

## A COMMONWEALTH INVESTMENT BANK

### SUMMARY<sup>1</sup>

1. The group<sup>2</sup> was asked to consider proposals to establish a new Commonwealth financial institution, and to make suggestions concerning the functions, structure and sources of funds for such an institution; also to consider Commonwealth cooperation in export credit financing or refinancing. In approaching this task, we concentrated on the identification of gaps in the range of existing financial services for Commonwealth countries, and the need to ensure that a possible institution would constitute a genuinely additional source of funds and financial services. (paras.1-5)
2. We believe that the trend is towards increased diversification in the sources of capital, and that projects financed from a mixture of sources of different types will become more common. Our assessment is that a new type of financial intermediary is needed to help Commonwealth developing countries in putting such packages together. This need relates primarily to the directly productive sectors, in which we see a trend towards increased governmental participation, calling for an institution that is capable of acting as banker to the state as entrepreneur. Such an intermediary could be of special assistance in organising the equity capital of joint ventures on a sound basis. (paras.6-15)
3. In this context, there is a strong case for an institution which would build on existing Commonwealth links. One special advantage is the propensity of Commonwealth countries to make use of the services of the City of London. An instrument which facilitated more efficient use of the services of London and other financial centres could be of benefit to all Commonwealth countries. (paras.16-22)
4. We think it unlikely that the need for an intermediary can be easily met by existing institutions with parallel functions, because they are too heavily committed to management of their own enterprises, or are geared to the private sector, or are not primarily organised to serve developing countries' interests. In particular, we do not recommend changes in the structure of the Commonwealth Development Corporation to serve this or other purposes, which was one of the proposals we were asked to consider. (paras.23-26)
5. Two other major possibilities considered were the creation of an export financing facility and the creation of a Commonwealth "soft window". We endorse the recommendation of an earlier study, against the creation of an export financing facility. The case for more resources for developing countries on concessionary terms seems to us unquestionable. A decision to make such resources available through Commonwealth channels is a matter for political choice. The intermediary discussed in this report might incorporate a soft window at a later stage, and its articles should provide for this possibility. However, we do not believe that the incorporation of concessionary finance is a prerequisite for the establishment of such an intermediary. (paras.27-30)

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<sup>1</sup>See also conclusions set out in the letter of transmittal at the beginning of this report.

<sup>2</sup>The members of the group are listed in Annex I.

6. We foresee that an intermediary of the type envisaged could be particularly active in - (a) mining and petroleum, and (b) manufacturing, including processing of agricultural products. It might also provide advisory and financial services in support of national financial intermediaries for the promotion of small-scale industries, and in relation to general purpose borrowing. The Bank would also have a role in putting together agricultural projects of an organised commercial nature. (paras.31-48). The Bank would need to select projects with a view to their effectiveness in earning or saving foreign exchange. (cf.para.59)

7. We recognise a number of difficulties in the way of establishing and running an intermediary of the type envisaged. To bring it fully into effective operation would of course take some time, and during this period it would require special support from its members in the form both of finance and of giving it business. Staffing is a key factor. The Bank would need to operate on a commercial basis, with the risks that this entails. (paras.49-59)

8. We propose the establishment of a Commonwealth Investment Bank, with the following functions:

- (a) financial participation and assistance in resource mobilisation, especially for projects in the directly productive sectors;
- (b) assistance in organising the capital structure of projects, especially public enterprises and public/private joint ventures;
- (c) acting as intermediary, especially in bringing together sources of commercial and concessionary finance.

It should concentrate its efforts on putting packages together, and should normally keep its own participation to a maximum of 10%. We recommend an initial paid-up capital of £6m, subscribed in convertible currencies, as follows:

- (a) governments and public corporations in Commonwealth developing countries at least 40%
- (b) governments and public corporations in Commonwealth developed countries not more than 30%
- (c) Commonwealth commercial banks and other private shareholders. not more than 30%

It would require an initial assurance from its shareholders of long-term loan capital, in the ratio 3:1 to its equity. These resources would be supplemented by deposits and loans raised on the market. On that basis, a reasonable assessment is that the Bank might have participated, within five to seven years, in projects with total investment costs of about £170m. (paras.60-71)

9. Looking ahead to questions of organisation, we suggest a Board with ten directors representing the three main groups of shareholders, on the same 4:3:3 basis, each director having a single vote. The day-to-day business of the Bank would be under the control of a chief executive appointed by the Board, and having also a seat on it. We attach importance to organisation of the Bank along functional lines, to coincide with such operational areas as those listed in para.6 of this summary. (paras.72-82)