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Señor
B. H. Shin
Compañías Financieras de Desarrollo
Banco Internacional de Reconstrucción y Fomento
1818 H Street, N. W.
Washington, D. C. 20433

Muy estimado señor Shin:

Tengo el gusto de acusar recibo de su atenta comunicación de fecha 20 de los corrientes, con la cual recibí una copia de la tabla que ustedes nos enviaron en Julio 2 sobre Comparaciones Operacionales Proporcionales a las Compañías Financieras de Desarrollo de 1967, 1968 y 1969.

Sin particulares para más y agradeciendo el envío de este importante documento, me suscribo muy atentamente,

Alvaro Jaramillo Vengoechea
Presidente
Dear Mr. Shin,

This is to thank you for the revised table of comparative results of Development Finance Companies, which we have found interesting and illuminating.

Yours sincerely,

Dr. A. Neaman
Managing Director.
October 29, 1970

Mr. B. H. Shin
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C. 20433
U. S. A.

Dear Mr. Shin:

This will acknowledge with thanks the receipt of the "Comparative Operational Ratios of Development Finance Companies, 1967, 1968, 1969".

We have found this useful and interesting in comparing our ratios with the other DFCs.

Very truly yours,

[Signature]

LUIS V. SISON
Senior Vice President-Treasurer

LVS:cms
October 29, 1970

Dear Mr. Shin:

This is to acknowledge the receipt of your letter of October 20, 1970 enclosing the revised table on "Comparative Operational Ratios of Development Finance Companies, 1967 1968 and 1969". I thank you for sending the table, which has proved to be of great use.

With best regards,

Yours sincerely,

S. S. Mehta
General Manager

Mr. B. H. Shin
Development Finance Companies
International Bank for Reconstruction
And Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
October 23, 1970

Dear Mr. Shin:

This is to acknowledge the receipt of your letter of October 20, 1970 enclosing the revised table on "Comparative Operational Ratios of Development Finance Companies, 1968 and 1969." I thank you for sending the table which proves to be of great use.

With best regards,

Yours sincerely,

[Signature]

Secretary

[Company Name]

Mr. B. H. Shin
Development Finance Companies
International Bank for Reconstruction
And Development
1818 H Street, N.W.
Washington, D.C. 20435
U.S.A.

RECEIVED

[Date]

[Department]

[Employee Name]
Mr. B. H. Shin  
Development Finance Companies  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.  

Dear Mr. Shin:

Thank you for the revised "Comparative Operational Ratio of Development Finance Companies, 1967, 1968 and 1969" sent with your letter of the 20th instant. This revised table will no doubt be of use to all concerned.

Yours sincerely,

Sommai Hoontrakool  
Director & General Manager
October 23, 1979

Mr. H. Shin
Development Finance Corporation
International Bank for Reconstruction and
Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin:

Thank you for the revised "Comparative Operating Ratio of Development Finance Companies" 1967, 1968 and 1969. I shall work with your letter on the 1969 instructions. The revised figures are to be copied out to all concerned.

Yours sincerely,

[Signature]
Somrit Homtittakool
Director & General Manager

RECEIVED
1970 NOV 2 PM 1:33
SH:tt
D.
October 29, 1970

Mr. Raymond W. Baker  
Director  
Overseas Economic Development (Nigeria) Limited  
P.O.Box 3068  
Lagos, Nigeria

Dear Mr. Baker:

Thank you for your letter dated October 15, 1970. I am sorry we were not able to talk when you were here in September. I look forward to our conversation either here or in Lagos.

Yours sincerely,

Hans Pollan
Development Finance Companies

cc: Mr. K. Eckrich
Mr. William Diamond

B. H. Shin

ADB and IDB Operations with Development Finance Companies

Attached is a brief note on the above subject which I have revised and updated from data available within the Bank Group.
Mr. B.H. SHIN
Development Finance Companies
International Bank for Reconstruction and Development
1818 H. Street, N. W.
WASHINGTON, D. C. 20433
U. S. A.

Estimado Mr. Shin:

Recibí su comunicación del 23 de los corrientes, mediante la cual usted tuvo la gentileza de informarme sobre su transalado a un nuevo cargo dentro del Grupo del Banco Mundial.

Al expresarle mi cordial congratulación por la designación de que ha sido objeto, debo lamentar su retiro del Departamento de Compañías Financieras del Desarrollo, desde el cual prestó usted tan valiosos y oportunos servicios a esta Entidad.

Aprovecho esta ocasión para comunicarle que, por motivos de carácter personal, he presentado renuncia irrevocable al cargo de Presidente de la Corporación, habiendo sido designado para sucederme el señor Eduardo Arango Restrepo, quien disfruta de la más amplia experiencia industrial y administrativa. Mi retiro se hará efectivo a partir del próximo lunes, 2 de noviembre, fecha en la cual el señor Arango tomará posesión del cargo y entrará a ejercer las funciones correspondientes.

No deseo terminar sin expresar a usted y, por su conducto a todo el personal al servicio del Departamento de Compañías Financieras del Desarrollo, mi profundo reconocimiento y gratitud por la cordial acogida y la oportuna colaboración que la Corporación, y yo personalmente, encontramos siempre en esa Dependencia. Para mí fue especialmente satisfactorio y estimulante haber contado con su eficiente ayuda.
Mr. B. H. Shin - Washington D. C. 20433

Le ruego que acepte mi más cordial saludo.

Muy atentamente,

ROBERTO OCAMPO MEJIA
Presidente
October 27, 1970

Mr. B. H. Shin  
Development Finance Companies  
International Bank for  
Reconstruction and Development  
1818 H Street, N. W.  
Washington, D. C. 20433  
U. S. of America

Dear Mr. Shin:

Thank you for your letter of October 23, 1970. I am delighted to learn your appointment as Alternative Executive Director for China, Korea and Viet-Nam in the World Bank Group effective from November 1.

It was a pleasure for me to cooperate with you.

I would like to take this opportunity to express my sincere wishes of every success in your new assignment.

With best regards,

Yours sincerely,
Helsinki, October 27, 1970

Mr. B.H. Shin
Development Finance Companies
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin,

From your letter of October 23, 1970, I learn that you are going to leave the Development Finance Companies at the end of this month.

On behalf of my company I wish to congratulate you upon your new assignment as Alternate Executive Director for China, Korea and Viet-Nam and to thank you for the most pleasant cooperation during the last few years.

With kind regards,

Yours sincerely,

Pertti Tuomala
HELSINKI, October 27, 1950

Mr. R.S. Shin

Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

Dear Mr. Shin,

From your letter of October 23, 1950, I learn that

you are going to issue the Development Finance

Companies at the end of this month.

On behalf of my company, I wish to express our

discussion, as Executive Director for China, Korea, and Vietnam, and to thank

you for the most pleasant cooperation during the

last few years.

With kind regards,

Yours sincerely,

Peri Torniellas

[RECEIVED]
19600130 A10:33
Medellín October 27, 1970

Dear Mr. Shin:

I refer to your kind letter of October 23, in which you inform me on your plans to leave your present office in the Development Finance Companies to assume the one of Alternate Executive Director for China, Korea and Viet-Nam in the World Bank Group.

It has been very enjoyable to count upon your effective cooperation during the recent years. The information that you have from time to time afforded us has been most valuable for the carrying out of our goals.

Receive the expression of my sincere gratefulness and the votes for the successful achievement of your new and important assignments.

With kind regards,

Sincerely yours,

José Gutiérrez Gómez

JGG/deh.
Denver, October 5th, 1970

Mr. B. H. Sine
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Sine,

I refer to your kind letter of October 23, in which
you informed me on your plans to issue your present office in the Develop-
ment Finance Companies to assume the role of Administrative Director.

I have been very favorable to cooperate in your efforts to
secure cooperation among the secretaries of the various countries and
their representatives. The information that your
office has been active in the affairs of the car-

receive the expression of my sincere appreciation
and the vote for the successful accomplishment of your new and important
assignment.

With kind regards,

Sincerely yours,

Received
Joe Quarterly Gentry
1970 Oct 30 AM 27
ICC/ICG

SECTION
COMMUNICATIONS
October 27, 1970

Mr. B. H. Shin
International Finance Corporation
1818 H Street, N. W.
Washington, D. C. 20433
U. S. A.

Dear Mr. Shin:

I herewith acknowledge receipt of your letter of October 20, 1970 together with the revised "Comparative Operational Ratios of Development Finance Companies 1967, 1968 and 1969".

I thank you very much for this valued information.

Sincerely yours,

P. Clarence Parker, Jr.
PRESIDENT
October 25, 1970

Mr. H. Shuker
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20583
U.S.A.

Dear Mr. Shuker:

I have with me your letter of October 20, 1970 together with the revised "Comparative Operating Ratios of Development Finance Companies 1967 and 1968". I hereby acknowledge receipt of your letter of October 20, 1970 together with the revised "Comparative Operating Ratios of Development Finance Companies 1967 and 1968".

I thank you very much for this valuable information.

Sincerely yours,

[C. Clarence Parker, Jr.]

President

RECEIVED

19700131 PM 1:24

SECTION

COMMUNICATIONS
Helsinki, October 27, 1970

Mr. B.H. Shin
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin,

This is to acknowledge the receipt of your letter of October 20, 1970, enclosing a table on "Comparative Operational Ratios of Development Finance Companies, 1967, 1968 and 1969".

I find the table useful and interesting. Thank you for having sent it to me.

Yours sincerely,

Pertti Tuomala

- /rr
Helsinki, October 27, 1970

Mr. B.N. Shin
Development Finance Commissioner
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin,

This is to acknowledge the receipt of your letter of October 20, 1970, enclosing a copy of "Capital Expenditure of Development Finance Commissioners, 1968 and 1969." I find the figures useful and interesting. Thank you for having sent it to me.

Yours sincerely,

Pertti Tomula

RECEIVED
1970 Oct 30 AM 10:33
Madrid, October 27th 1970

Mr. B.H. Shin
International Bank for Reconstruction and Development
1818 H. Street, N.W.
WASHINGTON, D.C. 20433

Dear Mr. Shin,

Thank you very much for your letter of October 20th and for the revised version of the table "Comparative Operational Ratios of Development Finance Companies 1967, 1968 and 1969" that you have been so kind to send me.

With best personal regards,

Yours sincerely,
Madrid, October 27th 1970

Mr. B.H. Shin
International Bank for Reconstruction and Development
1818 H. Street. N.W.
WASHINGTON D.C. 20433

Mr. Shin,

Dear Mr. Shin,

Thank you very much for your Letter of October 20th and for the revised version of the table "Comparative Operational Ratios of Development Finance Companies 1967, 1968 and 1969" that you have been so kind to send me.

With best personal regards,

Yours sincerely,

[Signature]

RECEIVED
1970 Oct 30 PM 3:02

COMMUNICATIONS
OUTGOING WIRE

TO: HENRI GUILLOT
CITYBANK
PARIS
COUNTRY: FRANCE
TEXT: Priez m'adresser urgence dernières conditions de crédit bancaire y compris escompte papier commercial, moyen terme, avances, moyen terme export avec référence taux BDF AMITIES COUDOL

DATE: 26 OCTOBRE 1970
CLASS OF: LT
SERVICE: [Handwritten]

NOT TO BE TRANSMITTED

AUTHORIZED BY: Jacques Couidot
DEPT. Development Finance Companies
SIGNATURE ____________________________  (Signature of Individual Authorized to Approve)

CLEARANCES AND COPY DISTRIBUTION: JC:cb

(IMPORTANT: See Secretaries Guide for preparing form)
OUTGOING WIRE

DATE 23 OCTOBER 1970

TO HENRY OUTFIT
CLASS OF ELECTRICITY
PARIS
FRANCE

PRINCE'S ADDRESS: VILLA ROYAL, VIA DE?, 124, PARIS 8, FRANCE. NOTICE: THERE ARE NO NEGOTIABLE CHEQUES AT THIS ADDRESS.

COUTOU

NOT TO BE TRANSMITTED

COMMUNICATIONS

[Signature]

[Stamp: Original Copy]

[Stamp: Development Finance Committee, April 26 61 PH 1970]
October 26th, 1970

Mr. B.H. Shin
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

Dear Mr. Shin:

This is to acknowledge receipt of your letter of October 20th, enclosing the revised table on "Comparative Operational Ratios of development Finance Companies, 1967, 1968 and 1969", in which now also the data for ADELA are included.

Thank you for this interesting material, I might revert to this matter after having studied it more closely. In the meantime I remain,

Yours sincerely,

Gunnar Aaberg
Assistant to the President

GA/wh
October 26th, 1970

Mr. B.H. Simon
Development Finance
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Simon,

This is to acknowledge receipt of your letter of October 20th
enclosed the revised table on "Comparative Operations Rates of General
Operating Finance Companies, 1963, 1968 and 1970," in which you also the
case for ADEA are included.

Thank you for this interesting material, I might revert to
this matter after having studied it more closely. In the meantime I
remain

Yours sincerely,

[Signature]

G.W. Ayers
Assistant to the President

ADEA

RECEIVED

1970 OCT 29 PM 3:23

COMMUNICATIONS
October 26, 1970

Mr. William Farrell
Assistant General Counsel
Reynolds International Inc.
P. O. Box 1577
Richmond, Va. 23213

Dear Mr. Farrell:

We are glad to know that you are interested in development banks. We are enclosing three publications on the subject as listed below:


We will be glad to meet with you for further information on the subject. Please let us know when you do come.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

BHShin:er
Mr. B.H. Shin,
Development Finance Companies,
International Bank for
Reconstruction & Development,
1818 H Street, N.W.,
Washington D.C. 20433,
USA.

Dear Mr. Shin,


We are glad to receive this revised version.

Yours sincerely,

H.F.G. LEEMBRUGGEN
General Manager
October 26, 1970

Mr. B.H. Shin
Development Finance
International Bank for
Reconstruction & Development
1818 H Street, N.W.
Washington D.C. 20433
USA

Dear Mr. Shin,


We are glad to receive this revised version.

Yours sincerely,

H.P.C. Kempe
General Manager

Received
1970 OCT 30 PM12:54

SECTION
COMMUNICATIONS
Mr. B.H. Shin
Development Finance Companies
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Mr. Shin:

Thank you for your letter dated October 20, 1970 together with the revised table on "Comparative Operational Ratios of Development Finance Companies, 1967, 1968 and 1969". As mentioned before, we consider this information to be most useful.

With kind regards,

Sincerely yours,

THE DEVELOPMENT BANK OF SINGAPORE LTD.

(W.D. Wabnitz)
Executive Vice President

WDW/wml
October 26, 1970

Dear Mr. Shin:


As mentioned before, we consider this information to be most useful.

With kind regards,

Sincerely yours,

[Signature]

W.D. Wapitis
Executive Vice President

The Development Bank of Singapore Ltd.

1970 Oct 30 AM10:06
Medellín, Octubre 23 de 1970

Sr. B. H. Shin
Development Finance Companies
International Bank for
Reconstruction and Development
Washington, D. C.

Apreciado señor Shin:

Damos respuesta a su atenta comunicación del 20 de los corrientes, con la cual se sirvió hacernos llegar un nuevo cuadro comparativo de las relaciones operacionales de las compañías financieras de desarrollo afiliadas al International Bank for Reconstruction and Development, correspondientes a los años de 1967, 1968 y 1969.

Hemos tomado nota de que este cuadro incluye cifras auditadas, al contrario del que usted se sirvió hacernos llegar previamente, que fue tomado de balances sobre los cuales no se había hecho todavía auditoría.

Al expresarle nuestros agradecimientos por el envío de este material, nos repetimos como sus atentos servidores y amigos,

Carlos Restrepo Dumit,
Vicepresidente

CRD/ead.
Mr. B. H. SHIN  
Development Finance Companies  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433

Dear Mr. Shin: 

I acknowledge receipt of your letter dated October 20th and of the revised table "Comparative Operational Ratios of Development Finance Companies 1967-69" you kindly sent us and which will be of great use to us. 

Thanking you for this remittance, I remain, 

Cordially yours, 

Ignacio Copete Lizarralde  
President
CORPORACION FINANCIERA COLOMBIANA

BOGOTA-COLOMBIA

CABLE: CORFINCOLO
APARATO AZONAL 118-3
TELEX 04788

EDIFICIO INTERNACIONAL
CARRERA 12 NO 8-33 PILA 7 B
CENTRALAMERICA

DESPACHO DEL PRESIDENTE

GOY

BOGOTA, D.C., October 23, 1970

Mr. B. H. Shin
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Shin:

I acknowledge receipt of your letter dated Oct-
oper 30th and of the revised table "Comparative Operators"

of Ratios of Development Finance Companies 1967-69
you kindly sent us and which will be of great use to us.

Thanking you for this remittance, I remain

Yours faithfully,

[Signature]

[Stamp: Received]

1970 DEC 29 AM 9:16
Development Banks

1. During our meeting last Thursday, I noted some consequences of the fact that IICY and COFITOUR were included in the category "development banks" in IFC's recent Annual Report.

2. Until now, these companies have been omitted in all records and reports (internal, to the Board, to the public) on the World Bank Group's dealings with development banks: our operations, their operations, our directorships, forecasts of operations, etc. We must now ask ourselves whether to take them out of the category "development banks" again or to change our statistics and statements from now on. I think the latter is the right course; because I agree with you that IICY and COFITOUR are not essentially different from other development banks which we have always called "development banks." Should we proceed on that basis? If so, I shall adjust our machinery accordingly. I am sending a copy of this to the Information Department so that it can begin to adjust its thinking.

3. During our discussion, you asked whether the records and reports I referred to concerned the work of this Department or the work of the Bank Group. I confirm that I refer only to the latter.

4. Our discussion led us to the Administrative Circular which defines DFCs and to its reflection in the Organizational Manual. I think we agreed that the definition of DFCs needs review. For instance, that definition explicitly excludes international financial institutions, and yet this Department has not only dealt with ADELA but is now dealing with CABI, EADB and SOFIDA. Another reason for reviewing the definition stems from the fact that IFC will be entering more actively into the capital markets field, and this may have implications for the definition.

5. I am sending a copy of this memo to Mr. Ripman, who I hope will set in motion a review of the definition. I hope you agree.

Incidentally, one immediate response to IFC's Annual Report was that the Controller's Department immediately included IICY in its monthly "Summary of Operations--Development Finance Companies." But it did not add COFITOUR.

cc: Mr. Ripman
    Mr. William Clark

WDDiamond:jmb
October 23, 1970

I take the liberty of writing to you to inform that I am leaving the Development Finance Companies Department at the end of October to assume the office of Alternate Executive Director for China, Korea and Viet-Nam in the World Bank Group, effective November 1.

I have enjoyed working with you for these years and I feel inexcusable should I leave the Department without expressing my hearty appreciation for your close cooperation afforded me thus far.

I shall be very happy if I can be of any help to you in my new assignment in the Bank Group.

With kind regards,

Sincerely yours,

B. H. Shin
Development Finance Companies
Dear Dr. Copete:
Dr. Ignacio Copete Lizarralde
President
Corporacion Financiera Colombiana
Apartado Aereo 11843
Bogota, Colombia

Dear Dr. Ocampo:
Dr. Roberto Ocampo Mejia
President
Corporacion Financiera de Caldas
Apartado Aereo 460
Manizales, Colombia

Dear Dr. Gutierrez Gomez:
Dr. Jose Gutierrez Gomez
President
Corporacion Financiera Nacional
Apartado Aereo 1039
Medellin, Colombia

Dear Mr. Pertti Tuomala
Mr. Pertti Tuomala
Managing Director
Teollistamisrahasto Oy - Industrialization Fund of Finland Ltd.
Lonnrotinkatu 13, V krs.
Helsinki, Finland

Dear Mr. Mehta:
Mr. S. S. Mehta
General Manager
The Industrial Credit and Investment Corporation of India Limited
163 Backbay Reclamation
Bombay 1, India

Dear Mr. Igeli:
Mr. Resid Igeli
General Manager
Turkiye Sinai Kalkinma Bankasi A.S.
P. O. Box 17
Karakoy
Istanbul, Turkey
Dear Mr. Gondicas:

Mr. George Gondicas  
General Manager  
National Investment Bank for Industrial Development, S.A.  
P.O. Box 643  
6 Sophocleous Street  
Athens, Greece

Dear Mr. Chang:

Mr. Felix Chang  
President  
China Development Corporation  
131 Nanking East Road, Sec. 5  
Taipei 105, Taiwan  
Republic of China

Dear Mr. Daniyan:

Mr. Silas B. Daniyan  
General Manager  
Nigerian Industrial Development Bank Limited  
M & K House  
96/102 Yakubu Gowon Street  
P.O. Box 2357  
Lagos, Nigeria

Dear Mr. Diby:

Mr. Alphonse Diby  
Managing Director  
Banque Ivoirienne de Developpement Industriel  
Boîte Postale 4470  
Abidjan, Ivory Coast

Dear Mr. Kheradjou:

Mr. A. Gasem Kheradjou  
Managing Director  
Industrial and Mining Development Bank of Iran  
133 Shiraz Street  
Tehran, Iran
Dear Ato Tekalign:
Ato Tekalign Gedamu
Managing Director
Development Bank of Ethiopia
P. O. Box 1900
Addis Ababa, Ethiopia
Dear Khun Sommai:

Khun Sommai Noontrakul
General Manager
The Industrial Finance Corporation
of Thailand
101 Naret Road
Bangkok 5, Thailand

Dear Mr. Marzo:
Sr. Don Jose Maria Marzo Churruga
Director General
Banco del Desarrollo Economico Espanol
Apartado de Correos 50460
Calle Fernando EC Santo 20
Madrid, Spain

Dear Mr. Jayme:

Mr. Vicente R. Jayme
Executive Vice President
Private Development Corporation
of the Philippines
Commercial Center
P. O. Box 757
Makati, Rizal - D 708
Philippines

Dear Mr. Ahmed:

Mr. Said Ahmed
Managing Director
Pakistan Industrial Credit and Investment
Corporation Ltd.
P. O. Box 5080
Karachi 2, Pakistan

Dear Mr. Bargach:

Mr. M'hamed Bargach
President
Banque Nationale pour le Developpement
Economique
Boite Postale 407
Rabat, Morocco
Dear Mr. Leembruggen:

Mr. H. F. G. Leembruggen  
General Manager  
Malaysian Industrial Development Finance Berhad  
P. O. Box 2110  
Kuala Lumpur, Malaysia

Dear Mr. Parker:

Mr. P. Clarence Parker, Jr.  
President  
The Liberian Bank for Industrial Development and Investment  
100 Broad Street  
P. O. Box 547  
Monrovia, Liberia

Dear Dr. Neaman:

Dr. Avraham Neaman  
Managing Director  
Industrial Development Bank of Israel Limited  
9 Ahad Haam Street  
Shalom Mayer Tower  
Tel Aviv, Israel

Dear Dr. Vallenilla:

Dr. Luis Vallenilla  
President  
C.A. Venezolana de Desarrollo  
Apartado 62191  
Caracas, Venezuela

Dear Dr. Teufenstein:

Dr. Wilhelm Teufenstein  
Chairman, Board of Management  
Oesterreichische Investitionskredit Aktiengesellschaft  
Rengasse 10  
1013 Wien  
Vienna, Austria

Dear Mr. Belkhodja:

Mr. Moncef Belkhodja  
President  
Societe Nationale D'Investissement  
68, Ave. Habib Bourguiba  
Tunis, Tunisia
Dear Dr. Martinez Moriones:

Dr. Benjamin Martinez Moriones  
President  
Corporacion Financiera del Valle  
Apartado Aereo 4902  
Cali, Colombia

Dear Dr. Jarriillo:

Dr. Alvaro Jarriillo Vengoechea  
President  
Corporacion Financiera del Norte  
Apartado Aereo 2747  
Barranquilla, Colombia

Dear Mr. Loganathan:

Mr. C. Loganathan  
General Manager and Director  
Development Finance Corporation  
of Ceylon  
42/1 Horton Place  
P. O. Box 1397  
Colombo 7, Ceylon

Dear Mr. Kim:

Mr. C. H. Kim  
President  
Korea Development Finance Corporation  
12th Floor, Cho Heung Bank Building  
14 Namdaemoon - Ro, 1 - Ka  
Seoul, Korea

Dear Mr. Huq:

Mr. Z. Huq  
Managing Director  
Industrial Development Bank of Pakistan  
Head Office, Motijheel Commercial Area  
P. O. Box No. 975  
Dacca-2, Pakistan

Dear Dr. Correa:

Dr. Jose Antonio Correa  
President  
Ecuatoriana de Desarrollo S.A.  
Compania Financiera  
P. O. Box 411  
Quito, Ecuador
Dear Dr. Wabnitz:

Dr. W. D. Wabnitz  
Executive Vice President  
Development Bank of Singapore Ltd.  
P. O. Box 1235  
Singapore 1

Dear Mr. Vas da Costa:

Mr. Rubens Vas da Costa  
President  
Banco do Nordeste do Brasil  
Fortaleza  
Brazil

Dear Mr. Guetta:

Mr. Serge Guetta  
Directeur General  
Societe Congolaise de Financement du Developpement  
Boite Postale 1148  
Kinshasa 1  
Republique Democratique du Congo

Dear Mr. Aaberg:

Mr. Gunnar Aaberg  
Secretary of the Board of Management  
ADELA Investment Company S.A.  
P.O. Box 207  
Lima, Peru
Mr. Willi A. Wapenhans, Deputy Director  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
WASHINGTON, D.C. 20433  USA

Dear Mr. Wapenhans:

It is a great pleasure for me to send you, under separate cover, a personal copy of a study "Swedish exports of know how, complete plants, part packages" made within Skandinaviska Banken for our own use. Since I feel that you might have some benefit of it in your own work I am happy to share this information with you. The study, which is based on interviews with the management in most companies mentioned in the report covers as far as we know the sectors chosen. However, we have to reserve ourselves for incompleteness, changes that have occurred after the work was finished and possibly outright errors.

We think that this study will be a helpful guide when trying to select proper partners for industrial or other projects. We are of course willing to help furnish further information on the companies listed and to introduce you to them should that be required. For further information or any comments you might have please contact me under address International Division, Skandinaviska Banken, 106 40 Stockholm, Sweden.

Remaining

Yours sincerely,

Bo Thorne

Warmest personal regards to you all.

Postadress  
Skandinaviska Banken  
106 40 STOCKHOLM  

Telefonadress  
Lokal 23 85 00  
Rika 08-23 85 20  

Telexadress  
1154-Skans s  
1470-Skans s  

Telegramadress  
Skandinavbank  
Stockholm
October 25, 1970

Scandinavian Banken

Direction

Project Dept. Consultant

Date

Dear Mr. William

We are pleased to inform you that your completed plans, together with the

surveys, are now being reviewed by our technical experts. If you would like to

come to our office for a personal interview, we would be happy to arrange a

convenient time for you.

Yours sincerely,

Remainder

K. Berg

Secretary
Dear Mr. Gaud:

It is a great pleasure for me to send you, under separate cover, a personal copy of a study "Swedish exports of know how, complete plants, part packages" made within Skandinaviska Banken for our own use. Since I feel that you might have some benefit of it in your own work I am happy to share this information with you. The study, which is based on interviews with the management in most companies mentioned in the report covers as far as we know the sectors chosen. However, we have to reserve ourselves for incompleteness, changes that have occurred after the work was finished and possibly outright errors.

We think that this study will be a helpful guide when trying to select proper partners for industrial or other projects. We are of course willing to help furnish further information on the companies listed and to introduce you to them should that be required. For further information or any comments you might have please contact me under address International Division, Skandinaviska Banken, 106 40 Stockholm, Sweden.

Remaining

Yours sincerely,

[Signature]
Mr. William S. Conley, Executive Vice President
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433
USA

DEAR MR. CONLEY:

I am writing to congratulate you on the success of your recent trip to Scandinavia. I hope you had a pleasant journey and I look forward to hearing about your experiences.

Your company, International Finance Corporation, is expanding its operations in the region and I am pleased to see the growing interest in Scandinavian markets. I understand that you and your team have been working on a number of important projects.

I would like to discuss the potential for further collaboration between our organizations. I believe that there are many opportunities for us to work together on projects that promote economic development and improve living standards in the region.

Please let me know if you would be interested in meeting with me to discuss this matter further. I would be happy to provide you with any additional information that you may require.

Thank you for your time and consideration.

Yours sincerely,

[Signature]
October 20, 1970

I take pleasure in enclosing a revision of the table we sent you on July 2, 1970, on "Comparative Operational Ratios of Development Finance Companies, 1967, 1968 and 1969".

The revision is made to replace the unaudited by the audited figures for some companies and to list the operational performance of a few additional companies. We have also taken the occasion to correct some minor errors which were called to our attention. I hope you will find this revised version useful.

Sincerely yours,

B. N. Shin
Development Finance Companies

Enclosure

cc: Division Chiefs
BNShin:MTST
Dear Dr. Copete:

Dr. Ignacio Copete Lizarralde  
President  
Corporacion Financiera Colombiana  
Apartado Aereo 11843  
Bogota, Colombia

Dear Dr. Ocampo:

Dr. Roberto Ocampo Mejia  
President  
Corporacion Financiera de Caldas  
Apartado Aereo 460  
Manizales, Colombia

Dear Dr. Gutierrez Gomez:

Dr. Jose Gutierrez Gomez  
President  
Corporacion Financiera Nacional  
Apartado Aereo 1039  
Medellin, Colombia

Dear Mr. Pertti Tuomala:

Mr. Pertti Tuomala  
Managing Director  
Teollistamisrahasto Oy - Industrialization Fund of Finland Ltd.  
Lonnrotinkatu 13, V krs.  
Helsinki, Finland

Dear Mr. Mehta:

Mr. S. S. Mehta  
General Manager  
The Industrial Credit and Investment Corporation of India Limited  
163 Backbay Reclamation  
Bombay 1, India

Dear Mr. Egeli:

Mr. Resid Egeli  
General Manager  
Turkiye Sinai Kalkinma Bankasi A.S.  
P. O. Box 17  
Karakoy  
Istanbul, Turkey
Dear Mr. Gondicas:

Mr. George Gondicas  
General Manager  
National Investment Bank for Industrial Development, S.A.  
P.O. Box 643  
6 Sophocleous Street  
Athens, Greece

Dear Mr. Chang:

Mr. Felix Chang  
President  
China Development Corporation  
131 Nanking East Road, Sec. 5  
Taipei 105, Taiwan  
Republic of China

Dear Mr. Daniyan:

Mr. Silas B. Daniyan  
General Manager  
Nigerian Industrial Development Bank Limited  
M & K House  
96/102 Yakubu Gowon Street  
P.O. Box 2357  
Lagos, Nigeria

Dear Mr. Diby:

Mr. Alphonse Diby  
Managing Director  
Banque Ivoirienne de Developpement Industrial  
Boîte Postale 4470  
Abidjan, Ivory Coast

Dear Mr. Kheradjou:

Mr. A. Gaseem Kheradjou  
Managing Director  
Industrial and Mining Development Bank of Iran  
133 Shiraz Street  
Tehran, Iran

Dear Ato Tekalign:

Ato Tekalign Gedamu  
Managing Director  
Development Bank of Ethiopia  
P. O. Box 1900  
Addis Ababa, Ethiopia
Dear Khun Sommai:

Khun Sommai Hoontrokul
General Manager
The Industrial Finance Corporation
of Thailand
101 Naret Road
Bangkok 5, Thailand

Dear Mr. Marzo:

Sr. Don Jose Maria Marzo Churuca
Director General
Banco del Desarrollo Economico Espanol
Apartado de Correos 50460
Calle Fernando EC Santo 20
Madrid, Spain

Dear Mr. Jayme:

Mr. Vicente R. Jayme
Executive Vice President
Private Development Corporation
of the Philippines
Commercial Center
P. O. Box 757
Makati, Rizal – D 708
Philippines

Dear Mr. Ahmed:

Mr. Said Ahmed
Managing Director
Pakistan Industrial Credit and Investment
Corporation Ltd.
P. O. Box 5080
Karachi 2, Pakistan

Dear Mr. Bargach:

Mr. M'hamed Bargach
President
Banque Nationale pour le Developpement
Economique
Boite Postale 407
Rabat, Morocco

Dear Mr. Leembruggen:

Mr. H. F. G. Leembruggen
General Manager
Malaysian Industrial Development
Finance Berhad
P. O. Box 2110
Kuala Lumpur, Malaysia
Dear Mr. Parker:

Mr. P. Clarence Parker, Jr.
President
The Liberian Bank for Industrial Development and Investment
100 Broad Street
P. O. Box 547
Monrovia, Liberia

Dear Dr. Neaman:

Dr. Avraham Neaman
Managing Director
Industrial Development Bank of Israel Limited
9 Ahad Haam Street
Shalom Mayer Tower
Tel Aviv, Israel

Dear Dr. Vallenilla:

Dr. Luis Vallenilla
President
C.A. Venezolana de Desarrollo
Apartado 62191
Caracas, Venezuela

Dear Dr. Teufenstein:

Dr. Wilhelm Teufenstein
Chairman, Board of Management
Oesterreichische Investitionskredit Aktiengesellschaft
Renngasse 10
1013 Wien
Vienna, Austria

Dear Mr. Belkhodja:

Mr. Moncef Belkhodja
President
Societe Nationale D'Investissement
68, Ave. Habib Bourguiba
Tunis, Tunisia

Dear Dr. Martinez Moriones:

Dr. Benjamin Martinez Moriones
President
Corporacion Financiera del Valle
Apartado Aereo 4902
Cali, Colombia
Dear Dr. Jaramillo:

Dr. Alvaro Jaramillo Vengoechea
President
Corporacion Financiera del Norte
Apartado Aereo 2747
Barranquilla, Colombia

Dear Mr. Loganathan:

Mr. C. Loganathan
General Manager and Director
Development Finance Corporation
of Ceylon
42/1 Horton Place
P. O. Box 1397
Colombo 7, Ceylon

Dear Mr. Kim:

Mr. C. H. Kim
President
Korea Development Finance Corporation
12th Floor, Cho Heung Bank Building
14 Namdaesoon – Ro, 1 – Ka
Seoul, Korea

Dear Mr. Huq:

Mr. Z. Huq
Managing Director
Industrial Development Bank of Pakistan
Head Office, Motijheel Commercial Area
P. O. Box No. 975
Dacca-2, Pakistan

Dear Dr. Correa:

Dr. Jose Antonio Correa
President
Ecuatoriana de Desarrollo S.A.
Compania Financiera
P. O. Box 411
Quito, Ecuador

Dear Dr. Wabnitz:

Dr. W. D. Wabnitz
Executive Vice President
Development Bank of Singapore Ltd.
P. O. Box 1235
Singapore 1
Dear Mr. Vaz da Costa:

Mr. Rubens Vaz da Costa
President
Banco do Nordeste do Brasil
Fortaleza
Brazil

Dear Mr. Guetta:

Mr. Serge Guetta
Directeur General
Societe Congolaise de Financement du Developpement
Boite Postale 1148
Kinshasa 1
Republique Democratic du Congo

Dear Mr. Aaberg:

Mr. Gunnar Aaberg
Secretary of the Board of Management
ADELA Investment Company S.A.
P.O. Box 207
Lima, Peru
October 19, 1970

Mr. H. T. Parekh  
Deputy Chairman and  
Managing Director  
Industrial Credit and Investment  
Corporation of India Limited  
163 Backbay Reclamation  
Bombay 1, India

Dear Hashmukhbbhai:

Thanks a lot for your letter of September 30 and its enclosures.

