THIS FILE IS CLOSED AS OF 31 DECEMBER 1969

FOR FURTHER CORRESPONDENCE PLEASE SEE VOL. III

RECORDS MANAGEMENT SECTION
Men S. R. Cope
J. C. Leeming

December 30, 1969

Loans to Development Finance Companies

As I mentioned to you a week or two ago, we have been considering one or two changes in procedure on development finance company loans, the object being to cut out unnecessary references between Departments and thus simplify procedures.

I attach a draft circular which incorporates the proposals and which, if approved, might appropriately go out over Mr. Ripman's signature as a follow-up to the one he issued on May 2, 1969 (copy attached). When I consulted Area Departments on an earlier draft of the memo, some concern was expressed about categories B(2) and (3), and especially whether these conflicted with the proposal in paragraph 2A. As a result of these comments, we have restricted B(2) to include only cancellation of unused portions which are requested by the borrower, because I understand that these are always agreed to. In paragraph B(3) we have made it clear, which the earlier draft did not, that Area Departments should always be consulted about changes in borrower's policy statements, etc. At the same time it does not seem necessary for Area Departments to sign a letter which is normally prepared in the Development Finance Companies Department.

If these changes are approved, we shall need to have an order prepared for Mr. Knapp's signature delegating authority to the Development Finance Companies and Controller's Departments. I have consulted the Legal Department about this and they consider that this could most appropriately be done by separate designation rather than by alteration in the "Signature of Written Instruments." If you approve these changes, I will ask the Legal Department to prepare appropriate designation for Mr. Knapp's signature.

Attachment
cc: Mr. T. Jones

JCL:ibl
December 30, 1969

Mr. N. M. Uquallil

William Diamond

Attached herewith are copies of draft Appraisal Reports on the Industrial Development Bank of Israel and on the hotel-financing company in Morocco. We would be grateful for your comments. On the Israeli Report, please get in touch with Mr. Powell and Mr. Takamamura; on the Moroccan Report, with Mr. Pollan.

Attached also is the report by our President to the Board of Directors on a new international investment company in Yugoslavia, which was approved by the Board in September. You may also be interested in seeing the President's Report and Appraisal on the World Bank loan made last year to the Yugoslav Investment Bank. It is attached.

Attachments

cc Mr. Powell
Mr. Pollan

WDiamond: us
December 23, 1969

Mr. William Diamond, Director
Development Finance Companies Department
World Bank
1818 H Street N. W.
Washington, D. C. 20433

Dear Mr. Diamond:

I am writing you in the hope that you may supply some information about some of the existing development and investment companies in developing countries (such as Korea Development Finance Corporation, Private Development Corporation of the Philippines, Corporación Nicaragüense de Inversiones, and others). In general, I am interested in all aspects of establishing and operating such companies.

In particular, I would like to know the degree of leverage which such companies may be able to obtain (liabilities to equity ratio), and also what spread in interest rates they can get at present, and what can be expected for the near future? Which are the main sources of non-equity funds available to such companies?

I would be grateful for any kind of information you may give me regarding the above questions. Also, if you could indicate where else I may find such information, I would appreciate it.

With best wishes for a good new year!

Sincerely yours,

Walter Motz
December 22, 1969

Mr. William Plummer, Director
Development Finance Companies Department
World Bank
18th Street N. W.
Washington, D.C. 20520

Dear Mr. Plummer:

I am writing you in the hope that you may supply some information about some of the existing development and investment companies in general.

I mention companies (such as the Export-Import Bank, the International Finance Corporation, the World Bank, etc.) in the letter. "In general," I mean companies in all capacities of the letter. "In particular," I mean companies that operate under certain constraints.

I would like to know the extent of leverage which is possible to apply to these companies. What leverage in international finance can we expect to have in the near future? What can be expected for the near future? Which are the main sources of revenue?

I would like to know the amount of information that you can give me regarding

With best wishes for a good new year!

Sincerely yours,

[Signature]

Walter Mots

Communications

General Files

Dec 30 1969 519 PH 1969

Received
Mr. Ravi Gulhati

B. H. Shin

Semi-monthly Report on Material due from Division

Material due from our Divisions are as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>b) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
</tr>
</tbody>
</table>

cc: Division Chiefs

B. H. Shin
To: Mr. W. S. Gaud  

From: J. Chanmugam  

Notes: For meeting with Messrs. Raj. Arango, Diamond and Chanmugam on Monday December 22 at 4.00 pm

December 19, 1969

1. Mr. Arango will be proceeding to Ecuador to attend the Board Meeting of COFIEC on February 3.

2. He recommends that the visit to Central America could be made shortly after that.

3. (a) We know something about the following private development finance companies:
   
   (i) Costa Rica - COFISA  
   (ii) Nicaragua - CNI  
   (iii) El Salvador - FDI  
   (iv) Honduras - Financiera Hondurena S.A.  
   (v) Guatemala - FIASA  
   (vi) Panama - DISA; FICENTRO (owned mainly by C. F. Colombiana, Bogota)

   (b) In addition, there are Government institutions in each that provide funds for development, as follows:

   (i) Costa Rica - Banco Central de Costa Rica  
   (ii) Nicaragua - Instituto de Fomento Nacional (INFONAC)  
   (iii) El Salvador - Banco Central de Reserva de El Salvador  
   (iv) Honduras - Banco Nacional de Fomento  
   (v) Guatemala - Banco de Guatemala  
   (vi) Panama -

   (c) There are also specialized government institutions for agriculture etc. CABEI, a regional development bank, located in Honduras serves all of these countries except Panama. It is owned by the five Governments.

