A COMMONWEALTH INVESTMENT BANK

Report by a Commonwealth Expert Group

COMMONWEALTH SECRETARIAT

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Commonwealth Secretariat
London

Marlborough House
Pall Mall
London, S.W.1

26 July, 1974

Dear Secretary-General

You requested us to explore whether a new Commonwealth Development Bank or Corporation would make a significant contribution to the development of Commonwealth countries and to Commonwealth co-operation, and to consider what might be the structure and principal functions of such a Bank or Corporation. (Our terms of reference are set out in full in Annex II of our report.)

We have pleasure in submitting to you the attached report.

In the course of our discussions, we noted a rapidly changing context for the mobilisation of development finance for Commonwealth countries - primarily developing countries - in which the following factors need to be considered:

(a) increasing diversity among developing countries, partly as a result of differences in natural resource endowments;

(b) increasing diversity in the sources of capital for developing countries, notably greatly increased direct use by some countries of capital markets;

(c) an increasing trend towards financial "packages", combining commercial and concessionary finance, especially for projects in the directly productive sectors;

(d) increasing governmental involvement in the directly productive sectors, both in public sector projects and in joint ventures;

His Excellency Mr. Arnold C. Smith
Commonwealth Secretary-General
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(e) relatively limited attention by existing international development agencies to projects in directly productive enterprises, particularly in the public sector;

(f) the emergence of large surplus funds requiring secure investment outlets yielding an acceptable return.

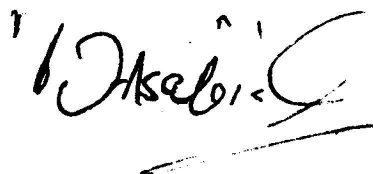
In these circumstances, we considered that there is in fact scope for a new Commonwealth financial institution, which would be both useful and feasible. Our report proposes the establishment of a Commonwealth Investment Bank, the principal function of which would be to promote projects in the directly productive sectors, especially public enterprises and public/private joint ventures. To this end, the Bank should be set up in a way which equips it to concentrate on the mobilisation of finance from a wide range of sources, both commercial and concessionary, and on putting these resources together in well constructed financial packages which serve development ends. Its role as an intermediary will be best served if its equity capital is kept relatively small, so that it has to mobilise additional resources in order to operate on a scale of any significance. By keeping the equity small, we also envisage the possibility of an institution in which developing countries could be the major shareholders, and which would therefore be committed to their interests. We consider that an equity of £6 million would be sufficient, though a somewhat larger capital would be preferable. Our calculations suggest that, on the basis of this equity augmented by borrowing, the Bank might have participated in projects with total investment costs of about £170 million within 5 - 7 years.

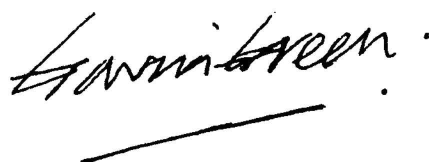
Because the institution that we propose differs in some fundamental respects from existing precedents, we have felt compelled to explore, in more detail than would be normal in a report of this kind, some of the practical problems in the way of setting it up. These include staffing, funding and method of operation. However, in the course of two short series of meetings, we have felt unable to do more than suggest solutions, which appear to us to be feasible in the light of comments received, but which would require further investigation. If our proposal is approved in principle, we would envisage an extensive exploration, under the aegis of the Secretary-General, of the views of Commonwealth governments and financial institutions on potential demand for the services of the Bank and on possible equity and loan participation in its funding. We envisage this as an intermediate stage which would have to precede establishment of a working party to draw up draft articles of agreement. This working party would need to give close attention to a number of technical problems which we have identified in the report as calling for further study, notably the structure of the Board, tax liability and the mechanics of establishing the Bank as an accepted institution in the market.

We believe that the submission of the report completes the task you asked us to undertake. However, we remain at your disposal, should you wish to consult us further.

In concluding, we would like to express our appreciation of the various experts who either came to talk to the Group, or who gave time to our Secretary, Mr. John White. Some, though by no means all, of those who helped us in these ways are listed in Annex V of the report. We would also like to thank Mr. White for his work in preparing material for the group and for his unfailing skill in translating our discussions into drafts for the report.

Yours sincerely,





Barbara Mercer

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SUMMARY[1]

1. The group[2] 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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[1]See also conclusions set out in the letter of transmittal at the beginning of this report.

[2]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)

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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?

II. RESOURCE MOBILISATION IN A CHANGING CONTEXT

Sources of Development Finance

6. In recent years, the main thrust in the creation of new financial institutions has been at the regional and sub-regional levels. If carried too far, this trend could lead to increasing fragmentation into regional blocks. We see a danger, furthermore, that this fragmentation could be translated at the global level into an increasingly rigid division of the world into two camps - developed and developing, donor and recipient, active and passive. The dangers and indeed the untruth of such a crude division, for developed and developing countries alike, are perhaps more obvious in 1974 than they were at the beginning of the Second Development Decade.

7. We believe that the events of 1973 are part of a process leading to a fundamental change in the relationships between developed and developing countries, that these relationships have become more complex, and that a simple division between developed and developing countries will become less and less useful as a basis for strategy. An important element in these changing relationships is the current concern over supplies of raw materials, giving rise to a need for a reorganisation of relationships between supplying and consuming countries, and for improved ways of mobilising resources for the development of natural resources.

8. For development finance in general, Commonwealth countries draw on a wide range of external sources. The main types of source are briefly characterised in Annex VIII, and may be listed here as:

(a) international development banks;

(b) bilateral aid agencies;

(c) development finance corporations;

(d) export credit agencies;

(e) overseas banks permanently represented in developing countries;

(f) banks and other financial institutions offering services as intermediaries in the world's capital markets;

(g) direct foreign investors.

We believe that the trend is towards increased rather than reduced diversity in the sources of capital for developing countries, and that necessity will drive developing countries to seek new sources in addition to those already available. We also believe that this could be a healthy trend, at least to the extent that it reduces developing countries' dependence on the resources, and therefore the preferences, of a small number of dominant development agencies.

9. Operationally, however, the trend towards diversity presents developing countries with two major problems:

(a) the need to shop around more extensively in order to be sure of obtaining the most advantageous terms;

(b) the complications that arise when capital from two or more sources has to be brought together in a single package.

10. Many developing countries gained experience in shopping around among aid agencies in the early 1960s, when aid was increasingly available from a number of relatively recent entrants into the field. But it was always a time-consuming activity, which imposed a considerable burden on the scarce administrative resources of the recipients. In the conditions of the 1970s, when there is less competition among the established donors, so that developing countries are having to explore sources of new and unfamiliar types, this burden is likely to be greater. The problem of comparing the true costs of alternative sources, also, is more severe, e.g. as between a bank which relies primarily on its lending margins and a bank which relies on a substantial commission at the front end of a loan that it has organised. There may be problems for the established donors, too, if they are faced with increasing uncertainty concerning other approaches that are being made to finance a project which they are themselves considering. It would seem both wasteful and risky to leave each developing country separately to acquire the extensive and detailed technical knowledge that the exploration of new sources requires.

