

MEMBERS OF THE EXPERT GROUP

Mr. S.O. Asabia	Deputy Governor, Central Bank of Nigeria
Mr. H.G. Barber	Financial Secretary, Ministry of Finance, Jamaica
Mr. M.S. Gheewala	Deputy Secretary, Treasury, Kenya
Mr. Gavin Green	General Manager, Barclays Overseas Development Corporation Ltd., Britain
Miss Barbara Mercer	Assistant Director, International Programme Branch, Department of Finance, Canada
Mr. James Raj	Chairman, Unit Trust of India
Secretary:	
Mr. John White	Fellow, Institute of Development Studies at the University of Sussex

TERMS OF REFERENCE OF THE EXPERT GROUP

The Commonwealth Secretary-General requested the Group to consider the following points:-

- a. whether a new Commonwealth Development Bank or Corporation could make a significant contribution to the development of Commonwealth countries and to Commonwealth co-operation;
- b. what should be the structure and principal functions of such a Bank or Corporation, in order to supplement and complement as effectively as possible the contributions of existing agencies and programmes, bilateral as well as multilateral;
- c. the role of a Commonwealth Development Bank or Corporation in providing financing or refinancing facilities for exports from Commonwealth countries;
- d. sources of finance for the operation of the Bank or Corporation.

FORMATION OF A COMMONWEALTH DEVELOPMENT BANK

Paper by the Government of Kenya
Presented to the Commonwealth Heads of Government Meeting,
Ottawa, August, 1973

The importance of the Commonwealth association as a means of promoting political, economic and cultural matters among members cannot be over-emphasized. Through it, it has been possible to set up institutions for effecting projects of mutual benefit either on a bilateral or regional basis.

In fact, it may be asserted that the Commonwealth's co-operative efforts in promoting exchange programmes in education through such media as the Colombo Plan, Special Commonwealth African Assistance Programme; and in the provision of aid to less developed members in the form of technical and financial aid, has without any doubt demonstrated the ability of the Commonwealth as a force to meet the challenges of the rising expectations of our peoples no less than that of the United Nations.

However, the methods whereby these matters were handled in the past, though they may have been adequate for the prevailing situation at that time, may no longer be appropriate in view of the changed circumstances in which we are now. We have now reached a stage of sophistication where our increased demands require sophisticated organizational structures relevant to the conditions of today. Most developing members of the Commonwealth are engaged on projects which are aimed at increasing industrialization, which in turn require mobilization of resources on a large scale and on a co-operative basis as opposed to past trends when these were done primarily on a bilateral basis. This trend is in keeping with global trends which are now tending to favour the pooling of resources for the purposes of increasing the capacity of the development oriented agencies to cope with the increasing pressure on the demand for the scarce resources available to them.

In consequence, therefore, Kenya feels strongly that there is now an urgent need for the creation of a Commonwealth Development Bank with adequate resources to render it capable of effecting a greater impact on the development needs of the Commonwealth members, particularly among the less developed ones. There is already in existence a Commonwealth Development Corporation which has been instrumental in providing funds for urgent development projects. The only weakness of this Corporation is that it is operated on a bilateral basis because it is operated by Great Britain. Time has now come for the establishment of a multilateral Commonwealth Development Bank to which all members of the Commonwealth could ascribe to, and which would render services to all Commonwealth members for their respective projects. The proposed Bank will not, of course affect the position of specialized bilateral assistance that will still have to be continued by virtue of the specialized nature of those projects.

The President of Kenya, Mzee Jomo Kenyatta, whom I have the honour to represent here, wishes to see a meaningful and functional Commonwealth and is convinced that the proposed Commonwealth Development Bank will go a long way to realize this aim.

Summary

- (a) It is recommended that a Commonwealth Development Bank be created to provide an effective means of channelling funds required for development projects within the Commonwealth.
- (b) That all the Commonwealth members contribute to the fund of the Bank.
- (c) That the following are the justifications for the establishment of the Bank.
 - (i) Acceleration of industrialization programmes through multilateral financing.
 - (ii) Channelling and sharing of technical manpower for development projects.
 - (iii) To increase the capacity of the Commonwealth to meet development needs of members through the pooling of financial resources.
 - (iv) Make co-ordination and rationalization in monetary and development matters possible.
 - (v) Strengthen the role of the Commonwealth as a promoter of welfare and development among its members.

PROPOSED COMMONWEALTH FINANCE CORPORATIONPaper by the Government of JamaicaPresented to the Commonwealth Finance Ministers' Meeting,Dar-es-Salaam, September 1973.Proposal

To establish a multilateral finance corporation open to all members of the Commonwealth group of countries, which will invest in industrial, manufacturing and commercial undertakings to the benefit of developing countries in the Commonwealth.

The emphasis would be on venture capital in those sectors not at present catered to by traditional development banks. The type of Corporation envisaged would be patterned on lines of the International Finance Corporation, which is the only example of a multilateral finance corporation in existence. At the national level, there are established a number of finance corporations, which, by their nature, are limited in their scope of activities. Regionally, there are no identifiable institutions which provide direct investment to assist enterprises which need venture capital. Bilaterally, we have the Commonwealth Development Corporation, a UK Government institution, and the Commonwealth Development Finance Corporation, a private sector UK institution.

Need for Commonwealth Finance Corporation

The pace of industrial and manufacturing expansion is a critical element in the economic growth of developing countries. There are several factors which make it difficult for entrepreneurs, particularly small ones, to meet the challenges of an expanding economy, to be able to take advantage of wider market horizons and to promote efficiency by adopting economies of scale. These include the low level of domestic savings, absence or underdevelopment of capital markets in developing countries, reluctance of local investors to invest in untested risk projects, availability of skilled labour, and deficiency of technical know-how and managerial skills. It is clear therefore, that risk capital and debt finance must be mobilised externally for any meaningful development and achievement of growth rates which might maintain, if not narrow the existing gap between rich and poor countries.