4. Purposes of Visit

(a) Renew acquaintance with the private development finance companies and the Government banks including CABEI.

Get to know the principal people involved.
(b) Obtain a general picture of the performance of these institutions. Their contribution to promotional activities and encouragement of industrial ventures. Kind of financial and other help they provide. Major problems affecting their work. Cooperation between these institutions, nationally and regionally.

(c) Broadly review the efforts of these institutions in mobilizing capital and in particular, domestic savings.

(d) Inquire about proposals to set up other national and regional finance institutions, e.g. Citizens and Southern Central American Bank.

(e) Explore justification for Bank or IFC assistance to existing or new financial institutions preferably on regional basis.

(f) General view of the capital market activities in each country. Judgement of the potential which could be realized so as to provide a basis for item (g).

(g) Whether or not national stock exchanges are justified. Can a case be made for a regional stock exchange. Should transactions be made in a universally acceptable currency such as US dollars What people to run it. What kind of assurances for properly policed and regulated practices can be obtained. Is there a role for IFC Other sponsors - local, foreign Only Central American securities?
December 17, 1969

Mr. Duncan Pollock
12 East 72nd Street
New York, New York 10021

Dear Mr. Pollock:

Mr. Diamond has passed on to me your letter dated December 9, 1969 expressing a desire to discuss with us certain aspects of the work of development finance companies.

Please let us know when you are expected to visit Washington and we will be glad to see you and to try and answer your questions as best as we can. Looking forward to seeing you and with my best wishes for the holiday season.

Yours sincerely,

Ravi Gulhati
Chief Economist
Development Finance Companies

RGulhati:plm
Mr. W. Diamond (through Mr. Gulhati)                                                December 15, 1969

B. H. Shin

Information on Development Finance Companies Operation

The following are data prepared at your request.

1. Annual Bank/IDA lending to development finance companies

   (in $ millions)

<table>
<thead>
<tr>
<th>Fiscal</th>
<th>Amount (net of cancellation)</th>
<th>Total Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>1953</td>
<td>-</td>
<td>2.6</td>
</tr>
<tr>
<td>1954</td>
<td>8.9</td>
<td>3.2</td>
</tr>
<tr>
<td>1955</td>
<td>9.9</td>
<td>2.9</td>
</tr>
<tr>
<td>1956</td>
<td>-</td>
<td>5.4</td>
</tr>
<tr>
<td>1957</td>
<td>-</td>
<td>2.6</td>
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<tr>
<td>1958</td>
<td>13.4</td>
<td>1.3</td>
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<tr>
<td>1959</td>
<td>-</td>
<td>7.5</td>
</tr>
<tr>
<td>1960</td>
<td>33.7</td>
<td>9.1</td>
</tr>
<tr>
<td>1961</td>
<td>34.0</td>
<td>12.3</td>
</tr>
<tr>
<td>1962</td>
<td>30.9</td>
<td>14.7</td>
</tr>
<tr>
<td>1963</td>
<td>81.1</td>
<td>28.9</td>
</tr>
<tr>
<td>1964</td>
<td>15.8</td>
<td>32.4</td>
</tr>
<tr>
<td>1965</td>
<td>93.8</td>
<td>46.5</td>
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<tr>
<td>1966</td>
<td>107.3</td>
<td>80.6</td>
</tr>
<tr>
<td>1967</td>
<td>75.9</td>
<td>79.1</td>
</tr>
<tr>
<td>1968</td>
<td>159.0</td>
<td>103.9</td>
</tr>
<tr>
<td>1969</td>
<td>193.0</td>
<td>98.4</td>
</tr>
<tr>
<td>1970 (to Nov. 30)</td>
<td>43.0</td>
<td>59.4</td>
</tr>
</tbody>
</table>

   Total | 939.7                      | 591.0          |

2. Annual commitments of development finance companies associated with the Bank Group

   Calendar year | Amount (in $ millions) |
   |---------------|------------------------|
   Up to end 1961 | 476.6                  |
   1962          | 193.7                  |
   1963          | 195.0                  |
   1964          | 287.2                  |
   1965          | 307.7                  |
   1966          | 339.5                  |
   1967          | 337.2                  |
   1968          | 425.7                  |

   Total        | 2,562.6                |
3. Size of portfolio of development finance companies

At the end of 1968, the size of portfolio of the development finance companies connected with the Bank Group ranged between $0.9 million for Liberian Bank for Industrial Development and Investment and $2.2 million for Industrial Development Bank of Israel Limited. The mean value is $44.5 million. Besides IDBI, the following 6 companies have portfolio in excess of the mean size: Pakistan Industrial Credit and Investment Corporation Ltd ($149.5 million), Industrial Credit and Investment Corporation of India Limited ($145.0 million), Turkiye Siani Kalkinma Bankasi A.S. ($118.2 million), Industrial and Mining Development Bank of Iran ($81.7 million), Oesterreichische Investitionskredit Aktiengesellschaft ($76.2 million) and Banco del Desarrollo Economico Espanol ($52.0 million).
Preliminary Proposal of the Inter-American Savings and Loans Union (for housing) to create an international mortgage market

I. Background

1. Mr. Ricardo Garcia-Rodriguez, Secretary General of Inter-American Savings and Loan Union, sent you a letter dated November 12, 1969, with an attached Memorandum describing some basic ideas with respect to a possible creation of an international mortgage market. He requested your comments and offered to complement and clarify any point which you might deem necessary. The letter of acknowledgment was sent on December 2, 1969.

