CHAPTER 1

THE ESTABLISHMENT AND ITS EVOLUTION
In the inter-war period, private international lending and borrowing operations were not handled satisfactorily. The lending countries lacked a coordinated policy of lending and the borrowing countries often borrowed excessive amounts the payment of which became difficult due to the adoption of protectionist policies by the former. After the Second World War the need of the hour was the coordination of private capital investments for the reconstruction of the war-shattered economics. Moreover, if the world was to have a lasting peace it was essential for underdeveloped countries to raise the standard of living of their people.

Early during World War II, the economic and financial experts of the Allied Nations began to consider what plans could be made to help meet the economic problems of the post-war period. They recognized that attention would have to be given not only to the immediate relief and physical reconstruction economics disrupted by the war but also to the expansion by appropriate international, and domestic measures of production, employment and the exchange and consumption of goods which are the material foundations of the
liberty and welfare of all peoples. Discussions were held on a variety of proposals that were intended to help realize these goals.

From deliberations on these plans, the outlines of two complementary financial institution emerged. The first—to become the International Monetary Fund (IMF) was to promote international currency stability by helping to finance temporary balance-of-payments deficits and by providing for the progressive elimination or exchange restrictions and the observance of accepted rules of international financial conduct. The second institution—to become the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank—was, as its name implies, to help finance the reconstruction and development of its member countries.

The Background

To begin with, the pre-war period can be said to be the period of the "rethronement and dethronement" of the "Gold Standard". Before the first world had "Gold Coins" in circulation and a fixed exchange value of their currencies in terms of gold. During the First World War a number of belligerent nations had to bear a loss of gold and experienced a widespread inflation of their currencies. With the termination of war, there was relaxation in exchange control and the exchange value of most currencies depreciated in terms of gold. After several monetary conferences, held during the post-war period,
it was generally agreed to return to the Gold Standard, but without
gold currency in circulation. Late Lord J.M. Keynes who strongly
advocated the re-adoption of Gold Standard, did not favour the gold
currency standard. In this connection he observed; "I reject the
policy or restoring the gold standard on pre-war lines. I regard the
stability of prices, credit and employment as of paramount
importance; and feel no confidence that an old fashioned gold
standard will ever give us the modicum of stability that it used to
give." In this way it became a recognized variant of Gold Standard.

But surprisingly, without 5 years, most of the world had gone off
the Gold Standard. The reasons for the failure of this "International
Gold Standard" which constituted pre-war monetary problems, were

Exchange Stabilization Fund

After the abandonment of the Gold Standard, it became very
difficult to control fluctuations in the external values of their
currencies. This called for the establishment of exchange
Equalization Funds, to combat seasonal fluctuations. But the funds
failed to work due to lack of funds.

By the spring of 1944, after prolonged discussions between
representatives of the United States and the United Kingdom and consultations with representatives of other countries, the proposals of these two organizations had reached and advanced stage. A United Nations Monetary and Financial Conference was accordingly convened. Following preliminary meetings at Atlantic City, the representatives of 44 nations assembled at Bretton Woods New Hampshire, USA, on July 1, 1944 to discuss the proposed stabilization fund under the joint statement of the experts of America and Britain, and also to consider the proposal for the IBRD.

Singing of the Bretton Woods Agreement

In order to facilitate and complete the processings of preparation for the conference, a preliminary meeting between British and American delegates was held at Atlantic City from June 23 to June 30, 1944 to discuss outstanding matters including a number of British suggestions on the World Bank Project.

The British proposal was that only a small proportion of the Bank's capital, nearly 20% should be paid and be available for loans. The remaining 80% was to be a guarantee fund to be used, if necessary in connection with the Bank's guarantees of private loans or to meet other obligations of the Bank. This suggestion put forward by Lord Keynes received the immediate support of all the delegates
including those of the United States. The conference opened on July 1, 1944 with a speech delivered by Mr. Henry Morgenthau, the then secretary of the United States. The conference opened on July 22. About 400 delegates from 44 countries including India took part in the deliberations of the conference. In order to discuss the important problems, the conference divided itself into three commissions. Commission I (under the chairmanship of Dr. White) was entrusted with the work of preparing the Articles of Agreement of the International Monetary Fund; Commission II (under the chairmanship of Lord J.M. Keynes) had to deal with the establishment of the proposed International Bank and Commission III (under the chairmanship of Dr. Eduardo Suarez of Mexico) had to consider other probable means of international financial cooperation.