With the possible association between developing member countries of the Commonwealth and EEC, new challenges will be faced. Commonwealth developing countries need assistance not only to meet these challenges but also to enhance their capabilities to become competitive in traditional markets and also increase their participation in the expanding international trade. The proposed corporation would help to stimulate local initiative and inspire confidence in overseas investors. In addition to the provision of financial and technical assistance the proposed Corporation would give a more visible expression to Commonwealth solidarity.

Existing Institution Serving the Commonwealth

The Commonwealth Development Finance Company, is basically a private sector organisation, and will therefore not be given prominence in this paper.

The Commonwealth Development Corporation, a UK Government sponsored body, was established to assist the economic development of the dependent territories and also those former British dependent territories which remained in the Commonwealth after independence. Since 1969, the CDC with the approval of the UK Minister for Overseas Development can and has engaged in operations outside the Commonwealth.

The CDC invests in development projects in the various sectors of the economy.

1. The 1972 Report shows the CDC's £164.7 million investment in various areas of the economy at 31.12.72 as follows:-

Power and Water	=	£46 million (approx)		
Housing Finance	=	£32	"	"
Transport	=	£ 6	"	"
Agriculture & Ranching	=	£22	"	"
Forestry	=	£ 4	"	"
Minerals	=	£ 2	"	"
Factories	=	£23	"	"
Industrial Property				
Development Companies	=	£24	"	"
Hotels	=	£ 6	"	"

Investments take the form of loans and equity.

2. At 31 December, 1972 loan investment in individual projects and in the CDC subsidiary companies amounted to £124.78 million while equity investment was £25.54 million (investments at cost less amounts written off).

In 1959, the CDC's long- and medium-term borrowing power was increased from £150 million to £225 million. The maximum amount that can be borrowed from the UK Exchequer is £205 million. In addition, the Ministry may, by order made with the consent of the Treasury, increase the limit of long- and medium-term borrowing powers to £260 million of which not more than £240 million may be borrowed from the Exchequer. The CDC also has the power to borrow up to £20 million from other governments. Interest is charged over the life of each loan at the rate current at the time of advances. The loans have to be repaid over fixed periods. As at the 31st December, 1972, the CDC's liability to governments was £146 million with interest charges ranging from 3% to 9½%. While the CDC has to operate as a commercial organisation, it has no equity capital. To generate more resources for equity investment the spread between the CDC's borrowing and lending rates would have to increase. This could lead to a tendency for conservatism and retard the growth of equity investment by the CDC. The CDC also provides skilled management and training for local people as the managers of the future.

The Commonwealth Development Corporation, suitably modified, would be the most logical vehicle through which to channel the type of assistance necessary to stimulate the expansion of the manufacturing industry. It already has a reputation in financial markets, it has a portfolio which is a useful basis for borrowing funds, it has experience in industrial and manufacturing lending and it has a regionally wide organisation.

Functions and Responsibility of the Proposed Corporation

- A. (1) Provide financial assistance to private and publicly owned (but not effectively controlled) enterprises for the benefit of the developing countries of the Commonwealth.

Financial assistance should be given in the form of :-

- (a) equity investments
- (b) convertible debentures
- (c) straight loans without government guarantee
- (d) under-writing services

The type of financial assistance given will be consistent with the objective of earning a reasonable return on its capital.

- (2) Act as a catalyst in the mobilisation of resources from other sources. It should assist in bringing together investment opportunities, domestic and foreign financing and management skills.
- (3) Assist in the conduct of feasibility studies for the purpose of identifying sound business projects. Assist in the preparation and appraisal of ventures to a stage where proposals are acceptable to other financing institutions.
- (4) The Corporation should not seek to take over control of the undertakings to which it has granted financial assistance.

B. Organisation

Board of Governors:- Consist of Governors appointed by each member of the Commonwealth. This body should be vested with all powers of the Corporation.

The Board of Governors may delegate to the Board of Directors any of its powers except:

- (i) admit new members and determine the conditions of their admission
- (ii) increase or decrease the capital stock
- (iii) suspend a member
- (iv) make arrangements to co-operate with other international organisations
- (v) decide to suspend permanently the operations of the Corporation or to distribute its assets
- (vi) declare dividends.

Board of Directors

Composition of the Board would be as follows:-

The four largest share-holders (implied in the attached table) i.e. UK, Canada, India and Australia would each appoint one Director. There would be eight other Directors elected from the other members of the Commonwealth in accordance with a system to be determined by the Board of

Governors.

The Board of Directors should be responsible for the general operations of the Corporation.

There should be a Chief Executive who will be a member and chairman of the Board of Directors who should have a casting but no original vote. The Chief Executive will be in charge of the operating staff of the Corporation. He will be assisted by a group of senior Executives.

Voting

Each member should have an equal number of basic votes and one additional vote for each share of stock held.

Capital

As an illustration, the authorised capital stock of the Corporation could be set at an agreed currency equivalent to say US \$100 million divided into 1 million shares with a par value of US \$ 100 each. On the basis of 1/100 of 1% of 1971 market value of total GNP of the Commonwealth countries, we could have an initial subscribed capital of \$ 34 million.

Each member would subscribe to shares of the capital of the Corporation also on the basis of 1/100 of 1% of their GNP. The attached table shows what individual contributions would be. Payment for the initial issue of shares could be in two equal tranches one year apart. The remaining capital stock would be on call, at the discretion of the Board of Governors and would thus constitute a basis for additional equity resources and an encouragement for lenders to lend to the Corporation.

Borrowing Power

The Corporation should be given the power to borrow money for the purpose of carrying out its functions, subject to a ceiling of 7 times its issued share capital plus reserves. It should be authorised to borrow from any of the member Governments and institutions within member countries, and friendly countries.