2. The proposal can be summarized as follows: Most Latin American countries now have a system of savings and loan associations for middle-class housing purposes, usually organized around a Government Housing Bank. While these systems have contributed to an increase in home building in the last decade, the need for private housing is still very great. In order to channel more funds to home construction in the area, it is proposed that Latin American Mortgage Bonds be offered in international money markets. As there is no central organization which is now equipped to do this or to offer a suitable guaranty, it is proposed that the World Bank guarantee these bonds, offer them for sale, and channel funds back to housing banks in Latin America for investment.

3. On December 9, 1969, a meeting was held in Mr. Please's office in order to discuss Mr. Garcia-Rodriguez' memorandum. The following people attended: Mr. Stanley Please, Mr. M. Joshi, Mr. G. Roth, Mr. J. Mirski and J. Kendall.

II. Comments:

4. On the basis of my analysis of the proposal and our discussion of December 9, I offer the following comments:

The Articles of Agreements of the Bank and IFC empower them to issue guaranties. These powers have never been used to guarantee housing mortgage bonds and therefore a new policy ground would have to be broken.

5. While it is conceivable that the Bank or IFC could use their guaranty powers, the priority of housing (and construction) financing vis-a-vis other investment opportunities would have to be examined.

6. Though IBRD has an Urbanisation Division in the Special Projects' Department, expertise in the mechanism of housing financing have not yet been built-up to the point where the Bank can offer assistance.
7. While the conclusion that financing for housing purposes is at present insufficient to meet needs in Latin America can be accepted, it is not altogether clear that every country in the area has built up institutions and provided appropriate conditions to attract all the local savings which could be available for this purpose. Such matters as adequacy of interest rates, the use of monetary correction on a cost of living basis, provision of liquidity and safety to local investors would have to be examined in each country that would participate in the scheme, before concluding that no more local savings could be attracted.

8. Because housing is usually considered to have high social priority in Latin America, lending (mortgage) interest rates are often low, in many cases below the prevailing rates in national and world markets at the present time. This means that either housing rate structures in Latin America countries would have to be increased or Governments concerned would have to offer direct subsidy.

9. Housing mortgages are normally repayable in local currency. Due to exchange risk involved, it would be hard to sell in international market mortgage bonds denominated in local currencies, even with IBRD payment guaranty. (There might be exceptions in case of mortgage bonds denominated in Venezuela or Mexican currencies).

10. Four types of risks are involved in the proposed mortgage guaranty scheme, namely:

(a) political risk of war, insurrection, expropriation, etc.;
(b) repayment by mortgagors or by central housing institutions;
(c) convertibility of local repayments into the investor's currency; and
(d) exchange rate applicable at the time of each sale transaction.

While the risks of repayment and convertibility could probably be assumed and guaranteed by central housing institutions or by governments, the political risk would have to be covered under the Bank Group's guaranty. Exchange risk would be most difficult to handle. Since it is quite unlikely that any mortgage could be sold at a premium and since devaluation is a common phenomenon in Latin America, the guarantor would have to be prepared to absorb substantial losses. Although in some countries housing mortgages are adjustable according to some indices, and although Latin American countries should be expected to assume and guarantee the exchange risk, such reciprocal guarantees would be difficult to obtain and would involve long negotiations with individual countries.

11. Inasmuch as the market price could fall below the nominal bond value, even if we assume an international full coverage guaranty, additional losses might be expected. The problem of internal absorption of this price-value differential may be very difficult for Latin American countries, while its coverage under an international guaranty may prove very costly to the guarantor.
Conclusions

12. Mr. García-Rodríguez' proposal to create an international mortgage market, while conceptually plausible, seems to be premature. First of all, this organization should concentrate its present efforts on making interest rates of Latin American housing systems compatible with other internal and external rates. Only when this phase is accomplished, the concept of Latin American or international market for mortgage bonds has any chance of success.

13. In view of the problems involved in international marketing arrangements, it seems that efforts should be directed primarily to mobilize local savings through creation of national markets for mortgage bonds.

14. Because of high risk element and complexity of an international guaranty scheme, no system should be initiated without a thorough technical study of participating savings and loan systems, study of potential markets and above all, without an examination of the willingness and capacity of Latin American Governments to absorb exchange losses.

15. Since housing at present is not considered by the Bank Group as a priority activity and because there is no sufficient staff expertise, we should not get deeply involved in the proposed scheme. It seems that IDB and AID which have had long experience in the housing field and in providing financial and technical assistance to a variety of housing schemes, are more suitable institutions to handle Mr. Rodríguez' proposal. (In fact, AID has a special housing guaranty program). Both these organisations are quite familiar with the proposed concept of international mortgage market and with its complex problems.

Recommendation

16. That we send a letter to Mr. García-Rodríguez explaining the Bank's position based on the above comments. Draft of the proposed letter is attached.
Mr. William Diamond  
Director, Development Finance Co.'s Dept.  
International Finance Corporation  
Washington, D.C.

Dear Mr. Diamond:

By way of introduction, I am presently doing an M.B.A. thesis on certain aspects of development banking at New York University's Graduate School of Business.

One of the problems I am most interested in is the question of whether and how development finance companies (particularly recently formed institutions) can provide risk capital and managerial skills for small, local business enterprises. I was recently travelling in West Africa and in several countries including Ghana, I found that this question is being seriously considered by banking and development officials.