I shall review the Deshmukh Memorial Volume article right away, and will write to you in the coming week.

It was good to see you, in Copenhagen, and to see you in good health. Doing so relieved me greatly.

With best wishes,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies

cc: Messrs. Mathew  
Pollan  
Kirk  
} with incoming
October 16, 1973

Mr. Monecef Belkhodja  
President-Directeur General  
Société Nationale d'Investissement  
68, Avenue Habib Bourgiba  
Tunis, Tunisia

Dear Mr. Belkhodja:

I would like to acknowledge with thanks receipt of your letter No. 5266, under cover of which you sent to Mr. Diamond a memorandum setting forth SNI's policies on its interest rates. We are reviewing this memorandum and expect to write to you in regard to it before long.

Your letter also indicated that we can expect, before the end of October, SNI's recent five-year projections of its operations and results. We are very much looking forward to receiving this information. We do hope that these projections will be supported by statements setting forth in detail the assumptions used in the preparation of the projections. It will, in fact, be very useful for us to have information on the projects now being considered by SNI or expected to be taken up, including the current information on such projects' costs, the contemplated SNI financing in foreign exchange and Dinars, expected financing from other sources, and the current forecast for the timing of SNI commitments to these projects.

Yours sincerely,

Hank Pollan  
Development Finance Companies

cc: Messrs. Springuel and Tontoumji  
Dr. Khoraspor (upon return)

HPollan:dl
October 15, 1970.

Mr. Hans Pollan
Development Finance Companies Department
International Bank for Reconstruction & Development
Washington, D.C.
U.S.A.

Dear Mr. Pollan:

It was a pleasure to meet you briefly in early September, at the introduction of Kurt Eckrich. I am sorry we didn't have a chance to visit again, but I understand you were quite busy. Perhaps we might have a more leisurely visit when next I am in Washington or if you happen to travel to Lagos.

I would enjoy keeping in touch.

Yours sincerely,

Raymond W. Baker
October 15, 1970

Mr. Hans Pollen
Development Finance Committee
International Bank for Reconstruction & Development
Washington, D.C.
U.S.A.

Dear Mr. Pollen,

It was a pleasure to meet you briefly in early September at the introduction of your portfolio. I am sorry we didn't have a chance to visit further, but I understand you were quite busy. Perhaps we might have a more formalized meeting when I am in Washington. If you have been to travel to London I hope you enjoyed it.

I would enjoy keeping in touch.

Yours sincerely,

Raymond W. Basket
October 14, 1970

Mr. Mohamed Lazrak
Directeur Général
Crédit Immobilier et Hôtelier
159 Avenue Hassan II
Casablanca, Morocco

Dear Mr. Lazrak:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Morocco a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other farsighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IESC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next week end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.

Mr. and Mrs. Pace will arrive in Casablanca at 8:35 p.m. on October 20 via AT 595 from Tunis. They will be staying at the El Mansour in Casablanca and at the Tour Hassan in Rabat until October 25.
Mr. Pace is visiting Mr. Gaud this week for a discussion on IESC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

With best wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

cc: Mr. Pace

cc: Mr. Gaud

WDiamond:jnb
October 14, 1970

Mr. Moncef Belkhodja
President
Societe Nationale D'Investissement
68, Ave. Habib Bourguiba
Tunis, Tunisia

Dear Mr. Belkhodja:

I take pleasure in enclosing two copies of a final version of the descriptive memorandum on Societe Nationale D'Investissement, the draft of which you have kindly reviewed and suggested some revisions.

I apologize for the delay in having put this into final form due to my home leave.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Pollan (with a copy of the final version of the descriptive memorandum.)

EHShin:er
October 14, 1970

Mr. W. M. Th. Najoan  
Foreign Relations Division  
Development Bank of Indonesia  
P. O. Box 140  
Djakarta, Indonesia

Dear Mr. Najoan:

Thank you for your letter of September 29, which has just arrived. There is one point in your letter on which I want to reply at once. You are free to give my name as a reference if you decide to seek employment with CDC or PICA.

With best wishes,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies
TO: FELIX CHANG

SINOMISION

ROME

COUNTRY: (ITALY)

DATE: OCTOBER 14, 1970

CLASS OF SERVICE: LT

TEXT:

HAVE TAKEN LIBERTY OF ARRANGING DINNER FOR YOU TUESDAY NIGHT

TWENTYSEVENTH STOP HOPE YOU ARE FREE STOP PLEASE CONFIRM

REGARDS

DIAMOND ♠

NOT TO BE TRANSMITTED

AUTHORIZED BY:

NAME: William Diamond

DEPT: Development Finance Companies

SIGNATURE: [Signature]

REFERENCE: [Signature of Individual Authorized to Approve]

CLEARANCES AND COPY DISTRIBUTION:

WDiamond: mbj

For Use By Communications Section

ORIGINAL (File Copy)

(IMPORTANT: See Secretaries Guide for preparing form)
DATE: OCTOBER 14, 1970
CLASS OF SERVICE:

HAVE TAKEN LIBERTY OF ARRANGING DINNER FOR YOU TUESDAY NIGHT.
TENTH AND STOP. HOPE YOU ARE FINE. STOP PLEASE COUPLING

REGARDS

DIAMOND
October 13, 1970

Mr. Turgut Ozal
Undersecretary
State Planning Organization
Ankara, Turkey

Dear Mr. Ozal:

I enjoyed seeing and talking with you in Copenhagen.

At that time I said I would send you some material on Indian industrial finance institutions that might be of interest to you. I have today mailed, separately, information on the Industrial Development Bank of India (including its statutes) and a monograph of the Reserve Bank of India on term loan appraisal. I hope you find this information useful.

I have discussed your request concerning an industrial project appraisal training program with Mr. K.S. Krishnaswamy, Director of the Economic Development Institute. As I warned you, EDI does not at present find it possible to take full responsibility for conducting a course in Turkey. However, if some other group took the lead in organizing and running such a course, the EDI would be pleased to give what assistance it could on curriculum planning and course materials; and it might also be able to contribute by sending someone to participate in the program for part of the course.

You may recall that I said I knew of some Indian organizations that might be able to help put on such a course. If you are interested in following this alternative, I would be happy to make the contacts on your behalf.

With best regards,

Yours sincerely,

William Diamond
Director
Development Finance Companies

cc: M/s. Benjenk/Hartwich
Richardson
Grayson
October 12, 1970

Mr. Serge Coutta
Directeur General
SOGOFIDE
Boite Postale 1148
Kinshasa,
Democratic Republic of the Congo

Dear Serge:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting the Congo for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Caud, IFC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next week-end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.

Mr. and Mrs. Pace will arrive in Kinshasa at 6:15 p.m. on Monday, November 2 via 60 451 from Abidjan. They will be staying, with the American Ambassador, until November 4.
October 12, 1970

Mr. Pace is visiting Mr. Gaud this week for a discussion of IESG's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

By this time you have received my report on personnel. I look forward to your decision.

With all good wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

WDiamond/ib

cc: Mr. Frank Pace
    Mr. Gaud
October 12, 1970

Ato Tekalign Cadamu  
Manager Director  
Development Bank of Ethiopia  
P. O. Box 1900  
Addis Ababa, Ethiopia  

Dear Ato Tekalign:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Ethiopia for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IESC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USIA.

Mr. Pace will visit several countries in Africa beginning next week-end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in these countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.

Mr. and Mrs. Pace will arrive in Addis Ababa at 10:10 A.M. on Monday, November 9 via ET 790 from Nairobi. They will be staying with
the United States Ambassador until November 12.

Mr. Pace is visiting Mr. Gaud this week for a discussion of IESC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

I hope all goes well with the reorganization plan.

With all good wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies
Mr. Alphonse Diby
Managing Director
Banque Ivoirienne de
Developpement Industriel
Boite Postale 4470
Abidjan, Ivory Coast

Dear Mr. Diby:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting the Ivory Coast for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IESC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USID.

Mr. Pace will visit several countries in Africa beginning next weekend. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.
Mr. and Mrs. Pace will arrive in Abidjan at 6:55 p.m. on Friday, October 30 via RK 523 from Accra. They will be staying at the Ivoire Hotel until November 2.

Mr. Pace is visiting Mr. Gaud this week for a discussion of ESSC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

I fear we missed each other in Copenhagen. I hope, though, that we shall find another occasion to meet soon.

With best wishes,

Sincerely yours,

(signed) William Diamond
William Diamond
Director
Development Finance Companies

WDiamond: jb

c.c. Mr. Frank Pace
Mr. Gaud
October 12, 1979

Mr. Willem Drakel
IBRD Permanent Mission in Eastern Africa
P.O. Box 30577
Nairobi, Kenya

Dear Bill:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Kenya for a few days this month. I have taken the liberty of suggesting he call on you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way, both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, George Woods is now Chairman of the Board of IESC; and Mr. Gaud played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next weekend. His object is to explore the prospects for expanding IESC assistance. I have suggested that you might be able to advise him on ways in which IESC can be of assistance to Kenya, and may indeed be able to make specific suggestions with respect to problems and contacts.

Mr. and Mrs. Pace will arrive in Nairobi at 4.55 p.m. on Wednesday, November 4 via CC 432 from Kinshasa. They will be staying at the Norfolk Hotel until November 9.

With best regards.

Sincerely yours,

William Diamond
Director
Development Finance Companies

cc Mr. Frank Pace
Mr. Gaud

WDiamond:us
October 12, 1970

Mr. Silas B. Danlyan
General Manager
Nigerian Industrial Development
Bank Limited
P. O. Box 2357
Lagos, Nigeria

Dear Silas:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Nigeria for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IFC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next week-end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.

Mr. and Mrs. Pace will arrive in Lagos at 11:25 a.m. on October 25 via Pan Am 150 from Rabat. They will be staying at the Federal Palace Hotel until October 27.
Mr. Pace is visiting Mr. Gaud this week for a discussion of IESC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

I am very sorry I did not have the chance to speak to you in Copenhagen. I fear I neglected many friends. I hope we shall have a chance to meet again soon.

With best wishes,

Sincerely yours,

(sign) William Diamond

William Diamond
Director
Development Finance Companies

cc: Mr. Frank Pace
Mr. Gaud

WDiamond:cbm
Mr. E. P. L. Gyampoh  
Chairman and Managing Director  
Ghana National Investment Bank  
P.O. Box 3726  
Accra, Ghana  

October 12, 1970

Dear Mr. Gyampoh:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Ghana for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IFC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next week-end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.
Mr. and Mrs. Pace will arrive in Accra at 10:05 on Tuesday, October 27 via GH 003 from Lagos. They will be staying at the Hotel Ambassador until October 30.

Mr. Pace is visiting Mr. Gaud this week for a discussion of IESO's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

I was delighted to see you, in Copenhagen and look forward to getting your signal to go ahead.

With best wishes,

Sincerely yours,

(signed) William Diamond

William Diamond
Director
Development Finance Companies

WDiamond: jb

c.c. Mr. Frank Pace
Mr. Gaud
Monsieur B.H. SHIN
Development Finance Companies
International Bank for Reconstruction
and Development
18.18. H. Street
WASHINGTON D.C. 20.433
U.S.A.

Cher Monsieur Shin,

J'accuse réception de votre lettre du 24 Septembre et de la publication jointe intitulée : "Curricula of Courses Held at the Economic Development Institute, July 1969 to July 1970 ", dont je vous remercie bien vivement. Celle-ci ne manquera certainement pas d'intérêt pour l'ensemble de notre staff.

Je vous prie d'agréer, Cher Monsieur Shin, l'expression de mes meilleurs sentiments.

Le Directeur Général,

S. GUETTA.
Direction Générale

H. Shin
Moniteur B.H. Shin
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H. Street
Washington D.C. 20433
U.S.A.

Cher Monieur Shin,

J'accepte la notation que j'ai reçue en date du 25 septembre dernier et je m'empresse de vous exprimer mes meilleurs sentiments.

Le Directeur Général

RECEIVED
1970 OCT 19 P.M 10:59

SECT COMUNICATIONS
11th October, 1970.

Mr. B.H. Shin,
Development Finance Companies,
International Bank for Reconstruction and Development,
1818 H Street, N.W.,
WASHINGTON D.C. 20433, U.S.A.

Dear Mr. Shin,

Thank you very much indeed for your letter of September 24, 1970 enclosering the publication entitled Curricula of Courses Held at the Economic Development Institute, July 1969 to July 1970.

We shall pass the publication on to members of our staff, who we feel certain, will find much interest in the articles contained therein.

Yours sincerely,

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
11th October, 1970

Dear Mr. Sp...,

Thank you very much indeed for your letter of September 5th, 1970 enclosing the publication entitled "Statesmanship of Course" by the Economic Development Institute, July 1970 to July 1970. We shall pass the publication on to members of our staff.

We hope we feel certain will find much interest in the articles contained therein.

Yours sincerely,

[Signature]

[Address]

RECEIVED

1970 OCT 16 AM 2:46

SECTION

COMMUNICATIONS
October 9, 1970

M'Hamid Bargach
President
Banque Nationale pour le
Développement Economique
B.P. 407
Rabat, Morocco

Dear Mr. Bargach:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Morocco for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former President, George Woods, is now Chairman of the Board of IESC. And Mr. Gaul, IFC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next weekend. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly that national development finance institutions in these countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.
Mr. and Mrs. Pace will arrive in Casablanca at 8:35 p.m. on October 20 via AT 595 from Tunis. They will be staying at the El Mansour in Casablanca and at the Tour Hassan in Rabat until October 25.

Mr. Pace is visiting Mr. Gaud this week for a discussion on IESC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

It was a pleasure to see you in Copenhagen. I have already written to you on two issues that arose there.

With best wishes,

Sincerely yours,

(signed) William Diamond

William Diamond
Director
Development Finance Companies

cc: Mr. Frank Pace
Mr. Moncef Balhodja  
President & Director General  
Société Nationale d'Investissement  
68 Avenue Habib Bourguiba  
Tunis, Tunisia

Dear Mr. Balhodja:

I am writing with great pleasure to inform you that Mr. Frank Pace, Jr., President of the International Executive Service Corps, will be visiting Tunisia for a few days this month and looks forward to the opportunity to meet you.

I know that neither Mr. Pace nor the IESC needs an introduction to you. Mr. Pace, you will recall, is a distinguished business executive who has performed distinguished services to the United States Government, among others, as Director of the Bureau of the Budget and Secretary of the Army. He and a few other far-sighted business leaders joined, in the early 60's, in creating the IESC, whose purpose is to accelerate economic growth in the less developed countries by making available to them on a voluntary basis the services of experienced business managers and executives. Through IESC, experienced men are made available to enterprises and institutions to assist in solving technical or managerial problems; in this way both individuals and corporations in the private sector in the United States can participate directly in the development process on a business-to-business basis. Incidentally, our former president, George Woods, is now Chairman of the Board of IESC. And Mr. Gaud, IFC's Executive Vice-President, played an important role in sponsoring IESC, in his previous capacity as Director of USAID.

Mr. Pace will visit several countries in Africa beginning next week-end. His object is to explore the prospects for expanding IESC assistance. He believes, I feel correctly, that national development finance institutions in those countries are a natural center to which he should go for information and advice on the ways in which IESC can be of assistance, and for specific suggestions with respect to problems and contacts. And he has specifically asked to be put in touch with you.
Mr. and Mrs. Pace will arrive in Tunis at 6:55 p.m. on October 18 via TU 923 from Paris. They will be staying at the Hilton Hotel until October 20.

Mr. Pace is visiting Mr. Gaud this week for a discussion of IESC's plans and opportunities in Africa, and we shall take the occasion to brief him about your company.

It was a pleasure to see you in Copenhagen a few weeks ago.

All good wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

cc: Mr. Gaud
    Mr. Frank Pace
    WDiamond/smb
Attachments to copy for Mr. Pace
of letters to DFCs:

copy of descriptive memoranda on: DBE, BIDI, BDE, NIDB, SNI

copy of information on Ghana: National Investment Bank Act, 1963
" " " Regulations, 1963

Attachments for Mr. Pace

Descriptive memoranda on the

dfcos which

Mr. Pace will be visiting and information

on SOCOFIDE and the National Investment

Bank in Ghana.

October 1970

Letters sent to:
BNDE
SNI-
PHEA
BIDI
Ghana NIB
NDB
EIH
SOCOFIDE
D. B. of Ethiopia

dated October 12, 1970
Attached is a copy of a memorandum of September 15 addressed to Mr. Broches by Mr. Lynch, making certain enquiries regarding the Bank's policy on lending to Regional Development Banks (e.g. the Caribbean Development Bank, the Central American Bank for Integration, and the East African Industrial Development Bank). Also attached is a copy of Mr. Broches' response dated October 2.

2. I telephoned Mr. Lynch today to respond to the question in his paragraph 4 regarding how funds might be made available to Regional Development Banks. I said that we would expect to treat them by analogy with National Industrial Finance Companies. Basically, the concept would be the extension of a line of credit to be employed by the Regional Institution for lending on some projects, subject to whatever conditions and limitations seemed justified in the light of the experience and record of performance of the Institution concerned. I commented that in the case of the Caribbean Development Bank, since it was a brand new Institution, we might initially take a somewhat cautious approach, to be liberalized as we gained experience with the Institution.

JBK:1db

cc: Mr. Broches
Mr. Cope
Mr. Gutierrez
Mr. Lejeune
Mr. Diamond
Mr. Lionel J. C. Evans

William Diamond

October 7, 1970

You will be interested in the attached comparison of the main conditions in the Bank loans to IDBI and the proposed loan to IBA. They are surprisingly and commendably similar.

Attachment

WDiamond:cbm

cc: Mr. Lethbridge
Mr. William Diamond

L. J. Walinsky

Mr. Gulhati's Memo of August 14, 1970 (Questionnaire on DFC Sub-Projects)

1. I was delighted to learn of Mr. Gulhati's proposals. The anticipated benefits, if anything, are understated. Perhaps the greatest benefit would be the contribution the questionnaire should make to a better understanding on the part of the DFC's of the social costs/benefits involved in the loans they make to industrial projects. This, I should think, would be more likely if the Questionnaire went beyond question 14 to another which involved a calculation of the effective protection implicit in the previous responses (or of the domestic resources required to save or earn a unit of foreign exchange). It seems to me that they, as well as we, should know this.

2. Some of the questions may require better definition, or further explanation to the respondent. For example:

   Question 5, 6 - "rated capacity" may vary with product mix, etc.

   9 (d) (ii) tariff duties etc. net of rebates?

   14 (a) CIF prices of imported product of similar quality?

   13 (i) (a and b) is "project" intended here, or "product"?

cc: Mr. Gulhati

LJWalinsky:cucCW
October 5, 1970

Mr. William S. Gaud
Executive Vice President
International Finance Corporation
The World Bank
Washington, D.C.

Dear Bill,

Per our conversation, I am enclosing two copies of my itinerary for Africa. I feel that a discussion with the Development Banks in the places to which I am going might be the most productive thing to do, both from our point of view and theirs.

I look forward to seeing you on Tuesday or Wednesday morning, dependent on your discussions with Bill Diamond.

Sincerely,

Frank Pace, Jr.

Enclosure

FP/gf
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<td>Rabat - Tour Hassan, Lagos - Federal Palace</td>
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<td>0830/1010</td>
<td>U.S Ambassador Hall</td>
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<tr>
<td>Thurs Nov 12</td>
<td>Addis Ababa - Rome, ET #726</td>
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<td>Grand Hotel</td>
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<tr>
<td>Fri Nov 13</td>
<td>Addis Ababa - Rome, ET #708</td>
<td>0945/1540</td>
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</tr>
<tr>
<td>Sun Nov 15</td>
<td>Rome - New York, TWA #845</td>
<td>1055/1520</td>
<td></td>
</tr>
</tbody>
</table>

* Mrs. Pace only
** Mr. Pace only
Mr. William Diamond,
Director
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street NW
Washington DC 20433
USA.

5th October, 1970.

Dear Mr. Diamond,

Mr. Villiers wrote to you on 28th September indicating that I might be in touch with you this week in the United States. Unfortunately I have had to cancel my visit. Perhaps we shall meet some other time.

With best wishes,

Yours sincerely,

Geoffrey Robinson
Dear Mr. Millar

With reference to your call on 21st September indicating that I:

- Will be present and able to attend the meeting
- Intend to present a proposal for a new product

I would like to discuss the following points:

1. Product specifications
2. Market analysis
3. Potential customers

I have prepared a detailed report which I will forward to you shortly.

Please let me know if you would like to schedule a meeting at your convenience.

Yours sincerely,

[Signature]

Mr. William Millar
Director
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street NW
Washington DC 20433
USA

Date: 12th October 1960

Received
19th Oct 60 Pro 4
October 2, 1970

Mr. William Diamond

B. H. Shin

Report on my visit to KDFC, CDC and PDCP

1. I visited KDFC, (August 11 and 13) CDC (August 25 - 28) and PDCP (August 31 - Sept. 4), during my recent home leave. The object was (1) to discuss the usefulness of material we sent from time to time to the companies, (2) to review the scope and usefulness of comparative data assembled by us and distributed to the companies and (3) to obtain a description of disbursement procedures used by the companies for different kinds of loans and to evaluate these arrangements.

Usefulness of material sent by us

2. KDFC, CDC and PDCP all expressed their deep appreciation of the services we have rendered to them so far. All three companies wanted us to expand this service. They wanted the distribution of not only material available within the 1810 H. St. building that we are doing at present but also of publications obtainable outside the building. KDFC particularly suggested that the costs of outside materials be charged to recipient companies. I replied to KDFC that the extention of our service over the present level is beyond our capacity. Especially our paying for and charging to development finance companies expenses for this service need the arrangements with the Treasurer's Department. I expressed my doubt that it was really worth going through such arrangements.

Usefulness of comparative data

3. The three companies also joined in expressing their appreciation of our making available comparative data to them, especially the comparative operational ratios table. Although they are well aware that the differing situations make inter-company comparison difficult, each of these companies states that the table provides for an excellent background against which their own performance can be evaluated. KDFC said that they were in complete accord with our computation of KDFC's operational ratios. CDC raised a question about its debt/equity ratio which I have passed, in a separate memo, to Mr. Gupta (see the copy of the memo of September 16, 1970 attached). PDCP expressed doubts on the usefulness of Item 4, Profit after Tax as % of Year-end Share Capital, in our Comparative Operational Table. The reason is that the Item 4 indicates a lower profitability ratio of a company with stock-dividends than that of a company without such dividends. I explained that we indicated this situation in Item 16, Book Value as % of Par Value where in case stock dividends are paid, they are adjusted to reflect the growth-trend of a company.
Disbursement procedures used by KDFC, CDC and PDGP

4. I attach a description and my evaluation of the disbursement procedures of each of these companies as Annexes I - III.

Other

5. Mr. Felix Chang stated that he has received from Mr. R. C. Chen, Bank's Executive Director, a table entitled "Some Privileges Accorded by Governments to Development Finance Companies Associated with the World Bank". He asked me if we could give him a detailed description of each privilege. He said it would be useful data for him to negotiate with Government for on certain benefits. I said that I would send him the information when prepared.

6. Mr. Vicente Jayme was interested in knowing how the Bank selects a consultant firm. He asks whether we could give him any data regarding this including a list of consultants. I promised I would look into this when I return to Washington.

Meeting with ADB staff

7. Mr. Dong H. Kay, Deputy Director of the Project Department invited me for lunch. Mr. Heuhne was also present. Our conversation touched on the processing of development finance company's sub-projects financed by ADB loan. They expressed their concern about the slow processing of sub-loans from the date of receipt by ADB to its final approval and asked how we do it. I explained briefly our current practice. They also wanted to know whether we impose any international public bidding for procurement for DFC's sub-projects financed by Bank/IDA loans. I told them that we do not impose at present such conditions for DFC's sub-projects but that a study on this issue is underway in our Department.

BHShin:er
The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

**Withdrawn by**
Chandra Kumar

**Date**
28-Jan-15
**Record Removal Notice**

**File Title**  
Development Banks - General - 1969 / 1971 Correspondence - Volume 5

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**Correspondents / Participants**  
To: Mr. M. P. J. Lynch  
From: A. Brochas

**Subject / Title**  
Bank / IDA Lending to Regional Development Banks ("RDBs")

**Exception(s)**  
Attorney-Client Privilege

**Additional Comments**

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

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<tbody>
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<td>28-Jan-15</td>
</tr>
</tbody>
</table>
Mr. Shin

Einar Sekse

Quarterly Statement on Sub-Projects

No sub-projects have been reviewed by Division V during the quarter ending October 1, 1970.
September 30, 1970

Mr. H.M. Thimpont
c/o BELGOLAISE
Cantersteen 1,
B.1000 - Brussels
Belgium

Dear Mr. Thimpont:

Mr. Diamond has asked me to acknowledge receipt of your letter dated September 23, 1970. I have made arrangements for payment of your expenses and your account will be credited as you request.

I would like to take this opportunity to thank you on behalf of the Bank for sparing the time to travel to Copenhagen to meet Mr. Diamond and Mr. Sekse who were both very happy to have the opportunity to talk to you.

With best regards,

Yours sincerely,

Rodney Clayton
Administrative Officer
Development Finance Companies
September 30, 1970

Mr. H.M. Thompson
Co-President
Centralized F.
B-1000 - Princeton
Bellevue

Dear Mr. Thompson:

Mr. Diamond has asked me to acknowledge receipt of your letter dated September 23, 1970. I have made arrangements for the delivery of your expenses and your account will be settled as soon as I receive your statement of the above.

I would like to take this opportunity to thank you on behalf of the Bank for expediting the time to arrange to compensate our employees. Mr. Diamond and Mr. Sears who were most helpful to provide the opportunity to talk to you.

With best regards,

Yours sincerely,

Robert O. Johnson
Administrative Officer
Development Finance Commission

1970 Oct. 1 Pm 6:10

[Signature]
September 30, 1970

Dear Bill:

During our meeting in Copenhagen though I mentioned to you I forgot to hand over to you a copy of my article on the Development Finance Perspectives which I have contributed for C.D. Deshmukh Memorial Volume which is to be published. I would like you to go through this at your convenience and will greatly appreciate your comments and observations on it.

With our best regards to you both,

Yours sincerely,

H. T. Parekh

Enclosures:

Mr. William Diamond
Director
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

P.S.: I am also sending my article on THE CAPITAL MARKET in 1969-70 which appeared in the Banking Supplement of the Financial Express. I hope you will find it interesting.
September 30, 1970

Dear [Name],

During our meeting in [Location], I wanted to discuss with you a copy of my article on the Development Finance Perspectives which I have contributed for C.D. Development. The document is to be published in DeSmuk Memorial Volume which is to be published soon. I would like you to go through this and the attached article. I will be happy to receive any comments and suggestions on it.

With our best regards,

Yours sincerely,

[Name]

Reference:

Mr. William Dismon<br/>Director<br/>Development Finance Company<br/>International Bank for Reconstruction and Development<br/>1818 H Street, N.W.<br/>Washington D.C. 20433<br/>U.S.A.

P.S.: I am also sending my article on THE CAPITAL MARKET in 1970 to which, may be, interested in the Banking, Supply and Financial Express. I hope you will find it interesting.

1970 OCT 5 AM10:40
THE CAPITAL MARKET IN 1969-70

By H. T. Parakh
Vice-chairman, ICICI

SOME major developments have taken place in the capital market in the year 1969-70. One of them was the Government's decision in July 1969, to break the logjam in the sale of public sector undertakings assets and this movement has been continued for the year 1969-70. The Government, in its budget speech for the year 1969-70, has announced that it will sell a substantial portion of its holdings in some of the public sector undertakings. This move is expected to bring about a significant change in the capital market and it is likely to have a profound impact on the investors.

Stock Prices

The stock market trend during the year 1969-70 was generally bearish. The major reasons for this were the uncertainty regarding the future of the public sector undertakings and the general economic slowdown. The market movement was also influenced by the international situation, particularly the Vietnam war and the possibility of a downward trend in the world economy.

Cash Section

The cash section of the capital market was relatively inactive during the year 1969-70. The volume of transactions was low and the yields on securities were relatively low.

New Capital Structure

The new capital structure of the Capital Market in 1969-70 was characterized by the introduction of new issues and the introduction of new modes of investment. The introduction of new issues was aimed at providing additional capital for the development of the economy and to provide additional investment opportunities for the investors.

Purposive-Wise Distribution of Advances by Scheduled Commercial Banks

(Bills in Crores)

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<td>Bank of Baroda</td>
<td>300.01</td>
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<tr>
<td>Bank of India</td>
<td>300.02</td>
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<tr>
<td>Bank of Maharashtra</td>
<td>300.03</td>
</tr>
<tr>
<td>Bank of Bombay</td>
<td>300.04</td>
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<td>Bank of Madras</td>
<td>300.05</td>
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<td>Bank of Nepal</td>
<td>300.06</td>
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<td>Bank of Punjab</td>
<td>300.07</td>
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<tr>
<td>Bank of Rajasthan</td>
<td>300.08</td>
</tr>
<tr>
<td>Bank of Bihar</td>
<td>300.09</td>
</tr>
</tbody>
</table>

Notes: Figures in brackets indicate the percentage of advances in each category to the total advances in the year.
The concentration at the moment the hearts of business colleges is to be won. With a notion of theme industries is needed. The power through the means in Gov. Morris who wishes to once again for a highly satisfactory program in agriculture. This was done with the former. Industry is not available. However, available. Is it not available? These men have caused great at a time long to full extent. If this transport is taken. This is the only way the crop of the other in a full extent. The government has been disturbed. The problem is to avoid any crowd of other for a full extent. The government has been disturbed.
Personnel Problems In Banking Industry

By A Special Correspondent

A BOUT four years ago, when the banking industry took a historic step by arriving at a bipartite settlement covering the wage scales of its 650,000 employees, it was its ambition to modernize and improve the quality of service of bank employees. It has now become clear that the results of that settlement have not only brought the industry greater efficiency and productivity but have also placed it on a firm foundation for the future.

Bank employees are among the best paid white-collar workers in the country. In addition, they have enjoyed a high level of job security and wage scales more than equal to their contributions to the productivity of the industry. Over 75% of the cost of the settlement has been financed by the banks themselves.

A number of factors have contributed to the success of the settlement. Among these are the high level of wages and benefits, the modernization of work methods, and the introduction of new technology that has replaced the need for large numbers of employees.

However, there are still some problems that need to be addressed in order to further improve the efficiency and productivity of the banking industry. These include the need for better training and development programs, the implementation of new technologies, and the improvement of work conditions.

Another factor that needs to be considered is the training and development of personnel. The industry has made significant progress in this area, but there is still room for improvement. The training programs for new employees need to be more comprehensive and tailored to the specific needs of the bank.

In conclusion, the banking industry has made significant progress in recent years, and the settlement has played a crucial role in this development. However, there is still work to be done to further improve the efficiency and productivity of the industry. The industry needs to continue to invest in training and development programs, and to implement new technologies to improve work conditions and productivity.

Recruitment

The demand for recruitment of local people is growing, and it has the support of market-oriented systems. In 1980, there were 610,000 employees in the banking industry, and the number increased to 621,000 in 1985. In 1990, there were 650,000 employees, and this number is expected to increase to 670,000 in 2000.

The increase in the number of employees is due to several factors, including the expansion of the banking industry and the need for more qualified personnel.

In conclusion, the banking industry is facing a challenge in terms of recruitment. However, there is a growing demand for local people, and the industry is well positioned to meet this challenge. The industry needs to continue to invest in training and development programs, and to implement new technologies to improve work conditions and productivity.

MODERN FOR EVERY TRAVELER

The revolution

Seabourn Electronic Calculators

Samsonite Electronic Calculators

Aesculap Accounting Machines

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MONDAY, SEPTEMBER 28, 1970
THE FINANCIAL EXPRESS

The most difficult banks before banks to be found suitable persons in their branches. Banks will have to go all out to attract the right type of person. For the first time in history, they will have to subscribe to more ambitious schemes of personnel recruitment.

The large scale expansion, which banks are now undergoing, has created a demand for new entrants into the banking industry. The industry is therefore in search of suitable candidates.

Another factor which must receive the urgent attention of bank managements is the modernization of personnel recruitment. This will facilitate greater decision and better service. It will also help build up a cadre of personnel, which will form the nucleus of the personnel management. Training schemes imply a strong centre to ensure that persons to whom powers and functions are delegated not only exercise them but exercise them properly. This necessitates a hierarchical structure of management and development of professional personnel to support such schemes.

Bank managements and bank employers are facing difficult challenges today. The nation expects much of them. They have successfully faced similar challenges in the past. Will it be too much to expect that on this occasion also bank managements and bank employers will be able to meet the challenges? If so, will they face the challenge with courage and determination, and in a spirit of grace and tact?
THE BANKING STRUCTURE

By Bahirji

ALTHOUGH the country has gone through a new phase of industrial revolution and constitutional changes, the policy of the Reserve Bank resulted in, to quote the then Governor of the Bank, Mr. H. V. H. Randers, "a strange conglomeration of banking which the public might find difficult to understand and in fact qualified for a licence." He personally favoured "a system of banking which the public would feel easy to understand and..."

Vice-chairman, ICICI

Commercial banks as national banking institutions is a historic process. There are, however, certain

Government in power, large-scale complicity, consent, etc. The rise in prices
While there had been many enquiries in the past regarding provision of finance to industry in the country, actually, mainly as a result of our dependent status, the country did not set up any major industrial finance institution till it achieved independence. Work on setting up an industrial finance corporation commenced in the Reserve Bank after Shri C.D. Deshmukh became the Governor of the Bank. His persistent efforts led to the passing of the Industrial Finance Corporation Act of 1948 soon after independence, despite the many other pre-occupations that the political authorities had in Delhi at the time.

Since then more industrial finance institutions have been set up in this country and the structure for providing industrial finance has become broad-based. The success of these efforts can be traced to the initiative taken by Shri C.D. Deshmukh in pushing through the formation of the Industrial Finance Corporation. Now that more than 20 years have passed since the setting up of the Industrial Finance Corporation, it is necessary to review the progress made in providing industrial finance in the country and analysing the many problems industrial financing has created. This article sets out to do this.
Discussions on development finance usually tend to centre on the problems and needs of the entrepreneur who requires capital. However, there is the other side of the story from which the subject can also be considered - that of the financial institution which has to provide the capital. Industrialisation depends upon capital but the provider of capital takes risks which can be very real. Risk-taking involves assessment and judgment at a number of stages, for, in the course of its operations, the development finance agency runs into a variety of complex situations for which there are no easy solutions. The investment process is never simple.