Operating Guidelines

The Corporation should revolve its portfolio by sales of securities to other investors so as to replenish its resources. In disposing of its equity holdings in projects the Corporation should seek to make available such equity to institutions or individuals resident in the countries concerned.

Investment should be made in financially viable projects giving due regard to the ability of the project to stimulate further industrial and economic development in the economies involved.

Conclusions

The CDC's balance sheet at 31.12.72 shows a capital liability to government of £145.9m and deferred liability to government of £17.2m. Their net current position was £7m (current assets £13.2m current liabilities £6.2m). Investments of the Corporation totalled £106.1m.

Of this, £6.6m is quoted in Great Britain and overseas markets and £99.5m is unquoted in the form of shares (£11.1m) and loans (£88.4m). Investments in subsidiary companies was £44.2m at the end of 1972.

The surplus at the end of 1972 was £0.7m (US \$ 17m)

In working out a strategy to modify the CDC into a more multilateral Corporation catering to the development needs of the Commonwealth developing countries consideration would have to be given, to:-

Net Worth

(a) The net worth of the CDC which amounted to £706,516 at December 31, 1972, could be apportioned to U.K.'s share of the value of the capital stock.

(b) Capital and Deferred Liabilities to Government

Arrangements could be worked out with the U.K. Government for the proposed Corporation to take over CDC's capital and deferred liabilities on the same terms and conditions.

(c) Other

In addition there are certain items shown in the balance sheet which need to be thoroughly examined with a view to equitable determination with the U.K. Government. Some of these are as follows:-

(Liabilities) Provisions against government's value of projects and investments and funds at present unremittable and provision for fructification interest and interest equalisation totalling £22.3m.

(Assets) Capital adjustment account special losses account balance at 31.12.61 £9.0m

Fructification interest 31.12.60 £11.0m

Commonwealth Member Countries

	Estimated Share contribution US \$	GNP Market Prices US \$(m) 1971
Australia	3.544	35,440
Canada	7.913	79,130
U.K.	12.667	126,670
New Zealand	.761	7,610
Bahamas	.039	390
Pakistan & Bangladesh	1.282	12,820
Barbados	.015	150
Botswana	.007	70
Cyprus	.059	590
Fiji	-	-
Gambia	.004	40
Ghana	.264	2,640
Guyana	.028	280
India	5.727	57,270
Jamaica	.127	1,270
Kenya	.168	1,680
Lesotho	.008	80
Malawi	.033	330
Malta	.027	270
Mauritius	-	-
Nauru	-	-
Nigeria	.674	6,740
Sierra Leone	.049	490
Singapore	.190	1,900
Sri Lanka	.142	1,420
Swaziland	.008	80
Tanzania	.136	1,360
Tonga	.027	270
Trinidad & Tobago	.088	880
Uganda	.126	1,260
Western Samoa	-	-
Zambia	.164	1,640

342,770m

INSTITUTIONS AND PERSONS CONSULTED

Note: This annex lists people consulted in connection with the preparatory work for the expert group's discussions. Those marked with an asterisk also took part in discussions with the group. Informal discussions were also held with a number of persons not listed here in connection with special aspects of the proposals.

Barclays Bank International Ltd.	Mr. I.J.C. Probert, Assistant General Manager in charge of Africa, and others.
Booker McConnell Ltd.	Mr. M.H. Caine, Vice-Chairman, and Mr. M.C.W. Wildy, Finance Director.
Wm. Brandt's Sons and Co. Ltd.	Mr. G. Dodsworth, FCA, MP, Director, Term Finance Division, and Mr. P. Slater, Director.
Mr. W.M. Clarke	Director, Committee on Invisible Exports.
Commonwealth Development Corporation	Mr. P. Meinertzhagen, CMG*, General Manager, and others.
Commonwealth Development Finance Co. Ltd.	Mr. D.F. Pearl, Managing Director, and others.
Crown Agents for Oversea Governments and Administrations	Sir Claude Hayes, KCMG*, Chairman, and Mr. N. Hewins, Director of Banking Services.
Guinness Mahon & Co. Ltd., Bankers	Mr. D. Berriman*, Managing Director.
Guinness Peat (Overseas) Ltd.	Mr. C. Craig, Director.
Kleinwort, Benson Ltd.	Mr. R.T. Fox, Director.
Ministry of Overseas Development	Mr. R.B.M. King, CB, MC, Permanent Secretary, and others.
National and Grindlays Bank Ltd.	Lord Aldington, PC, KCMG, CBE, DSO, TD, Chairman, and others.
Occidental Financial Services Inc.	Mr. A.S. Whyatt, Vice President and Treasurer.
Overseas Development Institute	Mr. A. Tasker, CBE, Director.
Mr. R. Pringle	Editor, <u>The Banker</u> .
Rothschild Intercontinental Bank Ltd.	The Hon. T. Stonor, Managing Director, and others.
The Rio Tinto-Zinc Corporation Ltd.	Mr. J.A. Clay*, Economic Adviser, and Mr. K. Markham*, Treasurer.

J. Henry Schroder Wagg & Co. Ltd.
Lord Seebohm
The Standard and Chartered Banking
Group Ltd.

Tozer Standard and Chartered Ltd.
Sir Geoffrey Wilson, KCB, CMG*

Mr. A. Egerton, Director.

Mr. M.D. McWilliam, General
Manager, Mr. James Russell,
Regional General Manager, and
others.

Mr. R.D. Assender, Controller.
Chairman, Race Relations Board,
formerly Vice-President, World
Bank, and Permanent Secretary,
Ministry of Overseas Development.