I would like very much to have the opportunity to share the experiences that other development institutions have had with regard to small business loans. I am planning on being in Washington several times during the next few weeks and, if you feel a short visit might be beneficial, I would appreciate the opportunity of calling on you or one of your colleagues.

In the meantime I shall look forward to hearing from you.

Sincerely,

Duncan Pollock

Mr. Fulhage

I'd be grateful if you would

L. Sanders
December 8, 1969

Dear Dr. Neaman:

Thank you for your letter of December 1 regarding 30 copies of the descriptive memorandum on Industrial Development Bank of Israel Limited.

As you requested, I am sending 30 copies by air-print.

Sincerely yours,

B. H. Shin
Development Finance Companies

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

cc: Mr. Powell

EHshiner
Paper For Board on Some Aspects of D.F.C. Policy

1. Mr. Diamond's draft paper seems to me to give the Board a clear statement of what the Bank has attempted to achieve in promoting and financing D.F.C.'s in developing countries.

2. I found the emphasis given in the paper to interest rate policy not only for ensuring the efficient allocation of resources but also as a condition for ensuring the effective mobilization of resources, particularly noteworthy. The point that "the presence of low-cost capital (and the hope of getting more of it in the future) may in some cases have deprived a D.F.C. of the discipline of raising capital on market terms and may thus have diminished its potential role as a mobilizer of private capital," could be emphasized even more. Certainly the performance of most of the DFC's in this regard has failed to come up to expectations. An examination of their sources of funds shows that they have operated predominantly as institutions through which foreign funds and domestic budgetary funds have been channelled into private industry.

3. I wonder whether this paper might not provide an opportunity to make known to the Board the new initiatives Mr. Diamond has taken recently to strengthen the economic aspects of his Department's operations. Firstly and most obviously is the creation of the new post of chief economist within his department. Secondly, is the initiative and support given to economic work on problems of industrial policy (e.g. Iran) and of industrial project appraisal methodology (e.g. Turkey). Thirdly, is the work which has been commenced in collaboration with Mr. Please's Domestic Finance Division in the Economics Department.

4. This latter work has arisen out of Mr. Please's responsibility for examining problems in the general area of private savings mobilization in developing countries. As already noted, DFC's themselves have been less effective than originally visualized in mobilizing domestic private funds and Mr. Diamond is currently alerting the managements of most of them to the fact that the Bank will in future be placing much greater emphasis on their role in this regard. There are two general points at issue here.

5. Firstly, is the statement in Mr. Diamond's paper (paragraph 6) that "... the principal responsibility for devising and pursuing policies to promote effective resource mobilization ... rests with governments, not with DFC's. Furthermore, DFC's must work within the framework of existing government policy and can do little to assure
effective mobilization ... of resources where policy is not conducive in
the first place." In a formal sense this is obviously true and in sub-
stance it is also true for some countries. The statement does, however,
appear to play down the prestige and position which both the DFC's them-

selves and their chief executives have in their countries.

6. Mr. Please reports that he feels this is the case in the two
countries he has just visited - Iran and Taiwan. In the former IMDBI
has a towering position among the financial institutions and is led by
a very able and dynamic management which sees its responsibilities as
extending beyond those of the institution itself. In the case of Taiwan
the CDC is in a less dominant position but it is highly respected. Most
importantly in the case of Taiwan it appears that the government is look-
ing for new policy directions in regard to the mobilization of private
savings and would welcome initiatives set by the CDC. In fact it would
seem that the government might be expecting CDC to play a much more
dynamic role than CDC itself intends in this regard.

7. The second general point is that if these judgments on IMDBI and
CDC are accepted and if they are more widely relevant, it would follow
that the Bank itself should be aware of the changes in the policies of
DFC's which are required so that it can use its influence to implement
them. A starting point in this regard should be country economic reports.
Where these reports have focussed on the private savings problem it is an
obvious next step to pursue the implications for the DFC's of the analysis
and policy conclusions the reports contain. This has been the case in
Taiwan and to some extent in Iran. It is also apparent that it has occurred
in the cases of Brazil and Ecuador. It is through the relationship we are
developing with Mr. Diamond's department that we are hoping to support in
country economic analysis the initiatives he has taken in regard to the
role of the DFC's in the mobilization of domestic private savings.

cc: Mr. Friedman
    Mr. Diamond

SPlease/AKamarck/vhw
December 4, 1969

Ravi Gulhati

Suggestions for Improving Appraisal Reports

Attached you will find a first draft of a paper entitled "Preliminary Thoughts on DFC Appraisal Reports". This is based on the few appraisal reports that I have had a chance to read during the last few weeks. It is strictly for an initial discussion and I propose that we may take it up at the Division Chiefs' meeting next Monday, if convenient.

The paper is also incomplete in several respects and I expect to revise it at a later date. I also propose to request Mr. Shin to illustrate some of the points made by reference to some recent appraisal reports.

cc. Mr. Mathew
Mr. Shin
All Division Chiefs
Preliminary Thoughts on DFC Appraisal Reports

1. On the basis of a limited exposure to Appraisal Reports, prepared by the DFCD, I have come to three conclusions:

A. These reports generally provide an adequate treatment of financial and institutional aspects of DFCs. This is a major purpose of these reports and it has been largely achieved. However, there is scope for some refinement.

B. These reports do not as a rule assess satisfactorily the contribution made by DFCs to the development process (other than that reflected in financial-cum institutional data). What should be the developmental task of DFCs in the future and what policy adjustments are required to fulfill this mission are subjects which need more emphasis in future reports.