Bretton Woods created two international institutions, the International Monetary Fund (IMF) and the International Bank and for Reconstruction and Development (IBRD). Implicit in the organization and the structure of these institutions were certain principles as to how international trade and payments should be conducted. These must be regarded as the essence of the Bretton Woods system. The institutions were designed to give expression to these principles.

W.M. Scammel has nicely summed up the basic principles of the
Bretton Woods as follows:

1. That exchange rate changes are a matter of international concern and that exchange stability is best achieved by a system of exchange rates which are fixed in the short run but may be varied from time to time to adjust fundamental changes in the international economy.

2. That there must be some augmentation of national gold and currency reserves in order that countries are not forced to meet short run balance of payments deficits by disturbing domestic adjustments of income and employment.

3. That the interests of political harmony and economic welfare are jointly served by a system of unfettered multilateral trade and convertible currencies.

4. That a balance of payments dis-equilibrium is necessarily two-sided and its connection is the joint responsibility of both surplus and deficit countries.

5. That international monetary cooperation is best effected through an international agency with defined functions and powers.

6. That monetary disturbances are frequently non-monetary in origin so that an international monetary agency must coexist with other agencies each responsible for such problems as employment, stabilization and the liberalizing of world trade.
7. That a high and sustained level of international investment is necessary for the stability of the international economy and that the flow of private international investment may be facilitated and increased by the creation of an international investment bank.

The articles of agreement of the Bank were formally accepted by a majority of the participants by December 27, 1945; representatives of 29 governments had signed the Articles in Washington in that date. Six months later, on June 25, 1946, the Bank opened for business and proceeded to call up capital from its member governments.

ORGANIZATIONAL STRUCTURE

The International Bank has the organizational structure for policy formulation and executive supervision, specified in their respective Articles of Agreement.

The Bank's organization consists of;

1. The Board of Governors;
2. Executive Directors;
3. Chairman and President.

1. The Board of Governors: All the powers of the Bank are vested in a Board of Governors, which consists of one Governor appointed
by every member country. Generally, a Finance Minister of member country is appointed as the Governor of the Bank. Every member country has a right to designate an alternate Governor.

However, with certain exceptions, the Bank of Governors is authorized to delegate all of its powers to the Executive Directors. The exceptions include the following:

1. "the increase or decrease of the capital stock,

2. "the suspensions of a member,

3. "decisions of appeals from interpretations of Articles of Agreement made by the Executive Directors,

4. "approval of formal agreements with other international organizations,

5. "decision on distribution of the net income of the Bank and on the liquidation of the Bank."

Under the provision of Articles of Agreement, the Governors of the Bank are required to hold an Annual Meeting which by custom is held an Annual Meeting which by custom is held usually in September in conjunction with that of the IMF. From the time the Bank started its operations, there have been 32 annual meetings. The
practice has developed of alternating two successive annual meetings in Washington with one in a member country away from headquarter. Out of 33 annual meetings held, 21 were held in Washington, the headquarter of the Bank. Other meetings were held in London, the headquarter of the Bank. Other meetings were held in London (1948), Paris (1950), Maxico City (1952), Istambul (1955), New Delhi (1958), Vienna (1961), Tokyo (1964), Rio de Janeiro (1967), Copenhagen (1970), Nairobi (1973) and Manila (1976), Belgrade (1979). One important point could be noted that almost all the members appoint their Finance Minister as the Governor of the regarded as an important occasion for the informal exchanges of views at a high level on major international, financial and monetary problems.

In cases where a decision is required by the board of Governors in between regular annual meetings, i.e. at such a time when the annual meeting is not being held, it can be obtained by telegraphic or mail vote. While special meetings of the Board of Governors are authorized, none has so far been called.