11. Experience in putting financial packages together for complex projects is at present most heavily concentrated in some specialist merchant banks and banking consortia, the major inter-governmental development banks, and development finance corporations. Merchant banks and other commercial banks, however, are relatively inexperienced in the mobilisation of packages including concessionary finance, which is usually regarded as an inter-governmental responsibility; and mixtures of commercial and concessionary finance are likely to become increasingly common, e.g. where the exploitation of natural resources in a remote part of a country requires some concessionary finance for infrastructure. In the inter-governmental development banks, officials with experience of putting a mixed financial package together seem to be agreed that it is a difficult, lengthy and highly specialised task, which they tend to regard as subsidiary to their main task of direct financing of projects, using the resources of the banks that they serve. Generally speaking, inter-governmental development banks are reluctant to become involved in projects in which they are not the main source of finance, because of the complications that this introduces into the process of project appraisal and control. Development finance corporations, notably the International Finance Corporation, have been more energetic in seeking additional sources of finance, but here there are other problems, to which we return in paras. 14 and 24 below.

The Need for a New Intermediary

12. We believe that the ability of Commonwealth countries to take advantage of new and changing opportunities could be enhanced by the creation of an additional intermediary, specialising in putting the finance together from diverse sources in those fields which tend to be financed in this way. The case for such an intermediary seems to us to apply primarily but not exclusively to the directly productive sectors,[1] and particularly to the exploitation of natural resources. We have noted a widespread feeling that these sectors are not adequately covered by existing sources of development finance, a view which seems to have underlain, for instance, the incorporation of a special emphasis on increasing productive capacity in the creation of the Caribbean Development Bank.

1. The term "directly productive sectors", as used here, covers manufacturing, mining and petroleum, and agriculture. For brevity, the term is shortened in the remainder of the report to "productive sectors".

13. Many developing countries have tried to promote their industrialisation through the mechanisms of an open market economy, relying both on foreign investors and on domestic private entrepreneurs. There have been some impressive successes in terms of increased aggregate output. Nevertheless, the strategy is being reconsidered in the light of two needs that have appeared:

(a) a need for new types of agreement between foreign investors and their local partners, which will give confidence to both sides, and will give confidence to governments that they remain in effective control of the development of their countries' resources;

(b) a need to improve the internal distribution of the gains, in terms of employment creation and increased incomes for the mass of the people.

It seems likely that many governments will try to meet these needs by increased public intervention in the productive sectors, irrespective of political ideology, and that this will happen even in countries that continue to welcome foreign investors as partners in joint ventures. It may be difficult, however, to match this process in the mobilisation of finance, and in the development of the specialised skills required in financial negotiations. An intermediary performing the functions outlined in para. 12, therefore, could fulfil a particularly useful role as bank to the state as entrepreneur. To fulfil this role adequately, an intermediary would have to meet two basic conditions:

(a) that it should be committed to its primary clients, since a superficially neutral intermediary may quickly lose plausibility when confronted with doubts about whom it "really" represents;

(b) that its acceptability to potential sources of finance should be solidly based on respect for its financial integrity and its business capacity.

14. One severe problem that has arisen in countries in which the public sector is seeking increased participation in productive enterprises, to which the proposal of the Government of Jamaica, for instance, was addressed, is the mobilisation of adequate venture capital. An intermediary of the type envisaged could contribute in three ways to solving this problem:

(a) it could help in finding, assessing and introducing an appropriate foreign partner, having regard to such factors as the relative merits of different technological processes;

(b) as a bank seen to be committed to the interests of the host country as its client, it could act for the host country in financial negotiations, and could help in organising its equity stake on a sound financial basis;

(c) within limits, at least in relatively small enterprises, it could help with the initial financing of the host country's equity stake, perhaps with a loan to be repaid on some sort of production payment basis -

a function which at present sometimes falls to the foreign investor, with unsatisfactory results for both parties.

We would see dangers, however, for a new institution which had the direct provision of equity capital as its major function. The experience of development finance corporations has repeatedly shown that the performance of this function has two results:

(a) heavy and continuing involvement in the management of enterprises in which the corporation has invested, which diverts staff resources from the identification and organisation of new investment opportunities;

(b) a loss of flexibility in the corporation's balance sheet.

Neither of these results is compatible with the functions outlined in paras 12 and 13.

15. Several of us were able to recall cases from our own experience, in which projects had failed to come to fruition because of the lack of an intermediary capable of assembling all the elements essential to the launching of a project, rather than because of defects in the projects themselves. Similarly, in discussing the first draft of our report informally in our own countries, several of us found that our proposals were welcomed as meeting real and substantial needs, especially by national development finance institutions. Most important in our view is the fact that an intermediary of the kind that we envisage was seen as being sufficiently flexible to meet the special and differing needs of different countries. Furthermore, developing countries' need for sound assistance and advice in their relationships with sources of commercial finance is implicit in the concern that has been expressed in a number of annual reports of existing international financial institutions. Full assessment of demand would require detailed and comprehensive exploration of the views of individual Commonwealth governments, and of government agencies such as national development banks. This exploration would be addressed to the questions that we raise in Section V, and to more detailed development of our proposals in Section VI. If these proposals are welcomed in principle, we suggest that the necessary further exploration could be done under the aegis of the Secretary-General.

The Commonwealth's Comparative Advantage

16. In this context, the Commonwealth's frequently cited virtues of diversity of membership, relatively easy communication and flexibility of response are not negligible. The Commonwealth has already developed some interesting techniques, notably in technical assistance, for making the distinction between donor and recipient less rigid. The experience thus gained provides a useful starting point.

17. The argument against translating that experience into financial terms has been that the number of Commonwealth countries capable of providing financial aid is smaller than the number capable of providing technical assistance. According to this argument, Commonwealth developing countries, while they may draw heavily on other Commonwealth countries for technical assistance, have to look to channels which draw on a wider range of sources to meet their financial needs. Figures for aid to Commonwealth countries are given in Annex VI. Bilateral aid from Commonwealth developed countries is

about one-third of total aid to Commonwealth recipients as a group from DAC member countries and multilateral agencies. Even this proportion represents a significant concentration of effort. That it is not larger is simply a reflection of the imbalance between developed and developing countries in the Commonwealth membership.

18. Australia, Britain, Canada and New Zealand have a combined GNP equivalent to 13 per cent of the total GNP of DAC member countries. Their combined aid programmes are equivalent to 15-16 per cent of total aid from DAC member countries. Commonwealth developing countries, in contrast, account for 45 per cent of the total population of developing countries, excluding China, North Korea and North Vietnam, and they are the recipients of about 25 per cent of total aid from DAC member countries and multilateral agencies.

19. So long as discussion is confined to the established framework of multilateral and bilateral aid, to the established sources of aid, and to established relationships, it seems to us that this imbalance in Commonwealth membership cannot be lightly dismissed. In a world of rapidly changing relationships, however, the Commonwealth has a special advantage. Precisely because the scope for action along familiar lines may be constrained by the imbalance in Commonwealth membership, the proponents of any Commonwealth initiative are forced into an effort to re-define relationships, and to identify new opportunities which existing institutions, with an established code of practice developed over a number of years, might overlook. In this context, the diversity of Commonwealth membership, which includes relatively advanced developing countries as well as some of the least developed, becomes one of its greatest strengths. There is strength, also, in the fact that its membership is exclusive as well as inclusive, a circumstance which requires its members, in all their diversity, to consider what binds them as well as the differences in their viewpoints.

