

SECOND COMMITTEE: ECONOMIC DEVELOPMENT

COMMUNICATION FROM INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Following telegram dated 9 December 1947 received by Mr. Ramon Beteta, Chairman of Committee II from Mr. Robert L. Garner, Vice-President of the International Bank for Reconstruction and Development:

Reference is made to amendment to Article 10 of Charter proposed by Turkish delegation and providing that "the Organization shall in addition recommend the International Bank for Reconstruction and Development to consider applications for grants of capital made by the economically backward countries". As Chairman of the Second Committee on Economic Development, it will be appreciated if you will inform the Committee of the Bank's views on this proposal which are as follows:

I. As an inter-governmental organization the Bank is in the peculiar position that while it is the agency of its member governments nevertheless its success is vitally dependent upon the degree of confidence it enjoys in the private capital markets. The bank can only obtain the substantial sums it requires to carry out its responsibilities for financing reconstruction and development by selling its bonds in the private market. Any suggestion that the Bank was not free to exercise its own independent judgment on loan applications or that it was legally or morally compelled to accept the recommendations of some other agency or body could seriously undermine the Bank's ability to sell its bonds to private investors. This would defeat the Bank's objectives of facilitating reconstruction and development.

II. The Bank understands that it was not the intention of the proponents of the Turkish amendment to limit the independence of the Bank. However, this understanding is not shared by investors who view the right to make recommendations with suspicion and with the fear that the recommendations may only be diplomatic language equivalent to the right of ITO to issue directives to the Bank on loan applications.

III. The Bank is controlled by its forty-five member governments
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through the instrumentality of its Board of Governors and the thirteen Executive Directors selected by them. Therefore, there is no need for member governments to communicate their views and recommendations to the Bank through another inter-governmental agency such as ITO. Any such views can be expressed directly to the Bank by such governments who possess the constitutional power to direct the Bank's actions.

IV. Precisely this same issue came up between the Bank and the Economic and Social Council in negotiating the agreement between the United Nations and the Bank. After most careful study the Economic and Social Council agreed with the Bank's position which is embodied as Article 4 of such agreement. Article 4 provides:

- "1. The United Nations and the Bank shall consult together and exchange views on matters of mutual interest.
2. Neither Organization nor any of their subsidiary bodies will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either Organization after such consultation will be considered as soon as possible by the appropriate organ of the other.
3. The United Nations recognizes that the action to be taken by the Bank on any loan is a matter to be determined by the independent exercise of the Bank's own judgment in accordance with the Bank's articles of agreement. The United Nations recognizes therefore, that it would be sound policy to refrain from making recommendations to the Bank with respect to particular loans or with respect to terms or conditions of financing by the Bank. The Bank recognizes that the United Nations and its organs may appropriately make recommendations with respect to the technical aspects of reconstruction or development plans programs or projects."

This agreement was approved by the General Assembly of the United Nations at its last session. The Bank believes nothing in the ITO Charter should go beyond Article 4 of such agreement.

V. On the other hand the Bank does wish to emphasize its perfect willingness to consult informally with ITO on all problems of mutual interest including in particular problems relating to the financing of programs for economic development. However, it is our firm belief that this end can be achieved most effectively by the development of

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sound working relationships between the two agencies rather than by stipulations in the ITO Charter.

Your co-operation in informing the Committee of the Bank's views is sincerely appreciated.