2. Executive Directors: The detailed functioning of the Bank is under the care of a Board of Executive Directors. Proposals for loans, borrowing, major technical assistance operations, budgets, reports to the Board of Governors, and matters involving policy
issues are submitted by the President to the Executive Directors for their consideration and decision. There are at present 20 Directors, 5 appointed by countries having the largest importance in the World Bank as measured by their quotes, 10 and 15 elected by the remaining countries. Until 1972 India had the honour of having the right to appoint a Director, a privilege to which a lot of importance has been attached on grounds of prestige. There is no Indian Director by virtue of election. Now this honour has been transferred to Japan due to an increase in her quota of capital stock in the Bank and IMF. Every Executive Director has an Alternate Director.

The Executive Directors are constantly available for consultation with the administration of the Bank. The formal meetings of the Executive Directors are held frequently and they also meet with the senior members of the staff for informal discussion concerning the Bank operations.

The Majority of Directors exercising not less than one-half of the total voting power constitutes a quorum. Every appointed Director casts the number of votes to the country which appointed him. And every elected Director casts the total of the votes of the members whose votes counted towards his election, which he must cast as a unit.

3. Chairman and President: The combined effect of the various
provisions of the Articles of Agreement and practice has made the President of the Bank, very important person in the management of the Bank. On the one hand he is the Chairman of Executive Directors, while on the other he is the President of the Bank and IDA. To date there have been 5 Presidents.11

The only condition concerning eligibility for the President of the Bank is that he should not be a Governor, Director or Alternate. The duty of the president, officers and staff and its affilies is solely to the respective organizations and not to any other authority.

Every member country will undertake to repect the international character of this duty and to refrain from all attempts to influence any employees in the discharging his official responsibilities.

Subject to the directions of the Executive Directors on questions of policy, the president is responsible for the conduct of the ordinary business of the Bank and for the organization, appointment and dismissal of its officers and staff.

One can criticise the present system of policy direction by the executive Directors. In theory the Executive Directors have a two-fold responsibility. In the first instance, they have to act as their spokesmen, safeguarding the interests of the country/countries concerned. At the same time they are supposed to take objective and
impartial views, having regard to the interests of the members as a whole rather than a particular member or group of members.

In practice, the Directors have turned out to be mainly spokesmen of their countries, as they are mostly civil servants or senior officials of Central Banks. They lack the structure which will enable them to take decisions promptly on the important issues that some up before the Executive Board. For this person, one is tempted to suggest now that in addition to the Executive Board, there must be a small body of ministers, which can take quick decisions. This body could meet 2 or 3 times in a year and decide the cases as and when they come up for consideration.

4. Bank Staff: The Bank seeks to recruit personnel on as wide a geographical basis as possible, but experience and professional competence are the controlling criteria for appointment. The total staff of the Bank on December 31, 1973 numbered 3,553 comparing nationals of 98 countries. Table 1.1 summarizes the position of professional and non-professional staff. The staff of the World Bank increased modestly during the 1950s with the total number rising from 430 in 1951 to 646 in 1960, and the professional staff increasing from 159 to 283. During the 1960s the staff increased more than twice as fast as it had in the 1950s, and the total staff by mid-1971 exceeded 2,500.
Table 1.1

Size of World Bank/IDA Staff as on June 30, 1994 in Selected Years, 1951-94

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Staff on Duty at the End of Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>1951</td>
<td>430</td>
</tr>
<tr>
<td>1954</td>
<td>453</td>
</tr>
<tr>
<td>1957</td>
<td>543</td>
</tr>
<tr>
<td>1960</td>
<td>646</td>
</tr>
<tr>
<td>1963</td>
<td>884</td>
</tr>
<tr>
<td>1966</td>
<td>1336</td>
</tr>
<tr>
<td>1969</td>
<td>1836</td>
</tr>
<tr>
<td>1971</td>
<td>2610</td>
</tr>
</tbody>
</table>

Table 1.2

Nationality Distribution of World Bank/IDA Professional Staff,
by Major Grouping, 1951-93

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>96</td>
<td>116</td>
<td>111</td>
<td>128</td>
<td>160</td>
<td>214</td>
<td>274</td>
<td>370</td>
</tr>
<tr>
<td>UK</td>
<td>17</td>
<td>24</td>
<td>29</td>
<td>41</td>
<td>60</td>
<td>101</td>
<td>15</td>
<td>198</td>
</tr>
<tr>
<td>Other developed</td>
<td>30</td>
<td>59</td>
<td>71</td>
<td>73</td>
<td>137</td>
<td>206</td>
<td>304</td>
<td>446</td>
</tr>
</tbody>
</table>
countries
| Less developed       | 16   | 23   | 26   | 31   | 49   | 94   | 182  | 334  |
countries
| Total                | 159  | 222  | 237  | 283  | 406  | 615  | 617  | 1348 |