20. In a financial context, one element of Commonwealth relationships which seems to us to have considerable substance is the propensity to make use of the services of the City of London. For historical reasons, a Commonwealth country will normally have a higher propensity to use the City of London for its overseas financial business, in preference to one of the other major international financial centres, than would a non-Commonwealth country in the same region and with the same characteristics. That this continues to be so is only partly attributable to historical reasons. A more substantial reason, it seems safe to assume, is that Commonwealth countries continue to find the services of the City of London useful. It seems to us that no discussion of intra-Commonwealth financial relationships can afford to overlook the existence of this solid asset. An instrument which facilitated more efficient use of this asset, to the benefit of Commonwealth developing countries, might realise within the Commonwealth that ideal of a mutually advantegeous relationship which has hitherto figured more prominently in the rhetoric of development cooperation than in its reality. While this report concentrates on the mobilisation of capital, and hence on the needs of developing countries, it is clear that better use of the market is to the advantage of developed countries also, in terms of the common interest of all countries in the maintenance of orderly conditions in the market, in the promotion of trade, and in the promotion of a climate for investment which ensures an equitable and secure distribution of returns.

21. Some indications of the scope of London as an international financial centre are given in Annex VII. In particular, Annex VII underlines the significance of London's emergence as the main centre of the Eurocurrency market. Commonwealth developing countries, of course, are not the largest users of London's financial services. One other group of users which is of special relevance to a discussion of development finance, in a context of changing international relationships, consists of those countries which have newly acquired or greatly increased surpluses, few of which are in fact Commonwealth members. But Commonwealth developing countries do have some measure of special access to London, notwithstanding the erosion of discriminatory regulations in their favour, by virtue of their long-standing connections.

22. The preceding paragraphs have been concerned with the Commonwealth's comparative advantage as a framework within which to establish a new financial institution and to develop new relationships. Another argument of a more political nature which needs to be considered - though it is clearly beyond our capacity to carry it to a conclusion - concerns the extent to which Commonwealth member countries see the case for a new institution of some substance and utility as a practical application of their more general commitment to the principles of Commonwealth cooperation.

The Capacity of Existing Institutions

23. The functions outlined in paras. 12 and 13 would be different from and additional to those of the Commonwealth Development Corporation. The CDC has accepted the logic of para. 14, to the point that 65 of the 233 companies in which it has investments, including 32 which are CDC subsidiaries, are directly under its own management. Our impression is that the factors that have made this possible include, among others:

(a) its derivation of its money relatively cheaply from a single major source which simplifies control as well as reducing its balance sheet problems;

(b) a structure which allows it to accept a long-term managerial commitment to the projects that it selects;

(c) a coherent staff team built up over a long period, with relatively little turnover.

We do not think that it would be easy to sustain these features in an international corporation, and we believe that there are strong arguments against seeking change for change's sake in a corporation which, after a long and difficult initial period, is generally regarded as performing rather well the role that it has developed for itself.

24. The functions that we envisage are rather closer to those of the International Finance Corporation, and indeed the experience of the IFC, and its way of tackling the problems it has encountered, figured prominently in our own discussions. Apart from the general tendencies of development finance corporations mentioned in para. 14, we see three principal difficulties that might prevent the IFC from performing the functions we have in mind.

First, the IFC's articles place it firmly in the private sector.[1] It does not exist to assist the state as entrepreneur except as a minority participant, and we do not see how this function could be combined with its primary role. Secondly, even if this difficulty could be overcome, a membership of 98 countries is an impediment to the growth of close and continuing relationships with client governments. Thirdly, the fact that more than 75 per cent of its capital is subscribed by developed countries means at the least that it must remain neutral as between foreign and domestic investors, whereas what is required for the functions outlined here is an institution committed to the interests of its primary clients (see para 13 above).

25. We have also considered whether the intermediary role could not be equally well performed by existing Commonwealth banks and other London banks with experience in developing countries, thus avoiding the need for a new institution. There are some signs that this is already happening - e.g. the successful offer by Kleinwort Benson to act for the Government of Hong Kong in the financing of the Hong Kong underground, which was announced during our first round of discussions. We assume that this type of business will expand, but we also assume that the main business of these banks will continue to be with their established clients, and that there will be a growing role for a bank that works primarily or even exclusively for clients in developing countries. Furthermore, circumstances arise in which developing countries will get the most favourable terms by allowing contractors and their associated banks to compete in securing the best export credit terms, while they would do better to have a single bank going to the market on their behalf to finance the down payments and other elements which export credit cannot cover. In this situation a clear division of responsibility would be beneficial.

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1. Article One of the IFC's Articles of Agreement states:

> "The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development ... In carrying out this purpose, the Corporation shall:
>
> i. in association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms;
>
> ii. seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and
>
> iii. seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries.
>
> The Corporation shall be guided in all its decisions by the provisions of this article."

26. Another possibility that we have considered is the more modest performance of the intermediary role by a technical assistance team operating as financial consultants, perhaps under the aegis of the CFTC. All those whom we consulted, however, emphasised that any institution which was not putting resources of its own into the loans it was promoting would get a very sceptical response. We conclude that the functions outlined require a bank equipped with sufficient resources to give convincing backing to its promotional activities, even though its own participation in the loans that it put together could normally be quite small.

Other Functions Considered

27. In addition to considering alternative instruments for performing the functions outlined in paras. 12 and 13, we have also considered other financial needs, and possible institutions to meet them. Of the types of institution that we considered, the main ones are:

(a) a development bank;

(b) a development corporation;

(c) a general purpose concessionary fund, or "soft window";

(d) an export credit facility.

Our terms of reference required us explicitly to consider the last of these. Our reasons for rejecting it are given in the next paragraph. Our reasons for giving a lower priority to the other three than to the creation of a bank designed along lines rather similar to those of a project-oriented merchant bank are implicit in the arguments of paras. 12-14 and 16-21. They are essentially functional, and relate to the Commonwealth's comparative advantage. In terms of additionality, we believe that a bank with the functions suggested could achieve larger gains to developing countries, in the forms set out in para.5, than any plausible institution of types (a), (b) or (c) above. In reaching that conclusion, we do not mean in any sense to dispute the case for a larger flow of concessionary funds from developed to developing countries, which would be a factor in the creation of an institution of any of these three types. Because this is a crucial issue in the creation of any new financial institution for developing countries, our general views on it are set out in the concluding paragraphs of this section.

28. The question of export credit for developing countries' exports falls into two parts. First, there is the question of conventional 180-day credit for normal trade. Here, there does not seem to be a major problem, and we would commend measures such as those taken by the Government of Jamaica, which are set out in Annex IX for illustrative purposes. Secondly, there is the question of medium-term credit on terms which enable developing countries with productive capacity in the capital goods sector to compete with developed countries in what has recently become something of a "credit race". Here, we would broadly endorse the argument of the Orion Bank Study, which can be summarised as follows:

(a) The main claims on such a facility would be made by a rather small number of Commonwealth countries.[1]

(b) The sums involved in financing the "extra cost" of

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1. Op. cit. paras. 44 - 46.

subsidising medium and long-term export credit are small in relation to export earnings. 1

(c) The provision of these sums from external sources might raise disproportionate political issues in terms of the reaction of exporting interests in the principal donor and lending countries.2

On the basis of this argument, we also endorse the principal conclusion of the Orion Bank Study, to the effect that the burden of financing medium and long-term credit "can best be mitigated or offset by appropriate recourse to international money and capital markets".3 We attach particular importance to the third of the arguments cited above. To be of real help, an externally financed export credit facility would need to be additional to existing sources of concessionary funds. We believe that Commonwealth developing countries will encounter fewer problems, and will achieve a greater addition to their resources, if they pursue such an addition by other means, enabling them to divert their own resources thus saved into financing their exports in the manner suggested by the Orion Study. This conclusion, however, relates specifically to an export credit financing or re-financing facility. We note the need identified in the Orion Study, for technical assistance in the fields of export credit finance and credit insurance. We also note that the question of providing an international guarantee facility for export credits is under study in the World Bank.

