A COMMONWEALTH INVESTMENT BANK

Report by a Commonwealth Expert Group

I. INTRODUCTION

1. At the meeting of Commonwealth Heads of Government held in Ottawa in August 1973, the Government of Kenya presented a proposal to establish a Commonwealth development bank and the Heads of Government agreed to refer the proposal "to Commonwealth Finance Ministers for consideration". The Finance Ministers' Meeting at Dar-es-Salaam in September, 1973, considered the Kenyan proposal alongside a proposal by the Government of Jamaica for establishing a Commonwealth finance corporation for providing venture capital, possibly on the basis of modifying and expanding the structure of the existing Commonwealth Development Corporation by converting it into a jointly owned Commonwealth organisation. In their communique, Finance Ministers requested the Secretary-General:

> "to examine in consultation with Commonwealth Governments the proposals for a Commonwealth Development Bank and a Commonwealth Investment Corporation as a means of mobilizing greater capital resources for Commonwealth developing countries. The study might identify gaps in existing facilities, and examine the need for, and the feasibility of, establishing a Commonwealth multilateral financial institution for development, and make recommendations for consideration by member Governments. It could also look into the question of furthering Commonwealth co-operation in the field of export financing or re-financing".

The Secretary-General had previously commissioned the Orion Bank to undertake a study of export credit finance.[1] In response to the Finance Ministers' request, he convened early in 1974 a working group to examine the proposal to establish a development bank or corporation. The members of the group, who participated in their personal capacities, are listed in Annex I. Our terms of reference are given in Annex II. The proposals submitted in Dar-es-Salaam are given in full in Annexes III and IV.

2. We met for two weeks in May/June, 1974, and then for a further week in July to consider our draft report. As an international group, we devoted most of our time to an exchange of views among ourselves. We also invited a few specialists to discuss with us areas of particular interest. In addition, a larger number of bankers and other financial specialists were consulted informally in the course of the preparatory work for our meetings. Those consulted are listed in Annex V.

3. We interpreted our terms of reference freely as an instruction to explore a wide range of possible financial needs. The term "development bank", at the international level, has come to be associated with the World Bank and the regional banks which in some respects are modelled on it, while the term "development corporation" is generally applied to financial institutions which provide equity as well as loan capital. We did not see ourselves as restricted to a discussion of these two institutional types.

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1. Commonwealth Export Credit Finance, Report by the Orion Bank Mission, June, 1973.

4. In accordance with the Finance Ministers' communique we started from the question: Is there a gap in the existing financial services available for financing of development in Commonwealth countries, and would such a gap be filled effectively by the creation of a new institution, expecially a Commonwealth institution, rather than by an expansion of the services provided by institutions already in existence?
That does not mean that we ruled out from the start any function already being performed by existing institutions, for the gaps to be identified might in principle have been of any of the following types:

(a) finance and financial services in forms at present not adequately available;

(b) finance and financial services which have been shaped primarily to meet the needs of developed countries, and which require adaptation to meet developing countries' needs;

(c) finance and financial services which are likely to be more effectively available if there is increased competition among the institutions providing them;

(d) new ways of combining finance and financial services of different types to meet complex needs.

5. In the course of discussion, we gave most attention to a Commonwealth financial facility which would be additional in a functional or qualitative sense, i.e. to the identification of needs which existing institutions are unlikely to meet. But we were conscious, also, of the need for a financial facility which would be additional in the quantitative sense, i.e. one which would increase the resources available to developing countries. Additionality in this sense can be achieved in any of at least four ways:

(a) an increase in the primary flow of concessionary finance from existing sources, measured in terms of grant equivalent;

(b) the tapping of new sources of concessionary finance, also measured in terms of grant equivalent;

(c) instruments to enable countries to get better value out of the resources already available, e.g. through lower prices for equipment or more advantageous contracts, measured in terms of costs saved;

(d) identification of hitherto unseen investment opportunities which attract additional external resources, measured in terms of the discounted net returns accruing to developing countries.

Whether any of these is preferable to the others must in part be determined on a case-by-case basis, in terms of the relative size of the gains that are feasible with each method in any particular context. An important practical question for us to consider, therefore, was: Which of these four methods, in a Commonwealth context, is likely to bring the biggest gains to developing countries, in a form which Commonwealth developed countries, also, will welcome?