C. The relationship between DFC Appraisal Reports and documentation prepared by other departments of the World Bank requires clarification.

2. These conclusions are spelled out below and suggestions are made regarding how to bring about improvements.

A. Financial and Institutional Aspects

3. The standard format of Appraisal Reports is to note certain macro-economic characteristics 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. In several cases there is little organic relationship between what is said under the heading of "The Environment" and the rest of the Appraisal Report. In fact, a thorough understanding of the socio-economic setting can provide valuable clues for the intelligent interpretation of the financial or
institutional performance and problems of DFCs. An attempt should be made to explore these aspects with the object of increasing the analytical content of Appraisal Reports.

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. However, cross-section analysis is seldom attempted, perhaps because there is awareness of vast differences among DFCs. 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 socio-economic 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. Whether or not a meaningful typology can be constructed is a subject for a research project for the Economics Department. Such a typology would permit valid cross-section comparisons to be made and improve further the analytical content of Appraisal Reports. Of course, such comparisons may raise controversy, particularly at the Board level, although similar discussion in country economic reports has not encountered serious problems.

B. The Developmental Aspect

If the cost-price-profit mechanism worked properly, there would be little difference between financial results and the developmental impact of a DFC. However, imperfections of the market mechanism are conspicuous in many developing countries and superimposed on these are the distortions caused by policy errors in several instances. Recognition of these conditions has led the World Bank to be wary of equating financial with developmental success. An attempt has
to be made to probe behind the financial story and to discuss directly the impact of a DFC on resource allocation and resource mobilization.

6. First, the question of resource allocation. Appraisal Reports discuss this subject under the heading of the DFCs capability for screening/capability would improve if the following questions were answered.

(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?

7. 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.

8. In many cases, Appraisal Reports concentrate on financial aspects of the DFCs portfolio i.e. the distribution between loans, equity investments, guarantees, size distribution of financial transactions, profitability of
clients, arrears in debt service, returns on equity and the like. All
these aspects are obviously important but these should be supplemented by
the following kinds of analysis;

(a) Sectoral pattern of DFC operations in relation to overall investment or
production in each sector. (The latter is generally available,
classified according to the International Standard Industrial
Classification and it would be desirable to present DFC operations
using the same categories.)

(b) The distribution of output produced by DFC clients as between exports
and the home-market.

(c) Locational pattern of DFC operations in relation to the corresponding
distribution of overall investment or production.

(d) Size distribution of firms financed by the DFC in relation to the
corresponding pattern by sector.

(e) An evaluation of capacity utilization, research and development
activity, productivity increments and cost reductions achieved by
seasoned clients of DFCs.

9. Turning now to the issue of resource mobilization. (This section will
be added later in the light of discussions with Mr. Stanley Please.)

10. Appraisal Reports should conclude this discussion, in certain instances,
with a statement of development tasks faced by DFCs in the future. This will
be of special importance in cases where the World Bank 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 essential for the
Appraisal Report to translate these objectives in terms that are relevant for
DFC operations and procedures. As a rule these adjustments in the role and
function of DFCs are likely to require changes in emphasis and orientation rather than fundamental departures in policy. However, there may be cases in which the implementation of the common strategy implies heavy costs for which the DFC needs financial compensation by the Government or the World Bank Group.

C. Relation between Appraisal Report and Other Bank Documents

(to be added later)
Mr. WILLIAM DIAMOND  
Director  
Development Finance Companies  
International Bank for Reconstruction and Development  
Washington, D.C. 20433

Dear Mr. Diamond:

We have decided to answer jointly the interesting note which, basically in the same terms, the undersigned have received from you, as we consider that this is a problem concerning all of us equally.

As you emphasize in your letters, the role of finance companies in mobilizing savings from the public for the financing of development projects is one of the most important objectives of our institutions and, therefore, one of our constant worries. Within their own capacity and particular circumstances, all have made efforts and obtained some favorable results in this direction. For instance, Nacional has recently registered its shares in the market; Valle and Norte have listed their bonds in the Stock Exchange; all of us have placed in the market new shares of companies that we have either promoted or financed. Nevertheless, these are just initial steps towards what in our opinion should be a more active, constant, and institutionalized participation of our companies in tapping resources.

Proof of this interest is that all of us, together with Corporación Financiera de Occidente, Santander, Fomento Agropecuario, Caribe, Popular, and Grancolombiana, contracted
with International Executive Service Corps (IESE) through its executive William A. Prendergast, Jr. and with Jorge Franco Holguín, distinguished Colombian economist, a study on the channelling of resources. As a matter of fact, this study was finished last October 31st and we are now in the process of editing and translating it. For the time being, we are sending you by separate mail a copy of the provisional edition.

On the other hand, we have been carrying out constant conversations with the Minister of Development, who has showed great interest in finding a means for our Financieras to participate adequately in the channelling of resources from the public.

Accordingly, we greatly appreciate the very interesting offer outlined in your letter regarding a possible technical assistance of experts from the World Bank Group and we have every reason to believe that under your guidance and with the collaboration of our friends Neil Paterson, Henry Koch and Stanley Please, we will be able to find the instruments required to carry out our objectives.

Looking forward to hear from you, we remain,

Cordially yours,

JOSE GUTIERREZ-GOMEZ
President
Corporación Financiera Nacional

IGNACIO COPETÉ-LIZARRALDE
President
Corporación Financiera Colombiana

BENJAMIN MARTINEZ
President
Corporación Financiera del Valle

ROBERTO OCAMPO
President
Corporación Financiera de Caldas

ALVARO JARAMILLO-VENGOCHEA
President
Corporación Financiera del Norte
OFFICE MEMORANDUM

TO: Mr. William Diamond  
FROM: P. M. Mathew

DATE: December 3, 1969

SUBJECT: Travel Plans

I have made the following tentative travel plans:

Tuesday - January 6 to Singapore - visit the Development Bank of Singapore for general discussions.