29. A bank performing the functions that we envisage would be very active in organising development financing packages in which existing sources of concessionary finance are a component alongside loans on commercial terms. It is possible, also, that circumstances will arise in which bilateral agencies will ask it to administer concessionary funds on their behalf, either as parallel financing or as funds in trust, for which it would require the appropriate powers. In addition, a situation might arise in which bilateral agencies were anxious to associate themselves more closely with its operations. To provide for this possibility, the articles could be drafted in a way which would facilitate the incorporation of a soft window at a later stage.

30. 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 depends ultimately on the political will of member countries, which we are not qualified to assess. If the will to establish a Commonwealth soft-loan instrument does exist, however, we still think that it should initially be kept quite separate from a bank performing the functions that we have in mind, at least until its reputation and image as a sound commercial organisation are firmly established.

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1. Ibid. paras. 22, 23 and 48. Even for India, the principal country involved, it was calculated that the annual "extra cost" of financing a 3 per cent margin between the terms of market borrowing and of subsidised credit would take ten years to reach £3.6m.

2. Ibid. para. 18.

3. Ibid. para. 54(b)

III. TASKS FOR A COMMONWEALTH INVESTMENT BANK

31. In the preceding section, we have made a case in general terms for a bank that would act primarily as an intermediary on behalf of governments and public enterprises in Commonwealth developing countries, supporting them in their relations with external sources of concessionary and commercial loans. The purpose of this section is to set out some major tasks to which it might address itself, in certain specific fields.

32. A Commonwealth Investment Bank, as it might be called, would need to develop the general skills required for project-financing in the productive sectors - i.e. manufacturing industry, mining and agriculture. Apart from these general skills, as exemplified, for instance, in the financing of large-scale industrial projects, the Bank would need to develop specialist skills related to the tasks associated with particular problem areas. In identifying some of these skills, and the tasks for which they are required, it is not our intention to preclude other operational areas that the Bank might enter. Our purpose is simply to specify some major problems for the resolution of which a suitable instrument appears at present not to exist.

33. It is noteworthy that the lack of such an instrument has already been felt by certain non-Commonwealth countries. An argument along the lines of the preceding section seems to have been an element in the establishment of an International Investment Corporation for Yugoslavia and in the intended establishment of a Euro-Latin American bank. For the reasons given in paras. 19-21, a bank or corporation of this type established within the Commonwealth would have special advantages.

34. As an instrument for facilitating developing countries' access to capital markets, a Commonwealth Investment Bank would need the skills required for operating in Eurocurrencies. Recent events have given rise to a general re-examination of the Eurocurrency market, giving added urgency to the need for an instrument which will promote orderly and prudent use of this market on the part of developing countries. According to one assessment, announced Eurocurrency borrowing by developing countries in the year November 1, 1972, to October 31, 1973, was $6,500m.[1] It was estimated that total borrowing by developing countries in the Eurocurrency market was perhaps double that amount.

35. There are some obvious dangers in this trend. At current rates, such borrowing is expensive, and can be rendered much more expensive:

(a) by wrong assessments of future parity movements, which can outweigh the effect of interest rates [2];

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1. Rothschild Intercontinental Bank, Annual Report, 1973, p.7.

2. Ibid. pp.9-11. The cost in sterling terms of borrowing certain Eurocurrencies for six months is estimated as having ranged from -12% to +71% in 1973.

(b) by borrowing through channels in which additional costs are imposed, or through persons and institutions of uncertain worth.[1]

In spite of these dangers, it seems unrealistic to believe that developing countries will deny themselves access to such a large source of funds. From their point of view, borrowing on this market has the advantage of giving greater freedom of action, since it normally carries fewer conditions than are associated with lending on concessionary terms. Where it is used as an alternative to tied concessionary loans for capital and semi-capital goods, the extra cost of borrowing on the market, if knowledgeably and skilfully used, may be largely offset by savings on price and a more advantageous choice of equipment.

36. The dangers of borrowing in the Eurocurrency market are most likely to be avoided by those banks which have a continuous and large-scale involvement in it, and which have therefore developed the required specialised skills. These banks have become increasingly involved in raising general-purpose loans for the relatively few developing countries that are regarded as creditworthy, and, more widely, in the mobilisation of project finance for countries which cannot borrow simply on the basis of their overall financial strength. The main function of a Commonwealth Investment Bank in this field would be to identify, maintain close relations with and facilitate the business of those reputable banks which can plausibly take a lead position in the syndication of Eurocurrency loans. It would not normally take a lead position itself, though it would often need to take a small participation in whatever financing it arranged, in order to inspire confidence.

Mining and Petroleum

37. The mineral assets of developing countries may remain unexploited or under-exploited for any or all of four main reasons:

(a) an adverse assessment of political risk on the part of mining companies;

(b) the location of mineral deposits in remote areas, involving uneconomic infrastructure costs;

(c) failure to find a satisfactory contractual resolution to the conflict between developing countries' legitimate desire to control and to derive the benefit from their own assets and the desire of mining companies to earn what they regard as a fair return on investment of an inherently risky nature;

(d) failure to mobilise the very large amounts of capital required.

A Commonwealth Investment Bank could make a useful contribution in all four respects, as set out in the next four paragraphs, and in doing so could provide a service of value both to the countries in which minerals are located and to the principal consumers.

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1 Since these additional costs tend to occur at the front end of the repayment schedule, e.g. as enlarged fee and commission, they have a disproportionate impact on the discounted stream of repayments.

38. Mining companies are increasingly unwilling to commit their own resources to what they regard as areas of high political risk. It seems to be generally agreed that an additional intermediary on the side of developing countries, with a stake of its own in the development of new mines, could have a steadying effect. In particular, it could help in the working out of a mutually acceptable understanding, giving the mining companies a reasonable assurance of the future security of their operations. We note that there have been cases in which failure to reach a satisfactory understanding, and hence failure to develop a new mine, appears to have been attributable to the lack of an intermediary which the developing country concerned felt it could trust completely as having its interests at heart.

39. Assessment of political risk has driven mining companies to look at high-cost but allegedly low-risk areas in developed countries. One result of this is that deposits which were previously regarded as uneconomic because of infrastructure costs may now be worth reconsidering, especially if the host country, as a partner in the venture, can reduce the cost by securing concessionary finance for the infrastructure element. If this trend materialises, mixtures of concessionary and commercial finance will become increasingly common, posing a complex problem in coordination.

40. Because of the size and complexity of mining projects, the mechanisms by which returns are distributed between mining company and host country have to be negotiated to meet the circumstances of each special case. The need for assistance to developing countries in this respect is widely recognised. There have been occasions on which contracts have had to be renegotiated after some years, to secure more equitable terms. The process which leads to such renegotiations can generate much ill will on both sides. It would clearly be preferable if a mutually acceptable contract, with some chance of enduring as such, could be negotiated in the first instance.

41. The development of a new mine is typically financed on a development production payment basis, repayments being geared to the proceeds of a long-term sales contract. Governmental participation introduces an additional party to the contract as a complicating factor. There has been some discussion of the extent to which current practices in mineral financing need modification to take account of uncertainty over the problems to which this new situation may give rise. While the mining companies themselves seem to have adopted a more flexible position on the question of government participation, and while some of the banks that we consulted expressed a preference for government participation, or even government control, on the ground that in the long run this gives greater stability, the general view seems to be that new financial instruments will have to be developed. We are not qualified to judge the strength of the technical arguments in this discussion, but it appears to us at least that a need will arise for a bank which has a special competence in the techniques of mineral financing for developing countries, and which will therefore take a lead in developing new financial techniques if they are indeed required.