AID TO COMMONWEALTH COUNTRIES

In 1971 and 1972, Commonwealth developing countries received official development assistance to the average annual amount of £856 million (net of amortisation and excluding aid from centrally planned economies). Of this, 36 per cent was bilateral aid from Britain, Canada and Australia, 44 per cent was bilateral aid from other market economy countries, and 20 per cent was from multilateral agencies. Commitments of official development assistance to Commonwealth developing countries in the same two years averaged £1,333 million, 29 per cent bilateral from Britain, Canada and Australia, 40 per cent bilateral from other market economy countries and 31 per cent from multilateral agencies.¹

2. Disbursements of official bilateral development assistance (net of amortisation) by Britain, Canada, Australia and New Zealand to all developing countries totalled £482 million in 1971, £554 million in 1972 and £584 million in 1973. Total bilateral net flows from these four countries to all developing countries, including private loans and investments, averaged £1,179 million in 1971 to 1973. Of both official development assistance and total net flows from the four Commonwealth countries, about 75 per cent went to developing countries in the Commonwealth.²

3. Britain, Canada, Australia and New Zealand together account for 13 per cent of the GNP of DAC member countries, but provided 15-16 per cent of the total net flow of official development assistance in 1971-73. They accounted for about the same proportion of the total DAC net flow to developing countries, including private loans and investments, in 1971 and 1972, but their share in private flows fell off sharply in 1973.

¹All figures used in this Annex come from OECD (DAC).

²On basis of data for 1971 and 1972.

LONDON AS AN INTERNATIONAL FINANCIAL CENTRE

This annex is intended to support paras. 20-21 of the main report by giving some quantitative indication of the scope and composition of London as an international financial centre. Since the purpose is only to give orders of magnitude, time series have been omitted or heavily simplified. Time series for non-sterling currencies have been kept short, to show the rapid increase in the most recent years. Overseas sterling balances are compared over a ten-year interval, because of the change in the status of sterling as a reserve currency during that period.

Table VII.1

Banks in the United Kingdom: Deposits of overseas residents and advances to overseas residents, by banking sector, April 17, 1974

£ millions

	Current and deposit accounts of overseas residents		Advances to overseas residents	
	Sterling	Other currencies	Sterling	Other currencies
Deposit banks	895	1,583	1,068	1,343
Accepting houses	207	1,792	48	1,633
Other UK banks	303	2,270	24	3,011
Overseas banks:				
British overseas and Commonwealth	707	6,255	143	5,664
American	352	15,580	120	16,149
Foreign banks and affiliates	184	6,512	35	5,266
Other overseas	122	5,370	48	6,754
<hr/>				
Total	2,771	39,361	1,486	39,821
for comparison: April 18, 1973	2,529	24,442	1,203	25,040
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Source: Bank of England Quarterly Bulletin, Volume 14, Number 2, June 1974, Tables 8/1-8/11.

Notes: Overseas residents covers overseas governments and public authorities, UK branches or agencies of international institutions, and persons, companies and other bodies whose permanent or registered address is outside the United Kingdom.

Accepting houses covers members of the Accepting Houses Committee together with certain of their Channel Islands and Isle of Man subsidiaries.

British overseas and Commonwealth banks covers the members of the British Overseas and Commonwealth Banks' Association together with certain of their banking subsidiaries.

Foreign banks and affiliates covers the members of the Foreign Banks and Affiliates Association together with one Channel Islands subsidiary.

Table VII.2

Geographical distribution of external liabilities and claims of UK banks in foreign currencies, December 31, 1972 - March 31, 1974

£ millions	UK liabilities			UK claims		
	31-12-72	31-12-73	31-3-74	31-12-72	31-12-73	31-3-74
Western Europe	14,327	22,343	23,414	11,165	16,441	16,947
Overseas sterling countries	2,285	3,843	4,588	3,629	5,683	6,902
United States	1,530	2,113	2,658	2,306	3,011	3,494
Canada	1,764	2,127	1,991	900	1,413	1,238
Latin America	1,772	2,374	2,493	2,096	3,057	3,071
Middle East	1,415	1,797	2,721	290	431	493
Japan	500	1,234	1,505	1,914	3,093	4,530
Other	1,867	3,186	3,773	1,719	3,145	3,495
Total	25,460	39,017	43,143	24,019	36,274	40,170

Source: Bank of England Quarterly Bulletin, Volume 14, Number 2, June 1974, Table 23.

Notes: The figures are not comparable with the figures in Table 1, because of differences of definition and because Table 2 has a wider coverage of banks.

UK liabilities covers deposits and advances received from non-residents, and negotiable dollar certificates of deposit issued in London. It does not include official liabilities in foreign currencies arising from short-term loans to the UK Government and from drawings on central bank facilities.

UK claims covers deposits with, and advances to, non-residents; notes and coin, Treasury bills and similar short-term paper; commercial bills drawn on non-residents and claims on overseas customers arising from acceptances.

Table VII.2

Notes: Western Europe covers the European Economic Community (excluding Ireland for 31-12-72), EFTA, Andorra, Finland, Greece, Spain, Turkey and Yugoslavia.

Latin America covers all independent, non-sterling countries of the American continents, excluding the United States and Canada.

Middle East covers Egypt, Iran, Iraq, Israel, Lebanon, Saudi Arabia, Sudan, Syria, Yemen and Libya.

Table VII.3

Overseas sterling balances, 1963-1973

£ millions

	December 1963		December 1973	
	Exchange reserves	Private sterling balances	Exchange reserves	Private sterling balances
All holders	2,440	1,662	3,679	2,255
International organisations (excluding IMF)	105	-	310	-
Overseas sterling countries	1,898	874	3,041	1,152
of which:				
Australia, New Zealand, S.Africa	514	143	910	169
Middle East	227	195	611	149
Far East	485	131	567	96
Non-sterling countries	437	788	328	1,103

Source: Bank of England Quarterly Bulletin, Volume 14, Number 2, June 1974, pp. 172 - 175.

Notes: Exchange reserves covers central monetary institutions' holdings of short-term banking and money market assets in the form of sterling deposits and Treasury bills, together with their holdings of British government stocks.

Private sterling balances covers holdings of short-term banking and money market assets by banks abroad (but not by central banks) and by companies and private individuals, and also some unidentified holdings of governments.