Friday - January 9

Tuesday - January 13 to Ceylon - visit to Development Finance Corporation of Ceylon for general discussions with Chairman and General Manager.

Friday - January 16

Tuesday - January 20 India - discussions with Dr. Madhura (Bombay) on the findings of his mission to Mauritius.

PMMathew:jmb

cc: Messrs. Goodman  
    El Emery  
    Votaw  
    Gustafson  
    Powell  
    Sekse  
    Pollan

Please let me have brief by December 29. I shall leave on January 3.
December 2, 1969

Mr. Ricardo Garcia-Rodriguez
Secretary General
Inter-American Savings and Loan Union
Clasificador 53, Correo Central
Santiago de Chile, Chile

Dear Mr. Garcia-Rodriguez,

Thank you very much for your letter of November 12, 1969 addressed to Mr. Diamond and for the Memorandum attached to it.

We wish to discuss the proposal made with various members of our staff before replying, and I hope that we shall be able to send you an answer very shortly.

Thanking you for your kind attention, I am

Sincerely yours,

J. Z. Mirski
Development Finance Companies
December 5, 1949

To: Executive Director
Secretary-General
Inter-American Senate and Loan Union
Washington 25, D.C., U.S.A.

Dear Sir, Censorship,

Thank you very much for your letter of November 15, 1949. I am very sorry that my assistance is required by the Union Union in the preparation of the current Union Union of the American Senate and Loan Union, in order to make the necessary changes to the Draft of the Agreement. I am sorry that I have not been able to send you an answer earlier, but I am now sending you some information.

Thanking you for your kind attention, I am

Sincerely yours,

J.E. McNeely
Development Finance Committee

[Signature]

1969 Dec. 3 PM 2:26

[Stamp] GENERAL FILE
RECEIVED

[Stamp] [Signature]
December 2, 1969

Mr. Nicholas Lawrie
Airways House
High Street
Sliema, Malta

Dear Mr. Lawrie:

Your letter of November 18 raises so many issues with such wide scope that it is difficult to form a responsive answer. However, some of the matters you have touched upon are considered in a publication entitled Development Finance Companies: Aspects of Policy and Operation, edited by William Diamond.

In case you want to order a copy, I am listing below the name of the publisher and address.

The Johns Hopkins Press
Baltimore, Maryland

Sincerely yours,

B. H. Shin
Development Finance Companies

BHShin:jpk

cc: Mr. Gustafson (with copy of letter received)
Mr. Robert S. McNamara

William Diamond

December 1, 1969

Paper for Board on Some Aspects of DFC Policy

Attached for your consideration is the draft of a paper for the Executive Directors, responding to some questions they raised earlier this year. The draft has been okayed by Mr. Cope and, in substance, by Mr. Knapp.

The paper would be sent to the Board under a covering memorandum from the Secretary.

Attachment

cc Messrs. Knapp
Gaud
Cope
Chadenet
Kamarek
Mathew
Gulhati

WDiamond: us
Mr. S. Takehashi
R. Picciotto

DFC - Economic and Financial Return

December 1, 1969

As a postscript to my memorandum on the above subject dated October 8, 1969, I attach copy of a note on the same subject written in 1965.

R.Picciotto/jfc
cc: Mr. P. Coffin

Attachment
Mr. Ravi Gulhati

December 1, 1969

B. H. Shin

Semi-monthly Report on Material due from Division

Material due from our Divisions are as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
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<tr>
<td>1. Project follow-up and end-use supervision</td>
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<td>Colombiana, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
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<td>b) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
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<td>3. New Descriptive memorandum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caldas and COFIEC</td>
<td>Garcia</td>
<td>Request on March 21</td>
</tr>
</tbody>
</table>

cc: Division Chiefs
An early draft of the attached was cleared, in substance, by Mr. Raj.

Attachment
Mr. Bernard Chadenet

December 1, 1969

William Diamond

Paper for Board on Some Aspects of DFC Policy

You will recall the beginning of the attached. For this (I hope) last draft, I owe thanks for Rovani's assistance.

Attachment

WDiamond:us
TO: Mr. Robert S. McNamara
FROM: William Diamond
SUBJECT: Paper for Board on Some Aspects of DFC Policy

DATE: December 1, 1969

Attached for your consideration is the draft of a paper for the Executive Directors, responding to some questions they raised earlier this year. The draft has been okayed by Mr. Cope and, in substance, by Mr. Knapp.

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Attachment
DEVELOPMENT FINANCE COMPANIES

Memorandum on

Government Financing of Such Companies and
on the Interest Rates They Charge Their Borrowers

1. When the Executive Directors met on July 15, 1969, to consider a loan to the Development Finance Corporation of Ceylon (DFCC), a question was raised concerning the wisdom of interest-free government loans and a statement of the Bank's policy on the subject was asked for. At the same meeting, certain Executive Directors considered that the interest rate charged by DFCC on rupee loans was too low. On a previous occasion, on March 4, 1969, when a loan to the Industrial Development Bank of Turkey was under consideration, an Executive Director asked for a statement of the World Bank's policy regarding interest rates charged by the development finance companies (DFCs) which borrow from it.