US and UK nationals
as percentage of the
total staff
71  63  59  60  54  51  47  42

Source: Quoted in Edward S. Mason and Robert E. Asher, op. cit., p. 98.
As per Table 1.2 it is understood that the Bank's two largest stock holders, the US and the UK provided the bulk of the professional talent required by the institution. They were in a very real sense of its founders, they were making the most substantial contribution to its resources, and they could supply the administrators, economists and lawyers. Their combined proportion of total professional personnel was more than 70% in 1951 and above 50% until 1966 and has exceeded generously their combined proportion of total capital subscriptions. The US still holds key position. Moreover, all the five Bank Presidents have been the US nationals. It, therefore, may be suggested that the proportion of influential posts in the management and professional staff of the Bank held by the nationals of the Third World countries should be substantially increased.

The President is assisted in his work, as executive head of the Bank, by a small group of senior officials known as the President's Council. The members of the council are given responsibility for the supervision of one or more departments, are nominated to the chairmanship or membership of various committees and are assigned special functions on which they report directly to
the President. The Bank's operational structure was recognized in 1973 along regional lines. The present structure consists of mainly five regional offices at the Bank's headquarter. The organizational structure of the Bank is outlined in the accompanying chart.

The overall organization set-up of the Bank can be criticised on the ground that it is highly centralized institution, in which decisions are made in Washington rather than in the field of operation without much delegation of authority to intermediate levels in the headquarter's office. One is tempted to suggest that the five regional offices from the Bank's economic and legal departments. The regional office for Asian economy should be shifted to New Delhi, because Japan is a developed economy and India is the largest country of the Third World, which has been the largest borrower of the World Bank Group lending and may require more foreign assistance in the near future. The shifting of regional offices from Washington lessen the administrative burden of the Bank. Regional offices would continue to bear their present responsibility for planning and executing within the approved policy, the lending and technical assistance programme of the Bank in their respective areas.
MEMBERSHIP

Relationship between Membership and Voting Rights

Subscription by member countries of the capital stock of the Bank are based on each member's quota in the IMF which is designed to reflect the company's relative economic strength. The voting rights of the members countries are related to shareholding. Each member of the Bank has 250 votes plus one additional vote for each $1,000 of capital stock subscribed to by it. As the Articles provide with certain designated exceptions, all matters before the Bank are to be decided by a majority of votes cast. The voting formula can be summarized as follows:

General Formula: A member's vote = 250 + \frac{X}{1,000,000}

Where X = the member's quota in US Dollars.

Table 1.3 shows the relationship between voting power and the number of shares of five big stockholders.
Table 1.3

Number of Shares and Voting Power as on June 30, 1998

<table>
<thead>
<tr>
<th></th>
<th>Number of shares subscribed</th>
<th>Percentage</th>
<th>Number of Votes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. USA</td>
<td>67,880</td>
<td>25.46</td>
<td>68,130</td>
<td>22.74</td>
</tr>
<tr>
<td>2. UK</td>
<td>26,000</td>
<td>9.75</td>
<td>26,250</td>
<td>8.76</td>
</tr>
<tr>
<td>3. Germany</td>
<td>13,653</td>
<td>5.12</td>
<td>13,903</td>
<td>4.64</td>
</tr>
<tr>
<td>4. France</td>
<td>12,792</td>
<td>4.80</td>
<td>13,042</td>
<td>4.35</td>
</tr>
<tr>
<td>5. Canada</td>
<td>11,123</td>
<td>4.17</td>
<td>11,372</td>
<td>3.80</td>
</tr>
</tbody>
</table>


Increase in Membership

The numbership which came to 28 only in 1946, rose to 182 as on Dec. 2000. The following table reveals that after 1960 there was an explosion in the membership of the Bank when the number of members rose from 68 to 145.