1. INDUSTRIAL FINANCING IN DEVELOPING COUNTRIES

The agency of development bank obviously is meant to take risks which others are not ready to take. It is intended to fill a gap in the existing capital market which would accelerate development.

Faced with these risks, the development banker's skill and competence really lies in being able to pull himself out from those tricky situations with a minimum of damage. In his day-to-day work he is required to bring to bear vigilance, ingenuity and resourcefulness to be able to swim above water.

The course of development is strewn with pitfalls, miscalculations and misjudgment, on the part of the financier no less than on the part of the entrepreneur. This is only to be expected. However, the secret lies in being able to meet the challenges as they come, which calls for much hard thinking and experimenting with unconventional decisions and unorthodox solutions.
To lend or invest is easier than to recover the amount, this is especially true of development finance. To reconcile finance with development is far from easy and to achieve economic growth with successful financing calls for high degree of entrepreneurship on the part of the financing agency itself. This is even more so because the financial institution is very often public or semi-public in character and operates with public funds.

In developed countries the agency of the merchant bank and the investment bank is the channel through which industrial capital is arranged. These agencies operate on old profit considerations. Development finance companies are the providers of capital in developing countries. However, development financing has the added dimension of development without losing its business character. What the former agency does in an advanced economy the latter has to do in a developing economy where capital is scarce and capital market is not well developed.

II. ASPECTS OF FINANCING INDUSTRY

Once the financial institution has provided the assistance, whether in the form of loans or investment, after duly appraising the project from the technical, financial, market and management angles, many things can happen to the project which would upset the earlier calculations. Though the entrepreneur and the financing agency both would have examined the project with due care, the capital costs and profitability projections made at the time can go wrong very materially in the course of implementation for a variety of reasons, some of which beyond the control of the entrepreneur. The completion of the project could take much longer time and to reach the profit-earning stage may take even longer, which
itself can raise the financial costs of the project and strain the resources to a breaking point.

Where the industry is an established one, such as textile, cement, paper or sugar, there may not be very large variation in costs from what was estimated. But nonetheless there may be process difficulties or sales problem. Even in these industries if the entrepreneur is without previous business experience or if the timing of the project happens to be wrong, difficult financial and management problems can arise.

If the enterprise is of the non-traditional kind the difficulties can increase manifold, particularly if the entrepreneur lacks experience of the right kind, which is often the case. What is more, in several net industries special skills have to be attained by workmen, which takes time. These situations are inherent in the process of development and are unavoidable, more so when one of the declared goals of planned development itself is to broaden the entrepreneurial base.

III. AN ENDURING RELATIONSHIP AS PARTNERS
Industrial financing involves a long and enduring partnership between the entrepreneur and the financing agency. The financing agency cannot, and ordinarily should not, attempt to get out of the project when the going is rough, nor can it afford to lose nerve in the face of obstacles. In fact, the real test of its support comes when the project runs into serious difficulties and solutions have to be found, additional finance has to be arranged and the enterprise needs nursing, sympathy and understanding.

In the case of assistance by loan financing, the apparent security normally taken by the agency is a charge on the available fixed assets but this is the last thing which the financing agency would like to enforce by legal action or by taking physical possession of assets.
The ultimate security to the financial institution lies in the successful and profitable setting up and running of the project, for the final analysis loans can only be repaid out of generated funds and return on investment can come out of distribution of earnings. The development bank is never anxious to play the role of liquidator unless it has exhausted all other solutions and only if it is driven to it. Legal remedies are time and energy consuming, frustrating and cannot be a satisfying solution for the development banker whose task is to assist in creating new productive facilities and not their liquidation. The development banker has therefore to play a crucial role when the project gets into serious situations, in his own interest as well as in the interest of the enterprise. Mistakes are bound to be made but how to find solutions for those mistakes or difficulties with which the project is faced is the essence of the support which the development bank should give. The true value of the development banker lies in playing an active part and by being dynamic in regard to projects with which he is associated to see how success can be achieved and obstacles overcome.

The development finance company is no less interested in the success of the project than the promoter himself. Both have common objective and they need mutual confidence. The development banker must know of all the important developments taking place in the enterprise. He must be in living touch without interfering in the management. The primary responsibility for running the enterprise is that of the entrepreneur who, however, must take the banker into confidence and seek his counsel and assistance when required. The banker must continue to satisfy himself
that the management is in proper hands and that the promoter is capable of delivering the goods and that he is putting in his best efforts.

IV. PROBLEMS OF FINANCING INDUSTRIES

Difficulties which the project may run into may be external or internal. The banker has to exercise his judgment to see whether, and if so, what action is necessary on his part to assist the project. His active help may be necessary to meet some of the difficulties either in the field of finance or production or marketing. His passive help in the form of forebearance to give time to the entrepreneur to work out his problem is no less important. Patience and understanding are sometimes as essential as financial assistance.

The problems which an enterprise would run into can be in the field of production or sales or management or finance and the difficulties usually spill-over from one into another of these fields and complicate the situation further. Production and management problems are more of an internal nature while sales and financial problems are largely external.

In what follows it is intended to illustrate these difficulties by actual cases to give an idea of the complex situations in which an enterprise and the financing agencies run into and of the difficulties in finding solutions.

Problems of Production

Productive processes always take time to be established. Plants run into teething troubles and their rated capacities are not easily reached. Depending upon the nature of production, high rejection rate and slow build up of the required skills are the common experiences at the initial stage of an
enterprise. These are normal problems inevitable to the setting up of an enterprise, particularly in non-traditional industries to manufacture complicated capital equipment and chemical products. For example, in forging units the very heavy operating equipment of hammers and presses is not easy to handle and labour requires special training for producing industrial items which takes time. Rejection rates are initially high, which get reflected in high costs of production in the early years of the enterprise.

Ventures into new Technology

In one case the know-how for a manufacturing process was purchased from a local research agency. After sustained trials and long experimentation with the equipment, which was specially designed, production was established but rejections were so heavy that the cost of manufacture proved uneconomic. Years of trial and error also resulted in mounting losses, which strained the finances of the company to the breaking point. The financing agency increased its assistance, waited patiently without interest and also endeavoured to secure outside technical assistance to establish the process. In the meanwhile the entrepreneur, his capital wiped out, decided to give up the project as unworkable. He tried hard to sell the equipment and the enterprise but without success. The project had finally to be abandoned. The financing agency could not have recovered its investment from sale of assets which found no buyer or by taking the company into liquidation. It came to terms with the entrepreneur by agreeing to accept repayment on easy instalments over a long period, forgoing interest in the meanwhile. The settlement had to be arrived at in a spirit of accommodation and understanding, appreciating the plight of the entrepreneur.
who had lost his capital in an effort to put to use a locally worked out process in an altogether new kind of industry.

A very different case was one in which a businessman with limited manufacturing experience in a simple industry, launched a project to manufacture a specialised chemical product, the secret know-how of which is held by four or five manufacturers in the world, which they would not share with an outside firm on any reasonable terms. The financing agency had first to make a decision whether to assist in the project and, if so, under what conditions. On the one hand, the financing agency had to operate within the plan framework and, therefore, take a positive view since the Government had granted an industries licence to the particular party. It could not take a negative view by an outright rejection of the case or by refusing to consider it. It, therefore, considered the project to see under what conditions finance could be provided. Next, it had to take a view on the entrepreneur himself. Here again one of the objects of the development bank is to encourage entry of new entrepreneurs in industry. The financing agency therefore supported the project even when it had grave misgivings about the ability of the promoter in the context of difficulties inherent in setting up this particular industry. To reduce somewhat the special risk inherent in this project, it was decided in the light of the available information, to proceed with a large capital base and to take a satisfactory and safe security for the loan provided. To take necessary safeguards in regard to the process know-how, special precautions were taken about the plant supplier and his capacity to deliver the right type of equipment and process know-how.

Subsequent events showed that in spite of all the
precautions taken, the judgment of the financing agency went wrong. Capital costs far exceeded the estimate. The plant supplier was found to lack the correct know-how and production could not be established even after many years of trial and error. The basic fermentation process adopted was itself probably not of the right kind, mainly because the know-how was a closely guarded secret of a few manufacturers who were not prepared to sell it to any outside agency. As the project advanced the promoter realised that he was in deep water and pulled out of it by selling his interest to another party. This was something of an improvement because the new entrepreneur brought to bear much enterprise and was at least able to complete the project, though he did not succeed in establishing production. The new promoter and the financing agency both continued their search for foreign participation of the right kind but found no one willing to join in that situation. Large losses had accumulated in the meantime and production facilities of the wrong kind had been set up. The financing agency, inspite of its considerable investment, provided some further finance and assisted in obtaining finance from other sources. The development bank had assumed very large risk but had also taken care by adequate security to mitigate that risk for itself. Yet it found itself in a much more serious predicament than it had anticipated. Nonetheless, the entrepreneur and the financing agency had to work out ways and means by which the project could be salvaged even at that late stage. Both succeeded in impressing upon the Government the need for its help. Government very kindly agreed that more breathing time would be allowed to the company to put its house in order if it were permitted to import the product at an intermediate
stage and process it to the final stage, which could bring some profit to the enterprise and enable it to work out a new line of action. This was a case of a voyage in the uncharted sea with a wrong navigator who had to be changed mid-ship. The financing agency itself was relatively inexperienced to try out a project which had basic initial deficiencies of a serious nature.

The solution finally arrived at was what should have been done at the outset. The Government, the original promoter and the financing agency all made the wrong decision at the start which caused a great deal of damage to all. Even then only an interim solution has been found which would afford a breathing time to the company to enable it to find a final solution.

Role of Market

Production difficulties can be serious though they can be set right, no doubt at high cost, except in a few cases where the technique adopted itself fails. Difficulties in selling a product after its manufacture is established, however, can be numerous. Market factors are very volatile and can upset all calculations. Selling problems can be the result of excess production resulting from over-licensing by Government and/or over-estimation of demand. Indian experience of the last ten years shows that import restrictions have the effect of sharply raising the price of products which gives an exaggerated picture of scarcity and market demand. This, in turn, led Government to issue far too many licences to set up manufacturing capacity in a short period. As the new units came into production, competitive forces sharpened their edge and in the effort to capture the market undercutting of prices was resorted to by some units, which then spread to all. The price war resulted in unremunerative prices for all, working much below capacity and mounting
losses, which new units can afford the least.

This has been the recent experience in several new industries, such as, electric cables, electric meters, cast iron spun pipes, steel tubes, wire ropes, wired and figured glass etc. In all these industries as units reached the operating stage shortages were turned into surpluses, selling prices went below costs of production and supply conditions became much in excess of demand. In meters, for example, against a projected demand of 1.2 million single-phase meters the demand failed to rise above 0.6 million. In cast iron spun pipes where demand comes almost wholly from State governments through public health and sanitation departments, the public expenditure has been kept down and majority of units have had to shut down soon after they came into production. In glass industry, four units came up at about the same time whereas one or two were enough to meet the demand.

One aim of planning is to ration scarce capital to where it is most needed but apparently the type of planning adopted failed to serve this purpose in all these industries by over-estimating demand. As under free enterprise system competitive forces have been fully at play with the added disadvantage resulting from liberal licensing. The struggle for survival has taken severe toll of many new industrial units whose very existence was threatened almost immediately after their coming into being. Their finances were severely strained and they were unable to meet their financial obligations.

What should the enterprise do when it cannot sell without loss what it can produce? It first waits in the hope that the market will pick up. However, necessary and inevitable, this is financially expensive where
there is excess capacity. Next the units in the same industry endeavour to come to terms by limiting production to available demand and fix quota for each unit on some agreed basis. This is not always easy because the producers do not trust their competitors, each wanting to steal a march over the other and each wanting to have a larger part of the market to himself. However, this method can succeed to a certain extent, if there are not too many producers in the industry.

In the cable industry, for example, this method has worked in a part of the industry where the number of producers was small but it has failed in the rest of the industry where there were large number of simpler units producing types of cables.

The other expedient usually resorted to by producers is to diversify into other lines of production with the existing equipment, which can sometimes be a source of supplementary income and help in keeping down the overheads. For example, the wire rope manufacturers have gone into wire drawing activity to keep themselves engaged in one section. Another avenue of escape is to extend the market by exploring export possibilities. This is far from easy but some industries have been eminently successful. For example, the steel tube industry has put to use its excess capacity by being able to export over 50% of its output. To meet world competition Government has helped generously by granting cash subsidy, making available raw material at international prices, by import entitlement and drawback of import duties and by freight concession. But even with generous incentives export of wired and figured glass has not been possible. The wire rope industry has, however, shown some success in exporting, though even this has not enabled
the industry to operate at full capacity. In the cable industry exports have helped but the excess capacity has been too large and without growth of internal demand the industry cannot operate on a profitable basis. In view of keener competition in simpler forms of products several enterprising units have taken to technically more difficult lines of products for which there is demand and which is more profitable and achieved notable success, as in the case of forgings, cables etc.

All these efforts no doubt take time and also require funds. What should the financing agency do in these circumstances? The enterprise is unable to meet its interest charges and instalments and when arrears pile up and defaults continue what line of action should the financing agency take? It has first to form a view of the market and of the management before it can go deeper into the project. Where the entrepreneur shows initiative and enterprise and inspires confidence he should obviously be nursed by suitable revision of the repayment arrangement. Patience and understanding have to be shown where reasonable market growth can be expected over the next few years. Even more, working capital would have to be provided to the enterprise to finance its losses in the interim period. Here the financing agency has to take a somewhat longer perspective of industry and extend assistance based on a long view.

Management Problems

On the other hand, where the management is found wanting to meet the challenges, the financing agency is faced with the formidable task of strengthening management or finding a new one, which is
never easy as the existing management would not accept its incapacity and would not normally cooperate. In some cases the existing management itself may decide to sell out and this can be an advantage if the new management would bring more resources has larger holding power and is more enterprising.

For the financing agency the most difficult decision is to put new money in a losing enterprise which has failed to meet its commitments. This involves fresh judgment and assessment of the project and requires certain boldness on the part of the financier. He must be confident that he is not throwing away good money after bad. This also requires much understanding and sympathy in appreciating the plight of the entrepreneur. The development banker must have his eye on development. He has to be much more than a money lender. Even then, these are hard decisions to make, fraught with risks and depend upon the merits of each case.

For the development bank inept management is the most difficult problem to tackle. It is far more intriguing than difficulties in regard to production or sales. It can happen that in the course of progress of the project the financing agency has to revise its assessment of the entrepreneur. As the project faces difficulties of one kind or the other the test of efficient management is how they are met or overcome. Initiative, drive and resourcefulness are the qualities which distinguish a good entrepreneur from a bad one. Honesty of purpose is essential but capacity to deliver the goods is vital.

Judgment of Promoter

When the promoter comes up with the project an opinion has to be formed about his capacity. The cardinal point at this stage is to satisfy oneself that
the promoter means business and that he is not likely to run away with the financing agency's money. After making this assessment one proceeds to measure other capabilities of the promoter which can ensure successful implementation of the project. In the case of many new entrepreneurs who come to the financing agency its first judgement is largely derived from its experience of them as arising out of the project which is under consideration. This first judgment has to be tested by subsequent experience. Initially the entrepreneur is given the benefit of doubt and he is accepted on prima facie grounds, but this view gets revised from personal experience as the project is implemented.

Subsequent developments would show how far the financing agency needs to revise its first opinion of the promoter. Normally the relationship with the entrepreneur is long lasting even when he fails to come up to the earlier expectation. However, when the project comes to a vulnerable and precarious stage, either during the stage of construction or production and when its solvency is in danger firm action may become necessary in regard to changing the management. But by this time the project may have reached the point of no return or got into such a mess that no new party may be willing to take it over. It may also be the case that the old management would not be willing to give up without a fight or its terms for withdrawal may not be found acceptable. Situations vary from case to case. Solutions are never simple when human equations are involved.

The need to broaden the base of management in a developing economy is often stressed and one objective of development finance agency is to accelerate this process. To fulfil this aim the financing agency is
often willing to go along with a promoter who has inadequate business experience or who does not have the right background. The result is sometimes satisfactory but in other cases the experiment fails. In one case a civil engineer managed to get a licence to set up an engineering unit. Though he was a technician, he was not specially qualified to start this particular industry and he lacked business experience. However, he was given the benefit of doubt and the project was duly set up. The promoter had hoped to make quick gain but found that more finance was needed than was provided which would take years before the project could reach profit earning stage. The technician-promoter lost his nerve and sold out the project to an established industrialist. In another case a new entrepreneur found market prospects bleak and after suffering large losses decided to sell out the plant to another company which was operating profitably and which could absorb the loss of the new unit till market conditions improved. In this case the result was that the financing agency's loan which was transferred to the new company became safe, but the equity holder lost a good part of his capital because of the earlier losses.

 Differences between Promoters

The management problem can get further complicated when the promoter consists of more than one party. A promoter (who may be a licence holder with or without experience of industry) may bring in another as financier. In that event the two partners must be able to work along amicably. When this does not happen the project suffers because of internal dissension. There may be struggle for power or lack of confidence in each other. Difficulties may be even greater when some form of partnership is involved.
with a foreign firm. There may be foreign technical or technical-cum-financial collaboration. The basic purpose of the arrangement may be to bring foreign know-how of an established producer or it may be primarily motivated to sell the plant on certain terms. When the price of the plant is payable in part through foreign equity participation the cost of the plant could be inflated to cover the risk of such participation. Likewise, a second-hand plant may be supplied whose valuation and performance may raise complex problems. If the local entrepreneur is weak financially or managerially he may fail to exercise sufficient vigilance or may mule the company - which sooner or later recoils on the project itself. All partnerships are fraught with innumerable problems, more so when the partnership is between local and foreign parties where difference in outlook also plays a part. Problems may be less serious when one of the two parties is careful, upright and has the capacity to deliver the goods. They can be very grave when both sides have their own axe to grind and when their self interest takes precedence over the company's interests.

In any partnership or collaboration arrangement it is very necessary that the parties are more or less evenly matched or that each makes definite contribution to the management of the enterprise. When one of the parties is weak - not necessarily financially - or lacks integrity or is not efficient the project is bound to suffer. When both parties are less than honest the trouble is bound to be greater.

To give an instance, in the same industry two separate units were set up at different points of time but in partnership with the same foreign firm. In one case, the project ran into serious managerial and other difficulties but the other project was set up successfully.
This was essentially because the local partner in one case showed greater care and played a more positive role than the local promoter in the other case. The local entrepreneur's skill lies first in the kind of terms of collaboration he is able to negotiate with the foreign partner as it lies later in how he is able to carry on with him from day-to-day in the joint venture.

In one case the local partner was found incapable of bringing up the project successfully and the foreign partner who had a larger stake both in prestige and money decided to remove the local partner from active management in the interests of the project.

In yet another very difficult case, the promoter were a local person with some trade know-how, another local party as the financier, a foreign manufacturer providing the know-how and a plant supplier from another country. The project not only ran into the problem of cost overrun and later of recession in the industry but also could not establish proper production. What is more, first the two local partners fell out and much damage was done to the project before one party got out of the scene, after leaving a trail of much bitterness. This itself gave a bad name to the company. Next, relations between the local partner and the foreign firms, both the plant supplier and the collaborator, were none too happy and there were several changes
of foreign technical personnel deputed to the project which all gave a setback to the project. Relations with the foreign technical collaborator got strained in the process. Though the plant was basically good all these management difficulties considerably undermined the viability of the project. It took much longer to set things right than would otherwise have been the case, involving heavy losses and much financing. Capital got eroded in the process and further complicated the financial problem. Arrangement for further capital became increasingly difficult and the company continued to be on the brink of collapse, saved only by the tenacity of the entrepreneur. Only with the revival of demand for the products of the company the prospects of revival of the company became bright.

In one case an altogether raw and inexperienced young person with foreign education and with fair means ventured to start an enterprise requiring large capital in an established industry of which he had little experience. From the start the entrepreneur showed little capacity but with his connections he was able to arrange for all the capital needed. The financial agencies being expected to aid new entrepreneurs gave him the benefit of doubt though they had grave misgivings from the beginning. As the project advanced his ineptitude came more and more to light. He mishandled the project in all directions and failed to apply his energies to the project and sought no proper advice. His easy going habits and his incapacity to resolve difficulties as they came resulted in mounting costs, inordinate delays and wrong decisions. He had to be deprived of his authority, though too late in the day for anyone to salvage the project as no suitable substitute management could be found.
In this instance incapable management was primarily responsible for the disaster. The local government was also involved financially which, however, did not make it easier to find a solution and in fact introduced the political factor.

Nomination of Director

It is customary for financial agencies to provide for the right to nominate a director on their behalf when they wish. While not wishing to participate in the day-to-day management, this right is useful in keeping the financial agency informed about what is happening in the company. But there is little further advantage to be gained when the company is in real difficulty - financial or otherwise - or when there is serious management problem. The nominee director is really not able to do much apart from giving his best advice. He is at times helpless to protect the interests of the financing agency. When the company's affairs are in a mess there is very little that he and the board of directors can do. Actually, in such circumstances, the nominee directors often choose to leave the Board to save themselves from serious responsibilities falling on the directors. However, the right to nominate a director is useful to the financial agency as such director can know what is going on within the company and communicate it to the finance agency. At the same time it should not be forgotten that it is not easy to find the right kind of person to act as director who should be able to take keen interest and is also able to spare time for it. There should be proper lids on between the financial agency and its nominee director to take full advantage of his presence. Otherwise, the nominee director could only be of ornamental value without being able to
make any useful contribution. His presence is no substitute for continued re-assessment of the project by the financing agency for any basic difficulties faced by the project.

Problems of Finance

Difficulties met by an enterprise in the field of production, marketing and management are all finally reflected in the field of finance. The original financial plan gets seriously upset. As pressures mount up one by one, the company's liquidity gets more and more strained. The role of development finance is to assist new enterprises and new entrepreneurs, but the cushion for contingencies in their case is normally low.

Role of Contingencies

When settling the initial capital structure of the enterprise, the financial agencies do provide, to a limited extent for unforeseen circumstances but such margin is usually very low and soon gets wiped out. The entrepreneur usually desires to proceed on a low equity base of permanent capital which means, proportionately larger borrowing, partly in long-term loans and partly in so called short-term borrowing for current working purposes. The financial agencies do revise the initial financial plan proposed by the entrepreneur and establish a more balanced capital structure as between permanent capital and borrowed capital, having regard to the nature of the industry concerned.

However, such revision is itself the result of compromise between the entrepreneur who would like a small capital base and the financing agency which is for a somewhat larger capital base, but not large enough to be adequate to take into account the possible hazards of the project. The development
finance company itself is somewhat inconsistently normally biased in favour of granting loans and somewhat less willing to take up capital, because the former is less risky, is properly secured and yields a steady income, while the latter may bring income only after long waiting, besides being unsecured and therefore more risky. Further, if the financial agency advocates a bigger capital base, it will be also expected to take up more capital itself, which it is not too anxious to do. In this approach, it must be admitted, there is a certain ambivalence in the approach of the financing agency. On the one hand, the development bank is meant to take risks but, on the other hand, it shows a certain hesitation in taking equity which is the risk bearing part of the capital - the counterpart to risk. For the long-term stability of an enterprise, particularly a new enterprise, a relatively larger capital base is more desirable. It keeps the burden of interest charges down in the initial stages and provides a cushion for more borrowing should there be the necessity for it. Excessive borrowing from the very start may possibly throttle a company if business conditions grow adverse as happened to many new projects in recent years.

However, whatever may be the inbuilt weakness in the initial capital structure, inevitably it comes out in the open as the project comes to fruition. As the project is faced with hard realities, whether from an over-run in capital costs or by failure to realise the expected inflow of income due to production or marketing difficulties, funds fail to be generated; on the contrary, more funds are needed to meet the recurring establishment and overhead costs and wages, to pay for stores and raw materials, to finance goods in process
and components and stocks of finished goods which get accumulated, to give credit to the customers and to meet the operating losses which are the common lot of an enterprise in its initial stages.

In the original financial estimates not enough account is usually taken of the start up problems. Moreover, the initial over-run in capital cost, whatever may be the reason for it, involves depletion of the funds provided for the initial working capital needs and thus leaves a capital gap, which often tends to get wider as a result of accumulating losses. This is primarily the problem of new enterprises starting from scratch before they reach an income earning stage, when they may have accumulated heavy losses and when they may have failed to meet their financial obligations to suppliers, other creditors, banks and financial institutions.

**Equity:Debt Ratio**

It is now commonplace to require a proper equity debt ratio for an enterprise in considering a proposal for new capital. This essentially means that an enterprise should not operate with excess of borrowing. It must have a reasonable base of permanent non-returnable capital which can form the bed-rock on which the superstructure of borrowing could be properly erected.

However, this concept of a proper equity debt ratio has validity only at the stage when the entrepreneur is provided with new capital. One can start with a correct equity-debt ratio, but later events can distort the ratio very materially and keep it distorted. As the project is completed and its operations start due to pressure of circumstances the initial ratio may not remain and would get altered. The financial difficulties which the project would have encountered would inevitably increase the company's liabilities.
and borrowings, whether short-term or long-term. What may have been a sound ratio initially would get whittled down under a heavy burden of further debt.

To illustrate, a medium sized industrial enterprise in a well-established industry, promoted by a new entrepreneur with trading but little manufacturing experience, had first an over-run in capital cost which strained its finances very considerably. Part of the capital expenditure was deferred and some of the liabilities for expenditure incurred remained unpaid. Almost simultaneously, due to increase in excise duty and other factors, the market for the product of the company slumped almost as soon as the unit could go into production, with the result that its stocks of manufactured goods accumulated and unsaleable, which meant additional financial pressure to carry stocks whose market value had gone down sharply.

The company found itself unable to meet its financial obligations, it overborrowed from its bankers, could not meet interest charges and was forced to liquidate its stocks of manufactured product in the export market at unduly low prices, which resulted in heavy losses, wiping out its entire capital. Creditors failing to get their dues filed liquidation proceedings one by one. The bankers and secured creditors got involved in legal maze and could do very little to enforce their security. Both the Company Law Administration and the tax authorities impounded the company's books for various irregularities. Breaches of the provisions of the Companies Act and inability to prepare and publish annual accounts and hold annual shareholders' meeting or even the board meetings further complicated the situation.

The promoter, overwhelmed by these difficulties, cared
little what happened to the project and refused to cooperate in any way, having lost his own capital in the business.

Nomination of directors by the financing agencies yielded no result. The entrepreneur would not permit any outside nominees to exercise day-to-day control over the company's affairs. There seemed no way out of the deadlock resulting from the mess in which the company found itself. Even liquidation was not easy to carry out and in any case it was time consuming.

The only course open to the bankers and the financial agencies was to give to the entrepreneur time and some further financial accommodation to enable him to put his productive facilities to whatever use he could and settle bit by bit with his creditors. It must be said to the credit of the entrepreneur that he did not lose his nerve but worked hard and most resourcefully to slowly disengage himself from the many involvements. The bank and the financial agencies had to forego some of their interest dues, settle on liberal terms of repayment and even give further financial assistance to enable him to establish profitable operations out of which alone repayment was possible. Patience on the part of the banker and breathing time to the entrepreneur are often vital to see the project through a critical phase.

Conversion of Overdues into Equity

In the case of another company, earlier referred to, increased costs due to delay in commencement of production and long time taken to establish production and sales at a reasonable level eroded the finances of the company so much that its liabilities soared year after year. The financial institutions having financed the project in capital and loan to
the hilt were at a loss what to do next. Should they abandon the project and foreclose the loan at that early stage of the company's existence? In any event it would involve the financing institutions in bearing losses. Additional finance was needed but the institutions had extended their assistance to the maximum and were not in a position to provide further capital. They therefore turned to another development finance agency for the needed finance. That agency was persuaded to assist the company by means of a loan and the existing agencies agreed to share the security of fixed assets, though not much security was available by way of margin. However, the company's capital base needed to be strengthened before even this assistance could be provided. This could only be possible by the existing loaning agencies converting their overdue payments into equity and preference capital, which meant their converting a secured debt into unsecured capital also at a considerable sacrifice in value. This, however, was the price to be paid for getting outside capital and the institutions had no other course but to agree to it. Even after making this arrangement the company continued to face difficulty as further finance was required. The initial mistake in this case was that of undercapitalisation. The debt burden, high at the start, grew with every new difficulty which the enterprise had to face. Subsequent financing of additional capital became increasingly difficult and added greatly to the technical and managerial shortcomings of the enterprise, which all combined to cripple the project for long years after its inception. However, the only hope lay in nursing the enterprise through its critical days.
V. Summing Up

Since Shri Deshmukh initiated the moves to set up the Industrial Finance Corporation, development bank financing has come a long way in India. Not only has the structure for providing industrial finance been enlarged by the setting up of various Institutions like the IDBI, the ICICI and the state finance corporations, but it also has been improved in coverage by the setting up of the Unit Trust. It is increasingly recognised that industrial financing is not the simplistic task it was assumed to be when we entered into the industrial financing field. Like our experience of industry, our experience of industrial financing was limited then. Since then we have come to realise that problems of industrial financing are not only more complex, as development proceeds, become more complex and require greater ingenuity in meeting them. In the sense development banking never becomes a bureaucratic routine job but provides a challenge to meet changing problems as they emerge in the economy. The success of development banking can be measured only to the extent it meets this challenge flexibly.
September 28, 1970

Mr. A. Gasem Kheradjou  
Managing Director  
Industrial and Mining Development Bank of Iran  
133 Shiraz Street  
Tehran, Iran  

Dear Mr. Kheradjou:

Thank you very much for the draft descriptive memorandum on Industrial and Mining Development Bank of Iran which you have kindly reviewed and handed to us while you were in Washington. With minor editorial changes I have put the draft memorandum into final form. I take pleasure in enclosing two copies of it.

I apologize for the delay in having put this into final form due to my home leave.

Sincerely yours,

E. H. Shin  
Development Finance Companies

Enclosures

cc: Mr. Lethbridge (with a copy of the final version of the descriptive memorandum).
28 September 1970

Mr William Diamond
Director
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H Street NW
Washington DC 20433
USA

Dear Mr Diamond,

Thank you for your letter of 19th September and I am sorry to hear that you will not be in London on your way back from Copenhagen.

Unfortunately, I have no immediate plans of being on your side of the Atlantic but one of my executive colleagues, Geoffrey Robinson, is crossing next week and I should be most grateful if you could see him if he is able to get in touch with you while he is in America. Anything that you felt free to say to him is as to me and the question is close to our current thinking.

With best wishes and hoping that our paths may cross before too long,

Yours sincerely,

Charles H Williers
30 September 1970

Mr. William Dimond
Director
Development Finance Corporation
International Bank for Reconstruction and Development
18th & E Street, N.W.
Washington DC 20523

Dear Mr. Dimond,

Thank you for your letter of 12th September and I am sorry to hear that you will not be in London on your way from Washington.

Regarding your proposal, I have no immediate plans of going to your office or to the President's office next week and I would be glad to discuss the matter with you when you are in Washington. Your letter is at my disposal to read.

With best wishes and prospect that our paths may cross sometime,

Yours sincerely,

[Signature]

Received

[Date: 1970 OCT 2] [AM: 03]
DATE AND TIME OF CABLE: SEPTEMBER 28, 1970 1710
LOG NO.: WU 5/29
TO: INTBIAFRAD
FROM: BRUXELLES

ATTENTION MR. EINAR SEKSE
SORRY NOT HAVING BEEN ABLE TO MEET YOU LAST WEEK. MEETING WASHINGTON MONDAY OCTOBER 5 PERFECTLY AGREEABLE. INTEND FLY SUNDAY SABENA FLIGHT SN541 COULD YOU PLEASE BOOK ROOM FOR ME. SHALL CONTACT AMEXPRESS AS SUGGESTED. REGARDS.

FREDDY SCHAENUS
Dear Bill,

Thank you for your letter of September 19. I am glad that you are now in touch direct with Charles Villiers.

You ask about my new responsibilities. The 117 Old Broad Street Group used to be personalised in the image of its aggressive Chairman, Harley Drayton. He built up at this address a complex of investment trusts and venture company interests that spread into many parts of the world. Many of his major ventures were spectacularly successful in the '50s, some of course were not. He died about 5 years ago and as so often happens when a driving force is removed, there followed a period of quiet, sorting out and consolidation. As it now stands the 117 Group is most noticeably a group of 9 investment trusts with a current market valuation, in the present depressed conditions, of about £370m. A U.K. investment trust is more or less what you would call a closed-end fund. These trusts are managed by Securities Agency, which between them they own. Securities Agency has also developed, to a relatively minor degree, a business as financial adviser or merchant banker to a number of industrial clients. It is in effect the operating company of this informal group and seeks to develop situations for direct investment of funds from the trusts and outside. It is seeking to invest significant sums in special situations, in which case it will also offer the more typical services of a merchant bank advising the client. It is this side of the business that I shall be seeking to develop - continuing the theme of finance for industry that runs through my career. I chose to come here rather than a fully established merchant bank simply because there is plenty to develop.

I may find myself in the U.S.A. in due course, if so hope to see you.

Best wishes,

Yours sincerely,

[Signature]

(Alistair Morton)
September 23, 1970

Dr. Paul Krebs  
Assistant General Manager  
Deutsche Bank A.G.  
Junghofstrasse 5-11  
Frankfurt-Main  
Germany

Dear Dr. Krebs:

I am writing to acknowledge receipt of your letter dated September 15, 1970 to Mr. Diamond. Mr. Diamond is at present in Copenhagen but will return to Washington on Monday, September 28 when he will see your letter. Meanwhile, I am very happy to be able to assure you that I am sure Mr. Diamond will be very pleased indeed to meet Mr. W. Blessing and will look forward to Mr. Blessing's getting in touch when he arrives in Washington.

With best wishes,

Sincerely yours,

Rodney Clayton  
Administrative Officer  
Development Finance Companies

cc: Mr. Diamond o/r RClayton/smb
September 23, 1970

Industrial Development Bank
of Israel Limited
9 Ahad Haam Street
Shalom Mayer Tower
Tel Aviv, Israel

Gentlemen:

Thank you for your letter of September 6, inquiring about our computation of the amount of "Reserves in Linking Funds".

I went through the work sheet attached to my June 24 letter. I have found out that the footnote on "Reserves in linking funds" is somewhat incorrect. The correct one should be to read "Excluding portion relating to Preference B redeemable shares". We felt that this exclusion is necessary, since the Preference B shares are redeemable during 1970 to 1979 and the reserves in linking funds relating to these shares should be treated as liability rather than equity. Thus, an adjustment is made to arrive at "Reserves in linking funds" as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserves in linking funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>33.82</td>
</tr>
<tr>
<td>1967</td>
<td>36.72</td>
</tr>
<tr>
<td>1968</td>
<td>33.57</td>
</tr>
<tr>
<td>1969</td>
<td>32.55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Portion rel. to Pref. B shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>-3.72</td>
</tr>
<tr>
<td>1967</td>
<td>-4.28</td>
</tr>
<tr>
<td>1968</td>
<td>-4.28</td>
</tr>
<tr>
<td>1969</td>
<td>-4.28</td>
</tr>
</tbody>
</table>

I have also to mention that the portions relating to Preference B shares for 1966 - 1969 are our estimates.