Agricultural Production

42. International development agencies have recently given greatly increased attention to agriculture. It is a sector which remains problematical for big international lenders, because of the multiplicity of small final borrowers, the element of local cost, the inappropriateness of the conventional capital/recurrent distinction, and vulnerability to highly

complex non-financial factors - administration, social organisation, climatic risk, etc. In view of the extent to which these problems are recognised, and of the intensity with which solutions are being sought, it seems likely that the main thrust for the new initiatives which are undoubtedly needed will come from existing institutions. The functions that we have already outlined, however, would clearly give the bank a role in putting together agricultural projects of an organised commercial nature.

43. As envisaged, a Commonwealth Investment Bank would be especially well equipped to assist in the organisation of agricultural processing projects. When agricultural processing is in the hands of an established company with experience in this field, the financing of new projects is relatively simple. It is becoming increasingly common, however, for governments to take the view that new processing projects should be established in the public sector or as joint ventures, in order to control, and to retain the income from, this development of their natural resource base. Another reason given is the need to ensure, through the mechanism of government participation, that the benefits of this increased income are distributed widely among small-scale agricultural producers, and are not confined to a small minority of private entrepreneurs who already have the capacity to save and invest. A Commonwealth Investment Bank could help governments to attain these objectives by organising the venture capital of such projects on a sound basis. Without such help, governments may be driven to adopt one or both of two strategies:

(a) keeping the total equity small, in order to minimise its own cash contribution while retaining overall control;

(b) seeking the assistance of the foreign partner in financing its own equity stake, e.g. with an agreement under which the foreign partner accepts deferred payment out of the earnings of the project.

Neither strategy is wholely satisfactory. The first can result in severe under-capitalisation. (Cases of debt/equity ratios as high as 20:1 have been reported to us.) The second introduces ambiguities into the substance of partnership, which constitute a potent source of future misunderstanding. Additional problems arise if the foreign partner responds to this unsatisfactory situation by seeking a management contract in preference to an equity stake, which can result in reduced commitment to the project and a loss of tax revenue.

44. The Bank's activities in manufacturing industry, also, could provide useful support for agricultural development. In particular, we note that fertiliser projects typically involve a mixture of concessionary and commercial finance, which gives rise to situations for which the Bank is explicitly designed.

45. More generally, the possibilities in agriculture would require further study after the Bank had taken shape.

Small-Scale Industries

46. Development agencies with experience in the promotion of small-scale industries seem to be agreed that success in this field requires close and continuing support during an extended initial period. This suggests

that the task of promoting small industries lies primarily with national development agencies, or at least with agencies that are strongly and extensively represented in the field, since a local presence is necessary for assessment in personal terms of the degree of entrepreneurial commitment, assistance in working up an idea into a viable proposition, assistance in the acquisition of basic business skills, such as book-keeping, and early warning when the small business man's vulnerability to short-term problems is getting him into difficulty. Compared with national development banks concerned with the promotion of medium and large-scale industries, agencies for the promotion of small industries have been relatively little used by the major international lenders as financial intermediaries, because of a prevalent assumption that their main need is technical assistance. Yet such agencies do need financial support in the performance of their role, in association with technical services, which suggests that a Commonwealth Investment Bank could fulfil a useful purpose in a relatively neglected field of international development cooperation.

General Purpose Borrowing

47. The needs in relation to general purpose borrowing are not confined to those countries which are sufficiently creditworthy to go to the market. In addition to helping creditworthy countries to organise their borrowing as cheaply as possible, a Commonwealth Investment Bank could play a useful role in helping countries to assess and compare the true worth of the services offered by commercial banks and other private intermediaries, even in countries of limited borrowing capacity.

Other Areas Considered

48. The other areas that we have considered fall mainly under the heading of invisibles. In particular, we have looked at three areas in which it is frequently argued, notably in the context of Unctad debates, that the dominance of developed countries imposes an unnecessary strain on developing countries' foreign exchange resources. These are:

(a) insurance;

(b) shipping;

(c) tourism.

We do not believe that simply building up developing countries' capacity in these three areas provides an adequate solution to the problems that arise. In insurance, we see no easy way of avoiding the cost of re-insuring in one of the established insurance markets. Both in shipping and in tourism, we note that considerable efforts have already been made, and that in the light of experience many developing countries are now reconsidering their policies. We would draw attention to the possibility of expanding the functions of the CFTC in these fields, to assist developing countries in making discriminating use of the facilities that are available, but we are not convinced that the problems are primarily financial, or that a financial intermediary could make a significant contribution to their solution.

IV. THE TASK OF ESTABLISHING THE BANK

49. A bank capable of responding to the needs identified in the two

preceding sections would have to possess the following characteristics:

(a) a high degree of operational flexibility;

(b) knowledge of, and a determination to work with, a wide range of other financial institutions;

(c) a capacity to sustain an uncompromisingly business-like image while remaining sensitive to the developmental aspirations of its principal clients;

(d) a professional command of some highly specialised skills.

The performance of its intermediary role requires above all that it should avoid the tendency which is sometimes attributed to existing international development agencies, of imposing their own operational preferences instead of trying to respond to the preferences of their clients.

50. To establish and run a bank with these characteristics will impose far greater demands both on its backers and on its staff than would the establishment and running of a more or less self-contained operational agency. Even if the charge that existing development agencies tend to impose their own preferences is open to challenge, it is certainly true that they find it easier to operate in situations in which they retain a controlling position. Our aim in this section is to provide a realistic assessment of some of the principal difficulties to be overcome, which we see as lying in five main areas:

(a) the time-scale for establishing a Commonwealth Investment Bank;

(b) staffing;

(c) relations with member countries;

(d) relations with non-member countries;

(e) commercial and financial risk.

In the concluding section, we make specific suggestions concerning the structure of the Bank, which we think would go some way towards resolving these difficulties. But we do not think that they can be totally eliminated, or that they should be glossed over.

Time-Scale

51. Experience suggests that the establishment of a new financial institution tends to take longer than expected. Our view, and the view of those whom we have consulted, is that it might take two years to build up the staff of a Commonwealt Investment Bank to a level at which it would be capable of operating effectively, and that it might require a further period of between three and five years before it had built up a sufficient volume of business to be fully self-supporting and capable of expanding its operations purely on the basis of its own record. During this initial period, it will require special support from its members, though we do not think this support should be continued indefinitely. We have given a tentative estimate of administrative costs during the preliminary two-year period, before the Bank has begun to earn a normal income, in Annex X. These administrative costs would have to be financed by, and would for an intermediate period absorb, the

interest on the Bank's capital, which during this period will presumably be held in the form of time deposits and other liquid assets. However, as the Bank begins to do business, it seems inevitable that in the early stages, before it has established the sort of reputation required for the performance of its intermediary role, direct lending from its own resources will figure more prominently in its operations than is ultimately envisaged, and for this it will need extra backing on a temporary basis.

52. We have identified two major respects - the incorporation of a soft window and the provision of venture capital - in which the Bank may have to reconsider its position once it is securely established. Furthermore, we have suggested above that a transitional period will be required before the Bank can develop its intermediary role. There is clearly a danger that in the process of establishing itself the Bank could become committed to practices which would impede a subsequent review of these issues, and which might therefore prevent it from functioning as intended. The phasing of the Bank's transition from one stage to another will need to be carefully thought out in advance, and precautions taken against the onset of operational rigidity.