Middle East overseas sterling countries covers Jordan, Kuwait, other Persian Gulf territories, and South Yemen, and, for 1963, Libya.

Far East overseas sterling countries covers Brunei, Hong Kong, Malaysia and Singapore.

Table VII.4

Estimated size and distribution of the "super-dollar" market, 1971-1973

US \$000 millions, end of year

	1971	1972	1973
<u>Europe-based market</u>			
Commercial banks' external assets	100	132	(193)
United Kingdom	43	56	(84)
Other European	57	76	109
London inter-bank market	16	21	34
Other UK domestic markets	4	5	10
Other European domestic markets	(10)	(14)	(20)
Total: Gross Europe-based market	(130)	(172)	(256)
Net Europe-based market (as reported by BIS)	71	91	(132)
<u>Non-European market</u>			
Gross	(27)	(40)	(57)
Bahamas	(12)	(18)	(28)
Canada	7	8	(11)
Japan	7	10	(11)
Panama	0.5	(1)	(2)
Singapore	1	3	6
Net	(10)	(15)	(24)
<u>Total: Super-dollar market</u>			
Gross	(157)	(212)	(314)
Net	(80)	(105)	(155)

Source: David Ashby, "The \$300 billion super-dollar market", The Banker, May, 1974, pp. 449-454.

Note: Figures in italics are unofficial estimates. Other figures are published estimates from official sources. Discrepancies in totals are due to rounding.

FINANCIAL INTERMEDIARIES AND SOURCES OF CAPITAL FOR
COMMONWEALTH DEVELOPING COUNTRIES

The purpose of this annex is to characterise the main types of external financial intermediary that are active in the mobilisation of external capital for Commonwealth developing countries. These intermediaries are considered primarily in the context of the mobilisation of capital from the member countries of the Development Assistance Committee of the Organisation for Economic Cooperation and Development. Capital from the Soviet Union and Eastern Europe tends to be provided directly through bilateral inter-governmental channels, in which financial intermediaries are not significant. The mobilisation of capital from oil-exporting countries is currently under discussion, and intermediaries may eventually be created for this purpose. Existing intermediaries, however, rely on the DAC countries as their principal source of capital.

2. For developing countries in general, the main sources of external capital in the DAC countries are:

- (a) "official development assistance", as defined by the DAC, excluding technical assistance, food aid, and a few lesser items;
- (b) governmental and government-guaranteed export credits;
- (c) private foreign investment;
- (d) bond issues at market rates;
- (e) other forms of commercial borrowing.

Intermediaries have in the past been most significant in relation to (a) and (d). The proportion of total official development assistance channeled through multilateral institutions has risen in recent years to 17 per cent, from the level of approximately 12 per cent which prevailed in the late 1960s. Capital subscription payments to multilateral institutions, which constitute the more strictly financial element in official development assistance through multilateral channels, have been running at the equivalent of approximately 20 - 30 per cent of new bilateral development lending, net (see Table VIII.1). Multilateral institutions are even more significant as a medium for the mobilisation of capital through bond issues at market rates. In the five-year period 1967-71, according to figures given by the World Bank, international development institutions made bond issues to a total of \$6,200m, compared with bond issues by developing countries amounting to \$2,387m.¹ The developing countries listed as having made bond issues during this period include the following Commonwealth countries: East African Community, India, Jamaica, Malaysia, Trinidad and Tobago.

3. Some indication of the relative magnitude of the main sources of external capital may be gained from Table VIII.1. This table, however, gives figures net of amortisation, in accordance with the DAC convention. In a discussion of the role of intermediaries, figures for the gross flow are more relevant, as it is the gross flow that constitutes the volume of resources to be managed. Gross figures are given as memo items in Table VIII.1, for those major categories for which gross figures are given by the DAC. But

1. IBRD, Annual Reports.

Table VIII.1

Principal sources of capital for developing countries in DAC member countries, 1970-72: net of amortisation

\$ millions

	1970	1971	1972
Concessionary lending and capital subscriptions of which:	2,920	2,785	2,797 ¹
New bilateral development lending, net	2,336	1,863	1,576
Debt reorganisation, net	44	373	361 ¹
Capital subscriptions to multilateral institutions	541	549	860
Export credits of which :	2,780	3,297	2,152 ²
Official export credits, net	570	582	723
Private export credits, net	2,211	2,716	1,429 ²
Private investment in developing countries of which:	4,334	4,891	6,334
Direct investment, net	3,557	4,087	4,306
Portfolio investment, net	777	804	2,028
Loans to multilateral institutions at market rates, net of which :	747	973	1,039
Official	273	267	372
Private portfolio investment	474	706	667
Total	10,782	11,946	12,322
Memo items.			
New development lending gross	2,837	2,421	2,350
Official export credits, gross	1,497	1,772	2,065
Private export credits, gross	5,242	6,488	n.a.

Source : DAC 1972 Review, Table 7, for 1970 and 1971, and 1973 Review, Table 6, for 1972. It should be noted that there are some minor discrepancies between these two sources, due to reporting lags and changes in presentation, so that the 1972 figures are not strictly comparable with the 1970 and 1971 figures.

Notes: Discrepancies are due to rounding.

1. The figure for debt reorganisation for 1972 is in gross terms.
2. The figure for private export credits for 1972 covers only guaranteed credits.

it is not possible to give gross figures for some of the other categories on a comparable basis.

4. Table VIII.1 is not comprehensive in its coverage. In particular, it omits borrowings in Eurocurrencies by developing countries, since these have not yet been incorporated into the DAC's standard reporting systems. If the estimate that borrowing by developing countries in this market rose to an annual rate of perhaps \$13,000m in 1973 is anywhere near correct¹, then it would appear that in gross terms the Eurocurrency market now constitutes a larger source of capital for developing countries than any of the categories shown in Table VIII.1. Borrowing in Eurocurrencies is covered in the categories listed in para. 2 above, under "other forms of commercial borrowing".