I will be most grateful to you if you let us know of your thought on our treatment of the linking funds reserves and if you supply us with the actual figures to replace these estimates.

Sincerely yours,

B. H. Shin
Development Finance Companies

Annex 12, page 2.

cc: Mr. Powell

B. H. Shin:er
September 23, 1970

Mr. B. H. Shin
Development Finance Companies
International Bank for
Reconstruction and
Development
1818 H Street, N. W.
Washington, D. C. 20433
U. S. A.

Dear Mr. Shin:

Thank you for your letter of September 11 which I received upon my return from Japan. It was a pleasure for us to have been able to meet with you personally after having been in communication through letters over all these years.

Incidentally, I had cancelled my trip to Washington and Copenhagen.

We enjoyed the dinner with you and your charming wife and we hope that in your next trip, you and your wife will have the opportunity to stay longer so we can show you more of the Philippines.

I have conveyed your best wishes and that of your wife to the rest of the staff.

My wife joins me in extending best wishes to you and your wife.

Best regards.

Sincerely yours,

VRJ:mrl
Mr. R. H. Silva
Development Finance Corporation
International Bank for Reconstruction and Development
1815 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Silva,

Thank you for your letter of September 11 which I received upon my return from Japan. I was a pleasure to receive your letter and I am happy to inform you that I have been able to meet with your representative and conduct the necessary interviews over the past few weeks.

I have been consulting with my colleagues to develop appropriate policies and strategies to promote and encourage foreign investment in the Philippines. We are currently working on a plan to attract more foreign investors and to improve the business climate in the country.

I have also communicated with your colleagues and friends in your company, and we are looking forward to working together to promote trade and investment between our countries.

I hope this information is of interest to you, and I look forward to continuing our discussions.

Best regards,

Ernesto Cortez
Private Development Corporation
Of the Philippines
Incorporated
Ayu A. Ayala, Chairman
Mrs. Berna C. Warner

B. H. Shin

September 23, 1970

I have a letter attached for the thirty-three development finance companies with which the World Bank Group is associated. I understand that you are not able to process this letter for about two weeks unless you have someone put to over-time work.

I think a period of two weeks is too long to wait. I would appreciate your processing this even with over-time work.

Attachment

B. H. Shin
September 22, 1970

Letter No. 11

Mr. Z.R. Ahmed
IBRD Advisor
Nigerian Industrial Development Bank
P.O. Box 2357 (96-102) Broad Street
Lagos, Nigeria

Dear Mr. Ahmed:

The season of performance reports is around again and I enclose yours. I think the instructions included in the form are quite simple and straightforward and need no elaboration by me. Briefly, however, will you please complete part II of this form and return it to me just as soon as possible since it is required urgently - actually by October 1, although it is appreciated that you will not be able to let us have it by that time.

With very best wishes,

Sincerely yours,

Rodney Clayton
Administrative Officer
Development Finance Companies

cc: Mrs. Stone
September 22, 1970

Mr. Richard W. Greenbaum
437 E. 84th Street
New York, New York 10028

Dear Mr. Greenbaum:

Thank you for your letter dated September 17, 1970 and for the enclosure which will be handed to Mr. Diamond immediately on his return from Copenhagen.

I have taken up with Mrs. Stone the question of the reimbursement to you of your expenses in connection with your travel to Washington. Mrs. Stone did take immediate action on receipt of your claim but payment takes in the region of three weeks to effect. However, I have made a note to check on the status of your claim at weekly intervals.

Sincerely yours,

Rodney Clayton
Administrative Officer
Development Finance Companies

cc: Mrs. Stone
RClayton/smb
September 5, 1970

Mr. Robert M. Greenbaum
135 E. 47th Street
New York, New York 10017

Dear Mr. Greenbaum:

Thank you for your letter dated September 17, 1970 and
for the enclosure which will be handed to Mr. Diamond immediately.

On the return from Copenhagen.

I have seen my wife. She's the daughter of the re-
importance to you of your experience in connection with your travel.

You have made a note to open on the expiration of your home at

weekly intervals.

Sincerely yours,

Robert Claydon
Administrative Officer
Development Finance Corporation

cc: Mr. Stone

RLF

[Signature]
DATE AND TIME OF CABLE: SEPTEMBER 21, 1970

LOG NO.: WU TELEX /21

TO: INTRABRAD

FROM: CALI

TEXT:

ATT. P. M. MATHEW

RE: URUGUAY SEPTEMBER 15 MOST PLEASED RECEIVING YOU OCTOBER 9.

BENJAMIN ABSENT ON BANK MEETING REGARDS

OCAMPO FINANCIERA VALLE
September 18, 1970

Mr. R. A. Morton
Industrial Reorganisation Corporation
16, Pall Mall
London, S.W. 1
England

Dear Mr. Morton:

We are in receipt of your letter dated September 15, 1970 addressed to Bill Diamond and I note that you have sent a copy to him in Copenhagen. This is merely to acknowledge receipt of your letter and to let you know that the enclosure will be brought to Mr. Diamond's attention on his return to Washington since it is possible that you did not send a copy of the 1969/70 Report and Accounts to Copenhagen.

With best wishes,

Sincerely yours,

Rodney Clayton
Administrative Officer
Development Finance Companies

RClayton/smb
Sept. 17, 1970

Dear Mr. Clayton:


To date, I have not received reimbursement for my travel to Washington. I mailed my expense account for $57.50 to Mrs. Stone on Sept. 8th. Would you please check on its status?

Sincerely,

Richard W. Greenebaum
IN REPLY YOUR CABLE OUR CANDIDATE THIMPONT WILL MEET YOU NEXT SATURDAY AT COPENHAGEN. HIS PERSONAL HISTORY FORM WAS MAILED TO YOU BY ME ON SEPTEMBER 9 REGARDS

BONVOISIN
William Diamond, Esq.
International Bank for
Reconstruction & Development
1818 H Street N.W.
Washington D.C.
U.S.A.

Dear Bill,

Today I complete a stint of 3 years and a month at the I.R.C. It has been an
enormously stimulating and demanding occupation and it was no hardship at all
to extend the original two year assignment for a third. From tomorrow I shall
be a Director of Securities Agency and other companies in "The 117 Old Broad
Street Group" - not surprisingly its address is 117 Old Broad Street, London E.C.2.,
telephone number 01 588 1750. The I.R.C. has continued to grow but the recent
election put a Government of a different philosophy into power and not unnaturally
a review is taking place of the future function for the organisation, which has
made such an impact here in its short life. One of the ideas that has made the
rounds without commitment from any particular source is that we should follow in
the wake of such industrialised areas as Japan and the E.E.C. and have a national
Development Bank. In this particular case the structural reorganisation role
might continue to be as important as the selective investment role and certainly
it would be right for the future to be a joint one between Government and the
flourishing Market"- neither of which is geared for selective investment at
present.

As I say this is not a proposal from any source to us at present but it is
one we have chatted about informally among ourselves. I have suggested to
Charles Villiers, Managing Director of the I.R.C., that he would enjoy a
conversation with you as the best informed philosopher and backer of Develop-
ment Banks known to me. He would welcome an opportunity for this and so I
write to ask whether you are likely to be in London soon and could call on
Charles at this address for a completely informal session which ought to leave
all concerned here considerably wiser.


* Capital market
Charles will have a copy of this letter and I should like to suggest that you communicate directly with him. If you do come to London I should enjoy seeing you myself. With best wishes to you and all around you,

Yours ever,

R.A. Morton.

P.S. I have just realised the meetings are in hand in Copenhagen so I am sending a copy of this letter there in case that is useful.
September 15, 1970

The Honorable Hiram Leong Fong
United States Senator
Room 1313
New Senate Office Building
Washington, D.C.

Dear Senator Fong:

I enjoyed very much meeting you yesterday afternoon, and the opportunity to talk to you about the work of the World Bank Group in promoting and providing finance to development banks around the world.

You asked for some literature about such institutions in the Pacific Area. I take pleasure in enclosing herewith copies of the Annual Reports of the five development banks in that part of the world to which we are providing finance. They are the Korea Development Finance Corporation, China Development Corporation, Private Development Corporation of the Philippines, Industrial Finance Corporation of Thailand and Malaysian Industrial Development Finance, Limited. I am also enclosing a brief descriptive memorandum about each of the companies, and the names and addresses of their chief executive officers.

We talked about the possible interest of investors from your State in that part of the world generally, and in such institutions in particular. I am confident they have much to offer as contacts for investors and businessmen in those countries. I would like to repeat my offer to introduce you or any of your constituents whom you commend to those development banks.

Mr. Wieczorowski's visit and mine, and our discussions, might have raised questions in your mind. If so, please do not hesitate to call me.

With best wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

Attachments

cc: Mr. Wieczorowski
Mr. William Clark
Dear Mr. Diamond:

May I approach you today with a special request. Mr. Werner Blessing, up to now one of the Managers in our Main Office at Braunschweig, will shortly take up new responsibilities in the management of our bank's international business. He will be travelling to your country in order to become acquainted with American banking and financial techniques. He will be in your city in the second half of October, 1970.

We should like Mr. Blessing to call on you for an interview. I should feel he would benefit greatly from discussions with you or your associates. While staying in your city Mr. Blessing would ring you up to fix a time for the visit convenient to you.

I can warmly recommend Mr. Blessing to you as a man of capability and I am sure you will find him a very congenial guest. I shall be most grateful if you will be able to help us.

With kindest regards,

Yours very sincerely,

Airmail

Mr. William Diamond
Director
International Bank for Reconstruction and Development
1818 H Street,
Washington, D.C. 20433 / USA
Mr. A. Broches  
15 September 1970  

M P J Lynch  
REGIONAL DEVELOPMENT BANKS  

I reported to my authorities the information which I understood you to express at the Board Meeting on 16 July, to the effect that there were no legal obstacles to lending by the IBRD to Regional Development Banks.  

2. Some months previously, in commenting on a UK document dealing with possible relationships between the IBRD/IDA and what are known as "Micro-States", I had given some purely personal views about the effect which the Articles of Agreement of the IBRD and IDA might have on their ability to lend to Regional Development Banks. I attach an extract from a letter I wrote at that time; you will realise that these views were purely preliminary and not intended to be in any way authoritative. Having noted your remark at the Board Meeting, my authorities have asked me whether I could obtain from you your own opinion on the legal basis of lending by the Bank and IDA to Regional Development Banks in the light of the provisions of the respective Articles of Agreement.  

3. The UK is especially interested in this matter because of its membership in the Caribbean Development Bank and of the fact that some members of that institution are associated states of the UK (a status which entails, inter alia, the retention of responsibility for defense and external affairs by the UK, and consequently, I believe, the acknowledgement by the IBRD/IDA that these territories continue to qualify in a legal sense for lending by virtue of the UK's membership). If, however, associated states were the indirect recipients of IBRD funds, via the Caribbean Development Bank, the question of a UK guarantee of such loans would presumably arise, either because of the associated states' known relationship with the UK or because the IBRD could not lend to the Caribbean Development Bank at all without the guarantee of a member government. My authorities are therefore anxious to have the legal position clear, and I would be most grateful if you could consider giving me your opinion.  

4. Related to this legal aspect is the manner in which the IBRD/IDA would intend to make funds available to Regional Development Banks, and I have been asked to clarify this aspect of the question also; I am therefore sending a copy of this memorandum to Mr. Burke Knapp. Would it be the intention to use the RDGs as agencies for vetting projects and as channels of subsequent lending to the members of the RDGs, or do they envisage direct loans to the RDGs for disbursement on projects which the RDGs themselves had promoted and appraised? And if the IBRD made a loan direct to an RDG for a regional project, what kind of guarantee would be required and from whom?
"I realise that this is a purely preliminary paper, but I would myself have put a somewhat different emphasis on the effect of the provisions of the Articles of Agreement on possible Bank group operations of this kind. It seems to me that Article V, section 5 of the IBRD Articles simply envisages co-operation with other international organisations, and that sub-section (b) does not refer to applications for loans or guarantees from those organisations themselves, but from those of their members who are also members of the IBRD --- the loans to be for purposes which are within the other organisations' competence. I support your view, therefore, that the legal aspects of this Article need further investigation. In the IBRD's case, I would rather have put emphasis on Article III, section 2, which enjoins that each member is to deal with the IBRD only through the Treasury, Central Bank or similar fiscal agency, and the Bank is to deal with its members only by or through the same agencies. Section 4 of the same Article provides that the Bank may "make loans to any member or any political subdivision thereof, and any business, industrial and agricultural enterprises in the territories of a member". The first of these sections appears to me to preclude the IBRD from channelling funds to members (let alone micro-state non-members) through a regional development bank, and the second (though it is perhaps not necessarily exclusive) from making the funds available to the regional development bank itself for use at its discretion.

Furthermore, since the provisions of Article III, 1(a) of the IBRD Articles and the activities of the institutions to those which will redound to the benefit of members, I do not think that the IBRD's legal position is more flexible than that of IDA.

In fact, I would take the opposite view, that the IDA's position is the more flexible, for although its operations are restricted in the manner just stated, it is allowed under Article V 2(c) to provide finance "to a member, the government of a territory included in the Association's membership, a political sub-division of the foregoing, a public or private entity in the territories of a member or members, or to a public international or regional organisation". This means that, unlike the IBRD on my reading of its Articles, the IDA could make finance available to a regional development bank provided that finance were used by that body exclusively for the benefit of those of its members who were also members of IDA. This would not of course help those micro-states for which it would not be profitable to seek membership of the IDA (having first to join the IBRD and the IMF) but it might at least help the regional development banks and the larger of the micro-states.
September 14, 1970

Mr. Richard W. Greenbaum
437 E. 34th Street
New York, New York 10028

Dear Mr. Greenbaum:

We have received your letter dated September 8, 1970 addressed to Mr. Diamond. As no doubt you are aware, Mr. Diamond is leaving almost immediately for the Annual Meeting at Copenhagen and has asked me to acknowledge receipt of your letter. We are most grateful for your consideration in sending along two copies of the article which appeared in the "Journal" for November-December 1969 and for your promise of the next issue which you have been kind enough to undertake to send.

With best wishes,

Sincerely yours,

Rodney Clayton
Administrative Officer
Development Finance Companies
Dear Mr. Diamond:

I enjoyed meeting you last Friday and look forward to future talks. I am attaching a couple of reprints of an article that appeared in the Journal last year. Our next issue should be out within a week, and I shall send you a copy.

Sincerely,

R.W. Greenebaum
Dr. Jones,

Dear Mr. Greenbaum:

I enjoyed meeting you last Friday and look forward to future talks.

I am advocating a couple of requests: Sharon is deeply disturbed and needs immediate help. Please give me a call and allow me to explain in person. I will be flying to New York on Monday. I'm sure we can meet.

Thank you for your time and effort.

Best regards,

[Signature]

1820 Sep 11, AM 9:14

[Signature]
Under Martin Rosen, the International Finance Corporation has been a multinational investment institution that mobilized private capital for the LDCs. Its new chief operating officer, William Gaud, will continue the pattern but may change the accent.

A New Emphasis for IFC: Development as a Risk Business

PETER A. HORNBOSTEL

THE International Finance Corporation (IFC) is the private investment arm of the World Bank. From its headquarters in Washington, D.C., it makes loan and equity investments, and underwrites stock offerings in bankable private projects located in less-developed countries which are members of IFC. Its cumulative investments in 13 years of operations amount to over $350 million.

Although part of the World Bank group, IFC is a separate corporate entity with its own capital, policies and staff. It is wholly owned by its 92 member countries and has no connection with the U.S. government other than the fact that that government owns 27% of its voting shares. It therefore avoids many of the political considerations which plague the U.S. aid programs and other governmental lending institutions. IFC's principal sources of funds are the capital subscriptions of its member countries ($106.5 million), a line of credit from the World Bank ($100 million, with an additional $300 million authorized), sales from its own portfolio ($123 million as of June 30, 1969) and repayments and profits from investments.

From 1961 through September 30, 1969, IFC's policies, procedures and image were shaped in large measure by Martin Rosen, the highly capable executive vice president and chief operating officer of the Corporation. Effective October 1, 1969 Robert McNamara, president of both the World Bank (IBRD) and IFC, named William Gaud, the dynamic former administrator of the Agency for International De-
Mr. Gaud, a lawyer by training, brings to his new position eight years of experience at AID. His outlook is development oriented; he views the IFC first and foremost as a development institution. Mr. Rosen and much of his staff, on the other hand, viewed IFC more as a multinational investment bank. One of Mr. Rosen's principal objectives was to mobilize private capital for investment in less-developed countries (LDCs) by selling off as much of IFC's investment portfolio as possible to other financial institutions and private investors in the capital-exporting countries (referred to by IFC as "participants").

Since the sale of investments was paramount, too, was high rate of return and low loss ratio. As of June 30, 1969, the average annual return on investments in IFC's portfolio was 8.5%. Cumulative losses since 1957 amount to less than $1 million, for a loss ratio of only slightly above 1 of 15. Of IFC's gross cumulative commitments of $365 million, over one-third, or $123 million, were sold to participants during Mr. Rosen's stewardship.

Mr. Gaud is likely to be less concerned than Mr. Rosen was about the saleability of IFC's portfolio to participants. He views rate of return as of secondary importance and is prepared to accept a higher degree of risk on IFC's investments. "Development," he says, "is a risky business." This is not to say that a project need no longer be financially sound in order to warrant an investment by IFC. But where Mr. Rosen's financial analysis of a potential IFC investment concentrated on factors affecting saleability to participants, Mr. Gaud's concern is to attract equity partners who will join in the venture not as passive purchasers of paper from IFC but as direct original investors in a venture. A project must still be financially workable if it is to attract an investment from IFC, but the focus of IFC's analyses will shift somewhat. Its investment policies are likely to become less conservative in terms of acceptable degree of risk.

Projected profitability alone, however, will not justify an IFC investment. The Corporation has always required that the project make a positive contribution to the economy of the host country. As population growth has begun to outstrip world food supplies, IFC has grown increasingly receptive to agribusiness projects, particularly fertilizer production. In recent years, the Corporation has invested over $28 million in major fertilizer plants in Brazil, India and Pakistan.

Where an industrial project is under consideration, IFC will pay close attention to the effect of the project on host-country foreign-exchange savings or earnings. This latter factor has been largely responsible for IFC's growing interest in tourism industries, which now constitute an important part of IFC's portfolio. Four new investments in this sector (mostly hotels), totaling $14 million, were made in 1969.

To Mr. Rosen, however, the economic development criterion (or, as he preferred to call it, the "public profit" requirement) was of secondary importance. Private profitability, and the resulting international movement of capital, was the key. Virtually any kind of productive private enterprise in a developing country was eligible for IFC financing if the project seemed likely to attract substantial private capital flow from abroad.

Main Impact

To Mr. Gaud, the development impact of a project is paramount. He was instrumental in persuading Mr. McNamara to establish the recently-formed industrial division in the World Bank. Jointly with this new division of the Bank, Mr. Gaud plans for the IFC to carry out sector studies in selected countries to determine the principal development priorities in the private sector in those countries. Projects within the priority areas will be encouraged. If no applicants come forward, IFC may take on a directly promotional role and seek out potential sponsors to help put the project together. Applications for financing of projects in non-priority areas will be rejected, regardless of the rate of return. The theory appears to be that these ventures, if sufficiently profitable, will go forward whether or not the IFC participates.

Another of IFC's principal objectives is the development of local capital markets in developing countries. IFC has engaged in substantial underwritings of new stock issues in LDCs, either on its own or as a member of an underwriting group. Through the end of fiscal 1969, its underwriting and standby commitments amounted to $39.2 million, of which a very high percentage had been taken over by sub-underwriters or other investors. IFC has also made a substantial number of investments in private development banks and finance companies located in less-developed countries. As of the end of fiscal 1969, IFC had invested a total of $29 million in some 21 such institutions. In addition to tap local capital, IFC often seeks to sell its equity investments in industry on the local capital markets after they have seasoned sufficiently to become attractive to local investors.

While Mr. Rosen viewed the development of local capital markets as extremely important, this aspect of IFC's work may receive even greater emphasis from Mr. Gaud. Private intermediate credit institutions of all kinds will receive an increasing measure of support. Of the 27 new commitments made by the Corporation in 1969, Mr. Gaud is particularly enthusiastic about its $10 million investment in a new tourism development and holding company in Tunisia. With initial resources of $93.3 million, the new company will promote and finance the construction of new hotels, the reorganization and expansion of existing hotels and the establishment and expansion of other tourism service industries.

Another type of project that IFC will seek to promote and assist is the creation of investment banks in less-developed countries. One exciting project recently announced involves the establishment of a private investment bank for Yugoslavia. Mr. Gaud wants to do more such projects. He is also interested in exploring the ways in which IFC can assist in strengthening local securities markets.

Since opening its doors for business in 1957, IFC's operations have consistently expanded, the greatest jump being made during the last year. From an average annual rate of new commitments of $10 million in fiscal years 1957-61, new IFC commitments for fiscal 1969 rose to an all-time high of $93 million. The cumulative totals of IFC investments through June 30, 1969 were over $365 million, of which $35 million was invested in Latin America and the Caribbean, $35 million in Asia and the Middle East, $35 million in Africa and $5 million in other areas. The total investment from all sources in projects which have obtained financing from IFC amounts to almost $2.2 billion.

While the $93 million committed by IFC in 1969 set a record for the Corporation, Mr. Gaud is not satisfied. Counting funds available from all sources, the Corporation had available at the start of fiscal 1970 some $404 million on a committed basis for use in its operations. Mr. Gaud is out to spend it. According to some staffers at IFC, its management would like to increase its commitments for new investments in 1970 if a sufficient number of sound projects are available.

Financing Features

IFC financing has several clear-cut advantages over financing available from other international financing institutions, such as USAID, the Export-Import Bank of Washington, D.C., or Caise in Paris. Perhaps the most important of these is that IFC financing is not tied to procurement of commodities or services from any particular country. Its investments are normally made in dollars and its loans are repayable in dollars. The currency of the project country must be convertible into dollars to repay foreign debt and remit dividends. The IFC investment may be converted into local currency to meet local costs, or it may be used for the purchase of goods and services from any member country of IFC or the World Bank (or Switzerland). In such countries as Brazil and Argentina, where substantial local capital-goods industries have developed, this untied procurement feature of IFC's financing has tremendous advantages over USAID or Export-Import Bank financing (106-tied procurement) and most European and Japanese financing (at least 75-80% tied procurement). How-
ever, since IFC will never finance the entire project and since its funds may be more expensive than government guaranteed long-term export credits, many project sponsors have found the most desirable financial plan to be one in which IFC funds are used to meet a portion of the total costs of the project, while foreign government guaranteed credits are used in finance so necessary.

Another important feature of IFC's investments is that they normally involve a substantial equity investment, combined with long-term loan financing. With the exception of ADELA, whose equity investments are small and limited to projects in Latin America, IFC is the only international lending institution that makes equity investments, usually coupled with a loan. Generally, IFC will not take more than a 20-25% share in the venture. The ratio of its equity investment to its loan exposure varies from case to case; it has often been in the neighborhood of 1:3. IFC does not generally vote its shares and will not participate in the day-to-day management of the company, although it reserves the right to do so in case the company runs into financial difficulties. Moreover, the terms of the IFC investment agreement subject some management decisions—such as new investments or sales of capital assets—to an IFC veto, but this is normal in international loan contracts. If the management decision makes good business sense, IFC will normally go along.

IFC may not invest in any project to which the government of the host country objects. Unlike the World Bank, whose loans must be guaranteed by the host government, IFC's charter provides that IFC may not require or even accept a host-government guaranty of its investment. Since in many countries the bureaucratic obstacles to obtaining a government guaranty are formidable, this feature of IFC's financing may save important time.

While the investment must be approved and/or registered by the local government, exchange authorities, if exchange controls exist, no exchange guaranty is required. As a normal rule, IFC does not require bond insurance, a lien on its loan to be secured by any mortgage, lien, or pledge of assets, so long as no other investor requires a lien. Its investment agreements simply require that if a lien (other than a normal tax or statutory lien) is granted in favor of any third party, IFC must be equally and ratably secured.

The terms of IFC's financing are on the whole not unreasonable, given today's tight money market. IFC's charter requires that the terms it offers conform generally to market conditions. The amortization terms of IFC's loans are more desirable than can normally be obtained. The terms are usually tailored to the projected cash flow of the project, with the normal range of final maturities running from seven to twelve years, with a grace period on principal repayments during the construction period. Interest is only slightly above the U.S. prime rate. In June 1969, new IFC loans were being authorized at 9½%. Unfortunately, IFC has, in the past, been unwilling to capitalize interest during the construction period. There is also a 1½ annual commitment fee on the undischarged portion of IFC's loans.

On the equity side, IFC sometimes requires that its regular equity subscription be accompanied by a type of "sweetener" to add attractiveness to its investment. In some cases, IFC has insisted on a substantial option to purchase additional stock at original prices after the plant has come on stream. In others, it has demanded that its shares carry certain preferences or advantages not available to other equity partners. In still others, it has required "additional interest" to be paid on its loan when the project reaches a predetermined rate of profitability.

IFC's demands for these special equity features are probably the least attractive feature of its financing. They greatly complicate the financial plans and agreements for the projects in which IFC participates. In one way or another, these arrangements provide IFC with a potentially greater portion of the profits than IFC's initial equity stake would warrant. With some justice, the local equity sponsors inquire why IFC, which by its charter is a "development" institution, should not, at least on the equity side, participate in the venture on the same bases as the private equity investors do.

IFC's answer to these arguments has been that special features were needed to make its investments saleable to other investors. In Mr. Rosen's view, IFC's role was less as a supplier of capital than as a mobilizer of capital through sales from its investment portfolio. He argued that by obtaining these special features, IFC was able to sell off more of its portfolio to private investors, thereby leaving it with more resources available for investments in new projects.

One difficulty with this argument is that IFC has never been short of funds for investment in new projects. Rather the shortage has been of good bankable projects it could finance. Moreover, it is not clear that the special equity features which have been obtained by IFC were essential to the sales from portfolios that it has made. While the effect of these special features on saleability is difficult to measure, it would seem that the marketability of an investment would normally depend far more on the basic soundness of the venture, the cure with which it had been studied (for which IFC is justly renowned), and the state of the international financial market at the time that the investment was offered for sale. In other cases, a sale is made because of the desire of an investor to get into a particular country or deal. IFC has been able to sell substantial portions of its investments despite the complete absence of special equity features, and has been unable to sell others notwithstanding their presence.

Prepayment Premiums

Another IFC requirement which results directly from the demands of purchasers of IFC investments is the imposition of substantial premiums for the prepayment of an IFC loan. Prior to 1969, IFC's investment agreements permitted prepayments to be made at any time, without premium. However, in a period of high interest rates, IFC's participants insisted that the Corporation reverse its policy and impose prepayment premiums sufficiently high to discourage its borrowers from prepaying their IFC debt and refinancing from other sources if and when interest rates fall. The disadvantage to IFC borrowers is that they are unable to refinance if and when money becomes cheaper (except by paying a substantial premium). In addition, they are unable to get "out from under" some of the restrictive covenants in the IFC investment agreement (such as required debt/equity and liquidity ratios) when earnings would permit prepayment of the loan. Although IFC's premium policy was established in direct response to the requests of its participants and is a reasonable one from the viewpoint of a private investor, the premium is payable whether or not the loan investment, or any part of it, has been sold by IFC to private investors. On balance, there seems little reason why IFC should not limit the prepayment premium requirement to only those portions of its loans that have been sold to participants.

In this connection, it should be remembered that Mr. Gaud is less concerned with selling IFC paper to participants than was Mr. Rosen. Since both the equity and prepayment premium requirements are directly traceable to the real or imagined demands of participants, there is good reason to expect that IFC will substantially revise its policies on these requirements.

The Review Process

Another important feature of IFC financing is the expertise that it brings to bear on the applications it receives, and hence the "technical assistance" it provides to the projects in which it participates. Without question, IFC's overworked professional staff of investment officers, engineers and lawyers is one of the most competent in the business. The staff investigation preparatory to an IFC investment is thorough and exhaustive. If there is a weakness in the cash flow, IFC will find it. If there is any doubt as to market, there is almost always an IFC will conduct its own market survey. If management seems weak, it may insist on an introduction of a new technical sponsor. It will not only ask dozens of questions but will often propose a multitude of changes in the project or in the financial plan, many of which will result in substantial improvements. If there are "bugs" in the project, IFC will probably uncover them.

The length of time that it takes for IFC to reach a decision on whether to invest depends, of course,
the nature of the project and the care with which the application was prepared. No particular form of application is required, but it must be based on a thorough feasibility study, prepared either by the sponsors themselves or by an outside consulting group. A "quickie" study will not suffice. For any sort of sizable investment, the sponsors must expect to spend at least $100,000 on the study, and often a good deal more.

Under a salutary new policy recently adopted by the Corporation, it is now possible to obtain some IFC assistance in meeting the costs of initial studies where the project is a particularly promising one. IFC has provided some feasibility study financing in a number of cases and has joined in the equity of several pilot companies formed to carry out preliminary studies and negotiations. As yet IFC assistance during the promotional stage has been available only in exceptional cases and only in amounts not exceeding a total of $50,000 for any one project. Mr. Gaud, however, seems certain to expand IFC's promotional efforts and financing.

Once a competent study has been prepared and submitted, IFC's review will normally take from three to six months. In some cases, it has taken well over a year. Many of the delays are, of course, attributable to the project sponsors. But delays have also occurred at IFC, in part due to the thoroughness of IFC's review, in part as a result of understaffing (particularly in the legal and investment departments), and also because of tight centralization of authority. In the past, virtually all substantive questions of any significance were passed upon personally by Mr. Rosen. This too will probably change under Mr. Gaud, who consistently delegated substantive authority to his subordinates at AID.

Assuming that the IFC ultimately decides to invest, complex investment agreements must still be negotiated, and various "conditions precedent" to the disbursement of funds must be met. These conditions, which are normal in virtually all international loan agreements, may include such items as signature of long-term sales or supply contracts, as well as such standard items as execution of all other financing agreements for the project, registration of the IFC agreements with the host-government exchange authorities, etc.

As IFC points out, many of the questions it asks and many of the requirements it imposes, only require that the sponsors take actions that they would have had to take in any event as a matter of sound business management. But the exhaustiveness of IFC's investigations can be upsetting to the project sponsors. There is little that they can hold secret from IFC. Its staff will seek out local banks, suppliers, customers and even competitors to learn all they can about the project. The delays can be costly. At times IFC's investigations can result in some embarrassment to the local sponsors. Its extensive questions to the sponsors themselves require substantial time and expense to answer and may occupy the senior officers of the sponsoring group full time for up to six months or more. It can be annoying, to say the least, for a proud and successful businessman from Peru to be told by a bright young IFC investment officer that by his calculations the businessman has overestimated sales.

**Review Benefits**

On the other hand, the exhaustiveness of IFC's investigations may provide the project with important collateral benefits. The IFC's technical assistance can be invaluable, particularly where the sponsoring group has only limited experience in foreign finance. Where local investors are not sophisticated IFC can be a powerful force in assuring that the agreement between the local group and the foreign investors is a fair one. Moreover, where, as is normally the case, IFC provides only a portion of the foreign financing for a venture, its participation may constitute an important catalyst in attracting other financing from abroad. IFC's participation in a project tends to insulate it from local political pressures, a significant protection where the venture is largely foreign-owned. On balance, the exhaustiveness of IFC's investigations of the projects it finances could and should be reduced. There is reason to believe it will be. While Mr. Gaud will continue to require hardheaded ap-
participation of IFC. Of course, if private sources do come forward to finance the entire venture before the IFC agreements are signed, IFC will withdraw; and IFC always stands ready to sell its investments to private investors.

On balance, IFC is today one of the most attractive sources of financing for larger private projects in the less-developed world, particularly when local financing is required. However, because of the costs of preparing an application and processing it through IFC, it is probably not worthwhile for a company to approach the Corporation where the total estimated cost of the project is less than $3 million, unless promotional financing can also be obtained. As a rule, sponsors of these smaller projects would be better advised to seek financing from a development bank in the host country, or, for projects located in Latin America, perhaps ADELA.

For larger projects, IFC financing may offer some very important advantages. Untied procurement, the absence of a guaranty requirement, the availability of equity investments and the technical assistance IFC provides, make IFC financing attractive. The less attractive features of IFC financing—its demands for special equity features, the imposition of prepayment premiums, the extraordinary exhaustiveness of its investigations, and its conservative investment policy—all flowed from Mr. Rosen's concern over IFC's ability to sell a portion of its investments to other investors. These disadvantages are likely to be substantially softened under Mr. Gaud's leadership.

A New Era

In general, Mr. Gaud's appointment appears to signal the start of a new period at IFC. From the viewpoint of project sponsors, most of the innovations he has in mind will be welcomed. A number of dangers exist, however.

The most apparent is the risk that the Corporation may soon run out of funds for additional commitments. If Mr. Gaud succeeds in his reported aim of substantially raising annual commitment levels, the fund levels currently available funds will be depleted within a few years. To be sure, sales from portfolio to participants are certain to continue, albeit at a somewhat reduced level, and will generate some additional funds. Moreover, the Corporation can borrow additional funds from the World Bank (or perhaps from other sources) and presumably would do so should the need arise. However, the Corporation could not, consistent with sound financial planning, commit borrowed funds for equity investments. Since the availability of equity capital represents one of the most attractive features of IFC financing, it would be regrettable if the Corporation were forced into limiting its investments entirely, or almost entirely, to loans.

While the probable shift in IFC's attention toward encouraging more investors from the developed countries to invest jointly with IFC will carry with it important advantages, there are also serious political risks. One of the great advantages of Mr. Rosen's policy of favoring sales to participants from IFC's portfolio, particularly in Latin America, where nationalistic sentiment against U.S. domination of local businesses is strong, was to shield the participants and the projects themselves from these pressures. Under Mr. Gaud's approach, the role of the foreign investor will be a direct one, and plain for all to see. At least for IFC investments in Latin America, consideration should be given to a policy which emphasizes direct investments from the developed countries only where the political climate is favorable. For investments in countries where economic nationalism is strong, it would seem better to continue to Mr. Rosen's basic policy of favoring IFC sales to participants with some change in emphasis.

Perils of Bureaucracy

The increased influence of the World Bank on IFC's operations, foreseen by both Mr. McNamara and Mr. Gaud, is also a potential source of danger. Mr. Gaud intends that the IFC work closely with the recently established industrial division of the Bank in identifying development priorities in selected countries. He believes that IFC's investments in any given country should be more "policy-oriented" and should complement the World Bank's program in that country. Almost inevitably the World Bank bureaucracy will become heavily involved in IFC's operations.