The reason from this 'Membership Explosion' is that as more and more colonial territories became independent countries; they often lacked resources to be able to meet debt services on
conventional terms. It is generally true that the most recent members have been among the poorest; the least able to finance any significant part of their own development and, in many cases, the least well endowed with administrative and executive capacity.¹⁵

Table 1.4

Membership Explosion

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945-46</td>
<td>28</td>
</tr>
<tr>
<td>1946-47</td>
<td>47</td>
</tr>
<tr>
<td>1950-51</td>
<td>49</td>
</tr>
<tr>
<td>1955-56</td>
<td>58</td>
</tr>
<tr>
<td>1960-61</td>
<td>68</td>
</tr>
<tr>
<td>1965-66</td>
<td>103</td>
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<tr>
<td>1970-71</td>
<td>116</td>
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<tr>
<td>1971-72</td>
<td>117</td>
</tr>
<tr>
<td>1972-73</td>
<td>122</td>
</tr>
<tr>
<td>1973-74</td>
<td>124</td>
</tr>
<tr>
<td>1975-76</td>
<td>127</td>
</tr>
<tr>
<td>1976-77</td>
<td>129</td>
</tr>
<tr>
<td>1997-98</td>
<td>180</td>
</tr>
<tr>
<td>Dec.2000</td>
<td>182</td>
</tr>
</tbody>
</table>
The Bank claims to be universal but still some rich socialist countries are not the members of the Bank. The absence from the Bank of the Soviet Union, the Eastern European States, and the predominant position of the United States and of other rich capitalist countries in it, have given rise to misgivings about the Bank in a number of important coloured low income countries. These misgivings impede the creation and maintenance of feeling of mutual confidence between the Bank and its low-income members that is essential to the full success of the Bank's operations. The universalization of the Bank's membership would provide the Bank with opportunities to avoid these misgivings, and these opportunities should be fully exploited. This step of the Bank will certainly increase the entire international aid effort.

It is suggested that in order to become a truly international institution and shed off its image of a Western Club, the World Bank must aim at universality of a membership, both among its potential contributors and among its recipients. Some of the original rules of the Bank which make it difficult for new members to join the Bank may therefore, have to be changed.
At the Bretton Woods conference, the Bank was conceived primarily as a Western Club. It must now find ways of becoming truly international. For this it is suggested that the Bank should actively negotiate the participation of the OPEC and richer socialist countries in its affairs. In the emerging climate, universality of membership becomes one of the most important principles in its future evolution.

Voting Rights - A New Formula

The voting rights of the Bank are based on cumulative contributions. Table 1.3 reveals the fact that about 44% of the total voting power has been captured by 5 big nations out of 132 members of the Bank.

For increasing the voting rights of the poor member countries, a new formula must be found for the restructuring of voting rights in the World Bank, including the IDA. Since the very beginning the voting rights have been revised on the basis of economic, financial and political power which prevailed in 1940s. For example, the USA continues to have more than 9%, twice to voting power of the Federal Republic of Germany and nearly 3 times that of Japan; Belgium and the Netherlands together have more voting strength than the OPEC as a whole; Iran has a lower voting power than India, and Pakistan nearly twice as much as Saudi Arabia.
Overall developing countries (excluding the OPEC) have only 31% of the total voting power. At the World Bank/IMF annual meeting (1996) of the Board of Governors, the question of reviewing the World Bank's Articles of Agreement which have now become outdated and unnecessarily restrictive, especially with regard to capital increase, subscription, voting rights, borrowing limits. The meeting concluded that a change would be possible only if the developing nations had much greater say in the decision of the IMF and the World Bank.

But at the Fund/IBRD annual meeting held in Washington in September 1998, the more basic changes such as in the voting strength of the different countries have been postponed for at least 5 years. Till then, the 140 member developing countries must remain satisfied with a combined voting strength of just 31%. In the background of the above discussion, it is necessary to increase the voting power of the Third World member countries. As a famous World Bank economist Mr. Escott Reid remarked:

the votes of the low-income countries in the governing bodies of the Bank and IDA should be increased from the present ratio of 25% in the Bank and 29% in IDA to 33% and 37% by amending the articles of agreement of these bodies to give member countries 30 additional votes in the Bank 90 in IDA for every one million of their
It is important to carry out a general and thorough-going review of the voting power structure which replace the historical past with current realities so that the OPEC can be enabled to play a larger role, the developing countries get an increased assurance that their voices will be heard more attentively on decisions which affect their development, and the established lenders continue to have an important, though necessarily reduced, role in the running of the institution. It is not necessarily reduced, role in the running of the institution. It is not necessary to start out with some preconceived formula. What is really needed is to set out with a clear recognition of the need for change and provide appropriate negotiating formulas where acceptable formulae can be hammered out.

