World Bank Group Archives
Exhibit Series

The World Bank’s First Loan – May 9, 1947

NUMBER 001
ORIGINALLY PUBLISHED: MARCH 2002

January 2016
The World Bank Group Archives Exhibit Series contains exhibits originally published on the Archives’ external website beginning in 2002. When the Archives’ website was transferred to a new platform in 2015, it was decided that older exhibits would be converted to pdf format and made available as a series on the World Bank’s external database, Documents & Reports.

These exhibits, authored by World Bank archivists, highlight key events, personalities, and publications in the history of the World Bank. They also bring attention to some of the more fascinating archival records contained in the Archives’ holdings.

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The World Bank’s First Loan – May 9, 1947

The World Bank officially opened for business on June 25, 1946. As with many new organizations there were initial difficulties.

The first President, Eugene Meyer, resigned abruptly in December 1946, without a clear successor. The Bank’s Vice President, Harold Smith, died suddenly on January 23, 1947. Although a few applications had been received, the Bank had thus far made no loans. However, the election on February 23, 1947, of John J. McCloy as the Bank’s second President marked the start of true operations in the World Bank. The Bank was soon embarked on the preparation and execution of an important series of reconstruction loans to countries of Western Europe, the first of which was to France.

The Loan Application

The French loan application for $500 million arrived as a simple letter attached to an outline of the government’s reconstruction program, the Monnet Plan. The overall requirements included $106 million for equipment, $180 million for coal and petroleum products, and $214 million for raw materials. The equipment included ships, freight cars, trucks, radio and electrical equipment, and coal mining equipment. The list of raw materials included fertilizers, copper, tin, synthetic rubber, animal fats and chemicals.

The timing of the French loan was ideal for the Bank to establish its credibility as a lender. It was just before the Bank’s first bond issue. France was expected to make good use of the dollars and was an acceptable credit risk. It was also understood within the Bank that this loan would not set a precedent. The loan was not “for the purpose of specific projects of reconstruction or development,” as specified in the Bank’s Articles of Agreement, but was covered under the “special circumstances” provision. For many years to come, program loans such as this French reconstruction loan would remain a minority as the Bank concentrated on project lending.
Appraisal

Richard H. Demuth, at that time Assistant to the World Bank’s Vice President, recalled: Nobody knew where to begin. We were inexperienced. We didn’t know what kinds of questions to ask, what kind of investigation to make. We hadn’t developed the kind of project approach that we worked out later. Our European problems were very different from our development problems at that time, of course, and the whole idea in fact of making national creditworthiness studies hadn’t yet been developed. Just like any other new institution in a new field, at that time we were trying to struggle along finding our way.

Loan Negotiations

Mr. Garner recalled that the loan negotiations were not without their difficulties:

It was difficult for him [Baumgartner] to accept our policy to require specific certification as to the precise use to which every dollar of our loan would be applied and the provision of the negative pledge clause. There was not precedent for such requirements and he considered that they were a derogation of the dignity of his country. The requirement for specific designation of the use of all the proceeds meant that every contract for purchase of equipment and materials must be submitted and approved by the staff of the Bank against certified bills of the suppliers. We agree to station a staff member in Paris to facilitate the necessary approvals and the system which we set up has been followed by the Bank.

Signing the Loan

France had originally applied for a loan of $500 million. The Bank agreed to half that amount, with the possibility of a second tranche. The relative amounts for each category in the overall requirements remained the same. The loan, the Bank’s first, was signed on May 9, 1947. With this loan the Bank committed more
than one-third of its loanable funds held on June 1, 1947. In real terms it is still the Bank's largest single loan, with an FY97 value of $2.6 billion. The Bank's Second Annual Report 1946/1947 assessed the circumstances surrounding the loan to France:

The importance of France in the economic position of Europe made it particularly fitting that France should be the first country in whose reconstruction the Bank should play an active part. France is vital to Western Europe because of her size and her productive capacity and the problem of her recovery cannot be divorced from the recovery of Western Europe as a whole.

The Bank is fully aware of the uncertainties and difficulties facing France. Leaders of the French Government themselves have stated that they realize that unless France's budgetary difficulties are overcome, the ensuing fiscal instability will endanger the entire reconstruction program. Some of the factors impeding recovery are beyond the control of France. But to the extent that France has been able to speed her own recovery considerable success has been achieved. Her external debt record has been excellent. The Bank believes that its loan will hasten the process of reconstruction, that it will result in raising the level of France's productivity, and that the risks involved are of the type which the Bank was designed to accept.

Recovery in Western Europe

Further reconstruction loans to the Netherlands, Denmark and Luxembourg followed. Including the loan to France, the Bank loaned almost $500 million to the postwar reconstruction efforts.

Although the Bank's efforts were later upstaged by the Marshall Plan, they played an important part in the economic recovery of Western Europe.

As Mr. Demuth observed:

In the winter of 1947 the prospects that Western Europe would achieve economic viability were bleak indeed. The financial requirements were immense and the
countries of Western Europe had practically no foreign exchange reserves to help meet them. Indeed, the threat loomed large that the Western European economies would come to a standstill for want of dollars to keep essential food, fuel and raw material imports flowing in. The Bank's reconstruction loans were an emergency measure to meet this situation. It took a bit of stretching for the management to conclude that repayment prospects were reasonable; the economic report on France, for example, laid its stress, not on financial resources or specific export prospects, but on the French "collective will to recover." The Bank's gamble paid off handsomely, however, for it won time necessary for the European Recovery Program (the Marshall Plan) to be formulated and put into effect (with considerable help from the Bank's staff), with results that are now familiar history.

Sources:


Monsieur le Président,

J'ai l'honneur, au nom du Gouvernement Provisionnel de la République Française, de présenter à la Banque Internationale pour la Reconstruction et le Développement la demande d'un emprunt à long terme d'un montant de 500 millions de dollars.

Je me tiens à votre disposition pour vous faire fournir, dès que vous le jugerez utile, les renseignements qui pourraient être nécessaires à la Banque.

Veuillez agréer, Monsieur le Président, les assurances de ma haute considération.

[Signature]

Ambassadeur de France

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