Staffing

53. The Bank will be granted authorised status by HM Treasury,[1] and will gain acceptance from the commercial banks with which it will need close relations, only if it is seen to be run by people with the experience and qualifications that the performance of its functions requires. Staff of the required standing will not be easy to find, and to attract them will require the payment of internationally competitive salaries. Apart from the crucial question of the appointment of the chief executive, we see three main staffing needs which may be difficult to fulfil:

(a) a specialist in UK exchange control;

(b) at least one first-class foreign exchange dealer, and eventually a team;

(c) several bankers with experience of putting projects together in developing countries, especially in the natural resources sectors.

We do not think these problems are insuperable, especially as we do not envisage a large staff, perhaps twenty to twenty-five professionals in the fourth year (see Annex X). However, there are two requirements for their solution:

(a) that the Bank should be seen to have the substantial backing, preferably as shareholders, of a number of private banks with established reputations in the City of London;

(b) that the governmental shareholders should recognise the overwhelming importance of recruiting the best staff possible, not necessarily ruling out non-Commonwealth citizens in specialist positions.

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[1] In this paragraph, it is assumed that the Bank would be located in London - cf. para. 77 below.

54. The key to effective staffing, as indeed to many other aspects of the Bank's development, is the appointment of the chief executive. We assume that the need to make this appointment on the basis of personal quality and professional qualifications will be widely recognised, and that political considerations will enter only to the extent that there are certain obvious minimum conditions of acceptability that need to be met.

Relations with Member Countries

55. We have suggested that the Bank will require some form of special support in its early years. It would be alien both to the spirit and to the substance of our proposal to expect that support to come exclusively or even primarily from Commonwealth developed countries. A question arises, therefore, concerning the extent to which the political will exists, on the part of Commonwealth developed and developing countries alike, to give the Bank effective support in its initial funding. The answer to that question depends partly on the amount of support required. In the next section, we suggest that it would be possible and indeed desirable to establish the Bank with an equity and loan capital structure which imposes a relatively small burden on its members.

56. There are two other respects in which the attitude of countries considering the possibility of participating in a Commonwealth Investment Bank needs careful assessment. First, does the potential utility of the Bank constitute a sufficient inducement to member countries to bring business to it in the early years of its development? In our view, this question has at least as significant a bearing on the ability of the Bank to establish itself as the question of funding. Secondly, will the Bank's need to attract business provide a sufficient assurance that it will endeavour to meet its members' requirements, without the imposition of political controls? To establish itself as a credible mobiliser of external capital, the Bank will need considerable freedom of action. Political controls, while superficially seeming to bring it more closely into conformity with members' requirements, could frustrate it in the performance of its principal function.

Relations with Non-Member Countries

57. In some respects, notably in the syndication of loans, the mobilisation of export credits, and procurement, to confine the Bank to operations in Commonwealth countries might be unduly restrictive. At the same time, the case for the Bank as a Commonwealth institution rests on a belief that the Commonwealth relationship is advantageous to all its members, including its developed country members. This case will be strengthened if the generally desirable principles of freedom to seek procurement from the cheapest source of supply and to explore all possible sources of capital are tempered with some measure of Commonwealth preference, but it will not be easy to strike the right balance, and even less easy to translate that balance into watertight legal provisions.

Commercial and Financial Risk

58. A bank which is primarily concerned with the financing of projects in the productive sectors depends essentially for its income on the profitability of the enterprises that it supports. For certainty of repayment, it depends on the strength of the security that it can take. It will of course seek the normal assurances of appropriate guarantees and other forms of

security in its operations. But it should not seek special protection in respect of any risks inherent in the projects which it finances, and should be steered away from the temptation to rely on government guarantees as the main element in its own creditworthiness. If a significant proportion of the enterprises supported by the Bank fail, it, too, will have failed, and its shareholders will stand to lose their equity stake. We believe that this risk should be faced, as a necessary discipline in the Bank's operations. We do not believe that the areas of need which we have identified require an institution which is set up to make losses.

59. For an institution which both borrows and lends on essentially commercial terms there is, however, a more general risk relating to the creditworthiness of borrowing countries. Indeed, the question arises whether operations on such terms are appropriate to some of the poorer Commonwealth countries with particularly difficult development tasks. In this connection, we consider that the case for a bank of the type that we envisage rests partly on evidence which suggests that even in the poorest countries there are projects offering the potential of high economic returns, but which are held up by problems of assembling the needed financial, technical and managerial package. Probably all countries resort to borrowing on commercial terms in addition to assistance received on concessionary terms. By helping to ensure that such borrowing would be undertaken on the most favourable terms and conditions, and that the projects financed would be effective in earning or saving foreign exchange, a Commonwealth Investment Bank would in fact strengthen the creditworthiness of the borrowing country. This would not be sufficient in itself to guard against the possibilities of balance of payment and debt-servicing difficulties in borrowing countries. However, on the assumption that Commonwealth countries would value the services provided by a Commonwealth Investment Bank, it would be important that they should protect the Bank's own ability to borrow by avoiding default on their debt service liabilities to the Bank.

V. RECOMMENDATIONS

Functions of a Commonwealth Investment Bank

60. We propose the establishment of a Commonwealth Investment Bank with the following principal functions:

(a) to take a financial participation in and to assist the efforts of Commonwealth countries to diversify and enlarge their sources of external capital;

(b) to assist Commonwealth countries in the identification and preparation of projects, especially projects in the productive sectors, and in the mobilisation of finance for such projects;

(c) to assist Commonwealth countries in organising the capital structure of projects on a sound financial basis, especially projects in which governments or public enterprises are major participants;

(d) to assist Commonwealth countries in the identification of and negotiations with suitable foreign partners in the promotion of joint ventures;

(e) to act generally as a financial intermediary, especially in fields in which other financial entities involved are likely to include both commercial and concessionary sources of capital.

Our remaining recommendations are intended to provide the outline of a bank which we believe to be both feasible and appropriate to the functions that we have listed.

Operations

61. The essential characteristic of the proposed bank is that it should operate constantly with and among the following main groups:

(a) Commonwealth country governments;

(b) Commonwealth country public enterprises and public/private joint ventures;

(c) Commonwealth country private companies;

(d) foreign companies investing in Commonwealth countries;

(e) banks acting for (d), and other commercial banks;

(f) export credit agencies;

(g) international development banks;

(h) international development finance corporations;

(i) bilateral aid agencies.

It would act primarily for (a) and (b) as its clients, mobilising finance on the best possible terms from (e) and (f), in close cooperation with (g), (h) and (i). To this end, it would normally reckon to take a small participation of its own in whatever financing it arranged, but only under exceptional circumstances would it take the position of lead bank or principal source of finance. The bulk of its operations would take the form of putting packages together in the ways best suited to its clients, rather than direct lending for projects in accordance with some set policy of project-financing.

62. It should aim, therefore, to keep its average participation - i.e. the loan and equity investments on its balance sheet, expressed as a percentage of the total investment costs of the enterprises in which it is a participant - well below the level typical of a development finance corporation, and closer to the level preferred by merchant banks.[1] We believe

[1] The CDC, a corporation which is conspicuous in its willingness to take a relatively large holding, with the concomitant managerial responsibility, estimates its overall level of participation at 20 per cent. The IFC, in its annual report for 1972, gives 19 per cent for the year's operations, rising to 31 per cent for new business in 1973, when improved prospects for selling participations in its own investments enabled it to increase its initial share. The preference of merchant banks, according to one assessment given to us, is for a share ranging from 10 per cent in relatively small projects to as little as 3 per cent in cases in which large total amounts are required, while in some banks there is a trend towards operating purely on a fee-earning basis.

that it should aim for an average participation of 10 per cent initially, and that this percentage should decline as the Bank's reputation as an effective mobiliser of capital for its clients becomes stronger. The Bank would then be using its own loan and equity capital as an earnest of its support for projects in which its main purpose would be to arrange much larger amounts from the mixtures of sources suggested in the preceding paragraph.