5. For the purpose of this annex, external financial intermediaries may be considered under three main headings:

- (a) development banks;
- (b) development corporations;
- (c) commercial banks.

The terms "development bank" and "development corporation" do not have generally accepted definitions which would enable one to differentiate them sharply from each other. For the purpose of this annex, however, a general distinction may be made between:

- (a) development banks, as agencies mainly engaged in the provision of loan capital for projects (mainly government-sponsored projects) out of their own equity and loan capital, usually covering a substantial proportion or all of a project's foreign exchange cost, but with relatively little responsibility for continuing supervision of projects once they have been completed; and
- (b) development corporations, as agencies which regard the provision of equity capital as a normal part of their operations, usually in partnership with other sources of finance, and relying for their income on the profitability of the enterprises that they support, which entails continuing supervision of these enterprises, either through representation on the board or through outright management, depending on the size of the corporation's share in the total capital of the enterprise.

As a corollary to the differences between these two types of operation, development corporations tend to operate largely in the productive sectors, while a large proportion of the operations of most development banks is in infrastructure.

6. The catalogue that follows is not exhaustive, but it covers the main external financial intermediaries of interest to Commonwealth developing countries.

1. See Main Report, para.34.

Development Banks

Global and Regional Development Banks

IBRD/IDA, IADB, AfDB, AsDB

7. The World Bank and the three big regional banks have many features in common. All of them consist essentially of a combination of ordinary capital and a "soft window". In all cases except the AsDB, the soft window is established as a separate legal entity administered by the bank. The sectoral distribution of their loans is shown in Table VIII.2.

8. Most Commonwealth countries are members of at least one regional development bank, as well as the World Bank, as follows:

IADB	developed countries:	Canada.
	developing countries:	Barbados, Jamaica, Trinidad and Tobago.
AfDB	developed countries (in African Development Fund):	Canada, United Kingdom.
	developing countries:	Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda, Zambia.
AsDB	developed countries:	Australia, Canada, New Zealand, United Kingdom.
	developing countries:	Bangladesh, Fiji, Hong Kong, India, Malaysia, Nepal, Papua New Guinea, Singapore, Sri Lanka, Tonga, Western Samoa.

Table VIII.2

Sectoral distribution of loans by IBRD/IDA, IADB, AfDB, and AsDB, cumulative to 1972

Percentages	IBRD/IDA	IADB	AfDB (to 31.12.71)	AsDB
Transport and communications	32.8	17.5	43.3	21.4
Electric power	26.0	17.9	14.7	28.6
Sub-total: economic infrastructure	58.8	35.4	58.0	50.0
Industry and mining	14.0	15.0	16.4	24.7
Agriculture, fisheries and forestry	12.1	23.6	15.8	13.1
Sub-total: productive sectors	26.1	38.6	32.2	37.8
Urban development	0.1	7.4	-	-
Water supply and sewage systems	1.9	10.9	9.8	11.5
Education	2.7	3.6	-	0.7
Other	10.4	4.1	-	-
	100.0	100.0	100.0	100.0

Source: IBRD/IDA, IADB, AsDB annual reports for 1972, and AfDB, annual report for 1971.

Sub-regional Development Banks

Caribank, EADB

9. Two Commonwealth groups of countries, in the Caribbean and East Africa, have established sub-regional banks. Like other sub-regional banks, these are more specialised than global and regional development banks, since their operations are geared to the special problems of groups of relatively homogeneous countries.

10. The EADB was set up to promote the balanced industrial development of member countries, within the framework of the Treaty for East African Co-operation (1967). Total resources at December 31, 1972, stood at \$35.5m., in which the ratio of own resources to external liabilities was 1.4:1.

11. The Caribank was established in 1969. It has concentrated on the productive sectors, especially on the promotion of small enterprises. Total resources at December 31, 1972, stood at \$84.2m., in which the ratio of own resources (ordinary capital to be paid in over six years) to external liabilities was 1.6:1. It has made special efforts to mobilise and coordinate external aid to Caribbean countries.

Development Corporations

Global and Regional Corporations

IFC, ADELA, PICA, SIFIDA

12. The IFC is owned by 98 member governments, as a separate entity within the World Bank group. The regional corporations all have a relatively large number of predominantly private shareholders. All four make equity as well as loan investments. The IFC, for instance, held equity investments amounting to \$119.3m at June 30, 1973, compared with loan investments (including undisbursed balances) amounting to \$345.9m. The IFC, ADELA and PICA have the development of the private sector as their principal purpose and this is a major function, also, of SIFIDA. All four work closely with direct foreign investors in developing countries, with the corollary of heavy concentration on industry.

Commonwealth Corporations

CDC and CDFC

13. The CDC's constitution, resources and functions are summarised in its 1973 annual report in the following terms 1:

"CDC was established by Act of Parliament in 1948 as the Colonial Development Corporation to assist the economic development of the then dependent territories of the Commonwealth. The change of name to Commonwealth Development Corporation was effected by the Commonwealth Development Act 1963, which also restored the Corporation's full powers of operation in all those countries which had achieved independence within the Commonwealth since 1948. With the agreement of the Governments concerned, the Corporation can also act as managing agents and render advisory services in any independent Commonwealth Country.

1. CDC, Report and Accounts 1973, p.3.

The Overseas Resources Development Act 1969 empowers CDC, with the approval of the Minister of Overseas Development, to engage in operations outside the Commonwealth. To date the Minister has given CDC authority under the 1969 Act to operate in Cameroon, Costa Rica, Ethiopia, Indonesia, Ivory Coast, Thailand, Tunisia and Zaire.