One of Mr. Rosen's great achievements at IFC was to keep bureaucracy to a minimum. He insisted on virtually complete independence for IFC, for all practical purposes the participation of the Bank staff on most IFC projects was nil. Mr. Gaud, after presiding at AID over one of the most complex bureaucracies in Washington, may be able to tap the World Bank's enormous fund of skill and knowledge without allowing the bureaucracy at the Bank (which can be formidable) to bureaucratize IFC.

These and other dangers exist, and Mr. Gaud is clearly aware of them. Under Mr. Rosen's able leadership, IFC has become a highly attractive and important institution in the area of international development finance. Under Mr. Gaud, it may go even further in serving the cause of economic development through private investment in the developing countries.

NOTES

1 Although IFC often invests in projects which also receive financing from the U.S. government through USAID, these two entities work entirely independently of one another; each makes its own study and analysis and reaches its own conclusions.


3 A participant may take over a vertical strip in an entire IFC commitment, involving a certain percentage of the equity and the same percentage of each of the loan maturities. Alternatively, the participant may prefer to purchase only the shorter maturities of the loan portion of the investment. In either case, if the participant joins in the investment at the outset, IFC offers the same terms that it itself obtained. For more seasoned securities, a premium may be charged.

4 As of the close of fiscal 1968, the comparable figure was 7.6%.

5 Due to tax considerations, the total money cost to the borrower of an IFC loan may be less than the cost of a private loan which carries a lower nominal rate of interest. Many countries impose a tax on the remission of interest abroad, which may raise the cost of the loan to the borrower by as much as 33% or more. IFC investments are normally exempt from these taxes. Many private lenders are, however, able to take a foreign tax credit against their own income taxes in an amount equal to the taxes paid for their account abroad and will refund this amount to the borrower. In these cases, this tax advantage of IFC financing has minimal effect.

Dr. Hans Pollan

An das
Oesterreichische College
Reichsratstr. 17
A-1010 Wien
Oesterreich

14. September, 1970

Sehr geehrte Herren!

Ich bedanke mich fuer Ihre Einladung an diesjahrigen Alpbader Wirtschaftsgesprach teilzunehmen. Leider konnte ich dies wegen Termingeschwierigkeiten nicht arrangieren.

Fuer zukunftige Gelegenheiten bitte ich Sie in Ihren Akten meine Privatadresse zu korrigieren, sie ist:

5706 Newington Road, N.W.
Washington, D.C. 20016
U.S.A.

Mit vorzueglicher Hochachtung

[Unterschrift]
i.A. H. Hintz

P.S.
Dieser Brief wurde erst nach Herrn Pollan's Abreise geschrieben.
OFFICE MEMORANDUM

TO: Files
FROM: Sunit Gupta
DATE: September 14, 1970
SUBJECT: Preparation of IFCT Mission Questionnaire

Mr. Gulhati suggested that a note could usefully be written on the preparation of the IFCT mission questionnaire as the approach may be of general interest; the questionnaire was worked out after consultation with Mr. Gulhati. This note sets out the approach adopted in its preparation.

Nature of Questions

The questions do not ask for any commentary or analysis but only for well defined figures. The view is taken that non-quantitative aspects are best taken up during the mission's visit through discussions. This approach - requesting statistics only - is also far easier for the dfc to handle. A scrutiny of replies to such questionnaires should help the mission to identify the main subjects for discussion in the field.

Criteria for Selecting Date for Purposes of Updating Statistics

It is imperative to ensure that the dfc has adequate time to prepare replies to our questionnaire. With our knowledge of IFCT's calibre, it was felt that the institution would require at least one month to get together the required data. Accordingly, for purposes of timing, August 31, 1970 was selected in the case of IFCT as the applicable date as of which data should be provided. This date would enable IFCT to start work as soon as it received our questionnaire and would, at the same time, allow IFCT a full month to comply with our requirements.

Selection of Questions Aims at Exploiting Easily Available Data About the DFC and the Overall Economy

The first question requests that certain annexes, attached to our last report, should be updated and that certain additional forms should also be completed. The object of these latter forms (arrears, profitability of clients, etc.) is to extract information which will help us to examine the dfc's portfolio. Unless the dfc is very sophisticated, it is better to supply sample forms devised by us for completion rather than to ask general questions, as these forms will bring out the figures in the desired manner. If, for example, a general question asking for arrears is included, the dfc may only provide the amounts overdue which is quite inadequate for analytical purposes.

However, some view is also to be taken of the dfc's position in the country's economy or in the industrial sector. This means placing facets of the economy or sector side by side with identical facets of the dfc. The
repository of country of sectoral data is the Bank's Economic Reports (and possibly the Central Bank's monthly or quarterly publications of national and sectoral accounts). A careful scrutiny of the annexes of our Economic and Sector Reports brings out figures which are comparable with figures pertaining to the dfc although certain new figures may have to be developed by the dfc to produce meaningful comparisons. In this manner, a fair number of comparative ratios can be devised. However, it was found from the Thai experience that some of these ratios will be of marginal interest and others will require adjustments in the national figures which are virtually impossible to undertake. At this point, therefore, it becomes necessary to screen the list with certain specific criteria in mind -

- Each ratio should demonstrate some different and significant comparative element.
- The minimum data commensurate with our requirements should be asked for.
- Only such economic figures from outside sources (Government or agencies) where there is solid reason to believe, as a result of the data in our Economic or Sector Reports, that the figures can be secured without difficulty should be requested.

Questions prepared on the foregoing bases need to be completely reviewed at this stage to ensure that all figures which require some preparatory work on the part of the dfc are asked for. In the case of IFCT, it was found that certain questions (net foreign exchange earnings and foreign exchange savings for import substitution by IFCT projects) would have to be added to the questionnaire to complete the information that should be sought.

Issues arising During Preparation of Questionnaire

In the course of preparing the questionnaire, it is inevitable that additional aspects of the dfc or the economy will come to mind which may mean supplementing the existing questions. These have to be carefully evaluated on the basis of the criteria laid down earlier so as to ensure the questions are, in fact, worth asking. Two illustrations, from the experience with IFCT, will help make this clear. The Economic Report on Thailand states that an industrial census was undertaken by the Thai authorities in 1969 and it should thus be the source of some interesting statistics. Our questionnaire does not ask for any information as to the results obtained by the census. Another point relates to the question of protection enjoyed by IFCT projects. Despite its importance, the questionnaire does not refer to it. Questions on both these issues could well have been included and the fact, that they have not is essentially a matter of judgment. On the first, it was
felt the mission should visit the census authorities, ascertain what was available, and obtain such data as would be useful. The mission should be in a better position to undertake this task than IFCT. On the second, even if a small sample of, say, ten projects are selected for calculation of effective protection, a fair amount of work regarding which IFCT has no prior experience would be involved. The mission should be in a position to select the sample projects and to guide IFCT in this task. These questions were accordingly omitted.

Presentation

For practical purposes, the questionnaire is now complete. However, it is desirable to re-arrange the questions with a view to sensible presentation. In the case of IFCT, the questions were segregated into two sections. One calls for data which may be expected to be available from IFCT's own records and the other contains questions regarding which information has to be obtained from outside sources. As regards data relating to the overall economy, the possible source should be indicated so as to help the djc; these sources are available in the annexes in the Bank's Economic Reports.

S Gupta: cbm
Cleared with Mr. Gulhati
cc: Messrs. Diamond Mathew
Gulhati
Lethbridge
Gustafson
Mirske
Pollan
Powell
Sekse
September 14, 1970

Mr. Richard W. Greenbaum
437 E. 86th Street
New York, New York 10028

Dear Mr. Greenbaum:

We have received your letter dated September 8, 1970 addressed to Mr. Diamond. As no doubt you are aware, Mr. Diamond is leaving almost immediately for the Annual Meeting at Copenhagen and has asked me to acknowledge receipt of your letter. We are most grateful for your consideration in sending along two copies of the article which appeared in the "Journal" for November-December 1969 and for your promise of the next issue which you have been kind enough to undertake to send.

With best wishes,

Sincerely yours,

Rodney Clayton
Administrative Officer
Development Finance Companies

RClayton/smb
OFFICE MEMORANDUM

TO: Mr. William Diamond
FROM: Ravi Gulhati
DATE: September 12, 1970

SUBJECT: A Few Thoughts on Present Bank Policies Regarding Development Finance Companies

1. I gather from Mr. Mathew that at this stage you have requested us to focus on such thoughts as we may have regarding the need for changes in policy vis-a-vis development finance companies. Comments on the revised draft Operational Memorandum 5.11 will be entertained, I assume, on a later occasion.

2. Accordingly, I have addressed myself to three subjects:

   I. The Concept of Viability
   II. The Policy Package (Interest Rates, Protection etc.)
   III. End-Use Supervision.

I. The Concept of Viability or Autonomy

3. The Bank's present policy is to help create DFCs which are "viable" or "independent", just as the Bank attempts to assist low-income countries to become "self-reliant" or "self-sustaining". It is recognized that these objectives can only be realized gradually as different aspects of backwardness are overcome during the process of development. I submit that the developmental problem at the institutional (DFC) and country levels are analogous. A great deal can be gained by cross-fertilization between those who think about issues at these two levels. This interaction will be greatly facilitated by employing concepts and terms which are consistent, unless there are strong reasons to the contrary.

4. In this context, the concept of viability applied to DFCs is not easy to understand. A DFC is said to be "viable" when its financial position is sufficiently attractive to private investors to induce them to subscribe to its share capital. (See paragraph 19 of revised O.M. 5.11 dated September 9, 1970) However, such viability may quickly evaporate under the following circumstances:

   (a) The Government withdraws the benefits of privileges to the DFC such as tax concessions, insulation from competition or budgetary assistance on concessional terms.
(b) External aid agencies phase out concessional financial aid.

(c) The Government devalues the currency (or phases out protection or tax concessions) and the repercussions on DFC clients are so serious that provisions for losses prove inadequate to cope with defaults and bankruptcies.

(d) The management of the DFC breaks down either because critical foreign personnel are withdrawn or because of the unexpected departure of senior indigenous personnel.

5. The main point I am making is that we need to re-think the definition of "viability" and to sharpen the analytical tools we employ to measure the extent to which institutions have acquired this characteristic. Some suggestions along these lines were made in my memo on Guidelines for Appraisal Reports. Other ideas are invited.

6. We also need to consider whether or not "viable" DFCs can coexist with "dependent" economies. The policies we advocate to DFCs to secure viability may conflict with policies necessary at the country level. A good example is the case of suppliers' credits. It may be a good thing for a DFC to raise suppliers' credits to reduce its dependence on the Government or the World Bank but this may be unsuitable from the standpoint of overall debt policy of the country. What is good for General Motors ... etc.

II. Low Interest Rates, High Protection and Tax Concessions

7. In my judgement, the Bank's present thinking about industrialization policy is compartmentalized. It does not pay sufficient attention to questions of timing, sequence and the interaction between the impact of different policy instruments. The Bank's objectives are seldom defined with any precision and quite frequently there are internal contradictions among them. The same lack of clarity is characteristic at the country-level.

8. Under these circumstances, it is difficult to formulate a coherent set of policies vis-a-vis DFCs, many of whom specialize in the industrial sector. You will recall my memo about the important role that the Industrialization Coordination Committee can play in this sphere.

9. More specifically, let me add that I have reservations about our present approach to the interest rate question. The emphasis which we attach to this issue is quite often out of focus. The insistence
with which we advocate specific policies is disproportionate with our capability to assemble facts and to analyze them.

10. I have no doubt that an appropriate interest rate structure is necessary for resource mobilization. But, I will venture to say that savings depend much more on income growth, the state of expectations and institutional arrangements than on interest rates. Similarly, an appropriate interest rate policy is conducive to efficient resource allocation. But in many developing countries today, there exist much more important impediments to efficient resource use than low interest rates.

11. I do not know the background of what Mr. Sekse was saying the other day regarding the significance of interest rate policy in Africa but I suspect that I will sympathize with his position.

12. The question of protection is relatively new for our Department. It is also an extremely complicated issue and anyone who can see things in black and white is much more gifted than I.

13. The need for facts and analysis is paramount. Suggestions that we have made recently to DFCs regarding the measurement of effective protection are designed to meet this need.

14. Should we reject sub-projects if they show a high rate of effective protection? How high is high? I confess that at this point I do not see things at all clearly.

15. The determination of the cut-off point is inextricably tied up with major issues of exchange rate policy, resource allocation and overall growth strategy. Our Department is not equipped to analyze these issues and we should not assume responsibility in this area. Present arrangements for fruitful guidance from other Departments in the Bank are not very effective. These should be improved through the activation of the Industrialization Coordination Committee.

III. End-Use Supervision

16. With very few exceptions DFCs are rather weak in exercising end-use supervision over their sub-projects. Also the concept of end-use supervision they employ is narrow. The need for improvement is urgent. The reasons are spelled out in the latest IMDBI report (paragraphs 2.28 and 2.29) and I believe they apply in many other cases. They are

(a) contingency planning requires that a DFC be fully informed about all its clients and not only those currently experiencing financial distress;

(b) an organized approach to the assembly and analysis of operational data at the project level is necessary for improving appraisal techniques;
(c) DFCs should help prepare the way for industrial policy reform by helping their clients identify factors responsible for high costs and by guiding them to adopt measures for raising productivity.

17. Perhaps the time has come for us to re-emphasize the importance of end-use supervision. I note that the IFC has recently established a Portfolio Supervision Unit (Administrative Circular, September 4, 1970) and the Programming and Budgeting Department has set up a unit with broadly similar functions.

18. As DFCs put their house in order and information starts flowing in, we will be able to expand the proposed data bank and thereby enhance its potential usefulness.

Rkulhati: jb

c.c. Mr. Mathew
   Division Chiefs
September 11, 1970

Mr. Vicente R. Jayme  
Executive Vice President  
Private Development Corporation of the Philippines  
Commercial Center  
P. O. Box 757  
Makati, Rizal - D 708  
Philippines

Dear Mr. Jayme:

I know for sure this letter will not reach you in time before you leave for Copenhagen. Nevertheless, I cannot sit idling without expressing my gratitude to you for the hospitality shown to us while my wife and I were in Manila.

It was very kind of you to invite us for dinner on September 2. We were pleased to meet Mrs. Jayme and your staff members and their wives. It was indeed the memorable evening for us.

I am also grateful to many of your staff, especially Senior Vice President Luis V. Sison and Assistant Vice President Carlos C. Torres for their generous assistance to enable me learn of some aspects of the operation of PDCP. I have found my trip highly productive and rewarding. May I ask you to convey my sincere thanks to them.

My wife joins me in extending best wishes to you and your wife.

With best regards,

Sincerely yours,

B. H. Shin  
Development Finance Companies

cc: Mr. Powell

BHShin:er
September 11, 1970

Mr. C. H. Kim
President
Korea Development Finance Corporation
12th Floor, Cho Heung Bank Building
14 Namae-moon - Ro, 1 - Ka
Seoul, Korea

Dear Mr. Kim:

I know for sure this letter will not reach you in time before you leave for Copenhagen. Nevertheless, I cannot sit idling without expressing my gratitude to you for the hospitality shown to us while my wife and I were in Seoul.

I was glad that through my visit I have renewed my old friendships with Messrs. Choi and Lee. Also I was pleased to meet Mr. Ku. All of them were so kind and cooperative in providing me with necessary data. I have found the visit really productive, thanks to them. May I ask you to convey my sincere thanks to each of them.

My wife and I are looking forward to seeing you soon in Washington.

With best regards,

Sincerely yours,

B. H. Shin
Development Finance Companies

cc: Mr. Powell

BHS:er
Changes in Policies and Practices

I Policy

1. Interest Rate

1. I believe the Bank's new policy on interest rates to be charged by DFCs is excessively tough. That policy in general dismisses as unacceptable the use of interest incentives by a government to influence the direction of investment. Such a device is a common feature of public policy in many developing countries. Moreover in sectors where developed countries use such incentives and the developing countries are in competition with them, the latter would be weakening their competitive position by not offering the same incentives. A review of the interest rate policy should become the normal function of economic missions, and discussions on that subject should take place with governments in the context of general discussions on economic policy. The occasion of a DFC loan should be used to carry such discussions further, but drastic changes should only exceptionally become specific conditions to Bank financing of DFCs.

2. Also, the imposition of a high cost for Bank financing in order to force a DFC to seek resources from the market should be resorted to only where a market as a source of term funds exists or is in the active process of development.

2. International Competitiveness of DFC Projects.

3. Some further clarification is needed here.

4. Where the economy is heavily protected or otherwise distorted, economic or sector missions should review, and the Bank should discuss with the government, measures needed to remedy the situation. The occasion of a DFC loan should be used to carry such discussions further, and, in exceptional cases, to force a measure of change.

5. After a loan is made, our monitoring the economic analysis of sub-projects carried out by a DFC should be merely to assess generally over the period of commitment of the loan, the DFCs contribution to "improving the economic environment". It should be the occasion for a dialogue, and not for denial of funds to an otherwise suitable sub-project which the DFC wants to finance, taking advantage of the environment in which it finds itself.
6. One of the ways of ensuring the economic use of our funds is to identify sectors that have economic merit and to limit the funds to those sectors. This is, of course, contrary to our other aim of providing capital for all the normal business of the DFC, but, in my view, preferable to a widespread use of the test of international competitiveness in all of the DFCs' financing or even of Bank sub-loans.

3. Term and Amortization of DFC Loans

7. While the Bank seems to be increasingly shifting to country criteria (from project criteria) in fixing the term of loans in other sectors, DFC loans are for a maximum of 15 years with 2 years of grace, a relatively short period. The average actual amortization resulting from the composite of the amortization schedules of sub-loans is often much shorter. Some DFCs have come under pressure from governments to artificially lengthen the amortization of their sub-loans in order to ease balance of payments problems.

8. Why do we insist that DFC loans should be repaid to the Bank as they are repaid to the DFCs? We do not do so for agricultural loans. Why not let the loans generate counterpart funds for governments? Or, why not the counterparts be available to the DFCs for the remaining term, probably at market rates (such rates to be determined by some floating formula)? The governments should take the exchange risk during this period in return for the use of the funds in the former case, or the interest spread in the latter case.

9. Also, where a government takes the exchange risk on a DFC loan, the amortization should be a fixed one, based on a liberal estimate of the repayment pattern of expected sub-loans. The DFC, whether it is a "natural" one or not, should be expected to handle its liquidity needs arising in consequence.

4. Extent of Bank Exposure to a DFC

10. We should have a policy in this regard. We are fast approaching the 70 - 80% region of Bank finance in relation to other finance in some cases. While more thought is needed to arrive at a limit, something in the area of 50 - 60% seems appropriate and prudent. A policy to adopt a limit should be accompanied by an active policy of arranging "joint financing" or "parallel financing" for a DFC from bilateral and international sources along the broad lines developed for such financing in projects from other sectors. Aid coordination to DFCs is badly lacking.

5. Ownership of DFCs

11. I think experience has not fully vindicated our policy of preferring for our support DFCs owned by "a broad range of investors, foreign and domestic". In some such cases, the institutions have become orphans, and an exceptional load for solving their problems has been thrown on us; sometimes they have become victims of excessive government influence. I realize the
with narrow groups. I believe, however, that the highly preferable, provided the country is large enough to support only one DFC, and we are willing to work actively to promote or support more than one DFC there.

## General Assistance

Time and again, our inability to find and pay for management and staff of a DFC has hampered the efficiency and speed of our operations. (I believe it has also affected our credibility.) I realize that it is unrealistic under our present Bank-wide policy to create in our bank a corps of managers and technicians who can be deployed as needed. We should therefore work with UNDP and UNIDO to create such a corps, and enter into co-operative arrangements with them in the use of part of the corps on operations we are interested in.

## Support of DFCs' Efforts to Raise Resources in Local Capital Markets

13. What, in concrete financial terms, can the Bank and IFC offer in this regard? Underwriting bond issues? Guaranteeing bonds as to liquidity? There are several policy and procedural issues involved which need exploration. We should put ourselves in a position to give concrete assistance while applying pressure on DFIs to seek resources on the market.

## Use of Central Refinancing or Rediscounting Mechanisms

14. I see great merit in using this device. It is appropriate in countries where a large number of beneficiary institutions is involved, and the financial infrastructure is reasonably well developed (we are trying out the device in Brazil, Mexico and Yugoslavia). It may be suitable in Spain and Argentina.

15. I also see potential use for the device with obvious modifications in groups of countries (especially in Africa), each of which cannot support a viable DFC, but has occasional projects of a certain size seeking finance, often in association with the existing (weak) national DFC.

16. In both the above types of cases our influence in "helping build strong and effective investment institutions" at the ground level will be indirect and results slow, but the technique is justified by circumstances, and should become part of our working policy.

## Use of Bank Funds for Downpayments on Suppliers' Credits

17. We encountered this issue in Pakistan. Is it a general issue? If so, it needs to be brought into the open and discussed.
II Practices

Credits to Governments to make Equity Investments in DFCs

We have done this once before and may have to do this again, especially in Africa. It should become known that it is possible.

Avoidance of Discontinuity in Making our Funds Available to DFCs

19. Staff constraints and "accidents" are making it difficult, despite considerable advance planning, to meet the needs of our repeat clients at the precise time they need new funds from us. Our posture before our clients as a continuous source of finance is the most important influence that we have on them, and this influence should not be allowed to suffer for want of manpower to do appraisals at the critical time. Hence, the device of picking up past commitments from the time the previous loan was exhausted should become routine, the exceptions being those where discontinuity is deliberate.

3. Disbursement - Checking of Foreign Exchange Use

20. One aspect of the practice we are following in Finland (together with the new procedure of receiving documents here for checking) is worthy of wider application: counting against the foreign exchange use of our loans not necessarily only what is being procured with our funds, but also whatever foreign procurement is made for the project with local currency funds. This procedure respects the basic principle that our present procedures overlook, viz, that money is fungible.

21. Is it also feasible to move to a system by which we finance a fixed proportion of all DFC financing? I suppose, generally not, but the idea is worth raising with select DFCs on a suitable occasion. (This would also, incidentally, facilitate extending sub-project review to all large projects, and not merely those using Bank funds, which is a direction we should move further into).

h. Other Subjects

22. I refer to my informal memo of July 7, 1970 in connection with the sample DFC Loan Agreement.

cc: Mr. Gulhati
    Division Chiefs

Mathew:mbj
September 10, 1970

Dr. Wilhelm Teufenstein
Chairman, Board of Management
Österreichische Investitionskredit
Aktiengesellschaft
Remngasse 10
1031 Wien, Vienna
Austria

Dear Dr. Teufenstein:

Thank you for the copy of your September 3 letter to Mr. Ahmed. We are very grateful for the assistance and hospitality you have offered.

With best regards,

Sincerely yours,

[Signature]

Douglas Gustafson
Development Finance Companies

cc: Lethbridge
DGustafson:ab
September 10, 1970

Mr. M Roushdy  
Controller’s Department  
The National Bank of Egypt  
Cairo  
U.A.R.

Dear Motteim:

I was very sorry to have been out when you called me during your visit to Washington. I was at that time on home leave from which I have just come back. Indeed, I seem to be very mobile today because, barely having arrived, I am setting out again on a mission, this time to Morocco. I hope we will have another chance before long of seeing each other again.

With all the best also to Mrs. Rushdy.

Yours sincerely,

Hans Pollan
AD/yr 02677

Banque Ivoirienne de Développement Industriel (BIDI)
Postbox No. 1470
Abidjan
Ivory Coast

Mr. Shin
International Bank for Reconstruction
and Development
1818 H Street N.W.
Washington D.C. 20433

September 9, 1970

Dear Mr. Shin:

I was pleased to receive your two letters of July 2 and 31, 1970, the first in connection with the performance of development banks associated with the World Bank and the second concerning hotel financing.

With regard to the first, BIDI intends to act on your words in order gradually to improve its performance. As regards the study on hotel financing, this is a subject of great interest to us at the moment. BIDI has in fact just granted its first loan for a hotel to be constructed in Abidjan. At this very moment the Ivory Coast authorities are about to lay the foundation stone of an impressive project to be called the African "Riviera". This project involves the development of an extremely important tourist complex and the World Bank's assistance will probably be requested to help finance it. Hence my special gratitude for your letter.

Thanking you again,

Very truly yours,

The General Manager

(Signed)

A. Diby
8th September, 1970.

Mr. B.H. Shin,
Messrs. International Bank for Reconstruction and Development,
1818 H Street N.W.,
WASHINGTON D.C. 20433, USA.

Dear Sirs,

Thank you for your letter of July 22, 1970 and the two copies of the final version of the descriptive Memorandum on I.D.B.I.

In the light of your already having put the draft into final form, we do not wish to make any amendments thereto now. However, for the sake of good order, and for the preparation of future descriptive memorandum, we wish to advise you that despite repeated efforts we were unable to calculate the amount of Reserves in linking funds obtained by you for computing the average equity of IDBI, after deduction of a certain amount relating to Government-owned redeemable shares, (see your work sheet attached to your letter dated June 24). Could you please let us have the exact split-up? Kindly let us have your figures in answer to our above query at your earliest convenience.

We would also like to refer you to Note 1. This is not clear to us as our Government does not own linked shares and we would appreciate if you would kindly clarify this matter.

Yours sincerely,

[Signature]
INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED.
September 8, 1970

Deltec Securities Corporation
Thirty-Seven Wall Street
New York, N.Y. 10005

Gentlemen:

On behalf of Mr. Diamond, I thank you for your brief on the rust disease in Brazil. We have conveyed your information to the interested parties of our organization.

Sincerely yours,

J. Z. Mirski
Development Finance Companies

JZMirski/mq

cc: Mr. Diamond
OUTGOING WIRE

TO: TEUFENSTEIN
INVESTORED
VIENNA

DATE: SEPTEMBER 2, 1970

COUNTRY: AUSTRIA

CLASS OF SERVICE: IT

TEXT:
CABLE NO.:

ONE

RE LETTERS FROM BENJENK AND GUSTAFSON COMMA WILL BE HAPPY MEET YOU IN COPENHAGEN AT 10:30 A.M. SATURDAY SEPTEMBER 19 IF CONVENIENT STOP PLEASE CONFIRM IF YOU CAN MAKE IT STOP

TWO

SAID AHMED MANAGING DIRECTOR OF PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION WHOM YOU KNOW PLANS VISIT VIENNA OCTOBER 9 AND WOULD LIKE TO CALL ON YOU AND VISIT VIENNA STOP I HOPE YOU WILL BE THERE STOP PLEASE CONFIRM IF DATE CONVENIENT SO THAT I CAN LET HIM KNOW STOP HIS PRESENT PLAN IS TO ARRIVE FROM PRAGUE AT 11:45 HOURS BY CZECH AIRLINES STOP

REGARDS
DIAMOND

NOT TO BE TRANSMITTED

AUTHORIZED BY:
NAME: WILLIAM DIAMOND
DIRECTOR DEVELOPMENT FINANCE COMPANIES

SIGNATURE
(Signature of Individual Authorized to Approve)

REFERENCE: (Secure Individual Authorized to Approve)

CLEARANCES AND COPY DISTRIBUTION:
cc: Messrs. Benjenk Sekse Gustafson Clayton

ORIGINAL (File Copy)
(IMPORTANT: See Secretaries Guide for preparing form)

Checked for Dispatch: 
OUTGOING WIRE

DATE: September 5, 1970
CLASS OF SERVICE: TT

TO: Western Union

AVIATION AGENCIES

TEXT:

RE: Letters From Professor and Custodian Concerning Arrival of Your

IN CONNECTION AT 10:30 A.M. SATURDAY SEPTEMBER 12 CONVENTION STOP

PLEASE CONFIRM IF YOU CAN MAKE IT STOP

THE SAID PRINCE MAHMOOD DIRECTOR OF PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT

SAY THAT YOU KNOW PLACES VIZ. VENICE OCTOBER 8 AND WOULD LIKE TO

CONFIRM WITH YOU THE TIMES OF THEIR ARRIVAL TO STOP I HOPE YOU WILL BE THERE STOP PLEASE CONFIRM

TO IN DATE CONFIRMATION SO THAT I CAN ARRANGE HIS PRESENT PLAN IS TO

ARRIVE FROM PARIS AT 11:15 HOURS MY CUSTOM ARRIVING STOP

REGARDS

DIAMOND

CIRCULAR: 32 FH 1970

COMMUNICATIONS

DELIVERED

DATE: 30 FEB 1970

AUTHORIZED BY:

DIRECTOR

RECEIVED

DATE: 2 SEP 1970

DISPATCHED

DATE: 2 SEP 1970
September 1, 1970

Dr. Wilhelm Teufenstein  
Chairman, Board of Management  
Oesterreichische Investitionskredit Aktiengesellschaft  
Remngasse 10  
1031 Wien, Vienna  
Austria

Dear Dr. Teufenstein:

I take the liberty of enclosing for your information a statement of policy presented to our Executive Directors in April on two important subjects: our views on interest rates charged by development finance companies to their clients, and our attitude towards quasi-equity and other concessions given by governments to development finance companies. These subjects are of general interest, and I thought you would like to be aware of the Bank's posture regarding them.

With best wishes,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies

Attachment

William Diamond: smb
September 17, 1970

Mr. Resid Egeli  
General Manager  
Türkiye Sini Kalkinma Bankasi A.S.  
P.O. Box 17  
Karakoy, Istanbul, Turkey

Dear Resid Bey:

I take the liberty of enclosing for your information two papers reflecting Bank policies and operational guidelines which I believe will be of interest to you.

The first is a statement of policy presented to our Executive Directors in April on two important subjects: our views on interest rates charged by development finance companies to their clients, and our attitude towards quasi-equity and other concessions given by governments to development finance companies. These subjects are of interest to you, and I think you should be fully aware of the Bank's posture regarding them.

The second paper provides guidelines for the work of the staff of this Department. As you know, we have for sometime been very much concerned about the economic aspects of the work of the development finance companies associated with us. This paper, entitled "Appraisal Reports," suggests to the staff of this Department some of the factors beyond the normal institutional and financial factors, which they ought to take into account in evaluating the performance of development finance companies.

I thought you would want to have these papers at least as background for the kinds of questions which you are bound to be receiving with increasing frequency from my colleagues.

With best wishes,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies  

Attachments  

W. Diamond
September 1, 1970

Mr. Don Jose Maria Marzo Churuca
Director General
Banco del Desarrollo Economico Espanol
Apartado De Correos 50;60
Calle Fernando El Santo 20
Madrid, Spain

Dear Mr. Marzo:

I take the liberty of enclosing for your information a statement of policy presented to our Executive Directors in April on two important subjects: our views on interest rates charged by development finance companies to their clients, and our attitude towards quasi-equity and other concessions given by governments to development finance companies. These subjects are of general interest, and I thought you would like to be aware of the Bank's posture regarding them.

With best wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

[Attachment]

William Diamond
September 1, 1970

Mr. M'hamed Bargach  
President  
Banque Nationale pour le Developpement  
Economique  
Boite Postale 407  
Rabat, Morocco

Dear Mr. Bargach:

Please allow me to thank you for your letter of August 9, 1970, permitting us to use ENDE's operational ratios together with those of the other companies associated with the World Bank Group, and for the table of ENDE's ratios which you so kindly attached to it. I am extremely grateful to you for your decision.

I fully agree with your observation that differing conditions make strict inter-company comparisons difficult and this reservation is communicated to our companies when we circulate these ratios.

A revised version of the table, including ENDE's ratios, will be sent to you shortly.

Thank you again for your cooperation.

Yours sincerely,

William Diamond  
Director  
Development Finance Companies

cc: Mr. Pollan (with a copy of the incoming).

VSanLiner  
V.S.L.
September 1, 1970

Managing Director

Dear Bill,

Further to our discussion in Washington regarding "Association of Development Banks" I enclose a copy of my letter to Unido and a copy of letter I have sent to the following:

Mr. W. Engel  
Mr. B. Berkoff  
Mr. Rubens Vaz da Costa  
Mr. Felix Chang  
Mr. George Gondicas  
Dr. Jose Gutierrez Gomez  
Mr. H. T. Parekh  
Mr. C. H. Kim  
Mr. M'hamed Bargach  
Mr. Bulent Yazici

I hope during the Copenhagen meetings it will be possible for us to get together and decide what we should do next.

Best regards,

Yours sincerely,

A. Gasem Kheradjou

Enclosures

Mr. William Diamond  
Director  
Development Finance Companies  
International Bank for Reconstruction and Development  
1818 H Street, N. W.  
Washington D.C. 20433  
U. S. A.
August 31, 1970

Dear Mr. Akhras,

Thank you for your circular letter, reference TS 221/2(10), concerning collaboration among development finance companies at International level.

Over the past years, development finance companies have, from time to time, met under the auspices of Regional Conferences, the World Bank and UNIDO. They have had useful exchanges of experience and some very useful papers have been prepared and discussed. I agree the time has come to replace these ad hoc meetings by a permanent organization.

However, the type of organization I envisage is a little different from the alternatives suggested by you. Therefore, instead of writing replies to your questionnaire, I submit below in summary some of my thoughts on the subject and will discuss the details with some of my colleagues in due course.

I believe the time has come for development finance companies and their counterparts or associates in industrialized countries to form an international professional association with a fully established secretariat, with proper staff and research organization. It should be set up on the basis of national professional associations such as American Bankers Association, with proper charter, by-laws, membership fees, council, president, secretary and management. It should be financed out of the annual subscriptions paid by the institutional members (and/or individual members if that is appropriate). Like any professional society it should aim at raising the level of professional competence among members through research, publications, seminars and training courses.

.../...
It would be useful if the International bodies concerned such as Unido and the World Bank sponsored the idea and helped to promote the Association. The headquarters of the Association could be located in Vienna where Unido could assist, or any European capital. I believe there exists enough readiness among at least the more progressive development finance companies, both in the developing and developed World, to provide finance and expertise to begin the Association. I believe this form of co-operation would be the most fruitful form for establishing a high standard of development banking and promoting economic development in the World.

Yours sincerely,

A. Gasem Kheradjou

Mr. C. Akhras
Chief
Industrial Policies and Financing Section
UNIDO
P. O. Box 707
1011 Vienna
Austria
Dear Mr. Engel,

I enclose a copy of my letter dated August 31, 1970 to Mr. Akhras of Unido concerning his recent circular on co-operation among industrial development financing institutions.

I was recently in Washington and discussed the idea of a professional association with Mr. William Diamond of the World Bank who thought it well worth considering.

I suggest we have a meeting in Copenhagen, during the week of the World Bank meeting, to discuss this idea among ourselves and consider what should be the next steps if we decide we should promote the association.