63. It should be empowered to make equity investments, but it should use this power initially only when an equity contribution is an essential element in a larger package. It should not regard direct investment in equity as a major instrument in its operations.

64. These operations would yield an income, in the form of the margin on the Bank's lending and investigation and management fees which it would charge for its services.

Size of Capital, Sources of Funds and Scale of Operations

65. We consider it desirable to keep both the issued capital and the balance sheet of the Bank relatively small, in keeping with the emphasis given to the raising and syndication of finance from a wide range of sources. If the suggested participation level of 10 per cent can be held, we believe that an initial paid-up capital of some £6m would provide an adequate base, though some assessments suggest that an issued capital of, say, £10m would give a more than proportionate increase of confidence to potential depositors.

66. On top of a £6m equity base, the Bank would need an initial assurance of medium and long-term loans to become available as its operations develop, because it will not be able to borrow on the market until its operations have established a satisfactory "track record". In the first phase of its evolution, a reasonable aim might be to build up a debt/equity ratio of 3:1, giving a total balance sheet of, say, £25m. We have considered four main ways in which this initial expansion could be financed:

(a) callable capital as backing for bond issues, on the model of existing international development banks;

(b) a guarantee by the shareholders, to back borrowing for a limited and fixed period, say seven years, until the Bank can borrow on the basis of its own record and balance sheet;

(c) an issue of debentures underwritten by the shareholders, so that any shortfall in the issue will be taken up by the shareholders themselves;

(d) a commitment of medium and long term loans by the governmental and public sector shareholders, to be taken up as operations require it, contributions to which would be on a negotiated basis rather than pro rata to shares in the equity.

We do not recommend (a), on the ground that this type of capital structure would give the Bank an image too close to that of existing development banks and would make it too dependent on the backing of its strongest members. We believe that method (d) would be the most consistent with the establishment of a businesslike banking institution which would inspire its

commercial partners with confidence. Methods (b) and (c) might involve lengthy procedures. However, if it appeared that method (b) or (c) gave better prospects than (d) of raising the sums needed on reasonably favourable terms then they would have to be seriously considered.

67. In addition to the initial resources of £6m equity, plus £19m raised in the form of loans as envisaged in the previous paragraph, we would also expect the Bank to develop the ability to raise and place deposits on the London Inter-Bank Market and from the surpluses available from Commonwealth governments (our assumption concerning the latter source being that there is room for an additional financial institution in this field, in which the Crown Agents and some commercial banks are already active), and in due course to increase its debt/equity ratio to a still conservative 6:1, giving a balance sheet total of, say, £40-45m. We would expect this process to take perhaps between five and seven years from the effective beginning of operations. During that period, we would expect on a conservative basis that the Bank would have disbursed 50 per cent of its equity and loan capital, or, say, £13m in long-term loans and equity participations in Commonwealth projects. The total finance mobilised from all sources for these projects, on the basis of the Bank's average participation of 10 per cent, would be £130m. We would also expect the Bank to get a similar leverage on 20 per cent of the deposits raised on the market (say £4m) in shorter term loans, resulting in participation in a further investment of perhaps £40m, giving the Bank a participation in total investments amounting to £170m from all sources.

68. We believe that further prognostication concerning the extent of business to be undertaken would now be premature. However, we would emphasise that the figures suggested here relate only to the period during which the Bank is establishing itself, for which cautious estimates are most necessary. It would clearly be desirable to provide for the possibility of steady expansion once this difficult initial phase is completed, by equipping it to increase its equity base at a later stage in its development. This could be achieved by giving it an authorised capital in the region of £30m.

Capital Structure

69. We believe that the Bank will be best equipped to carry out its functions if Commonwealth developing countries have a dominant though not necessarily a controlling position in it, with Commonwealth developed countries and commercial banks as their partners. We also believe that this is feasible within the amounts suggested above. We have considered reducing the burden on developing countries by such devices as the subscription of part of the capital in the subscriber's own currency, but we have rejected them, for the same reason as our rejection of the notion of a large element of callable capital. Such devices should not be necessary with a capital of the size that we envisage, and could introduce an element of ambiguity into the Bank's business-like image and into its loyalties. The paid-up capital should in our view be wholly subscribed in convertible currencies, in a single instalment.

70. We have in mind an apportionment of the capital roughly as follows:

(a) 40 per cent or more to governments and public corporations in Commonwealth developing countries;

(b) 30 per cent or less to governments and public corporations in Commonwealth developed countries;

(c) 30 per cent or less to Commonwealth commercial banks, or to banks in which Commonwealth banks have a minimum holding of, say, 25 per cent.

Within the first two categories, a country quota system would have to be devised as a guide for the first capital issue, but we hope that this system would not be rigidly maintained, and that Commonwealth countries which wanted to take up more than their allotment could do so, if it emerged that the allotments of other Commonwealth countries had not been fully taken up. Alternatively, or perhaps additionally, the first issue could provide for allotments amounting to a total of £8.6m with the agreement entering into force when 70 per cent (£6m) has been subscribed. This would allow some Commonwealth countries to come in at a later stage without the need for agreement on a second issue of capital.

71. In those developing countries where it is legally possible, it would be preferable if the shares allotted could be taken up by local development banks and other public enterprises concerned with the productive sectors, though the finance would presumably have to be provided by governments. Similarly, the possibility might be explored in developed countries of attracting as shareholders public enterprises with a commercial or financial interest in developing countries, rather than financing the developed countries' allotments out of their aid programmes.

Management

72. The general policies and operations of the Bank should be under the control of a non-resident Board of Directors, who would elect a Chairman from among themselves. A Board of ten elected directors would permit proportionate representation of the three main groups of shareholders, i.e. four directors elected by developing country shareholders, three elected by the developed countries' governmental shareholders, and three elected by the private shareholders. The exactly representative character of this Board should make it possible to avoid elaborate formal voting structures. We envisage each director having a single vote. The exact structure of the Board and its relationship with the management would need to be worked out with great care.

73. The day-to-day management of the Bank should be under the control of a chief executive appointed by the Board of Directors. He would have a seat on the Board, making a Board of eleven members in all, including the Chairman and the chief executive.

74. The annual general meeting of the Bank's shareholders, to which it would of course be answerable, could conveniently be held to precede the Commonwealth Finance Ministers' annual meeting.

Organisation and Staffing

75. The Bank would need to be organised along functional lines. We envisage a central core consisting of a treasury division (resource mobilisation), a banking division (financial services) and a secretariat with legal capacity (which would have assistance in contractual negotiations as one of its major functions). Additional functional divisions would be specialised in

terms of the tasks identified in Section IV, e.g. a minerals division, an agricultural products division, etc. To the extent that it needed research capacity, this could be incorporated in a "special services unit", but the alternative might be considered of research capacity fully integrated into the banking division.

76. In the initial period, it seems likely that most of the Bank's staff will have to be recruited from Commonwealth developed countries. The possibility should be explored, however, of attaching potential developing country staff to the Bank's private shareholders for periods of one or two years, to be taken in as the Bank expands. This would eventually achieve a desirable staff balance without the problems associated with rigid country quotas.

