the provisions of the Charter of the Bank, the United States, in connection with the Social Progress Trust Fund and with its contributions to the Fund for Special Operations in 1965 and in 1967, attached a requirement for shipping on United States commercial vessels as follows: The United States gave notice of its desire that at least 50 per cent of the gross tonnage of any equipment, materials and commodities which are financed with funds derived from the United States contribution of \$750 million in 1965 and \$900 million in 1967 to the present to the Fund for Special Operations, and which are to be transported on ocean vessels, shall be transported on privately owned United States-flag commercial vessels to the extent such vessels are available with fair and reasonable rates for United States-flag vessels.

The Bank records show that under the above requirement, as of December 31, 1970, of the shipment of items purchased under loans from the Fund for Special Operations (1965 and 1967) and the Social Progress Trust Fund, 55.8 per cent of the total tonnage and 60.2% of the total value have been transported on United States-flag vessels.

Mr. ASHLEY. I don't have very much further, Mr. Chairman. I am interested in the extent to which your statement appears to parallel and support that of Mr. Danielian. If he had testified after you I would have pointed out that similarity exactly as I do now. Both statements reflect your respective support for multilateral lending institutions but with two caveats, namely, that the matter of expropriation be looked at realistically, and, secondly, that the amount of funding from the United States be reflected in goods purchased by the recipient countries.

You say in your statement that a fair share of sales of American commodities or fair proportion of these dollars should be used to buy American goods. In your closing sentence you indicate, I am quoting "some limitation be placed upon the authorization of such funds to the effect of contributions to not exceed the amount expended in the United States." So you would come out on that pretty clearly in the same posture as Mr. Danielian's organization.

Mr. CLARK. That is true, Mr. Haddock just leaned over and said yes, Mr. Danielian used good judgment too. [Laughter.]

Mr. CLARK. But I would add to that in direct answer to your question that the document that I filed into the record here earlier, which has a long list of industry people, includes not only the Labor Management Maritime Committee but Mr. Danielian's organization also agrees, so that we are all moving in a similar direction; therefore, our testimony would be similar.

Mr. ASHLEY. Thank you very much. That will be in the record, of course, and, therefore, available to us. Will that appear in the record, Mr. Chairman?

Mr. GONZALEZ. That is my understanding, including the question that Mr. Constanzo will furnish some information to satisfy us.

Mr. DANIELIAN. The record will show I have been speaking along these lines ever since 1963.

Mr. CLARK. I guess we should reverse that and say Mr. Haddock and I used good judgment too. [Laughter.]

Mr. GONZALEZ. Well, I want to thank you very much, Mr. Clark and Mr. Haddock, for the time and attention you have given this matter and this subcommittee stands recessed until further called by the Chair.

(The following material was submitted for the record:)

THE SECRETARY OF STATE,
Washington, D.C., November 8, 1971.

HON. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
House of Representatives

DEAR MR. CHAIRMAN: The House Banking and Currency Committee will be considering proposals to authorize the United States shares of the replenishments of the International Development Association (S. 2010) and the Fund for Special Operations of the Inter-American Bank (H.R. 5014) as well as a contribution to the Special Funds of the Asian Development Bank (H.R. 5013). Our support of economic and social development is essential to a durable structure of international relations and peace because economic development is at the center of political and social concerns in the developing world. If we wish to promote mutually beneficial relations, we can best demonstrate our interest by joining with other developed countries to provide these institutions with the resources they need to meet the growing pressure for economic development. The third replenishment of the International Development Association (IDA) will enable the World Bank Group to continue assisting in the orderly and balanced growth of the developing two-thirds of the world. IDA is promoting sound development policies in the least developed countries, including many where the United States has no bilateral lending program. Other industrialized countries are sharing in contributions to IDA. Until the United States contribution is approved, IDA will have no claim on other members which together contribute three dollars for every two from the United States. The United States contribution was originally expected by June 30, 1971. Because IDA was about to deplete its financial resources, the World Bank has asked other donors to advance their contributions in light of our inability to contribute so far. They have done so in anticipation we will act. Further delay would undermine the efforts to obtain commitments from others to bear their fair share in foreign assistance.

The loans from the Fund for Special Operations (FSO), of the Inter-American Development Bank (IDB) constitute a major element of our policy to support social and economic development in Latin America. Through its multilateral framework the Bank enables us to achieve our objective of stressing Latin American initiatives within the inter-American system. Under this replenishment of the FSO, the ratio of US to Latin American contributions is 2:1. This contrasts with a ratio of 5:1 in the 1964 replenishment and 3:1 in that of 1967. The IDB in recent years has increasingly assumed a central role in the development efforts in the hemisphere and in the coordination of individual country programs. Through its assistance in planning and technical assistance, the IDB also helps channel domestic resources into productive uses and encourages the enactment of taxes and other measures necessary to generate those resources. Since development is one of Latin America's central political objectives, the success of the IDB is a crucial aspect of our hemispheric policy.

By mobilizing broad support for its operations, the Asian Development Bank (ADB) provides an Asian approach to economic development. Asian countries have subscribed to 62 percent of the Bank's capital and fourteen developed non-regional countries have provided funds. Japan's contributions to ordinary capital are on par with our own; Japan has in addition pledged \$100 million to the Special Funds. The Bank is the only international financial institution to provide loans to all of the Indochina countries. The ADB also helps achieve our foreign policy aim of enabling the Asian countries to define their own policies and to bear greater responsibility for carrying out their programs. For five years the Executive Branch has sought a contribution to the Special Funds. Further delay will deter other members from contributing. Thus, our failure to act now could imperil the Bank's ability to provide the kind of concessional assistance required by many of its members.

Mr. Chairman, I urge you and your Committee to act favorably on these contributions to the International Development Association, the Inter-American Development Bank and the Asian Development Bank.

Sincerely,

WILLIAM P. ROGERS.

(Whereupon, at 12:35 p.m., the subcommittee was recessed subject to call of the Chair.)