Yours sincerely,

A. Gasem Kheradjou

Enclosure

Dr. Willi F. Engel
Director
Der Kreditanstalt Fur Wiederaufbau
Frankfurt/Main
Palmengartenstr. 5-9
Germany
Sr. John F. Fowler, Jr.
Director de Operaciones - Colombia
Cuerpo Internacional de Servicios Ejecutivos
Residencias Tequendama No. 454
Carretera 10, No. 26-71
Bogotá, D. E., Colombia S. A.

Estimado señor Fowler:

A nombre del señor William Diamond, tengo el gusto de acusar recibo de su atenta comunicación, remisión del informe de operaciones de esa Organización.

Mucho le agradecemos este envío, el cual refleja el notable progreso en las operaciones de esa Organización en Colombia durante los últimos tres años.

Sin otro particular por el momento, me es grato suscribirme de usted

Muy atentamente,

Jaime Acevedo-Navas
Compañías Financieras de Desarrollo

Translation: On behalf of Mr. Diamond, Mr. Acevedo acknowledges receipt of Mr. Fowler's letter, submitting the report on Operations of their organization in Colombia during the last three years.
August 26, 1970

Khun Sommai Hoontrakool
Director & General Manager
The Industrial Finance Corporation of Thailand
101 Naret Road
Bangkok 5, Thailand

Dear Khun Sommai:

Many thanks for your letter of August 18, 1970. Mr. Diamond is at present away on a short vacation and your letter will be shown to him when he returns.

I do know he is looking forward to seeing you in Copenhagen and learning of recent developments in IFCT.

With kind regards,

Yours sincerely,

Sunit Gupta
Development Finance Companies

cc: Messrs. Gibbs/Homsi
    Parmar/Stephansen

SGupta:dl

Mr. B.H. Shin
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Mr. Shin:

Thank you for sending us your reports on development banks assisted by IBRD. These reports, of course, provide invaluable comparative information to any development banker.

Thank you also for the IBRD papers on "Industrial Protection in Developing Countries" and "Hotel Financing and Management".

Sincerely yours,

(W.D. Wabnitz)
Executive Vice President

WDW/wml
Dear Mr. Shin,

I thank you for your letter of the 31st July 1970, enclosing a paper on "Hotel Financing and Management" dated July 17, 1970, prepared by IFC staff.

This informational memorandum will be a very useful addition to our library.

The contents of the last paragraph of your letter have also been noted and will be strictly observed.

Yours sincerely,

C. LOGANATHAN,
GENERAL MANAGER/DIRECTOR.

Mr. B.H. Shin,
Development Finance Companies,
International Bank for Reconstruction and Development,
1818 H. Street, N.W.,
Washington, D.C. 20433,
U. S. A.

SG.
Dear Mr. Shin,

I thank you for your letter of the 31st July enclosing a paper on "Hotel Financing and Management" dated July 15, 1970, prepared by H.C. etc.

This information memorandum will be a very useful addition to our Library.

The contents of the last paragraph of your letter have also been noted and will be critically observed.

Yours sincerely,

C. LACASIANA
General Manager/ Director.

Mr. H. Shin
Dehloport Finance Company
International Bank for Reconstruction
and Development
18th St., N.W.
Washington, D.C. 20433
U.S.A.

se
Mrs. Shirley Boskey

P. M. Mathew

Pearson Commission recommendation relating to development banks - Material for briefing Mr. McNamara

August 21, 1970

1. Attached (No. 1) is a copy of the paper which contains updated figures in pencil and some supporting tables. The new figures do not lead to any different inferences or conclusions from what appears in the paper.

2. In connection with the statement in the last paragraph on page 3 about the Bank Group's policies, it may be worthwhile to draw attention to IFC's new policy of willingness to make loans to dfo's (see page 10, General Policies, IFC).

3. Regarding footnote 2 on page 3,

   (i) ADELA. IFC has made a loan of $10 million to it.

   (ii) There has been no approach from PICA for financing.

   (iii) IFC is discussing with the sponsors of SIFIDA a possible investment in its share capital. Attached (No. 2) is a statement of the present position.

4. Reference is made in the last paragraph on page 4 to the probability of the Bank's making a few loans to government-owned development banks. Attached (No. 3) is a list of such loans made in the last 12 months. Several more are under active consideration now (e.g. Ireland, Ecuador, Colombia).

Attachments

PIMathew/ib
The NATIONAL INVESTMENT BANK

acknowledges with thanks and appreciation your

list of the descriptive memoranda on the eighteen
development finance companies

6, Sophocleous St. Athens (121)
19th August, 1970

Mr B. H. Shin,
Development Finance Companies,
International Bank for Reconstruction
& Development,
188 H Street, N.W.
Washington D.C. 20433,
U.S.A.

Dear Mr. Shin,

We send you herewith for your files, three copies of our Printed Annual Report and Accounts for the year ended 31st March, 1970.

Yours sincerely,

J.L. Perera
ACCOUNTANT.

Encl:
JLP/1d
DEVELOPMENT FINANCE CORPORATION OF CEYLON

E. F. H. SHEING
Development Finance Corporation
International Bank for Reconstruction
& Development
1934 F Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Mr. Shein,

We need your permission for the titles, three copies of our latest Annual Report and Accounts for the year ended 31st December 1970.

Yours sincerely,

[Signature]

J. L. Pereira
Accountant

[Stamp]
Mr. Antonio Macone

Ravi Gulhati

International Prices of Manufactured Goods

1. You will recall that a few weeks ago we undertook to prepare a list of manufactured goods produced by subprojects of development finance companies, financed by World Bank funds. Miss San Lin has prepared such a list for the period January 1968 to July 1970. She covered some two hundred to three hundred "A" projects (above the free limit) as well as a few "B" projects (below the free limit pertaining to IMDBI, Iran).

2. Part I of the list consists of products which are familiar to you as they are directly related to major primary commodities. Please notice that various categories of textiles make up a large part of this list. Other important products are:

(a) Tin cans and tin plates
(b) Ply-wood and veneers
(c) Rubber products and tyres
(d) Aluminium products
(e) Iron and steel products
(f) Fulf and paper

3. I assume that you and your colleagues are quite knowledgeable about international prices for these products and will have little difficulty in providing the kind of information and judgement that development finance companies may require in the context of project appraisal. Please let me know if you agree with this and what action you propose to take to undertake this responsibility.

4. Part II of the list consists of items which, by and large, fall outside the scope of your Division's work. In the main, these products consist of

(a) Machinery and transport equipment
(b) Cement, ceramic and glass products
(c) Chemicals and plastics

We will have to discuss further how to deal with these products. At the last meeting Mr. Kamarck mentioned the possibility of getting UNIDO involved in this work of monitoring and evaluating international prices. Perhaps, the Economics Department can take the lead in working out some cooperative arrangement with this organization.

Attachments: 2

cc. Mr. Diamond, Mr. Mathew, Miss San Lin
cc. Messrs. Kamarck, Stevenson, Bohr

Gulhati:jb
Mr. William Diamond  
Director  
Development Finance Companies  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
U. S. A.

Dear Bill:

Thank you for the copy of your letter of appreciation to Khun Kraisri. It's so well written, and I am sure Khun Kraisri will appreciate it.

As you may know, I will be attending the Annual Meetings of the World Bank, as Advisor to the Thai Delegation. A confirmed schedule have now been arranged in that, after the World Bank's Sessions, I shall be visiting the States, among other countries, in October, arriving Washington, D.C. on the 6th, to spend a few days there. And I hope to have an opportunity of meeting you. Anyway this can be arranged when we shall meet in Copenhagen in September.

By the way, I have had an opportunity of meeting with Mr. Judhoir Parmar during his brief Bangkok visit recently.

With best regards,

Yours sincerely,

Sommai Hoontrakool  
Director & General Manager
TO: All Division Chiefs  
FROM: P. M. Mathew  
DATE: August 18, 1970  
SUBJECT: Material for Development Finance Companies

1. You will remember that we had some discussion several weeks ago on sending to the DFCs three papers: the World Bank Board paper on interest rates and governmental assistance to DFCs and Mr. Gulhati's two papers "Appraisal Reports on DFCs" and "Economic Appraisal of DFC Projects." Taking into account views expressed by some of you that the latter two papers needed revisions for the purpose intended, they have now been so revised, and copies are attached (Nos. 1, 2 and 3).

2. The attached draft letter (No. 4), transmitting to each development bank the documents referred to, should be adapted to the particular companies concerned. To some, for instance, the third paper should not be sent at all—in present circumstances (for instance, Turkey and Liberia); to others (for instance Austria), there is no point in referring to "questions raised by my colleagues." In general where an arrangement with respect to economic appraisal already exists, the third item should not be sent; we will think about revising the arrangements on some appropriate occasion.

cc: Mr. Diamond o/r Mr. Gulhati/Miss San Lin

Attachments

PMMathew:jmb
MEMORANDUM

TO: All Professional Staff of DFCD

FROM: Ravi Gulhati

SUBJECT: Appraisal Reports on Development Finance Companies

May 19, 1970

When I joined this Department a half-year ago, Messrs. Diamond and Mathew asked me to comment on Appraisal Reports on Development Finance Companies prepared by the Department, with particular reference to the analysis of the economic impact of these institutions.

The attached note embodies my thoughts on this subject as well as the results of discussions with Messrs. Diamond and Mathew, the Division Chiefs and several people in other Departments of the Bank.

c.c. Chief Economists
Messrs. Qureshi
Kalmanoff
Baldwin
Lipkowitz
Please
Mrs. Hughes

R.Gulhati: jb
Guidelines on the Writing of DFC Appraisal Reports

1. Appraisal Reports are expected to provide information and analysis on the following subjects:
   (a) Institutional aspects of DFCs: their organization, management and procedures;
   (b) Financial aspects of DFCs: the raising and investing of funds, the risks undertaken, the profit earned and allied matters; and
   (c) Economic aspects of DFCs: the company's place in the national economy, the efficiency with which it allocates resources, the contribution it makes to the mobilization of savings and the building up of the capital market.

2. The emphasis placed by individual Appraisal Reports on these aspects will vary according to circumstances. Institutional aspects will deserve a particularly thorough treatment in reports about newly established DFCs or in cases where the World Bank first enters into a working relationship with a functioning company. An evaluation of financial aspects of DFCs will be a continuing concern of Appraisal Reports. There will be occasions necessitating a careful assessment of the developmental performance of DFCs. If the cost-price-profit mechanism worked properly, there would be little difference between financial results and the economic impact of a DFC. However, imperfections of the market mechanism are conspicuous in many developing countries and superimposed on these are distortions caused by policy errors in several instances. Recognition of these conditions has led the World Bank to be wary of equating financial with economic success. Frequently, it will be necessary to probe behind the financial story and to discuss directly the impact of a DFC on the rate and pattern of economic growth.

A. Financial and Institutional Aspects

3. Appraisal Reports generally provide an adequate treatment of financial and institutional aspects of DFCs.

4. The standard format of Appraisal Reports is to note certain broad features of the overall economy in a section entitled "The Environment" and then proceed to discuss the organization and management of the company, its major policies and operations, the financial results and future problems as well as prospects. An understanding of the socioeconomic setting can provide valuable clues for the intelligent interpretation of the financial or institutional performance and problems of DFCs. The section entitled "The Environment" should serve two functions: to provide the minimum necessary background about the national economy to guide the reader and to highlight those conclusions of the country economic report which are especially relevant for understanding the activities and problems of the DFC.
5. It is neither possible nor useful to catalogue the many interconnections between what is happening to the national economy and what is happening to a constituent DFC. The following instances are only illustrative:

(i) changes in the access of a DFC to government funds may be related to fiscal policy considerations or to revisions in government expenditure priorities;

(ii) changes in monetary policy may affect the liquidity of commercial banks and hence the demand for DFC funds; and

(iii) changes in the balances of payments situation, necessitating import restrictions, may affect the demand for investment funds or the extent of capacity utilization and thus the profitability and creditworthiness of DFC clients.

6. Appraisal Reports frequently use time-series data to illustrate the evolution of DFC financial policies. This is a valuable analytical device and its use should be encouraged. Cross-section analysis may also be useful. It may be quite inappropriate to compare financial ratios of DFCs in Austria and the Congo but it may be instructive to make comparisons between PICIC and IDBP in Pakistan or between PICIC and ICICI (India). The approach should be to think in terms of a typology of DFCs. Such a typology would recognize basic differences among DFCs owing to factors such as (a) the stage of socioeconomic development of the economy of which they are a part (reflected in summary indicators like per capita income, the rate of savings, degree of monetization, diversification of the production structure, etc.), (b) the age of the DFC and (c) the pattern of ownership and general policy orientation of the DFC. Such a typology would permit valid cross-section comparisons to be made and improve further the analytical content of Appraisal Reports. Of course, invidious comparisons will raise controversy and must be avoided.

B. The Economic Aspect

7. An assessment of the economic impact of a DFC requires familiarity and knowledge of the national economy, the framework of tax, tariff, exchange rate and import policies as well as the structure of industry or other sectors in which the DFC operates. It is unrealistic to expect a brief DFUD mission to acquire this expertise on its own. The prior existence of documents prepared by the Area Department, the Economics Department (Economics of Industrialization Division and the Domestic Finance of Developing Countries Division) and the Industrialization Projects Department will facilitate the work involved.

8. It should also be recognized that an evaluation of a DFC's developmental role requires much more data than is typically assembled by Appraisal Reports. However, much of this information is collected by DFCs in the course of project appraisal or end-use supervision and is available in their
files. The task is to stimulate the interest of managements of DFCs so that available information is exploited fully for purposes of analysis and policy formulation both by them and by the World Bank Group (through Appraisal Reports). This is not an easy task and may well require time-consuming discussions and technical assistance leading to changes in data collection and processing.

9. **Resource Allocation.** Appraisal Reports discuss this subject under the heading of the DFC's capability for screening projects and the quality of its portfolio. The discussion of project screening capability should deal with the following questions:

(a) The extent to which project applications were rejected and for what reasons?

(b) The extent to which project submissions were significantly modified in the course of discussions with clients and in what way?

(c) The extent of time consumed in project appraisal and an analysis of the factors leading to excessive delays?

(d) The extent to which distortions caused by excessive protection, subsidies, price controls, etc. are taken into account in evaluating proposals?

(e) The extent to which the DFC takes the initiative in identifying investment proposals, carrying out pre-investment studies and promoting projects?

10. Attempts to answer questions (a), (b) and (c) quantitatively will raise important points of definition and concept. These problems can be tackled with imagination. In any case, quantitative replies will require interpretation based on familiarity with the methods and procedures of the DFC and its clients. Good judgment is indispensable; a quantitative approach merely serves as an aid to further enquiry and clarification.

11. The Appraisal Report should evaluate the economic payoff of projects financed by DFCs and now in the operational phase. On the basis of reports received by DFCs from their clients it should be possible to answer the following questions:

(a) total fixed investment associated with DFC operations;

(b) employment generated by DFC clients;

(c) gross import substitution achieved by DFC clients (measured by physical output of major items produced by DFC projects as a proportion of the quantity of imports);

(d) net foreign exchange saved by DFC projects (output valued at c.i.f. prices less imported inputs valued in the same way);
(e) net foreign exchange earned by DFC projects (value of exports less imported inputs);

(f) nominal and effective protection enjoyed by DFC projects at the current exchange rate;

(g) capacity utilization, research and development activity, productivity increments and cost reductions achieved by seasoned clients of DFCs; and

(h) financial profitability of DFC clients.

12. These characteristics of DFC operations should be interpreted in the context of what we know about the different branches of manufacturing (from the sectoral reports) and about the national economy (from country economic reports). It is in this way that we can identify the contribution that DFCs are making and the manner in which this contribution is conditioned by the policy environment in which they function.

13. Resource Mobilization. The first task is to spell out the context within which the DFC operates. What is the structure of industrial finance (or the sources and uses of funds) and what is the place of the DFC in it? It is not enough to determine the place of a DFC in aggregate industrial finance. It is also necessary to obtain such data by individual branches of manufacturing. A DFC may finance only a small proportion of private fixed investment in manufacturing but its contribution in individual sub-sectors may be very large.

14. The impact of DFC operations on resource mobilization has to be assessed against the background of knowledge regarding the flow of funds in the sector and the economy. Two questions need to be addressed. The first is to what extent are advances from the DFC matched by funds raised by their clients? In answering this query Appraisal Reports will have to present evidence regarding:

(a) the degree to which DFC clients plough back gross profits (i.e. including depreciation) for new investment;

(b) the extent to which DFC clients raise funds through non-institutional channels;

(c) the extent to which DFC clients (or the more established companies amongst these) rely on the securities market, perhaps with the DFC acting as underwriters; and

(d) the extent to which DFC clients are able to attract foreign investment, perhaps through the good offices of the DFC.
15. Amassing such data will not prove instructive unless the further step of comparing them with industry or sectoral characteristics is taken. For example, the fact that DFC clients plough back a certain proportion of their profits for financing expansion is not very revealing. However, this figure takes on considerable significance when it is compared with the average plough-back ratio in the sector or industry concerned. Once a DFC has built up a system of information of this kind, it can formulate industry or sectoral guidelines for matching requirements so as to mobilize the resources of the firm.

16. Frequently, industrial firms have to seek foreign exchange loans from DFCs, despite the fact that they can generate internally the local currency equivalent of such a sum. Under these circumstances, it should be possible for industrial firms to invest their local currency savings in suitable paper issued by the DFC and at the same time borrow the required foreign exchange from the DFC.

17. The second question is to what extent concessional funds extended to the DFC by the Government (or other parties) are matched by the raising of resources on market-type terms? It will not be easy to define what is concessional and what is not. However, we can devise appropriate definitions and conventions. (To begin with, World Bank Group funds should be considered non-concessional; even IDA funds are extended on market terms to DFCs through the two-tier loan procedure). These definitions will be arbitrary but they can serve a useful purpose by permitting quantitative assessment of the progress made by DFCs towards financial viability.

18. Appraisal Reports should attempt to highlight progress made by DFCs in raising resources on market-type terms. How successfully have DFCs tapped present and potential savings by providing financial instruments with the appropriate yield, security, liquidity as well as other characteristics? Have DFCs been handicapped by the existence of factors beyond their control such as impediments imposed by government policy or the general economic situation.

19. Our approach to the question of a DFC's impact on resource mobilization should recognize two points of some importance. The first is the notion that what is good for General Motors is not necessarily good for the country. While it may be perfectly good policy for a DFC to mobilize foreign funds on market terms (supplier's credits, loans and equity from foreign institutions), there may be severe constraints on the debt servicing capacity of the economy which makes this policy less attractive from a macro-economic point of view.

20. The second point is that a distinction should be drawn between the gross and net impact of a DFC on resource mobilization. An increase in the funds collected by a DFC (even on non-concessional terms) seldom reflects a net increase in savings (domestic or foreign) to the full extent. To varying degrees the success of a DFC in raising resources represents a diversion from other channels, just as an increase in government loan receipts is very often at the expense of the private sector to some extent.
A re-channeling of savings from, say, the unorganized money market to a DFC may be an important activity but it should not be confused with resource mobilization in an economy-wide sense. Writers of Appraisal Reports should bear this distinction between gross and net in mind, although it will seldom be possible to give it empirical content.

C. The Developmental Task

21. In some instances, Appraisal Reports should draw up a statement of development tasks that DFCs should undertake in the future. Such a statement would be particularly relevant in cases where the World Bank Group and the Government of the borrower country have adopted a common approach to industrial and economic problems and this strategy has been set out in the Country Program Paper or some other document. Under these circumstances, it is important that general policies incorporated in the agreed strategy are translated into institutional criteria and working procedures of DFCs.

22. As a rule, the implementation of such developmental tasks are likely to require changes in emphasis and orientation of DFCs rather than fundamental departures in policy. However, there may well be cases where the agreed strategy implies heavy costs for which the DFC will have to be compensated financially by the Government or the World Bank Group. It is the function of Appraisal Reports to examine these questions and to make appropriate recommendations.
OFFICE MEMORANDUM

No. 3

TO: All Professional Staff of DFCD

DATE: May 15, 1970

FROM: Ravi Gulhati

SUBJECT: Economic Appraisal of DFC Projects

1. Discussions with DFCs in Turkey, Greece and Morocco have led to agreements regarding methods for economic appraisal of sub-projects. Similar discussions are likely to take place in the near future with DFCs in India, Pakistan, Iran as well as other countries. This memo is designed to clarify certain points and to outline a generalized approach on this subject.

2. The first point to emphasize is that economic appraisal starts where technical and financial appraisal ends. It is impossible to carry out any economic appraisal worth the name without a satisfactory assessment of the engineering and financial aspects. Therefore, the discussion should begin by focusing on details of project appraisal presently conducted by a DFC. An analysis by the Division of methods and procedures used in appraisal reports submitted in the recent past in connection with sub-projects financed by the Bank should provide a basis for this discussion. In this way it will be possible to agree on improvements in technique within the scope of project appraisal as presently understood by a DFC. For example, many DFCs do not presently use discounted cash flow methods to calculate financial rates of return. Other weaknesses may emerge, such as estimation of depreciation, the assessment of demand and the estimation of future prices of inputs and outputs. Refinements of this kind are frequently important per se and also because they will provide a better basis for economic appraisal.

3. What goes under the heading of "economic appraisal" involves adjustments in financial accounts of the following kinds:

   (a) different treatment of taxes and subsidies
   (b) the use of shadow prices instead of market prices to value labor, capital and foreign exchange
   (c) the evaluation of external economies and diseconomies that are not recorded in financial accounts

4. Needless to say, full economic appraisal is a large undertaking which requires a lot of data, a lot of skill, a lot of time and an intimate understanding not only of the project but also of its relationships with the sector and the total economy. Finally, economic appraisal cannot be divorced from policy objectives and the rate at which one objective can be traded against another.

5. DFCs are seldom in a position to conduct full-dress economic appraisal. Indeed it is doubtful whether there are many operational entities (World Bank Projects Departments, Planning Commissions and the like) who can regularly undertake this task. However, a DFC can and should supplement present procedures by undertaking those elements of economic appraisal which will correct glaring distortions in financial analysis introduced by the environment in which it operates.
6. Financial analysis becomes very unreliable as a guide to project selection where the cost-price structure is distorted by overvalued exchange rates, quantitative import restrictions and complicated tariff regimes. In this situation, it is of importance to supplement financial appraisal by an attempt to calculate effective rates of protection. The point is not that protection is a bad policy per se but rather that without such a calculation it is difficult to appreciate the real incidence of policy on the project in hand. How much protection is justified in any particular case is an important issue but one which arises only after a determination has been made about what is the extent of protection.

7. There is no standardized way of measuring protection. The literature on the subject suggests different approaches and each method has its own problems as well as merits. What is required at the moment is agreement on a procedure which accomplishes the main purpose without straining unduly present availabilities of data and staff. Such an approach is outlined below and may be suggested to development finance companies. It is recognized that considering the complexity of the subject, as well as its importance, it may be necessary to organize discussions with our colleagues in development finance companies either in Washington or elsewhere.

8. The main steps in the calculation of effective protection are listed in the attachment. The definitions of terms used are clear in theory but they will require translation into the specifics of particular economies, taking account of the distinctive characteristics of national exchange rate, tariff, tax and trade regimes. The task of country adaptation is of the utmost importance. The general format will not acquire operationality till the terminology is dressed up in institutional clothes.

9. The calculation described in the attachment is based on the prevailing exchange rate. Where multiple exchange rates exist, the calculation of "value added in a free trade situation" will have to use a single shadow exchange rate. It will then be necessary to agree on such a rate with the DFC, strictly for accounting purposes.

10. In all other cases, the DFC should be asked to carry out the calculation at the prevailing exchange rate. In countries where the local currency is overvalued, the resulting rates of effective protection will appear to be on the high side. We can, ourselves, recalculate these rates using a more appropriate exchange coefficient. No additional information is required for such an exercise.

11. Another adjustment we may have to make in Washington concerns the shadow rate of return on capital, (more frequently called the opportunity cost of capital). If effective protection appears on the high side, even after allowance is made for an appropriate exchange rate, we can recalculate on the assumption that the rate of return on capital (fixed and working) is equal to the opportunity cost of capital. This implies adjusting the sales price (3a) downward and a corresponding scaling down of domestic value-added (4d). Again, this recalculation requires no additional information other than what is typically included in appraisal reports.
12. It should be understood that the calculation of effective protection should focus on that point in the project's life when capacity is fully utilized.

13. The calculation proposed in the attachment does not deduct depreciation from sales price to arrive at value-added. This is because such a deduction would not change the result too much; the same amount would have to be deducted from item 4d as well as 5c. If however, the recalculation suggested in para 11 is attempted, it will be necessary to deal with depreciation before estimating the domestic sales price consistent with the opportunity cost of capital.

14. The important problem in calculating protection rates will be to obtain appropriate estimates of international prices on a c.i.f. basis for project outputs and inputs. Experience so far has demonstrated that many difficulties arise in obtaining appropriate international prices. At least three kinds of problems can be identified:

(a) Sharp fluctuations in international prices. For example, there has taken place recently a large increase in steel prices and a large fall in fertilizer prices. A view has to be formulated about what the future holds in store so that the international price adopted, in the context of project analysis, is well considered and takes into account the supply and demand situation as it is likely to develop.

(b) There are many situations in which c.i.f. import prices remain far below prices prevailing in the domestic markets of exporting countries. In such cases, it will be necessary to decide whether the differential between domestic and export prices is likely to persist or represents a transitory phenomenon.

(c) Occasionally, there are big differences between c.i.f. import prices in a particular country, depending on the source of import. Here again, the project authority has to decide as to which import price represents most appropriately the international price.

15. The calculation proposed in the attachment makes no mention of internal transport charges. In cases where the main market for project output is near the production site but the international port is far away, it is inappropriate to compare sales price (ex factory) with import price c.i.f. Special procedures will have to be devised in such a situation. Information would be required on internal transport charges both from the project site and the port to the main market area.

16. The proposed calculation should be carried out for the project as well as the firm; the two will differ in the case of expansion schemes.

c.c. Messrs. Diamond
    Mathew
    Mrs. Hughes

R. Gulhati: jb
Format for Estimates of Protection

1. Nominal Tariff Rates (including miscellaneous import taxes and charges) (ad-valorem basis)
   a. On major products of project
   b. On major inputs used in project

2. Estimated Selling Price of Import Competing with Project Output
   a. c.i.f. price in U.S. dollars
   b. c.i.f. price in local currency at prevailing exchange rate
   c. Tariffs and other handling charges (local currency)
   d. Domestic sales price (b + c)

3. Rate of Nominal Protection
   a. Sales price ex factory (exclusive of indirect taxes) assumed by project report (this may differ from 2d)
   b. Rate of Protection (Nominal) \( \frac{3a}{2b} - 1 \)

4. Domestic Value Added (local currency)
   a. Imported inputs valued at prices paid by project (including tariffs, etc.)
   b. Domestically purchased traded inputs valued at prices paid by project
   c. Non-traded inputs (utilities) at prices paid by project
   d. Domestic Value Added = \( 3a - 4a - 4b - 4c \)

5. Value added in A Free Trade Situation (local currency at prevailing exchange rate)
   a. Imported inputs at c.i.f. prices (excluding taxes and subsidies)
   b. Domestically purchased traded inputs at c.i.f. prices
   c. Value Added in Free Trade Situation = \( 2b - 5a - 5b - 4c \)

6. Rate of Effective Protection
   a. \( \frac{4d}{5c} - 1 \)

7. Indirect Taxes on Project Output (not levied on competing imports)
Dear [Name]:

I take the liberty of enclosing for your information three papers reflecting Bank policies and operational guidelines which I believe will be of interest to you.

The first is a statement of policy presented to our Executive Directors in April on two important subjects: our views on interest rates charged by development finance companies to their clients, and our attitude towards quasi-equity and other concessions given by governments to development finance companies. These subjects are of interest to you, and I think you should be fully aware of the Bank's posture regarding them.

The other two papers provide guidelines for the work of the staff of this Department. As you know, we have for some time been very much concerned about the economic aspects of the work of the development finance companies associated with us. One of the papers, entitled "Appraisal Reports," suggests to the staff of this Department some of the factors beyond the normal institutional and financial factors, which they ought to take into account in evaluating the performance of development finance companies. The other, entitled "Economic Appraisal of Development Finance Companies' Projects," provides some guidelines for ascertaining the amount of protection received by industrial enterprises being financed by development finance companies. This second paper is, I believe, a constructive approach to a complex subject which we will want to find an early occasion to discuss in detail with your staff. If, in the meantime, you have any thoughts or reactions to it, we
would very much appreciate receiving them, for we have no doubt that modifications and refinements will prove to be necessary if you and we are to develop a useful format for this type of analysis.

I thought you would want to have these papers at least as background for the kinds of questions which you are bound to be receiving with increasing frequency from my colleagues.

With best wishes,

Sincerely yours,

William Diamond
Director
Development Finance Companies

Attachments
DEVELOPMENT FINANCE COMPANIES - PRIVILEGES GRANTED BY GOVERNMENTS

Attached for information is a statement on "Development Finance Companies - Privileges Granted by Governments" prepared by the Development Finance Companies Department, in response to questions raised on May 28, 1970, at a meeting of the Executive Directors.

Distribution:
Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
On May 28, when the Executive Directors considered an IFC investment in, and an IDA credit to, Societe Congolaise de Financement du Developpement (SOCOFIDE), several Executive Directors raised questions concerning the privileges which the Congolese Government had accorded to SOCOFIDE. The staff stated that SOCOFIDE's position was not very unusual by comparison either with other companies in the Congo or with similar companies outside the Congo. The President undertook to present to the Executive Directors a brief technical note on the subject.

Attached is a Table showing some important privileges, arranged in categories, given by governments to the 33 development finance companies which have received finance from the World Bank Group. It may not be comprehensive and some companies may have attained privileges not reflected in the Table. Moreover, it is not possible to be sure that the privileges referred to are strictly comparable as between companies or countries. Also, in some cases privileges have lapsed or were not repeated when opportunity to do so arose; so the Table does not always show currently effective privileges, but rather the list of those which a development bank once had or still has. Finally, the quantitative value of the privileges given to some companies is great but to others, negligible; the Table does not reflect relative weight or importance. Although the Table is thus a rather mechanical and static one, it does give facts relevant to the questions raised by the Executive Directors.

The Table shows that only one of the 33 companies financed by the Bank Group received no privileges at all: ADELA, which operates throughout Latin America.

Of the 32 companies which had privileges, all but one have received loan capital on advantageous terms. The Development Bank of Ethiopia had no such privilege, and in another case, CAVENDES of Venezuela, the concession has been of trivial significance; both these companies were "promotions" of the Bank Group.1/ Eleven companies have central bank rediscount privileges. As these privileges are common to many banking institutions in the country, they do not constitute a special concession to the development finance company. The financial privilege of greatest quantitative significance has been low-cost subordinated loans. These have been available to 20 companies, of which 13 were Bank promotions and 7 were not.

As for tax privileges, 24 companies receive tax breaks of one kind or another; of these, 13 are Bank Group promotions and 11 are not. The

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1/ The term "promotion" has been used when the Bank or the IFC played a key role (or the key role) in the creation or reorganization of the company.
most common tax breaks are income tax holidays or exemptions, and exemptions of tax on profits put to reserves.

Of course, every company that borrows from the World Bank has a privilege in the form of a government guarantee or the privilege of borrowing through a governmental intermediary. (This latter technique is also used in the case of IDA credits.) Such arrangements are common also for other foreign borrowing, and occasionally for domestic borrowing as well. Eighteen companies receive some protection against foreign exchange risk; 6 are Bank promotions, while 12 are not.

Among companies with four or more privileges, 6 are Bank promotions, while 9 are not. Of the 16 companies promoted by the Bank, 6 have 4 or more categories of privileges and 10 have less.

One may reach the following conclusions:

1. Governments normally give privileges of one kind or another to development finance companies, whether promoted by the Bank or not.

2. The most frequent type of privilege is cheap, subordinated loans. The next most frequent types are guarantees of debt, tax exemptions and exchange risk protection.

3. SOCOFIDE is not one of the companies with the highest number of categories of privileges reported in the Table, though it is among the 6 companies with five or more. Half were Bank-promoted; half were not.

4. As noted earlier, differences between tax regimes, and other relevant factors, make it impossible to compare relative significance of the privileges given to the 32 development finance companies that have, or have had, privileges from governments.