**CAPITALIZATION**

Under the provision of Articles of Agreement, "the authorized capital stock of the Bank was $10 billion of the weight and fineness in effect on July 1, 1944" which could be increased when the Bank deemed it advisable by a ¾ majority of the total voting power. The quote of the capital stock was in some extent greater than the Fund. The amount $10 billion was divided into 1,000,000 shares of the par value of $1,000,000 each.
Under the Articles of Agreement the capital subscription is divided into 3 parts:

(a) 2% of each subscription is payable in gold or United States dollars which may be freely used by the Bank in any of its operations.

(b) 18% of each subscription is payable in the currency of the subscribing member. These funds may be loaned out only with the consent of the member country whose currency it is.

(c) The remaining 80% of each subscription is not available to the Bank for lending but is subject to call if and when required by the Bank to meet its obligations on borrowings or on loans guaranteed by it. Payments on any such call must be made either in gold, US dollars or the currency required to discharge the obligations of the Bank for which the call is made.

It must be noted here carefully that the 2% subscription paid by every country is immediately available for lending purposes, 18% money subscribed in the form of national currency can be loaned out to other members or countries with the consent of the currency country and the remaining 80% which is to be called when required, is never to be lent out. It will be used for the liquidation of the Bank's obligations only. It is in the nature of the guarantee fund.
This 80% portion of the capital subscription constitutes assets of the Bank of which it is bound to avail itself when and to which extent it is necessary. No call has, however, been made against this portion of subscribed capital. The obligations of members to make payment on such calls are independent of each order; in other words, the default of one or more members would not excuse any other member from its obligation to make payments. Calls need not be deferred until the obligation as it becomes due. It must be noted here carefully that no member can be required to pay more than the unpaid balance of its capital subscription. On the other hand, as has already been pointed out, even withdrawal from membership does not relieve a government either from its direct obligation to the Bank or from its contingent liabilities for losses on loans or guarantees contracted by the Bank before the government concerned ceased to be member.

Thus 80% portion of subscription constitutes in effect a joint and several guarantee of the Bank's obligations by the Bank's members with the members sharing proportionately in the risks of the Bank's loans, and every member putting its own credit behind the Bank's obligations to the extent of its own 80% capital subscription.

Increase in Bank's Capital Stock

As provided in the Articles of Agreement, the Board of Governors at its authorized capital of the Bank's capital resources
was to increase its ability to lend funds for financing loans for economic development." In buying the Bank's bonds, investors attach great importance to the security provided by the Bank's ability to call on the unpaid subscriptions of member countries. "By the end of 1998 the outstanding funded debt of the Bank had risen to nearly $1800 million, of which three quarters was in the form of US dollar obligations, and it was felt that the Bank's future borrowing in the United States would be facilitated by an increase in its capital."

Theretofore, every member government was given a chance to increase or double its subscription compared to what it was on January 31, 1999. It is of interest to note that the purpose of this increase was to raise guarantee funds rather than to obtain cash funds and in this way 2% portions of subscription of this general increase were to be called only when required to meet obligation or guarantees. It should be emphasized that "while this resolution was not legally binding on the future Boards of Governors, it did record an understanding among members that these portions of subscriptions would not be called for use by the Bank in its lending activities or administrative without an increase in the paid-in portion has meant in practice that 1% of each member's total subscription to the Bank rather than 2%, has been payable in gold or US dollars, and 9% (rather than 18%) has been payable in the subscribing country's currency."
It is a great surprise that the Bank received $7,000 million by way of new subscriptions by September 15, 1959, and the amount of increase surpassed that proposed amount by a big margin of $1800 million. Subsequently the Executive Directors of the Bank raised quota of every member country by 100%. At this a number of countries like Canada, West Germany, Japan accepted an increase of more than 100% in the quotas, Thus, the authorized capital of the Bank after that date rose to $21,000 million.