Location

77. The argument that we have advanced in paras. 20-21 together with the functions that we have outlined, constitute in our view an overwhelming case for locating the Bank in London.

78. Since we assume that the Bank, as a commercial institution based in London, would be subject to UK tax law, we have not examined in detail the possibility of special tax concessions. In further exploration, the tax position would need to be carefully investigated.

79. Representation in other Commonwealth countries could be achieved by two means:

(a) very frequent travelling on the part of the Bank's staff, especially by the members of the banking division;

(b) participation in local merchant banking consortium arrangements where these exist.

We do not consider that the functions we envisage require the establishment of permanent regional offices.

Geographical Scope

80. We assume that it would be a legal requirement that all activities of the Bank should be of interest to one or more Commonwealth developing countries. It might simplify the allocation of shares if operations could be permitted in Commonwealth countries which have chosen not to be shareholders, as might be the case with some very small countries. The regulation would need to be drafted in a manner that did not restrict the Bank to financing entities physically located in Commonwealth countries. Under a production sharing agreement, for instance, a Commonwealth developing country might want the Bank's support for its participation in a joint venture with a non-Commonwealth country. Also, while we have endorsed the argument of the Orion Study, we think that the Bank should not be precluded from the financing of projects in which Commonwealth developing countries have an export interest.

Non-Commercial Risk

81. We have argued that the Bank should not seek special protections against commercial and non-commercial risk, other than those normally

available. However, its operations would be severely curtailed if repayments and dividends were blocked by exchange control. We believe that a case can be made, on the ground that its operations will normally contribute to increased foreign exchange earnings or import savings, for special treatment in this one respect, for which there are precedents in the treatment of existing development corporations. We do not see a need for formal agreements in this respect. If the Bank is seen to be succeeding in the performance of its task, borrowing countries individually and collectively will see the damage that would be done by imposing exchange controls on outflows connected with the enterprises that it is supporting.

Other Proposals to be Considered

82. While we consider that the Bank that we have proposed would meet some major needs for which a suitable instrument does not yet exist, that the case for establishing such an instrument within the Commonwealth is especially strong, and that it would yield a larger addition to the resources available to Commonwealth developing countries than any alternative instrument of plausible dimensions, we do not regard our proposal as conflicting with or precluding other possibilities that might usefully be explored. In particular, we have noted the possibility of establishing a concessionary fund financed by Commonwealth countries, and the possibility of expanding the functions of the CFTC in some specialised areas, notably in relation to shipping and insurance. We hope that these possibilities will indeed be explored. However, we also believe that the need for an instrument of the type we have proposed has become, in the light of recent developments in international economic relations, extremely urgent, and that our proposal is worth pursuing regardless of what view is taken on these other issues.

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 tc 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.

Annex III

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 for 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.

Annex IV

PROPOSED COMMONWEALTH FINANCE CORPORATION

Paper by the Government of Jamaica

Presented 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 under-development 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 9¾%. 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 eqalisation 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, The Banker.
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.	Mr. A. Egerton, Director.
Lord Seebohm	
The Standard and Chartered Banking Group Ltd.	Mr. M.D. McWilliam, General Manager, Mr. James Russell, Regional General Manager, and others.
Tozer Standard and Chartered Ltd.	Mr. R.D. Assender, Controller.
Sir Geoffrey Wilson, KCB, CMG*	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.

[1] All figures used in this Annex come from OECD (DAC).
[2] On 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
Total	2,771	39,361	1,486	39,821
for comparison: April 18, 1973	2,529	24,442	1,203	25,040

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	
Europe-based market						
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)	
Non-European market						
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)	
Total: Super-dollar market						
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 correct[1], 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.

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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 ivestments (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.

Annex X

ORGANISATION AND ADMINISTRATIVE BUDGET OF A COMMONWEALTH INVESTMENT BANK

Organisation of the Commonwealth Investment Bank in Year 4

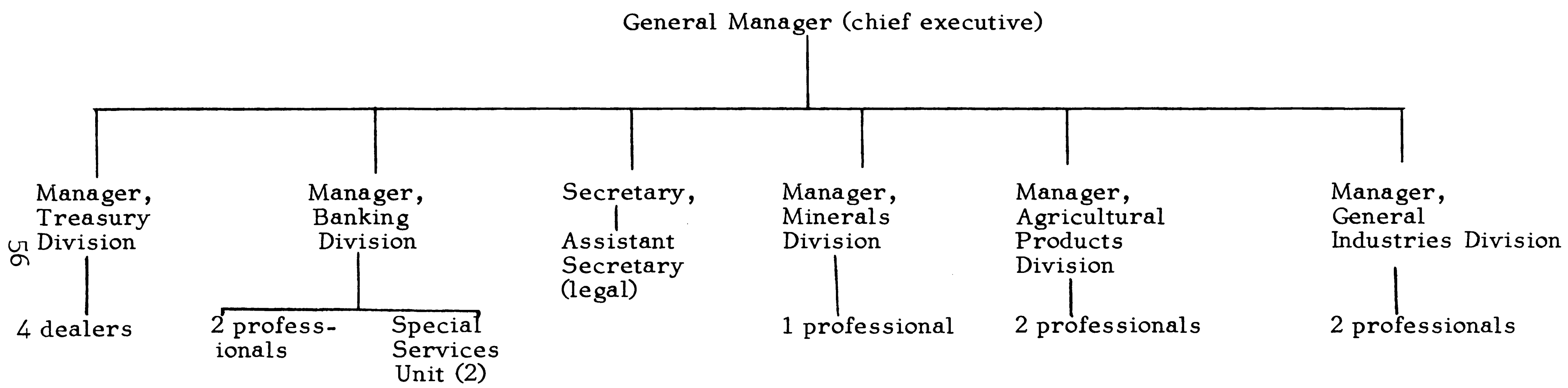

Table X.1.

Approximate budget for Commonwealth Investment Bank, at 1974 prices

	Year 1	Year 2	Year 3	Year 4
	£	£	£	£
Salaries				
Management				
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	8,000 (1)	8,000 (1)	8,000 (2)	16,000 (2)
Sub-total; management	68,000 (5)	88,000 (7)	128,000 (12)	191,000 (17)
Dealers	25,000 (2/3)	25,000 (2/3)	35,000 (4)	35,000 (4)
Supporting staff				
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	2,000 (1)	2,000 (1)	4,000 (2)	4,000 (2)
Sub-total: all staff	116,000 (16)	143,000 (22)	215,000 (35)	297,000 (48)
Recurrent expenditure				
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)[1]	7,000	7,000	7,000	(£1,000) 10,000
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%)	6,500	8,400	11,900	16,200
Sub-total; recurrent expenditure	135,840	176,260	248,750	339,900
Capital expenditure				
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%)	2,600	550	1,300	1,750
Sub-total; expenditure	55,100	11,550	26,800	34,250
TOTAL	£306,940	£330,810	£490,550	£671,150

NOTES :

1 Directors; travelling

4 Resident: 7 Overseas

Fares (1st Class) from Africa, Caribbean, Far East		£5,500
Meetings - 4 per year cost	22,000	
per diem - 16 days at £40 x 10	6,400	
Total	28,400	say £30,000

2 Furniture

£30,000 in 1st year increased by £1,000 per extra staff thereafter.

3 Cars

1 for office £5,000 1 @ 2,500 per member of management + 2 dealers.

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