Attachment

Development Finance Companies Department
August 11, 1970
<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
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<tbody>
<tr>
<td>IVK</td>
<td>Austria</td>
</tr>
<tr>
<td>NBS</td>
<td>Brazil</td>
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<tr>
<td>EPC</td>
<td>Egypt</td>
</tr>
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<td>CGC</td>
<td>China</td>
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<td>Caldas</td>
<td>Colombia</td>
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<td>Colombiana</td>
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<td>National</td>
<td>Colombia</td>
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<td>Norte</td>
<td>Colombia</td>
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<td>Talle</td>
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<tr>
<td>SOOFIEN</td>
<td>Congo K.</td>
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<tr>
<td>GOFECO</td>
<td>Equador</td>
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<tr>
<td>DBE</td>
<td>Ethiopia</td>
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<tr>
<td>IFF</td>
<td>Finland</td>
</tr>
<tr>
<td>NIBID</td>
<td>Greece</td>
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<tr>
<td>ICICI</td>
<td>India</td>
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<tr>
<td>IMDBI</td>
<td>Iran</td>
</tr>
</tbody>
</table>

**Date of establishment or reorganization**

<table>
<thead>
<tr>
<th>Company</th>
<th>Date of establishment or reorganization</th>
</tr>
</thead>
<tbody>
<tr>
<td>IVK</td>
<td>1957</td>
</tr>
<tr>
<td>NBS</td>
<td>1954</td>
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<tr>
<td>EPC</td>
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<td>Caldas</td>
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<tr>
<td>Colombiana</td>
<td>1959</td>
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<tr>
<td>National</td>
<td>1959</td>
</tr>
<tr>
<td>Norte</td>
<td>1963</td>
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<td>Talle</td>
<td>1960</td>
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<tr>
<td>SOOFIEN</td>
<td>1970</td>
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<td>GOFECO</td>
<td>1966</td>
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<td>1951</td>
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<td>IFF</td>
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<tr>
<td>NIBID</td>
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<td>ICICI</td>
<td>1963</td>
</tr>
<tr>
<td>IMDBI</td>
<td>1959</td>
</tr>
</tbody>
</table>

**Key role by Bank Group in establishment or reorganization**

1. **Equity capital from Government**
   - a. Share capital subordinated
   - b. Dividends subordinated
   - c. Restriction of voting power

2. **Loan capital from Government**
   - a. Subordinated loans
   - b. Low cost loans including deposits
   - c. Rediscount facilities
   - d. Other

3. **Grant and direct subsidy**
   - a. Grant
   - b. Direct subsidy
   - c. Interest subsidy

4. **Government guarantee of debt**
   - a. Free of charge
   - b. Fee charged

5. **Exchange risk protection**
   - a. Free of charge
   - b. Fee charged

6. **Tax exemption or holiday**
   - a. Income tax
   - b. Reserve
   - c. Other

7. **Major advantages not listed above**

---

**Notes:**
- Including central bank and government agencies.
- "Low cost loans" mean those on which a development finance company makes an interest spread of at least 3% or more.
- In the early years of their operation, Colombian development finance companies were granted by the central bank rediscount facilities for industrial loans for fixed assets. In the early years of their operation, Colombian development finance companies were granted by the central bank rediscount facilities for industrial loans for fixed assets. These facilities, however, have been transformed into loans.
- MDB is entrusted to manage Government funds for the purpose of lending to and investing in, industrial projects on a fee basis. Monies have been placed at the disposal of MDB. Until the monies are finally drawn down for their ultimate purposes, they are, in effect, interest-free deposits for MDB.
- The Colombian financieras, in lieu of a direct loan with government guarantee, borrow from the central bank the proceeds of Bank loans made to it for their use.
- On IDA credit (1961) only.
- For part of IFF's clientele, mainly small scale business enterprises, in amounts up to Fmk 150,000.
- On net profits in any one year up to 6% of the sum of the paid-up share capital and the Government advance to IMDBI of Ris. 600 million.
| Company | Country   | IBRD Israel | IDBI India | IFIS Korea | IFCI Liberia | KDB Malaysia | NDB Morocco | MIDF Nigeria | PIFC Pakistan | IBB Pakistan | PFC Philippines | IDB Singapore | IDB Spain | IDB Thailand | IDBP China | PDCP India | DBS Indonesia | BANDESCO Argentina | IFCT Philippines | SNI Tunisia | TSIB Turkey | CAVENDES Venezuela | ADELA Regional |
|---------|-----------|-------------|------------|------------|-------------|-------------|------------|-------------|-------------|-------------|----------------|-------------|----------|--------------|-----------|------------|--------------|-------------------|----------------|-----------|--------|-------------------|
| Key role by Bank Group in establishment or reorganization | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 1. Equity capital from Government | a. Share capital subordinated | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 2. Loan capital from Government | a. Subordinated loans | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 3. Grant and direct subsidy | a. Grant | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 4. Government guarantee of debt | a. Free of charge | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 5. Exchange risk protection | a. Fee charged | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 6. Tax exemption or holiday | a. Income tax | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |
| 7. Major advantages not listed above | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * | * |

**Notes:**
- Including central bank and government agencies.
- *Low cost loans* mean those on which a development finance company makes an interest spread of at least 3% or more.
- On KfW loan.
- *Low cost loans* mean those on which a development finance company makes an interest spread of at least 3% or more.
- On the first Bank loan (1957).
- On the first Bank loan (1957).
- On the first Bank loan (1957).
- On eighth Bank loan (1969) the Government agreed to make necessary arrangements to give PEIC interim protection against the exchange risk for a fee.
- On part of the first (1950) and second (1953) Bank loans to be used for imports from EPU countries.
- On KfW loan.
- The Government guaranteed SNI against its operational losses from commitments made before the completion of the reorganization: (i) recovery within five years, if SNI wishes, of its book value of any equity investments made before the reorganization, (ii) recovery of all interest and principal on loans already made and of all sundry debts, and (iii) reimbursement of any payment which has to be made by SNI under guarantees given before the reorganization.

*IBRD/DFC*

August 4, 1970
OFFICE MEMORANDUM

TO: Mr. William Diamond
FROM: Ravi Gulati

DATE: August 14, 1970
SUBJECT: Questionnaire on DFC Sub-Projects

1. You mentioned to me almost a year ago that we were sitting on an untapped mine of valuable information. A Working Group has given thought to this subject and has drawn up a proposal 1/. The attached questionnaire on subprojects aims at exploiting data, assembled in the course of project appraisal by development finance companies, for the purpose of improved report writing by our Department as well as for operational research on industrialization and resource mobilization problems elsewhere in the World Bank Group. 2/.

2. The proposal is that development finance companies attach a reply to this questionnaire to the appraisal reports on subprojects that they send us in the normal course. These replies should be scrutinized by Development Finance Companies staff, form part of the memorandum customarily written in connection with the approval process and forwarded to the Statistics Division for further data processing and storage. In this way, a "data bank" will be established in which information relating to roughly 600 or more projects per year will be deposited. The output of the data bank will consist of a wide assortment of information arranged and tabulated to suit the requirements of users. The payoff will be in the form of financial ratios, economic or technical coefficients and aggregations of absolute figures by type of project, by development finance company, by country, by geographical region or in some other way.

3. In the early years of the data bank, we will be the principal users. Three principal benefits can be expected; (a) enrichment of the review process relating to subprojects both at the development finance company level and here in Washington, (b) improvement of the analytical content of appraisal reports on development finance companies written by our Department and (c) periodic tabulations of partial indicators focusing on the economic impact of World Bank financed subprojects.

1/ The Working Group consists of representatives of the Economics of Industrialization Division, Domestic Finance of Developing Countries Division, Statistical Services Division—all of the Economics Department—and the Development Finance Companies Department.

2/ There is a separate questionnaire for new and separate projects.
4. **Review of Subprojects**: The questionnaire was designed on the theory that it should not request information which is not generally available in project appraisal reports presently regarded as satisfactory. In some instances the degree of detail may be more than is typically reported but the assumption is that the development finance company generally has the relevant information. The major exception is data necessary for the calculation of effective protection. As you know we are requesting such information in any case from several development finance companies and these requests are likely to multiply.

5. The questionnaire can be regarded as a rough standard which the best development finance companies already achieve but which falls far short of what might be regarded as the ideal from a theoretical standpoint. The discipline of having to fill out such a questionnaire should have a salutary effect on the project departments of those development finance companies which are lagging behind in the appraisal function.

6. The data bank will also facilitate the process of "appraising the appraisal" carried out by our Department in Washington. Financial and economic characteristics of the project under review can be compared readily with those of similar projects undertaken previously by that development finance company or other development finance companies. Over time we will build up a frame of reference against which the coefficients of a particular project under review can be evaluated. Wide discrepancies revealed by such analysis can help to pinpoint weaknesses of project appraisal.

7. **Appraisal Reports on development finance companies**: These reports quite rightly focus on the overall operations of the company rather than on subprojects financed by World Bank loans. Nevertheless, the quality of these documents can be considerably enhanced by using data relating to World Bank financed sub-loans, in the absence of more complete information. Appraisal reports can shed light on the financial and economic criteria applied by development finance companies in selecting projects; at least those financed by World Bank loans. For example, it will become possible to identify the range of debt-equity ratios, financial rates of return or effective rates of protection pertaining to projects financed by Bank loans. During the course of visits to development finance companies' headquarters, missions can establish whether or not projects financed from resources other than Bank loans display similar characteristics.

8. **Indicators of Economic Impact of Sub-Loans**: We do not now have the capability of calculating economic rates of return on Bank loans to development finance companies. However, it should be possible, once the data bank becomes operational, to tabulate several partial indicators focusing on the projected economic impact of World Bank financed subprojects. These tables may be of interest to the Management of the Bank and to Executive Directors. An abbreviated version may even find a place in the Annual Report of the World Bank.
9. To illustrate, the following list of partial indicators could be compiled on the basis of information fed into the data bank:

(a) Total investment associated with development finance companies' subprojects.

(b) Value added (at domestic prices)\(^1\).

(c) Employment generated \(^1\).

(d) Net export sales, defined as foreign exchange earnings minus imported inputs at c.i.f. prices \(^1\).

(e) Net import substitution, defined as sales in domestic market minus imported inputs, both items valued at c.i.f. prices \(^1\).

(f) Yield from direct taxes \(^1\).

(g) Capital-output ratio (using (a) and (b) above).

(h) Capital-labour ratio (using (a) and (c) above).

(i) Net foreign exchange earned per unit of investment (using (a), (d) and (e) above).

This output of the data bank can be presented by project, by branch of industry, by development finance company or on an aggregate basis for all development finance companies, depending on the audience and the purpose.

10. Apart from the usefulness of the data bank for our Department, it will be a considerable asset from the standpoint of the Economics Department as well as Industrial Sector Missions mounted by the World Bank Group. Discussions in the Working Group have confirmed this impression.

11. The benefits to the Economics of the Industrialization Division and the Domestic Finance of Developing Countries Division will materialize only after a substantial period has elapsed after the data bank comes into existence. This is because results in the immediate future will form too small a sample to permit conclusions to be drawn regarding the state of industrialization or the development of the capital market in a particular country. Even after the data bank has been in existence for some time, the question of the adequacy of the sample will remain. Clearly, the information will have a wider coverage in the case of IMF in Iran than in the case of, say, PDCP in the Philippines. Whatever the adequacy of the sample, these statistics

\(^1\) On the basis of full capacity utilization.
will be valuable simply because there is no other easy way of obtaining similar information at the plant or firm level.

12. Of course, the special needs of the two Divisions in the Economics Department mentioned above would be better met if the statistics related to historical actuals rather than projections made at the time of project appraisal. To obtain data of actual performance would require the designing of another questionnaire to be answered on the basis of supervision records of development finance companies. This is for the future, as my impression is that at present there are very few companies which maintain anything like adequate information regarding the operations of their clients.

13. Industrial Sector Missions would benefit greatly from the data bank as it would be possible to make available to them, before they went out into the field, relevant information in a capsule form pertaining to projects in different branches of manufacturing in the country concerned. Such information would provide an insight into the character of recent investments in the industrial sector. Armed with these statistics, the mission could focus on critical issues and save themselves a lot of time by channelling enquiries purposefully. In fact, even before the data bank comes into existence, it may be worthwhile for industrial sector missions to become familiar with appraisal reports on subprojects prepared by development finance companies. Although a time consuming task, it would yield a handsome dividend once the mission is in the field. Incidentally, I mentioned this to Mr. Lipkowitz who expects to lead an Industrial Mission to Korea in the fall and he responded enthusiastically.

14. The value of the data bank would be considerably enhanced if it was possible for the IFC and the Industrialization Projects Department to participate in the program. I expect to raise this question with Messrs. Qureshi and Kalmanoff, once we have taken a decision as far as this Department is concerned. The point is that the data bank is well worth establishing, even if it is confined to subprojects of development finance companies.

15. The Working Group has given some thought to the steps that need to be taken to make the data bank operational. The Statistics Division is now engaged in translating the attached questionnaire into a form which lends itself to data processing. Once this is done, it is proposed to make several trial runs on the basis of appraisal reports now in our possession. These experiments should be made for Korea, Turkey and Colombia. Subprojects above and below the free limit received during fiscal 1970 should be covered. The next step will be to introduce the questionnaire to the development finance companies. This may entail field visits for the purpose of general orientation and for clarification of terms and concepts employed in the questionnaire. In some cases it may be necessary to extend technical assistance to development finance companies in order to equip
them with the wherewithal for preparing replies. Selected consulting firms could be used for this purpose. Finally, we may wish to hire graduate students for a few months in the summer or research assistants to exploit existing appraisal reports on subprojects for the purposes of the data bank.

16. I am sending a copy of this memorandum to all Division Chiefs in our Department. Once they have had an opportunity to review the proposal, we should hold a meeting to discuss the matter further.

RGulhati: jb

c.c. Messrs. Mathew
Division Chiefs

Messrs. Please Gupta Balassa
Joshi Tiemann Kamarck
Bohr Kieser Stevenson
Mrs. Hughes
Miss Keough
DATA BANK QUESTIONNAIRE

(A) For New Project*

NOTE: (i) All amounts to be shown in US dollars converted at the official rate of exchange, namely ______ = US$1.
Where a multiple exchange rate exists or the rate of exchange differs from the official rate, please indicate the rate used against relative item concerned.

(ii) Where the borrowing or other amount is in foreign currency, please indicate by writing "foreign" after the amount.

1. Country:

2. D.F.C.

3. Name of Firm:

4. Products to be manufactured: 1/
   (list products which account for 5% or more of total sales. Underline products which will be manufactured for the first time in the country)

5. Employment: (at full rated capacity, on annual basis)
   (a) Production workers: ______
   (b) Other workers (including administrative, etc.) ______

6. Capacity and Output: (separately for each major product 2/)
   (a) Full rated capacity (physical units) 3/
   (b) Number of shifts proposed at full rated capacity
   (c) Number of days worked per week
   (d) Output in the first year of operation (physical units) 3/
   (e) Output in the fourth year of operation (physical units) 3/

* A "Project" which constitutes a separate financial entity with "own share capital" etc.

1/ Products should be defined in detail and the relevant SITC classification at the 5-digit level should be noted.

2/ Products which account for 20% or more of total sales.

3/ Use metric system wherever applicable.
7. Start-Up:
(a) Period from start of project construction to start of commercial production ________ months.

(b) Period from start of commercial production until full rated capacity is reached ________ months.

8. Project Financing: (including working capital at full rated capacity)
   (a) Share capital (paid-up)
      (i) foreign $________ of which IFC $________
      (ii) domestic $________ of which DFC $________
   
   (b) Bonds, debentures, etc.

   Amount $________
   Period ________________
   Rate (%)* ________________

   Who Bears Foreign Exchange Risk 2/ ________________

   (c) Medium and long-term institutional borrowing (separately for each loan)

   Creditor's name ________________
   Amount $________
   Period ________________ months
   Rate (%)* ________________

   Who Bears Foreign Exchange Risk 2/ ________________

   (d) Suppliers' Credit (separately for each credit)

   Creditor's name ________________
   Amount $________
   Period ________________ months
   Rate (%)* ________________

   Who Bears Foreign Exchange Risk 2/ ________________

   (e) Other long-term borrowing

   Creditor's name 1/ ________________
   Amount $________
   Period ________________ months
   Rate (%)* ________________

   * A single percent figure representing the total cost to borrower, including commission, charges and fees should be provided.

   1/ Alternatively, general description of liability.

   2/ The answer can be firm, DFC, central bank or some other entity.
(f) Total long-term foreign exchange debt 2/: Amount $_____

(g) Short-term institutional borrowings for one year or less (separately for each loan)

<table>
<thead>
<tr>
<th>Creditor's name</th>
<th>Amount</th>
<th>Period</th>
<th>Rate (%)</th>
</tr>
</thead>
</table>

(h) Internal cash generation $_____

(i) Short-term non-institutional borrowing (separately for each major item)

<table>
<thead>
<tr>
<th>Creditor's name</th>
<th>Amount</th>
<th>Rate (%)</th>
</tr>
</thead>
</table>

9. Cost of Project:

(a) Land $_____

(b) Buildings and civil works $_____

(c) Machinery and Equipment

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
</table>
| (i) domestically produced | $_____
| (ii) imports purchased domestically | $_____
| (iii) direct imports | $_____
| (iv) installation and all other charges | $_____

(d) Total fixed investment $_____

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
</table>
| (i) foreign exchange component 1/ | $_____
| (ii) tariff duties, including miscellaneous import taxes, paid on imported items | $_____

(e) Working capital (at full rated capacity) $_____

* Including commission, charges and fees.
1/ Including foreign exchange component of buildings and civil works.
2/ Debt for which foreign exchange risk is on borrower.
3/ Alternatively, general description of liability.
10. Projected Balance Sheets:
   (a) Share capital (paid-up)
   (b) Reserves
   (c) Total long-term debt liabilities*
   (d) Total current liabilities
   (e) Total net fixed assets
   (f) Total current assets
      of which
   (g) Inventories

11. Repayment of Long-term Debt During the Year:

12. Projected Income Statements:
   (i) Income
      (a) total sales
         of which
         (i) export sales
   (ii) Costs
      (a) Raw materials and intermediate inputs:
         (i) domestic (at factory)
         (ii) imported (at factory)
      (b) Utilities
      (c) Wages
      (d) Salaries
      (e) Other manufacturing costs
      (f) Selling and administrative costs
      (g) Depreciation
      (h) Total interest
         of which
      (i) Interest on long-term loans

* Including debentures and suppliers' credit.
(j) Other taxes (real estate tax, business tax, etc.)

(k) Total cost

(l) Profits before tax

(m) Profits after tax

(n) Profits assuming full tax rate 2/

13. **Detailed Information by Major Product**

   (i) **Income**

   (a) Total sales by project

   (b) Export sales by project

   (c) Unit selling price

   (i) domestic price ex-factory

   (ii) export price ex-factory

   (ii) **Costs**

   (a) Raw materials and intermediate inputs

   (i) domestic (at factory)

   (ii) imported (at factory)

   (b) Utilities

   (iii) **Market** 1/

   (a) Total sales by local firms

   (b) Number of local firms in operation

   (c) Total imports

   (d) Total export sales

---

* A product which accounts for 20% or more of total sales.

1/ Total sales or production of local firms plus imports minus exports. If exports are unimportant and the figures are not readily available, please report on other items.

2/ On the assumption that there are no tax concessions such as tax holidays, exemptions or accelerated depreciation provisions.
14. C.I.F. Prices, Tariffs and Other Items by Major Product 1/:

(a) CIF price of imported product (per unit) $________

(b) Tariff 2/ on import of product (per unit) $________

(c) Tariff 2/ on major imported inputs (per unit) 3/ %________

(d) Value of imported inputs at CIF prices 3/ $________

(e) Value of domestic inputs (excluding utilities) at CIF prices 3/ $________

(f) Refund of duties, taxes on exports (per unit) $________

(g) Amount of cash subsidy on exports (per unit) $________

---

1/ A product which accounts for 20% or more of total sales.

2/ Including miscellaneous import taxes and charges.

3/ On the basis of full capacity utilization.

4/ Please convert duties etc. to an ad-valorem basis, wherever necessary, and report a single consolidated percentage figure.
DATA BANK QUESTIONNAIRE

(B) For Expansion Project*

NOTE: (i) All amounts to be shown in US dollars converted at the official rate of exchange, namely ___________ = US$1.

Where a multiple exchange rate exists or the rate of exchange differs from the official rate, please indicate the rate used against relative item concerned.

(ii) Where the borrowing or other amount is in foreign currency, please indicate by writing "foreign" after the amount.

(iii) Not applicable is abbreviated as N.A.

-----------------0--

1. Country:
2. Development Finance Company
3. Name of Firm:
4. First Year of Operation:
5. Years in which Major Expansion took Place in the Past:
6. (a) Products presently manufactured by Firm 1/: (list of products which account for 5% or more of total sales)
   (b) Products to be manufactured by Expansion Project 1/: (list of products which account for 5% or more of increase in sales. Underline products which will be manufactured for the first time in the country)
7. (i) Employment by Firm in the Year Prior to Commencement of Construction on Expansion Project
   (a) Production workers ____________
   (b) Other workers (including administrative, etc.) ____________

* A "Project" which does not have its "own share capital" etc. and is a part of an existing financial entity. The "expansion project" includes modernization and balancing projects.

1/ Products should be defined in detail and the relevant SITC classification at the five-digit level should be noted.
(ii) Increase in Employment due to Expansion Project at Full Rated Capacity on Annual Basis:

(a) Production workers 

(b) Other workers (including administrative, etc) 

8. Capacity and Output: (separately for each major product) 

(a) Full rated capacity 

(b) Number of shifts proposed at full rated capacity 

(c) Number of days worked per week 

(d) Output in the first year of operation 

(e) Output in the fourth year of operation 

(f) Present production 

9. Start-Up of Expansion Project: 

(a) Period from start of project construction to start of commercial production 

(b) Period from start of commercial production until full rated capacity is reached 

10. Financing of Expansion Project: (including working capital at full rated capacity) 

(a) Additional share capital (paid-up) 

   (i) foreign 
   of which IFC 

   (ii) domestic 
   of which DFC 

(b) Bonds, debentures, etc. 

Amount 
Period 
Rate (%)* 

* A single percentage figure representing the total cost to borrower, including commission, charges and fees should be provided. 

1/ Products which account for 20% or more of total sales (firm data) and 20% or more of increase in sales resulting from expansion project. 

2/ Physical units. Use metric system wherever applicable.
(c) Medium and long-term institutional borrowing (separately for each loan)

Creditor's name ___________________  Amount $________
Period ___________________ months  Rate (%)* ______
Who bears Foreign Exchange Risk 1/?

(d) Suppliers' Credit (separately for each credit)

Creditor's name ___________________  Amount $________
Period ___________________ months  Rate (%)* ______
Who bears Foreign Exchange Risk 1/?

(e) Other long-term borrowing

Creditor's name2/__________________  Amount $________
Period ___________________ months  Rate (%)* ______

(f) Total long-term foreign exchange debt 3/  Amount $________

(g) Short-term institutional borrowings for one year or less (separately for each loan)

Creditor's name ___________________  Amount $________
Period ___________________ months  Rate (%)* ______

(h) Internal cash generation $________

(i) Short-term non-institutional borrowing (separately for each major item)

Creditor's name 2/__________________  Amount $________
Period ___________________  Rate (%)* ______

11. Cost of Expansion Project:

(a) Land  $________

(b) Building and civil works  $________

* A single percentage figure representing the total cost to borrower including commission, charges and fees should be provided.

1/ The answer can be firm, DFC, central bank or some other entity.

2/ Alternatively, general description of liability.

3/ Debt for which foreign exchange risk is on borrower.
(c) Machinery and equipment

(i) Domestically produced
(ii) Imports purchased domestically
(iii) Direct imports
(iv) Installation and all other charges

(d) Total fixed investment
   of which

(i) foreign exchange component 1/
(ii) tariff duties, including miscellaneous import taxes, paid on imported items

(e) Working capital (at full rated capacity)

12. Past and Projected Balance Sheets of Firm: (including expansion project)

<table>
<thead>
<tr>
<th></th>
<th>Two years prior to commencement of construction</th>
<th>One year prior to commencement of construction</th>
<th>1st year of production after expansion project</th>
<th>1st year after expansion project is fully utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
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<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

(a) Share capital (paid-up)

(b) Reserves

(c) Total long-term debt liabilities *

(d) Total current liabilities

(e) Total net fixed assets

(f) Total current assets of which

(g) Inventories

13. Repayment of Long-term Debt during the Year:

14. Past and Projected Income Statement of Firm: (including expansion project)

(i) Income

(a) total sales
   of which export sales

* Including debentures and suppliers' credit.

1/ Including foreign exchange component of buildings and civil works.
### Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Raw materials and intermediate inputs</td>
<td></td>
</tr>
<tr>
<td>(1) Domestic (at factory)</td>
<td></td>
</tr>
<tr>
<td>(2) Imported (at factory)</td>
<td></td>
</tr>
<tr>
<td>(b) Utilities</td>
<td></td>
</tr>
<tr>
<td>(c) Wages</td>
<td></td>
</tr>
<tr>
<td>(d) Salaries</td>
<td></td>
</tr>
<tr>
<td>(e) Other manufacturing costs</td>
<td></td>
</tr>
<tr>
<td>(f) Selling and administrative costs</td>
<td></td>
</tr>
<tr>
<td>(g) Depreciation</td>
<td></td>
</tr>
<tr>
<td>(h) Total interest</td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td></td>
</tr>
<tr>
<td>(i) Interest on long-term loans</td>
<td></td>
</tr>
<tr>
<td>(j) Other taxes (real estate tax, business tax, etc.)</td>
<td></td>
</tr>
<tr>
<td>(k) Total cost</td>
<td></td>
</tr>
<tr>
<td>(l) Profits before tax</td>
<td></td>
</tr>
<tr>
<td>(m) Profits after tax</td>
<td></td>
</tr>
<tr>
<td>(n) Profits assuming full tax rate 1/</td>
<td></td>
</tr>
</tbody>
</table>

1/ On the assumption that there are no tax concessions such as tax holidays, exemptions or accelerated depreciation provision.
Two years prior to commencement of construction on expansion project  
One year prior to commencement of construction on expansion project  
1st year of production after expansion project is fully utilized  
1st year after capacity is fully utilized

<table>
<thead>
<tr>
<th>Year</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

13. Detailed Information by Major Product:

(i) Income
(a) Total sales by product
(b) Export sales by product
(c) Unit selling price
   (i) domestic price ex-factory
   (ii) export price ex-factory

(ii) Costs
(a) Raw materials and intermediate inputs
   (i) domestic (at factory)
   (ii) imported (at factory)
(b) Utilities

(iii) Market 1/
(a) Total sales by local firms
(b) Number of local firms in operation
(c) Total imports
(d) Total export sales

* A product which accounts for 20% or more of total sales or 20% or more of increase in sales resulting from expansion project.

1/ Total sales or production of local firms plus imports minus exports. If exports are unimportant and the figures are not readily available, please report on other items.
14. **C.I.F. Prices, Tariffs and Other Items by Major Product 1/:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) CIF price of imported product (per unit)</td>
<td>$</td>
</tr>
<tr>
<td>(b) Tariff 2/ on import of product (per unit)</td>
<td>$</td>
</tr>
<tr>
<td>(c) Tariff 2/ on major imported inputs (per unit) 4/</td>
<td>%</td>
</tr>
<tr>
<td>(d) Value of imported inputs at CIF prices 2/</td>
<td>$</td>
</tr>
<tr>
<td>(e) Value of domestic inputs (excluding utilities)</td>
<td>$</td>
</tr>
<tr>
<td>(f) Refund of duties, taxes on exports (per unit)</td>
<td>$</td>
</tr>
<tr>
<td>(g) Amount of cash subsidy on exports (per unit)</td>
<td>$</td>
</tr>
</tbody>
</table>

1/ A product which accounts for 20% or more of total sales.

2/ Including miscellaneous import taxes and charges.

3/ On the basis of full capacity utilization.

4/ Please convert duties etc. to an ad-valorem basis, wherever necessary, and report a single consolidated percentage figure.
Mr. Grant Slade

John Kieser

Data Collection on Development Finance Companies Subprojects

August 13, 1970

A series of three meetings have been held with DFC and the Economic Department personnel to develop a management information system for Development Finance Companies in regard to subprojects. Mr. Tiesman, Mrs. Slappay and I have met with this group, coordinated by Ravi Gulhati and at the conclusion of the last meeting on August 5th the group decided that the data requirements were specified firmly enough to warrant the design of a questionnaire. Members of the External Debt Section are performing the preliminary design task. Once a draft of the form is completed, it will be reviewed. Within the next year, the project will be evaluated in terms of the applicability of computer processing. The group does not expect to receive enough questionnaires to warrant data processing until next summer. Initially they expect to receive 200 questionnaires annually.

Members of the group provided a general description of what some of the output requirements would be although they were not prepared to go into specific details. From the contents of what they were able to provide us and from the conversations at the meetings, it seemed that the basic characteristics of the system will be information retrieval, various aggregations of data and simple computations. Subject to cost benefit analysis and a consideration of other priorities, the project seems to be a computer application. I think that it could be initially handled by a software package such as GIPS if one were available. However, pending further study, exact judgements cannot be made at this time. I am preparing a folder for our files which will contain the documents pertaining to this project.

J. Kieser

cc: Messrs. Stevenson
    Gulhati
    Hughes
    Tiesman

Mesrs. Paulson
    Slappay
Mr. R. L. Powell  
Development Finance Companies  
International Bank for Reconstruction and Development  
1618 H Street, N. W.  
Washington, D. C. 20433  
U. S. A.

Dear Mr. Powell:

Thank you for your thoughtful letter of August 3rd. I am scheduled to leave Seoul for Washington on the 15th of September. After the Annual Meeting in Copenhagen, I plan to spend several days in Europe and Southeast Asia. I expect to be back in Seoul by the 10th of October.

I shall be staying in Washington for 3 days beginning at the 16th of September. Would you please be so kind as to make hotel reservations for me at the Hay Adams or Washington Hilton for the 2 nights of the 16th and 17th?

I shall be grateful if you would let me know if the hotel reservations are confirmed.

With warm regards,

Yours sincerely,

C. H. Kim  
President
August 17, 1970

Mr. R. L. Powell
Development Finance Corporation
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Powell:

Thank you for your prompt reply of August 3rd. I am sending you, for Washington on the 1st of September. After the Annual Meeting in Copenhagen, I plan to spend several days in Europe and Southeast Asia. I expect to be back in Southeast Asia by the 10th of October.

I shall be staying in Washington for 3 days beginning at the 1st of September. Would you please do so kind as to make hotel reservations for me at the Hyatt Regency or Washington Hilton for the 2 nights of the 9th and 10th?

I shall be delighted if you would let me know if the hotel reservations are confirmed.

Yours sincerely,

C. H. Kim
President

[Signature]
August 10, 1970

Mr. S. Kanagaratnam
Assistant General Manager
(Administration)
Development Finance Corporation
of Ceylon
42/1, Horton Place
P. O. Box 1397
Colombo 7, Ceylon

Dear Mr. Kanagaratnam:

Enclosed are the fifteen copies of the final version of the Descriptive Memorandum on Development Finance Corporation of Ceylon which we promised to send you upon receipt of the updated draft.

Thank you again for your cooperation.

Yours sincerely,

V.S.L.

Valerie San Lin
Development Finance Companies

Enclosures

cc: Mr. Lethbridge (with a copy of the final version of the descriptive memorandum).

VSaLin:er
August 11, 1970

Banco do Nordeste do Brasil
Fortaleza
Brasil

Gentlemen:

On behalf of Mr. Shin, who is away on vacation,
I wish to acknowledge the receipt of ENB’s 1967 and 1968
income statements which you so kindly sent us.

Thanking you for your cooperation.

Sincerely yours,

V.S.L.

Valerie San Lin
Development Finance Companies

cc: Mr. Mirski
VSanLin:er
Mr. William Diamond  
Director of Development Finance Companies  
Department  
International Bank for Reconstruction and Development  
Washington, D.C.

Dear Mr. Diamond:

I am writing to thank you for sending me, under cover of your letter of July 6, 1970, a comparative table of operating ratios of development finance institutions in respect of the financial years 1967, 1968 and 1969.

To meet your wishes I am attaching hereto a table of BNDE ratios, since I am anxious that no exception should be made with regard to our Bank's position in this matter.

I consider, however, that, in order to be entirely meaningful, such ratios should provide a comparison only of values that reflect the same economic and financial facts of life. I therefore think that it should be possible for all factor capable of distorting their meaning to be eliminated from these ratios: I refer, in particular to the direct or indirect assistance that certain companies receive from their governments in the matter of sources of financing and rates of interest, which, being linked with the financial policy of the country, are often imposed on the said companies.

The method, therefore, whatever may be its value in an absolute sense, calls for very careful use, and its results should be interpreted in a most circumspect manner.

Subject to these observations, I see no objection to publishing the BNDE ratios as part of the general table issued by you.

Yours very truly,

(Signed)
M'Hamed Bargach  
President
## COMPARATIVE TABLE OF BNDE RATIOS

<table>
<thead>
<tr>
<th>CONTENT OF RATIOS</th>
<th>1967</th>
<th>1968</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL ASSETS (in thousands of Dirhams)</td>
<td>195,455.91</td>
<td>214,250.96</td>
<td>226,319.74</td>
</tr>
</tbody>
</table>

### A. Rates of Return

1. Gross profit (before interest, reserves and IBP) as a percentage of total assets.
   - 1967: 5.04
   - 1968: 5.38
   - 1969: 5.78

2. Profits before reserves and IBP, as a percentage of total assets.
   - 1967: 2.47
   - 1968: 2.17
   - 1969: 2.30

3. Profit before reserves and IBP, as a percentage of equity capital.
   - 1967: 9.93
   - 1968: 15.29
   - 1969: 15.76

4. Profits after IBP as a percentage of share capital at closing amounts.
   - 1967: 10.81
   - 1968: 19.06
   - 1969: 20.94

### B. Structural Ratios

5. Ratio of long and medium-term obligations to share capital.
   - 1967: 3.67
   - 1968: 6.16
   - 1969: 6.87

6. Ratio of long and medium-term contractual debt to capital and quasi-capital.
   - 1967: 1.29
   - 1968: 1.52
   - 1969: 1.65
### G. Average Rates of Growth (as a percentage of figures for the previous year)

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Of assets</td>
<td>14.54</td>
<td>9.61</td>
<td>5.63</td>
</tr>
<tr>
<td>8</td>
<td>Of profits before reserves and IBP</td>
<td>5.93</td>
<td>21.04</td>
<td>11.00</td>
</tr>
</tbody>
</table>

### D. Portfolio

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Securities in portfolio (whether paid up or not) expressing the ratio that their cumulative value bears to that of long-term loans</td>
<td>10.78</td>
<td>10.43</td>
<td>9.63</td>
</tr>
</tbody>
</table>

### E. Financial Yields and Margins

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Margin of gross income over direct financial charges, as a percentage of total assets.</td>
<td>3.16</td>
<td>3.13</td>
<td>3.12</td>
</tr>
<tr>
<td>11</td>
<td>Yields of time loans as a percentage of their total.</td>
<td>7.02</td>
<td>7.32</td>
<td>7.37</td>
</tr>
<tr>
<td>12</td>
<td>Financial charges as a percentage of the total amount of borrowings and treasury bonds.</td>
<td>4.13</td>
<td>3.93</td>
<td>4.42</td>
</tr>
<tr>
<td>13</td>
<td>Financial yields from securities (participation and investment) as a percentage of their paid-up value.</td>
<td>2.16</td>
<td>2.25</td>
<td>3.18</td>
</tr>
</tbody>
</table>

### F. Administrative and Overhead Expenses

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Expenses other than financial charges and grants, as a percentage of total assets.</td>
<td>1.25</td>
<td>1.11</td>
<td>1.16</td>
</tr>
</tbody>
</table>

### G. Reserves

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Amount of reserves, including amount carried forward, as a percentage of loans and paid-up securities.</td>
<td>4.73</td>
<td>5.45</td>
<td>6.01</td>
</tr>
</tbody>
</table>
### H. Share Capital

| 16. Book value (intrinsic) as a percentage of value at par | 119.43 | 133.01 | 138.31 |

### I. Dividends

| 17. Dividends as a percentage of value at par | 4.00 | 6.00 | 6.00 |
| 18. Dividends as a percentage of net profits after IBP (see numerator ratio 4) | 37.00 | 34.11 | 28.66 |
Cher Monsieur Diamond,


Pour répondre au désir que vous avez exprimé, j'y joins un tableau des ratios concernant la BNDE, soucieux de ne pas singulariser la position de notre Banque. 

J'estime, toutefois, que de tels rapports pour être pleinement significatifs ne doivent confronter que des valeurs correspondant aux mêmes réalités économiques et financières. Je pense donc que tous éléments susceptibles d'en altérer le sens devraient pouvoir en être éliminés : je fais notamment allusion à l'aide directe ou indirecte que certaines Compagnies reçoivent de leur Gouvernement, par exemple quant aux sources de financement, aux taux d'intérêt, liés à la politique financière du Pays, souvent imposés aux dites Compagnies etc...

La méthode donc, quelle que soit sa valeur dans l'absolu, est d'une utilisation délicate et l'interprétation de ses résultats doit être fort circonspecte.

Sous le bénéfice de ces observations, je ne vois pas d'objection à la publication des ratios de la BNDE à l'intérieur du tableau général publié par vos soins.