The authorized capital of $21 billion had been almost entirely subscribed and it was increased 3 times after the first increase. In 1983, there were a number of new countries wishing to join the Bank as well as existing members wishing to increase their subscriptions, and in this way the Bank's capital was again increased in 1983, by a further $1 billion. A similar situation developed in 1985, when its capital was increased by additional $2 billion, bringing the total authorized capital to $24 billion.

On the recommendations of the Executive Directors made in 1990, the Board of Governors approved the proposal for a special increase in the subscriptions of 75 member countries. It must be carefully noted that this increase was made corresponding to the selective element of the increases in their IMF quotas resulting from the Fund's Fifth General Review of member countries' quotas. In this
way, in order to accommodate these increase and authorizing the Bank with sufficient capital for new members subscriptions and future increases in individual members subscription, the Board of Governors approved an increase of $3 billion in the authorized capital stock of the Bank. It rose from $24 billion to $27 billion. The increase became effective on December 31, 1990. The authorized capital stock of the bank has remained at $27 billion since then. By June 30, 1994, subscribed capital of the Bank amounted to $25,225,600,000. Table 1.5 indicate development in the Bank's capital structure over time.

Table 1.6 is indicative of the subscriptions of the 10 largest shareholders out of 132 member countries of the Bank.

It is interesting to note that the doubling of capitalization in 1959 then added nothing to the Bank's holding of loanable funds. Additions that were made before 1970 have come entirely from new members and from adjustments in the subscriptions of certain countries to bring their subscriptions into line with their improved position in the world economy.
Table 1.5

Capital Structure of the IBRD (1950-98)

(Million US Dollars)

<table>
<thead>
<tr>
<th>End of Fiscal Year</th>
<th>Authorized Capital</th>
<th>Subscribed Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>10,000</td>
<td>8,348</td>
</tr>
<tr>
<td>1955</td>
<td>10,000</td>
<td>9,028</td>
</tr>
<tr>
<td>1960</td>
<td>21,000</td>
<td>19,308</td>
</tr>
<tr>
<td>1965</td>
<td>22,000</td>
<td>21,669</td>
</tr>
<tr>
<td>1970</td>
<td>24,000</td>
<td>23,159</td>
</tr>
<tr>
<td>1991</td>
<td>27,000</td>
<td>23,871</td>
</tr>
<tr>
<td>1994</td>
<td>27,000</td>
<td>25,226</td>
</tr>
<tr>
<td>1998*</td>
<td>41,016</td>
<td>33,045</td>
</tr>
</tbody>
</table>

*Selective Increase in authorized and subscribed capital

Source: IBRD, Annual Reports (1950-98).
Table 1.6

Ten Largest Shareholders as on June 30, 1998

<table>
<thead>
<tr>
<th>Subscription</th>
<th>Shares</th>
<th>Percent of Total Amount (SD Rs.)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>67,880</td>
<td>25.46</td>
</tr>
<tr>
<td>UK</td>
<td>26,000</td>
<td>9.75</td>
</tr>
<tr>
<td>Germany, Federal Republic of</td>
<td>13,653</td>
<td>5.12</td>
</tr>
<tr>
<td>France</td>
<td>12,792</td>
<td>4.80</td>
</tr>
<tr>
<td>Canada</td>
<td>11,122</td>
<td>4.17</td>
</tr>
<tr>
<td>Japan</td>
<td>10,230</td>
<td>3.84</td>
</tr>
<tr>
<td>India</td>
<td>9,000</td>
<td>3.38</td>
</tr>
<tr>
<td>Italy</td>
<td>8,525</td>
<td>3.20</td>
</tr>
<tr>
<td>Netherlands</td>
<td>7,679</td>
<td>2.88</td>
</tr>
<tr>
<td>China Republic of</td>
<td>7,500</td>
<td>2.81</td>
</tr>
</tbody>
</table>

*Amounts expressed on the basis of the Special Drawing Rights (SDRs) in terms of United States dollars as computed by the IMF ($1.23953 = 1, SDR) on June 30, 1998.
Selective Increase in Capital

A selective capital increase of $8-9 billion already has been agreed that will allow the Bank to maintain its present rate of lending in current dollars.\(^3\)\(^4\) It is suggested, that, if the Bank wants to continue to increase its commitments in real terms, additional capital in the form of General Capital Increase, over and above that provided by the selective increase, would be needed.