2. The two questions, concerning low-cost funds provided by Government and the interest rate charged by DFCs, were discussed briefly in the President's Memorandum on "Policies of the World Bank Group Towards Development Finance Companies, "R68-204, November 1, 1968. As they are closely related, they are here dealt with together.

Background

3. The Bank's underlying objective in promoting and financing DFCs is "to help build effective investment institutions which can channel domestic savings and external capital into productive private enterprises, thus contributing to the growth of the private sector and to the development
of the capital market and through them to the economic development of member countries" (p. 2, R68-204). Accordingly, the appraisal of a proposal to lend to a DFC is centered principally on the institution itself, rather than on the end-uses to which the Bank's funds are put, which would be the sum of the individual projects (sub-projects) to be financed by the DFC with the proceeds of the Bank loan. This should not be read to mean that the Bank does not care about end-uses. To the contrary, and as will be seen below, the Bank is much concerned with the effective use of resources and is increasingly interested in the economic aspects, as well as the financial viability, of the projects financed by a DFC; this concern and interest are reflected in the Bank's judgments on the DFCs to which it lends or proposes to lend. But the primary focus of the Bank's interest is the institution, its activity, its financial condition and prospects, and its contribution to the economy of the country. This approach is reflected in the economic and financial criteria applied in assessing the work of a DFC.

4. Economic Criteria. From the economic point of view, the suitability of a project for Bank financing is judged by reference to its benefits to the economy. This is frequently measured by the discount rate which, over the life of the project, would equalize the streams of estimated costs to the economy required by the project and of estimated benefits derived from it. To apply this criterion to a DFC loan would require that all the costs, capital and operating, and all the benefits of all sub-projects which the Bank loan would be used to finance, be aggregated to result in a single return. This is hardly feasible, and of doubtful value in view of the diversity and complexity of the investment projects financed by a DFC.
5. Instead, the course followed is to assess the degree to which the policies and procedures of the DFC are geared to promoting economic development through effective resource mobilization and allocation. Such policies and procedures are the subjects of continuing discussion and negotiation between the Bank Group and the DFCs it finances, during which the Bank seeks to influence their conduct. For instance, on the resource allocation side, influence is exercised in several ways: first, by agreeing in advance on the DFC's general policy with respect to project appraisal; then by requiring Bank review of larger projects (the size depending on the maturity of the DFC and on the Bank's experience with it) before the DFC may use the funds to finance those projects; and, finally, by paying particular attention, in follow-up visits, to the care with which DFCs appraise the applications before them and to the nature and quality of the ensuing portfolio. In a rough way, the DFCs seek to take account of the probable economic impact (on employment, product costs, foreign exchange, value added, etc.) of the projects they finance. While no DFC associated with the Bank Group engages in full-fledged social cost-benefit analyses of projects, such techniques are being discussed with the DFCs in countries where the price mechanism works in such a way that decisions based on financial criteria are seriously at variance with those based on economic criteria.

6. It should be noted, however, that the principal responsibility for devising and pursuing policies to promote effective resource mobilization and allocation rests with governments, not with DFCs. Furthermore, DFCs must work within the framework of existing government policy and can do little to assure effective mobilization or allocation of resources where policy is not conducive in the first place; nor can they by analytical techniques fully compensate for the distortions which government policies might create. Consequently, the Bank has, in a number of instances, sought
to influence the economic policies of governments to correct distortions in exchange rates, tariffs, interest rates, and related instruments of policy which affect the mobilization of savings and the allocation of resources.

7. **Financial Criteria.** The Bank usually expects a revenue-earning entity to be financially viable. One of the tests commonly used in this respect is the annual financial rate of return on the investment of the entity. This test, which relates annual income (after operating expenses) to the total capital employed by the entity, measures the profitability of the entity year by year and permits a comparison with the cost of capital to it. The Bank has usually considered as satisfactory a return which is higher than its own interest rate. (Recent performance, in respect of this test, of the DFCs which have been the beneficiaries of Bank loans, is shown in Annex I.)

8. However, this test is of doubtful usefulness, if any, as a criterion for assessing the financial viability of a financial intermediary, as contrasted with a producer of goods. Another common test is the more normal one of profitability, the net return (after debt service) on equity. This is more useful for a DFC, private or public, which must justify its existence by its ability to attract share capital and by its ability to obtain and to service debt. (Recent return on equity of the DFCs associated with the Bank Group also appears in Annex I.) Of course, judgment on the adequacy of the return should take account of inflationary conditions, i.e., the real, not the nominal financial return must be satisfactory.
9. Account should also be taken of the fact that some DFCs are given developmental functions for which charges (or at least full charges) are not, or cannot, be made. Governments sometimes give such functions to DFCs, especially to government-controlled companies. These should be financed from special sources, such as direct budgetary allocations, when possible, and not, from the institution's own capital. Whether they are so financed or not, however, the World Bank expects the DFC's accounts to be kept in such a way as to permit accurate costing of its special development activities, so that its normal financial functions may be assessed and the earnings of those activities accurately measured. In such a case, however, it would not be sufficient for the World Bank to know that earnings on the normal financial functions are satisfactory; it will also wish to satisfy itself that the other activities of the DFC do not result in an impairment of the financial position of the company.