Veuillez agréer, Cher Monsieur Diamond, l'expression de ma considération distinguée. -

Le Président

M'Hamed BARGACH
### TABLEAU COMPARATIF DES RATIOS DE LA B.N.D.E.

<table>
<thead>
<tr>
<th>CONTENU DES RATIOS</th>
<th>1967</th>
<th>1968</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL DES ACTIFS</td>
<td>195,455,91</td>
<td>214,250,96</td>
<td>226,319,74</td>
</tr>
<tr>
<td>(en milliers de Dirhams)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - Ratios de Rentabilité</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - Bénéfices bruts (avant intérêts, provisions et IBP) en % de l'Actif total</td>
<td>5,04</td>
<td>5,38</td>
<td>5,78</td>
</tr>
<tr>
<td>2 - Bénéfices avant Provisions et IBP en % de l'Actif total</td>
<td>2,47</td>
<td>2,17</td>
<td>2,30</td>
</tr>
<tr>
<td>3 - Bénéfices avant Provisions et IBP en % des Capitaux Propres</td>
<td>9,93</td>
<td>15,29</td>
<td>15,76</td>
</tr>
<tr>
<td>4 - Bénéfices après IBP en % du Capital Social à la clôture</td>
<td>10,81</td>
<td>19,06</td>
<td>20,94</td>
</tr>
<tr>
<td>B - Ratios de Structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 - Rapport des obligations à long et moyen terme au capital social</td>
<td>3,67</td>
<td>6,46</td>
<td>6,87</td>
</tr>
<tr>
<td>6 - Rapport de la Dette contractuelle à long et moyen terme au Capital et Quasi Capital</td>
<td>1,29</td>
<td>1,52</td>
<td>1,65</td>
</tr>
<tr>
<td>C - Taux Moyens de croissance (en % de l'année précédente)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 - des Actifs</td>
<td>14,54</td>
<td>9,61</td>
<td>5,63</td>
</tr>
<tr>
<td>8 - des Bénéfices avant Provisions et IBP</td>
<td>5,93</td>
<td>21,04</td>
<td>11,00</td>
</tr>
<tr>
<td>D - Portefeuille</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 - Valeurs en portefeuille (libérées ou non) en % de leur montant cumulé à celui des prêts à long terme</td>
<td>10,78</td>
<td>10,43</td>
<td>9,63</td>
</tr>
<tr>
<td>E - Produits Financiers et Marges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 - Marge des Revenus bruts sur les frais financiers directs en % de l'Actif total</td>
<td>3,16</td>
<td>3,13</td>
<td>3,12</td>
</tr>
<tr>
<td>11 - Produits des Prêts à terme en % de leur montant</td>
<td>7,02</td>
<td>7,32</td>
<td>7,37</td>
</tr>
<tr>
<td>12 - Frais Financiers en % de la somme des Emprunts et Bons de Caisse</td>
<td>4,13</td>
<td>3,93</td>
<td>4,42</td>
</tr>
<tr>
<td>13 - Produits financiers des Titres (participation et placement) en % de leur valeur libérée</td>
<td>2,16</td>
<td>2,25</td>
<td>3,48</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>F - Charges d'Administration et Frais Généraux</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14 - Charges autres que Frais Financiers et Dotations en % de l'Actif total</td>
<td>1,25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>G - Réserves</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15 - Montant des réserves y compris le report à nouveau en % des Prêts et des valeurs libérées</td>
<td>4,73</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>H - Capital Social</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>16 - Valeur comptable (intrinsèque) en % de la Valeur au pair</td>
<td>119,43</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I - Dividendes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17 - Dividendes en % de la Valeur au pair</td>
<td>4, -</td>
</tr>
<tr>
<td>18 - Dividendes en % des bénéfices nets après IBP (cf. numérateur ratio 4)</td>
<td>37, -</td>
</tr>
</tbody>
</table>
Mr. Arthur Tiemann  
August 7, 1970

Hari Gulhati  

Questionnaire on Development Finance Companies Subprojects

1. I enclose two copies of the revised Questionnaire which takes into account the points made at the last meeting of the Working Group. I assume that you will now convert this Questionnaire into a properly designed form making such changes as are necessary for the purpose of clarification and data processing.

2. Mr. Kieser wanted me to mark out those items in the Questionnaire which would not be subject to the operations of the computer. So far as I can determine these items are the following; Item 3 - Name of firm, Item 4 - Listed products except those which qualify as "major" products, Item 8 (c), (d), (e), (g) and (i) relating to the name of the creditor.

3. If there are any other questions which occur to you or to Mr. Kieser, please do not hesitate to get in touch with me.

Hari Gulhati

cc. Mr. Joshi  
Mr. Kieser  
Mr. Gupta  
Mrs. Hughes  
Miss Keough
August 7, 1970

Mr. C. Akhras
Chief, Industrial Policies and Financing Section
UNIDO
Felderhaus, Rathausplatz 2
A-1010 Vienna, Austria

Dear Mr. Akhras:

Thank you very much for your letters of July 27 and 29.

I am, of course, sorry that you were unable to arrange the meeting of the Committee around the time of our Annual Meeting and I have noted that you are thinking in terms of December. I should put you on notice, however, that, as of the present time, I expect to be in Asia throughout the month of November. Tentatively, I expect to be crossing Europe sometime between December 5 and December 10 and if you were to arrange a Committee meeting at that time I could stop in Vienna. I shall look forward to more definite news from you a little later on.

In the circumstances I will, of course, be unable to participate in your Training Program, which is also scheduled for November. I am sorry. Maybe next time.

I note you are now in Lebanon discussing industrial financing. I shall be very much interested in learning the upshot.

With best regards,

Sincerely yours,

William Diamond
Director
Development Finance Companies

cc: Mr. Postel-Vinay
Monsieur B. H. SHIN
Development Finance Companies
International Bank For Reconstruction
And Development
1818 H Street N. W.
WASHINGTON D. C. 20433
------------------ (U. S. A.)

Cher Monsieur Shin,

J'ai bien reçu le remarquable document intitulé "Comparative Operational Ratios of Development Finance Companies" que vous avez bien voulu me faire parvenir et je vous en remercie.

Les éléments qu'il renferme constituent un intéressant tableau de bord de gestion des institutions de notre secteur.

J'ose espérer que vous continuerez toujours à nous compter sur la liste de distribution de vos futures publications.

Veuillez agréer, cher Monsieur Shin, l'expression de mes sentiments les meilleurs.

Le Directeur Général,

S. GUETTA
Société Concorlaise de Financement du Développement
S.C.A.R.L. - B.P. 1148 KINSHASA - R.C. 1270

Kilimé en le 6 octobre 1970.

Monseur M. H. Shim
Development Finance Companies
International Bank for Reconstruction
And Development
1818 H Street N.W.
WASHINGTON D.C. 20433 (U.S.A.)

Cher Monseur Shim,

J'ai bien voulu vous présenter le document joint 

"Compte tenu des observations relatives à la situation actuelle des 
Compagnies du domaine de l'investissement et de la reconstruction 
au sein de la Société Concorlaise de Financement du Développement 

1. J'espère que vous pourrez trouver les informations de votre intérêt.

Les éléments du dossier tenu à la Société Concorlaise de 

2. J'espère que vous pourrez trouver les informations de votre intérêt.

Venelles Street, Chéz Monseur Shim, I'expression

Ge mes sentiments les meilleurs.

Le Directeur Général

8. CUTEA
Mr. B. H. Shin
Development Finance Companies Dept.
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington D.C.
U.S.A.

Dear Mr. Shin:

We are pleased to have your letter of July 23 informing us of your coming visit to our company. May we extend to you and Mrs. Shin our hearty welcome.

Looking forward to seeing you soon,

Yours sincerely,

Felix S. Y. Chang
President
August 6, 1970
File Ret. 50-5-0521

Mr. B.H. Shin

Development Finance Companies Dept.
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington D.C.
U.S.A.

Dear Mr. Shin:

We are pleased to have your letter of July 23 informing us of your coming visit to our company. May we extend to you and Mr. Shin our hearty welcome.

Looking forward to seeing you soon.

Yours sincerely,

Felix S.Y. Chang
President
Mr. R.B.J. Richards

Use of Borrowed Funds for Investments in Share Capital by Development Finance Companies.

August 5, 1970

William Diamond

Attached is a note, which you asked for, on the use of borrowed funds for investments in share capital, and attached to it are notes on the specific situation of each of the development finance companies associated with us.

The note is labelled "draft" because I want to check it out further, but I think it is in sufficiently good shape to meet your needs. As for the attached company data, I have not yet reviewed it.

cc Mr. Cope, Mr. Mathew, Mr. Shin

Attachments

WDiamond:us
Use of Borrowed Funds for Investments in Share Capital by Development Finance Companies

1. The World Bank has no objection to the use of its loans (or of any borrowed funds) by development finance companies for investment in share capital, so long as such investment is kept within prudent limits. In general, a prudent limit is considered to be the net worth of the development finance company. In a few cases, but only very exceptionally, a larger sum has been agreed on or condoned.

2. This position of the Bank is set forth in paragraph 39.h of Operational Memorandum 5.11 of March 29, 1968.

3. The rationale of the policy is that a development finance company's resources, whatever their source, are largely interchangeable. From our point of view, it makes no difference how particular financial resources are used by a development finance company so long as the overall management of its capital is sound. Included in sound management is the maintenance of adequate liquidity; the maturities of a company's assets should at all times be shorter than or equal to, but never greater than, the maturities of its liabilities. To this end, the aggregate amount of a company's investments in shares (which have no definite maturity) should not normally exceed the amount of its own net worth. As long as the aggregate limitation is observed, a particular investment in share capital may be financed with loan proceeds.

4. We have been prepared in principle to go beyond the limit of net worth only in a country where there is an active stock exchange, so that in the event of a liquidity crisis the development finance company can sell
from its own equity holdings if it must, even though that sale may be at a loss. Only one company associated with us operating in that kind of an environment has invested beyond the limits of its net worth. That company is ICICI, and we have not asked for a policy undertaking because we knew ICICI's policy was to limit its exposure to net worth plus its subordinated government advance. In another case, Ceylon, we accepted the explicitly stated policy that aggregate investment in share capital would not exceed net worth plus subordinated government loans. And in Iran we were asked by IMDBI to agree to its going beyond the limit of its net worth. Because of the circumstance, we agreed. But we agreed to a specific maximum, in the knowledge that forthcoming surpluses and additions to share capital would raise net worth to the point where it would exceed the specific sum we accepted.

5. Although the Bank, within the limits referred to, finds it acceptable to allow its funds to be used for investment in share capital,1/ it does exercise special care. Thus, every project calling for the use of a Bank loan for investment in share capital requires prior approval from the Bank, even though it is below the "free limit" for loans. Only in the case of "mature" companies, into which category we have put only PICIC and ICICI, do we apply the free limit to equity investments as well as to loans. Secondly, since the segment of the loan used for the

1/ Not every loan contract permits such use. In a few cases, for historical reasons, or to accord with the borrower's wish, the Bank's loan may be used only for relending.
investment in the share capital cannot usually be "amortized" from the
investment itself, the Bank and the development finance company need
to agree on an arbitrary amortization schedule calling for the repay-
ment to the Bank of that segment of the loan over a reasonable period
of time.

6. Attached are statements which answer, for each development
finance company associated with us, the following questions:

a. Does it have a policy regarding the amount of aggregate
   investment in share capital?

b. If so, what is the policy?

c. Does it have a policy explicitly regarding use of
   borrowed funds for equity investment?

d. If so, what is the policy?

e. May the Bank loan be used for investment in share capital?

f. If so, are there any special restrictions or conditions on
   such use?
TO: Mr. W. Diamond  
FROM: J. C. Kendall (through Mr. J.Z. Mirski)  
SUBJECT: Use of borrowed funds for equity investments by development finance companies  

August 5, 1970

1. With regards to the questions contained in paragraph 6 of your draft memo of 8/1/70 to Mr. Richards, I have the following answers in regard to BNB/Brasil:

(a) BNB's statutes do not contain specific limitations on the amount of aggregate investment in share capital, but they do say that these should be made in accordance to banking law;

(b) Regulations applicable to investment banks (these are the banking institutions which are allowed to make equity investments) limits aggregate investments in share capital to 50% of capital and free reserves. Private investment banks are attempting to have this limit increased to 100% of capital free reserves.

(c) Yes, insofar as these are made in promotion projects.

(d) Article 41, IV says that investments in promotion projects (of which equity investments may be part) can be financed from outside (borrowed) resources provided these are stable enough "suitable guarantees are obtained."

(e) Yes.

(f) Equity investments must be approved by IBRD. IBRD must be advised of the repayment schedule to it, and must approve this schedule.

2. I have no comments on the draft memo of 8/1/70.

JCKendall: mvr
ICICI

1. Policy regarding the amount of aggregate investment in share capital

ICICI has no policy statement, but broad policy guidelines. Regarding equity investments, ICICI's policy is to invest in new issues only and not to invest in past issues traded on the market. Also as a rule, ICICI keeps its outstanding equity portfolio well below the limit set by the total of ICICI's net worth plus the subordinated first Government loan.

2. Policy regarding use of borrowed funds for equity investment

None specifically.

3. May the Bank loan be used for investment in share capital

Yes, but ICICI has not taken advantage of this option and does not contemplate doing so in the near future.

4. Special restrictions on point 3 above

The new Loan Agreement dated June 3, 1970 for Loan 683-IN gives the same treatment to investments in share capital than to subloans as regards (i) the required authorization from the Bank, i.e. a free limit of 24,000,000 is agreed upon; (ii) the 90 rule. Also an amortization schedule has to be presented to the Bank.
1. Does BNDE have a policy regarding the amount of aggregate investment in share capital?

Yes.

2. The Policy

a. The aggregate of loans and investments in favor of one single enterprise should not normally exceed 15% of the sum of BNDE's paid-up capital, reserves and outstanding long-term Government loans, except if these loans or investments are covered by a Government Guarantee or a Guarantee from Caisse Centrale de Garanties or by a bank Guarantee after examination of the financial position of the bank concerned.

b. BNDE's equity participations should not exceed the smaller of (i) 15% of BNDE's paid-up capital and reserves and (ii) 25% of the share capital of the investment enterprise concerned.

3. Policy regarding the use of borrowed funds for equity investments

None specifically.

4. May the Bank Loan be used for investment in share capital?

Yes.

5. Restrictions and conditions on 4.

- All investments should be approved by the Bank
- 90-day rule
- an amortization schedule has to be approved by the Bank.
Although CIH is not yet a borrower the following can be assumed, as of August 13, 1970.

1. CIH has no policy statement but its statutes allow CIH to invest in share capital. They have not done so in the past and have stated that they will not engage in such operations in the near future.

2. The draft Loan Agreement provides for the same conditions and restriction than for BNDE.
1. Does NIDB have a policy regarding the amount of aggregate investment in share capital?

   Yes.

2. The Policy

   a. NIDB will not take up more than 49% of the shares of any single enterprise.

   b. NIDB will not contribute in loan and equity subscription to any single enterprise more than 10% of NIDB's paid-up share capital and free reserves.

3. Policy regarding the use of borrowed funds for equity investment

   None.

4. May the Bank loan be used for investment in share capital?

   Yes.

5. Restrictions and conditions on 4.

   - All investments should be approved by the Bank.
   - 90-day rule.
   - An amortization schedule has to be approved by the Bank.
1. Does SNI have a policy regarding the amount of aggregate investment in share capital?

Yes.

2. The Policy

a. Financial assistance will be directed mainly to private sector enterprises.

b. The aggregate of loans and equity investments shall not normally exceed 15% of SNI's own resources (share capital, plus free reserves, plus grant, plus Government loans ranking pari-passu with share capital).

c. No operation should be made for less than D 15,000.

d. No equity investment shall normally exceed 10% of SNI's own resources (see b).

e. The total amount of SNI equity investments shall in no case exceed the total SNI's own resources (see b).

f. The equity portfolio should be as diversified as possible.

g. SNI shall not, in principle, hold a majority of shares in a company except as (i) a promoter and with the intention to reduce its holdings below 50% when possible, and (ii) for companies in financial difficulties.

3. Policy regarding the use of borrowed funds for equity investments

None.

4. May the Bank Loan be used for investment in share capital?

Yes.

5. Restrictions and conditions on 4.

- All investments should be approved by the Bank.
- 90-day rule
- An amortization schedule has to be approved by the Bank.
Informal Note

August 4, 1970

To: Mr. Diamond

From: Neil Orloff

Subject: SOCOFIDE: Investment Policies

In response to your questions about SOCOFIDE's policies regarding the making of equity investments and about the IDA Credit to SOCOFIDE:

(a) Yes, SOCOFIDE has a policy regarding the amount of aggregate investment it will make in share capital.

(b) SOCOFIDE's policy is that its "total investments in the form of equity participations may not exceed the total of the Company's share capital and its unimpaired reserves."

(c) No. SOCOFIDE does not have an explicit policy regarding use of borrowed funds for equity investment.

(d) Not applicable.

(e) SOCOFIDE does not have a Bank loan. Its IDA may be used for investment in share capital.

(f) There are no special restrictions or conditions on the use of the IDA credit by SOCOFIDE to make investments in share capital (except that all such equity investments must be approved by IDA i.e. the concept of "under the free limit" applies only to sub-loans and does not apply to equity investments).

NOrloff:mfk

c.c. Division Files
August 4, 1970

**IDBP**

a) No
b) -
c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

**PICIC**

a) Yes
b) It is the intention that the total equity in various enterprises, either made directly or acquired through conversion rights, is normally restricted to the paid-up capital and free reserves of the corporation.

c) No
d) -
e) Yes
f) Prior approval of projects in which PICIC proposes to make investments (or sub-loans) in the aggregate equal to or exceeding $4,000,000.

**IMDBI**

a) Yes
b) The aggregate amount at cost of IMDBI's commitments from its own funds for investments in share capital of client enterprises will not exceed its paid-up share capital, its free reserves and the outstanding portion of the RIs. 600 million advanced to IMDBI by the Government Advance Agreement dated November 8, 1959.

c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

**CDC**

a) Yes
b) The total equity investment of CDC at any time should not exceed the aggregate amount of its paid-up share capital and reserves.

c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

**IFCT**

a) Yes
b) The total of its equity investments will not exceed its paid-in share capital and reserves.

c) No
d) -
e) Yes
f) Bank loan cannot be used for equity investments.
August 4, 1970

Mr. Diamond:

Equity Investment Policy of DFC's

For the companies within the responsibility of this division, I give below seriatim answers to the questions included in your draft memorandum of August 4 to Mr. Richards:

CEYLON: DFCC

a. Yes.

b. The aggregate of DFCC's share investment will not exceed the sum of its equity and the outstanding part of the subordinated Government loan.

c. & d. No.

e. 634-CE may be used.

f. All proposals for an equity investment using Bank funds to be submitted to the Bank for approval; an amortization schedule to be agreed with the Bank.

ISRAEL: IDBI

a. & b. No explicit policy but in practice IDBI generally eschews equity investments, the total of which form a very small proportion of its equity.

c. & d. No.

e. & f. Yes for Loan 689-IS with restrictions as in f. for DFCC above.

KOREA: KDFC

a. Yes.

b. Aggregate limited to the total of paid-in capital and free reserves.

c. No.

d. Not applicable.

e. Yes, for Loan 622-KO.

f. As under f. for DFCC above.
LIBERIA: LBIDI

a. Yes.

b. The aggregate of all equity investments not to exceed the sum of equity capital and free reserves.

c. No.

d. Not applicable.

e. & f. No Bank loan.

PHILIPPINES: PDCP

a. & b. No. (!)

c. & d. No.

e. & f. Loan No. 630-PH may be used directly for investments, subject to restrictions mentioned in f. under DFCC above.

R. L. Powell

RLPowell/ib
a. Does the dfc have a policy regarding aggregate exposure in equities? Yes

b. If so, what is the policy? The total amount of the Corporation's equity will not exceed the value of the Corporation's equity.

c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments? No

d. If so, what is the policy?

e. May the Bank/IFC loan be used for investment in equities? Yes

Bank loans 451-CO, 534-CO, 625-CO

If so, are there any special restrictions or conditions on such use:

451-CO, 534-CO, 625-CO

The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.

IBRD/DFC

August 4, 1970
a. Does the dfc have a policy regarding aggregate exposure in equities? Yes

b. If so, what is the policy? The total amount of the Corporation's equity will not exceed the value of the Corporation's equity.

c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments? No

d. If so, what is the policy?

e. May the Bank/IFC loan be used for investment in equities? Bank loans 451-CO, 534-CO, 625-CO Yes

If so, are there any special restrictions or conditions on such use? 451-CO, 534-CO, 625-CO The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.

IBRD/DFC

August 4, 1970
a. Does the dfc have a policy regarding aggregate exposure in equities? Yes
b. If so, what is the policy? The total amount of the Corporation's equity will not exceed the value of the Corporation's equity.
c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments? No
d. If so, what is the policy?
e. May the Bank/IFC loan be used for investment in equities?
   Bank loans 451-CO, 534-CO, 625-CO Yes
   If so, are there any special restrictions or conditions on such use?
   451-CO, 534-CO, 625-CO The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.

IBRD/DFC
August 4, 1970
a. Does the dfc have a policy regarding aggregate exposure in equities?
   Yes

   b. If so, what is the policy?
   The Corporation's total investments in shares of other companies will not be greater than the amount of its own equity.

   c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments?
   No

   d. If so, what is the policy?

   e. May the Bank/IFC loan be used for investment in equities? BANK loans 451-00, 534-00, and 625-00
   Yes

   If so, are there any special restrictions or conditions on such use? 451-00, 534-00, and 625-00
   The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.
a. Does the DFC have a policy regarding aggregate exposure in equities? Yes

b. If so, what is the policy? The total amount of the Corporation's equity will not exceed the value of the Corporation's equity.

c. Does the DFC have a policy explicitly regarding use of borrowed funds for equity investments? No

d. If so, what is the policy?

e. May the Bank/IFC loan be used for investment in equities? Yes

Bank loans 451-CO, 534-CO, 625-CO

If so, are there any special restrictions or conditions on such use? The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.

451-CO, 534-CO, 625-CO

IBRD/DFC
August 4, 1970
a. Does the dfc have a policy regarding aggregate exposure in equities?
   Yes
   The aggregate of COFIEC's equity investment will not exceed the sum of its paid-in share capital free reserves and unappropriated surplus.

b. If so, what is the policy?

c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments?
   No

d. If so, what is the policy?

e. May the Bank/IFC loan be used for investment in equities?
   There is no Bank/IFC loan.
   If so, are there any special restrictions or conditions on such use?
a. Does the dfc have a policy regarding aggregate exposure in equities?

Yes

b. If so, what is the policy?

It (CAVENDES) will limit its total investments in share capital as required by law, but in no event such investments exceed the amount of its unimpaired equity.

c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investments?

No

d. If so, what is the policy?

e. May the Bank/IFC loan be used for investment in equities?

Yes

IFC loan 128-VE

If so, are there any special restrictions or conditions on such use?

128-VE

The Bank and the respective Financiera must agree upon the terms and conditions of such investment and upon an amortization schedule for the repayment of such portion of the Loan.

IBRD/DFC

August 4, 1970
a. Does the dfc have a policy regarding the amount of aggregate investment in share capital? Yes

b. If so, what is the policy?


Section 5.04. Except as IFC shall otherwise agree, the Company shall not:

(c) Make, or permit any of the Subsidiaries to make, any investment in the capital stock of companies or enterprises other than the Subsidiaries if, after making any such investment, the aggregate sum of such investments, (plus the investments in fixed assets of the Company and the Subsidiaries and minus the long-term financing of such fixed assets) shall exceed the equity of the Company. For purposes of this subsection the provisions of paragraphs (iii) and (iv) of subsection (b) shall apply;

Yes

"The amount of the Corporation's debt investments and underwriting commitments shall not exceed the amount of the borrowings by the Corporation authorized by the Executive Committee plus its paid-in share capital and surplus less the amount of its equity investments."

c. Does the dfc have a policy explicitly regarding use of borrowed funds for equity investment?

d. If so, what is the policy?

Yes

e. May the Bank/IFC loan be used for investments in share capital?

IFC loan 182 LU Yes
If so, are there any special restrictions or conditions on such use?  

No
August 4, 1970

Mr. William Diamond

DFC's Policies Regarding Equity Investments

1. IFF - FINLAND
   (a) Yes.
   (b) "The Fund will not make any equity investment if at the time or as a result of such investment the total nominal amount of the Fund's equity investments would exceed the aggregate amount of its paid-up share capital and reserves."
   (c) and (d) IFF does not have a policy explicitly regarding use of borrowed funds for equity investments.
   (e) Yes.
   (f) i. Regardless of the amount of the investment, the project must be approved by the Bank.
       ii. IFF must submit to the Bank the repayment schedule relating to that investment.

2. NIBID - GREECE
   (a) Yes.
   (b) "Overall equity investments of the Bank will be limited to 100% of its unimpaired equity (paid-in capital and surplus accounts)."
   (c) and (d) NIBID does not have a policy explicitly regarding use of borrowed funds for equity investments.
   (e) Yes.
   (f) i. Regardless of the amount of the investment, the project must be approved by the Bank.
       ii. NIBID must submit to the Bank the repayment schedule relating to that investment.

3. TSKB - TURKEY
   (a) Yes.
   (b) "The total of the Bank's capital participations at cost price shall not at any time exceed TL 175 million." (TSKB's net worth on Dec. 31, 1969 was TL 184.3 million).
(c) and (d) TSKB does not have a policy explicitly regarding use of borrowed funds for equity investments.

(e) Yes.

(f) i Regardless of the amount of the investment, the project must be approved by the Bank.
   ii TSKB must submit to the Bank the repayment schedule relating to that investment.

4. DBS - SINGAPORE

(a) Yes.

(b) "The total equity holdings of the Bank will not exceed its paid-up share capital and reserves."

(c) and (d) DBS does not have a policy explicitly regarding use of borrowed funds for equity investments.

(e) Yes

(f) i Regardless of the amount of the investment, the project must be approved by the Bank.
   ii DBS must submit to the Bank the repayment schedule relating to that investment.

5. MIDF - MALAYSIA

(a) Yes.

(b) "The total amount of its equity investments at cost will not exceed the amount of its paid-in share capital and reserves."

(c) and (d) MIDF does not have a policy explicitly regarding use of borrowed funds for equity investments.

(e) and (f) No. The proceeds of the loan could be used to finance sub-loans only.
August 4, 1970

Mr. William Diamond

Sunit Gupta

Policy in Relation to Equity Investment

Every investment requires prior Bank approval.

At yesterday's meeting you asked for replies to the following questions in respect of dfe's in this Division:

a) Does it have a policy regarding the amount of aggregate investment in share capital?
b) If so, what is the policy?
c) Does it have a policy explicitly regarding use of borrowed funds for equity investment?
d) If so, what is the policy?
e) May the Bank Loan be used for investment in share capital?
f) If so, are there are special restrictions or conditions on such use?

The necessary information is attached hereto.

Sunit Gupta

Attachment:

The total equity investment of DSB at any time shall not exceed the aggregate amount of its paid-in share capital and reserves.

Yes

Every investment requires prior Bank approval.

The total of its equity investments will not exceed its paid-in share capital and reserves.

Yes

Bank loan cannot be used for equity investments.
IDBP

a) No
b) -
c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

PICIC

a) Yes  
b) It is the intention that the total equity in various enterprises, either made directly or acquired through conversion rights, is normally restricted to the paid-up capital and free reserves of the corporation.
c) No
   - May the Bank loan be used for investments in share capital?
d) -
e) Yes
f) Prior approval of projects in which PICIC proposes to make investments (or sub-loans) in the aggregate equal to or exceeding $4,000,000.

IMDBI

a) Yes  
b) The aggregate amount at cost of IMDBI’s commitments from its own funds for investments in share capital of client enterprises will not exceed its paid-up share capital, its free reserves and the outstanding portion of the Rs. 600 million advanced to IMDBI by the Government Advance Agreement dated November 8, 1959.
c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

CDC

a) Yes  
b) The total equity investment of CDC at any time should not exceed the aggregate amount of its paid-up share capital and reserves.
c) No
d) -
e) Yes
f) Every investment requires prior Bank approval.

IFC

a) Yes  
b) The total of its equity investments will not exceed its paid-in share capital and reserves.
c) No
d) -
e) Yes
f) Bank loan cannot be used for equity investments.
August 4, 1970

Mr. Lorne D.R. Dyke  
Vice President  
Caribbean Development Bank  
Treasury Building  
Bridgetown, Barbados, W.I.  

Dear Lorne:

Thank you for your letter of July 20. I trust that meanwhile you have received Peter Engelmann's letter of July 17.

As to West Indian graduates from the Economic Development Institute, I am sending you in the attachment copy of the "Directory of Fellows" of the EDI.

With best regards,

Sincerely yours,

Hans Wyss
Central America and Caribbean Department

Attachment

cc: Mr. Engelmann (with copy of incoming)
August 15, 1970

Mr. Louis D. Nye
Assistant President
Certificate Development Bank
Treasury Building
Philadelphia, Pennsylvania

Dear Louis:

Thank you for your letter of July 28. I regret that meanwhile you have not received Peter F. Drumm's letter of July 1.

As to your letter extracts from the Economic Development Institute I am sending you in the attachment copy of the presentation of Potten's

With best regards,

Sincerely yours,

Mary,Mrs.

Central America and Caribbean Department

Attachment

cc: Mr. Nye, Treasury (with copy of Talent)

November 5 PR/1203

Hewlett Packard
Mr. William Diamond (through Mr. Clayton)  
August 4, 1970

Jacques Coudol

DFC's investments in share capital

Please find attached answers to your questions at yesterday's meeting regarding:

ICICI  
BNIE  
CIH  
NIIB  
SNI

J. Coudol: cb
ICICI

1. Policy regarding the amount of aggregate investment in share capital

ICICI has no policy statement, but broad policy guidelines. Regarding equity investments, ICICI's policy is to invest in new issues only and not to invest in past issues trades on the market. Also as a rule, ICICI keeps its outstanding equity portfolio well below the limit set by the total of ICICI's net worth plus the subordinated first Government loan.

2. Policy regarding use of borrowed funds for equity investment

None specifically.

3. May the Bank loan be used for investment in share capital

Yes, but ICICI has not taken advantage of this option and does not contemplate doing so in the near future.

4. Special restrictions on point 3 above

The new Loan Agreement dated June 3, 1970 for Loan 683-IN give the same treatment to investments in share capital than to subloans as regards (i) the required authorization from the Bank, i.e. a free limit of $4,000,000 is agreed upon; (ii) the 90 rules. Also an amortization schedule has to be presented to the Bank.
1. Does BNDE have a policy regarding the amount of aggregate investment in share capital?

   Yes.

2. The Policy

   a. The aggregate of loans and investments in favor of one single enterprise should not normally exceed 15% of the sum of BNDE's paid-up capital, reserves and outstanding long-term Government loans, except if these loans or investments are covered by a Government Guarantee or a Guarantee from Caisse Centrale de Garanties or by a bank Guarantee after examination of the financial position of the bank concerned.

   b. BNDE's equity participations should not exceed the smaller of (i) 15% of BNDE's paid-up capital and reserves and (ii) 25% of the share capital of the investment enterprise concerned.

3. Policy regarding the use of borrowed funds for equity investments

   None specifically.

4. May the Bank Loan be used for investment in share capital?

   Yes.

5. Restrictions and conditions on 4.

   - All investments should be approved by the Bank
   - 90-day rules
   - an amortization schedule has to be approved by the Bank.
Although CIH is not yet a borrower the following can be assumed, as of August 11, 1970.

1. CIH has no policy statement but its statutes allow CIH to invest in share capital. They have not done so in the past and have stated that they will not engage in such operations in the near future.

2. The draft Loan Agreement provides for the same conditions and restriction than for BNDE.
1. Does NIDB have a policy regarding the amount of aggregate investment in share capital?
   Yes.

2. The Policy
   a. NIDB will not take up more than 49% of the shares of any single enterprise.
   b. NIDB will not contribute in loan and equity subscription to any single enterprise more than 10% of NIDB's paid-up share capital and free reserves.

3. Policy regarding use of borrowed funds for equity investment
   None.

4. May the Bank Loan be used for investment in share capital?
   Yes.

5. Restrictions and conditions on 4.
   - All investments should be approved by the Bank.
   - 90-day rule.
   - An amortization schedule has to be approved by the Bank.
1. Does SNI have a policy regarding the amount of aggregate investment in share capital?

Yes.

2. The Policy
   
a. Financial assistance will be directed mainly to private sector enterprises.

b. The aggregate of loans and equity investments shall not normally exceed 15% of SNI's own resources (share capital, plus free reserves, plus grant, plus Government loans ranking pari-passu with share capital).

c. No operation should be made for less than D 15,000.

d. No equity investment shall normally exceed 10% of SNI's own resources (see b).

e. The total amount of SNI equity investments shall in no case exceed the total SNI's own resources (see b).

f. The equity portfolio should be as diversified as possible.

g. SNI shall not, in principle, hold a majority of shares in a company except as (i) a promoter and with the intention to reduce its holdings below 50% when possible, and (ii) for companies in financial difficulties.

3. Policy regarding the use of borrowed funds for equity investments

None.

4. May the Bank loan be used for investment in share capital?

Yes.

5. Restrictions and conditions on 4.

- All investments should be approved by the Bank.
- 90-day rule
- An amortization schedule has to be approved by the Bank.
No. ASA 1936/2513
August 3, 1970

Dear Mr. Shin:

Thank you for your letter of July 24 and for the one copy each of the descriptive memoranda on the eighteen development banks as per list thereto attached.

We also note that those on the rest of the companies associated with the World Bank Group will follow as soon as they are available.

Yours sincerely,

Sommai Hoontrakool
Director & General Manager

Mr. B.H. Shin
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
August 3, 1970

Mr. S. Kanagaratnam
Assistant General Manager (Administration)
Development Finance Corporation of Ceylon
42/1, Horton Place
P. O. Box 1397
Colombo 7, Ceylon

Dear Mr. Kanagaratnam:

On behalf of Mr. Shin, who is at present on vacation, please allow me to thank you for your letter of July 27 and the copy of our draft Descriptive Memorandum on the DFCC which you kindly corrected and updated.

We shall be happy to comply with your request to send you fifteen copies of the final version of the Memorandum when it is completed.

Yours sincerely,

V.S. L.

Valerie San Lin
Development Finance Companies

VSan Lin/jb
Mr. E. Kandarathna
Assistant General Manager
Development Finance Corporation
P.O. Box 1397
Colombo 4, Ceylon

Dear Mr. Kandarathna:

On behalf of Mr. Silva, who is at present in Australia, I am pleased to report that you have sent the letter of April 5th by the courtesy of our branch at COC. The following is the information on the DGCC with which your branch is connected.

We shall be happy to comply with your request to send you detailed copy of the above notification.

Yours sincerely,

V. C. J.

Valotte Sen I'l
Development Finance Corporation

Venkatesh