The capital stock of the Bank has been raised several times in the past but it did not increase in capital beyond the current statutory limit of $33 billion so that the Bank can expend its lending to middle-income and low-income developing countries. In the future, the question of further increasing the Bank's capital will need to be discussed in order to enable its lending to keep up with growing needs.\(^3\)\(^5\) To provide Bank with an additional capital, the developed countries should strongly support an increase when the question is raised.
FUTURE ROLE OF THE BANK

The increase in the Bank’s resources to permit lending to rise in real terms should be considered in the background of significant changes in the size, regional distribution, sectoral composition, and character of the Bank’s operational changes which reflect recent thinking within the international community on development priorities.

Changes in the regional distribution and sectoral composition do not reveal fully the reorientation more responsive to the development objectives of member countries. This can be illustrated at the level of general development strategy as well as specific project design. The benefits of growth cannot be assumed to "trickle down" automatically, but to ensure that development really benefits the Third World people, growth must deliberately be directed to the poorest. The focus should be diverted to identify the poorest sections of society and improving their productivity and income levels directly. As again this background the future role of the World Bank should be examined.
NOTES AND REFERENCES

1After the end of the First World War most of the countries developed a narrow "Economic Nationalism." The gold standard being essentially a free trade standard, could not tolerate the restrictions placed on exchange transactions. There was lack of International Monetary Cooperation which placed hurdles in the working of the gold standard. And in the wake of nationalism a few countries like USA and France adopted the policy of protection. It was convenient for the debtor nations to pay off war debts and reparations in commodities, but complications arose on account of tariffs imposed on the imported goods by the Developed Nations - quoted in Geoffrey, Crowther, *An Outline of Money*, 1959, p. 277.

2Mutual Aid Agreement between the United States and Great Britain, Article VII.


4By 1928, most of the countries of world had returned to Gold Standard.

5Following the World Wide Trade Depression, English went off Gold Standard on September, 21, 1931, U.S. in 1933, and France in 1926.

6Causes for the failure of the Gold Standard: (i) Unequal
distribution of gold stocks, (ii) Unsettled political conditions, (iii) Rigidity in economic systems, (iv) Non-observance of Golden Rule, i.e. "Expand credit when gold is coming in, contract credit when gold is going out."


10Five largest shareholders are France, the Federal Republic of Germany, Canada, the United Kingdom, and the United States (see also Table 1.3).

11Mr. Robert S. McNarara became the Bank's fifth President on April 1, 1968. The first 4 Presidents were: Mr. Eugene Meyer, June 18 to December 18, 1946; Mr. Eugene R. Black, July 1, 1949, to December 31, 1962; and Mr. George D. Woods, January 1, 1963 to March 31, 1969; The World Bank Groups, *policies and Operations*, September 1974, p. 20.

Dollar amounts used for the capital of the Bank refer to United States dollars of the weight and fineness in effect on July 1, 1944.

W.M. Scamell — *op. cit.* p.169.


The *Economic Times* (Editorial), New Delhi, October 9, 1996.

The *Hindustan Times*, New Delhi, September 27, 1998.

26 Dollar amounts used in the text of this portion of the chapter (capital stock) for capital of the Bank, refer to US dollars of the weight and fineness in effect on July 1, 1944. Unless otherwise specified, all other amounts in US dollar refer to current dollars. One dollar as used for Bank capital equals approximately 1.20635 current dollars.

27 IBID, Articles of Agreement, II, Section 2 (a).

28 Ibid.


33 Ibid., pp. 26-27.

34 In May 1996, the executive Directors transmitted to the Board of Governors, for a vote, two resolutions concerning the capitalization of the Bank. One provided that the Bank’s authorized
capital be increased by $8,444 million (in current dollars) to $41,016 million; the other authorized an allotment to 145 members of upto $8,340 million of selective increases in subscriptions to capital stock. The increase was called "selective". In it allotments were made to those individual members which accepted increases in their quotas; quoted in The World Bank, *Annual Report, 1996*, p. 7.