CDC operates on commercial lines and has a statutory obligation to pay its way, taking one year with another. Close relations with territorial Governments are maintained through CDC's regional offices in order to ensure that the Corporation's activities are directed in such a way as best to promote the economic development of those territories. CDC is empowered to undertake, either alone or in association with others, projects for the promotion or expansion of a wide range of economic enterprises, including agriculture, forestry, fisheries, mining, factories, electricity and water undertakings, transport, housing, hotels, building and engineering.

The 1969 Act increased CDC's long and medium term borrowing powers to £225m, and left unchanged the power to borrow up to £10m on short-term. Of the £225m, up to £205m may be borrowed from United Kingdom Exchequer funds. The Minister may, by order made with the consent of the Treasury, increase the limit of long and medium term borrowing powers to £260m of which not more than £240m may be borrowed from the Exchequer."

14. It has a wide portfolio, but has recently laid special emphasis on agriculture and agricultural processing. One of its more unusual special fields is the development of building societies. Distribution of investments by sector, in terms of commitments, at the end of 1973, was:

	£m	%
Power and water	59	24
Housing finance	55	23
Transport	8	3
Agriculture and ranching	40	16
Forestry	4	2
Minerals	1	-
Factories	36	15
Industrial and property development companies	33	14
Hotels	8	3
Total commitments	243	100

These commitments covered 233 projects, of which 32 are CDC subsidiaries and another 33 are under CDC management.

15. The CDFC was established in 1953 with a large number of predominantly private shareholders. It has recently put increased emphasis on equity financing, with the corollary of continuing involvement in the enterprises in which it has a stake. Distribution of investment by sector,

in terms of commitments, at March 31, 1973 was:

	£m	%
Manufacturing	14.4	44.6
Mining and metal production	1.2	3.7
Forestry, plantations, agriculture and food processing	3.8	11.7
Building services	1.6	5.0
Property	2.3	7.1
Hotels and tourism	1.9	5.9
Public utilities	2.7	8.4
Development finance companies	1.5	4.6
Other	2.9	9.0
Total commitments	32.3	100.0

These commitments covered 143 projects. The CDFC has seventeen subsidiaries, of which eleven are trading subsidiaries.

Commercial Banks

British Overseas Banks

16. A feature of Commonwealth banking relationships is the extensive network of British overseas banks, of which the main ones are Barclays Bank International, Standard and Chartered Bank, Lloyds and Bolsa International, and National and Grindlays Bank. The Hong Kong and Shanghai Banking Corporation, registered in Hong Kong, is sometimes also considered as a member of this group. In common with other banks, the British overseas banks have lengthened the terms of their lending in recent years. There have also been several moves in the direction of development financing, e.g. through the establishment of development corporations as subsidiaries. More generally, the role of these banks appears to be changing rapidly, and their role as sources of development finance seems likely to undergo further changes in the next few years.

Other banks

17. The implication of para. 4 above is that commercial banks have joined and to some extent replaced direct foreign investors and export credit agencies as a major source of capital for developing countries. This development is too recent for there yet to be reliable statistics on commercial bank lending to developing countries, but it is a development which seems likely to have a profound impact on the way in which capital transactions in developing countries are effected. Some figures for the external business of banks in the United Kingdom are given in Annex VII.

EXPORT CREDIT FINANCE: THE JAMAICAN EXAMPLE

The Export Credit Facility Offered by the Bank of Jamaica, April 1st, 1974.

In order to stimulate the export of goods manufactured in Jamaica the Bank of Jamaica is prepared to make funds available through the commercial banks to exporters at a preferred rate of interest of 7%.

2. The credit would be available at the time of actual export of the goods on proof being presented to a bank of a confirmed order as to quantity and prices from the importer and that the goods had been delivered to a wharfinger of carrier for shipment.
 3. The exporter would thereafter present the commercial bank with a promissory note equivalent to the confirmed sales value of the exported goods. The promissory note would carry an interest rate of 7% and would be for a period of three months.
 4. The commercial bank immediately on receipt of the promissory note would sell the note to the Bank of Jamaica at a price which would be indicated beforehand to the bank but which will be such as to enable the bank to make the funds available to the exporter at a 7% rate of interest.
- Detailed arrangements will be concluded with the commercial banks in respect of the matters which concern the Bank of Jamaica and the commercial banks.
5. Where the exporter had received a loan from a commercial bank to finance the production of the goods exported, funds covered by the promissory note would be transferred from this loan account to a special 'Export Loan Account' which would bear the 7% rate of interest, and would be repayable in three months.
 6. If the exporter receives cash from the importer prior to the expiration of the three-month period, there will be no requirement that these proceeds be used to reduce the 'Export Loan Account' before the expiration of the three-month period. The cash proceeds could be used to reduce any other loan account so that the exporter will always be assured that the exports earn for him an entitlement to 7% money for three months. As the exporter continues to export, he executes new promissory notes and thereby increases the amount of loans and the period over which he can enjoy the use of the lower interest rate.
 7. The initial sum to be made available by the Bank of Jamaica on a revolving basis is \$2mn. so that on a yearly basis funds of up to \$8mn. would be available under this facility.

The minimum value of each transaction to qualify for these arrangements will be \$1,000.

Individual orders of less than \$1,000 can be aggregated to make up the minimum amount. However, in special cases the Bank of Jamaica is prepared to grant the facility where the amount is under \$1,000.

There is no maximum individual loan prescribed although this will be kept under review to prevent pre-empting of the funds by a few exporters.

8. Four further conditions must be fulfilled to qualify for this facility -

- (a) the exporter must have obtained insurance from the Jamaican Export Credit Insurance Company;
- (b) the exporting company must be a Jamaican company, with a controlling interest held by Jamaicans;
- (c) the goods must be bona fide manufactured in Jamaica and not merely repackaged or re-exported from Jamaica;
- (d) the borrower must be regarded by the commercial bank as credit-worthy to the extent of the loan requested.

ORGANISATION AND ADMINISTRATIVE BUDGET OF A COMMONWEALTH INVESTMENT BANK

Organisation of the Commonwealth Investment Bank in Year 4

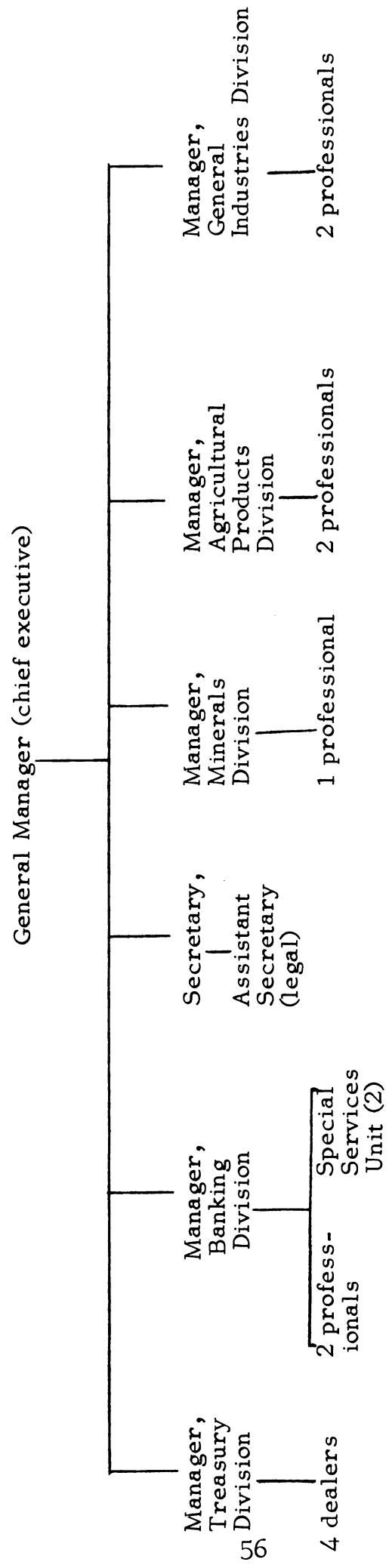


Table X.1.

Approximate budget for Commonwealth Investment Bank, at 1974 prices

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
	£	£	£	£
<u>Salaries</u>				
<u>Management</u>				
Chief executive	25,000 (1)	25,000 (1)	25,000 (1)	25,000 (1)
Treasury, accounts and exchange control	15,000 (1)	15,000 (1)	15,000 (1)	30,000 (2)
Operations	20,000 (2)	40,000 (4)	80,000 (8)	120,000 (12)
Secretary	<u>8,000 (1)</u>	<u>8,000 (1)</u>	<u>8,000 (2)</u>	<u>16,000 (2)</u>
<u>Sub-total; management</u>	68,000 (5)	88,000 (7)	128,000 (12)	191,000 (17)
<u>Dealers</u>	25,000 (2/3)	25,000 (2/3)	35,000 (4)	35,000 (4)
<u>Supporting staff</u>				
Clerical	10,000 (3)	15,000 (5)	30,000 (10)	45,000 (15)
Secretaries	5,000 (2)	7,000 (3)	10,000 (4)	12,000 (5)
Messengers	4,000 (2)	4,000 (2)	6,000 (3)	8,000 (4)
Telephonist	2,000 (1)	2,000 (1)	2,000 (1)	2,000 (1)
Drivers	<u>2,000 (1)</u>	<u>2,000 (1)</u>	<u>4,000 (2)</u>	<u>4,000 (2)</u>
<u>Sub-total: all staff</u>	116,000 (16)	143,000 (22)	215,000 (35)	297,000 (48)
<u>Recurrent expenditure</u>				
National insurance (£60)	960	1,320	2,100	3,000
G.P.S. (£105)	1,680	2,240	3,700	5,250
Superannuation (15%)	17,400	21,450	32,250	44,550
Travelling (£4,000 per management)	20,000	28,000	48,000	76,000
Cables/Telex	3,000	3,500	4,000	4,500
Telephones	5,000	7,500	8,000	10,000
Stationery and postage	3,000	5,000	6,000	6,000
Rent (100 sq.ft. per staff @ £20)	32,000	44,000	70,000	100,000
Maintenance (3% of Rent)	1,000	1,350	2,100	2,800
Maintenance; cars	200	400	600	800
Directors fees (£700)	7,000	7,000	7,000	10,000 (£1,000)
Directors; travelling ¹	30,000	30,000	30,000	30,000
Uniforms	600	600	600	800
Printing	1,000	1,500	2,000	2,000
Home leave	-	5,000	10,000	15,000
Insurances	1,500	2,000	2,500	3,000
Entertainment	5,000	7,000	8,000	10,000
Contingencies (5%)	<u>6,500</u>	<u>8,400</u>	<u>11,900</u>	<u>16,200</u>
<u>Sub-total; recurrent expenditure</u>	135,840	176,260	248,750	339,900
<u>Capital expenditure</u>				
Furniture equipment ²	30,000	6,000	13,000	15,000
Cars (1 office rest purchased) ³	22,500	5,000	12,500	17,500
Contingencies (5%)	<u>2,600</u>	<u>550</u>	<u>1,300</u>	<u>1,750</u>
<u>Sub-total; expenditure</u>	55,100	11,550	26,800	34,250
TOTAL	<u>£ 306,940</u> =====	<u>£ 330,810</u> =====	<u>£ 490,550</u> =====	<u>£ 671,150</u> =====

NOTES :	1	<u>Directors; travelling</u>	4 Resident: 7 Overseas Fares (1st Class) from Africa, Caribbean, Far East Meetings - 4 per year per diem - 16 days at £40 x 10	£5,500 22,000 6,400
			Total	<u>28,400</u> say £30,000
	2	<u>Furniture</u>	£30,000 in 1st year increased by £1,000 per extra staff thereafter.	
	3	<u>Cars</u>	1 for office £5,000 1 @ 2,500 per member of management + 2 dealers.	