10. The financial viability of a DFC cannot, however, be appraised by any single, simple test. An aggressive company heavily involved in promotion and in equity investment may be sacrificing current earnings in the expectation of substantial dividend income and capital gains later. A new company with high administrative costs in relation to portfolio is likely to have, initially, fairly low returns. Moreover, the trend of the financial return, whether it is moving, stagnant, or declining, is relevant. The rate of return should therefore not be allowed to obscure the basic facts underlying a DFC's earnings, including in particular (a) the appropriateness of the interest rate and (b) the company's ability to service its capital and to raise new resources from both lenders and investors (which are the principal
subjects of this paper), and (c) the efficiency with which the company's staff and capital are managed. Analysis of these factors are among the objects of the Bank's appraisal of a DFC and of its continuing review of the DFC's operations.

Interest Rates Charged by DFCs

11. The World Bank has not in the past determined the interest rates charged by the DFCs it finances. It has, however, judged the adequacy of those interest rates and has thus exercised some influence on them.

12. The World Bank's first concern with the interest rate is economic: the rate should bear a reasonable relationship to the real cost of capital in the country concerned and to the prevailing interest rate structure. If the interest rate is too low, the resource allocation mechanism will not function properly and the DFC's capital might be used to finance uneconomic projects. As already noted, a DFC can only to a limited extent compensate by analytical techniques for distorting influences created by the under-pricing of the resources (including capital) required for the projects it finances. While this may or may not be a matter of concern to the shareholders of a DFC, it will always concern the World Bank as a provider of capital and the government as both a provider and guarantor of financial resources. Moreover, the Boards and sometimes the principal sponsors of the DFCs financed by the World Bank are committed, by policies agreed with the World Bank, to give attention to the economic use of their resources.

13. The second concern is financial. A development bank must be able to cover its costs and provide satisfactory provisions for losses, and should be able to make a profit beyond this, if it is to succeed in
mobilizing private resources, both from lenders and investors. As the President noted in his memorandum of November 1, 1968, the Bank's aim is, not only to develop sound productive enterprise, but also "to develop the capital market by building a strong financial institution capable of an autonomous financial life. That company must therefore be capable, by virtue of its financial position and earnings prospects, of attracting new capital" (p.6). This cannot be achieved if the DFC "is a device, as governments sometimes wish them to be, for making loans at concessional rates" (p.6).

The interest rate must therefore be higher than the average cost of borrowing—the spread depending on administrative costs, on the need for provisions, on the extra margin for safety required by creditors (including the World Bank) and on the surplus expected by shareholders.

14. For both the economic and the financial reasons referred to above, the inflationary situation in the country has to be borne in mind in judging the adequacy of the interest rate. This was the critical factor which led the Korean Development Finance Corporation to fix and maintain its interest on local currency lending at 20%; and it was not less important in determining the rates charged by the China Development Corporation (which have declined over the years) and by the financieras in Colombia.

15. It might be claimed that interest on medium- and long-term lending does not necessarily provide the whole of a DFC's earnings. This is true. Also important are interest on short-term investments (especially in the earlier years of a DFC, when it is likely to have substantial liquid funds), service fees, commissions on underwritings, dividends on equity investments, capital gains, etc. The spread a company needs can be affected by its income
from such sources as these. However, lending continues to be the predominant business of the DFCs being financed by the World Bank, income from other sources remains relatively small and the interest rate thus takes on critical importance.

16. Annex I, Columns 1 and 3, show the interest rates charged by DFCs and the spreads earned on relending the proceeds of World Bank loans. It will be noted that:

a. The rates vary from 7% to 20%, with most of them falling between 8% and 10%.

b. The spread on World Bank finance varies from 1.5% to 4.5%, with most DFCs obtaining around 3%.

17. Interest rates have only infrequently been a matter of contention between the World Bank and DFCs. Where there has been contention, the World Bank's influence has been directed towards raising rates. This is not surprising, since the principal influence in fixing interest rates has not been the financial institution's shareholders, whose interests are usually* directed towards rates designed to assure satisfactory returns on their investment. The principal influence has, rather, been governments, which tend to be responsive to appeals for cheap credit--despite the effect of such a policy on savings, resource allocation and the development of the capital market. Discussion of interest rates has thus tended to be, less

* Usually, but not always. For sometimes shareholders are the same as (or may be closely associated with) the DFC's borrowers; they may have more to gain by borrowing cheaply (or having their friends borrow cheaply) than by earning an adequate return on their investment in the share capital of the DFC. And still other shareholders may be looking for collateral benefits rather than for a direct return.
between the World Bank and its borrowers than between the World Bank and governments. Thus, for example, the Bank has been continuously in discussion with the Moroccan Government since 1962 on the rates charged by BNDE. Discussions on rates charged by the Industrial Finance Corporation of Thailand and by the Development Finance Corporation of Ceylon accompanied loans to those institutions. And the Bank has discussed interest rate policy with the Brazilian Government in preparation for negotiation of a loan for the Banco do Nordeste.

18. DFCs sometimes charge different rates of interest, depending on the source of funds used. The Bank has felt that varying sources and costs, in relation to the other factors referred to in paragraphs 12-13, should be taken into account in coming up with a single interest rate. Unfortunately, many of those providing finance (particularly governments and foreign aid agencies) seek to fix spreads or relending rates and DFCs thus are often required to establish multiple rates against their own judgments. On the other hand, DFCs generally apply a single rate to all borrowers receiving loans from the same source, without regard to the risks of the particular case. Although this may not conform to normal commercial practice, the decision not to distinguish between borrowers is understandable, given the nature of DFCs. Whether governmental or private, they generally have some government capital and privileges, their affairs are closely watched and they generally have the character of "institutions affected by public interest." In the circumstances, there is danger that discrimination between risks will be misinterpreted simply as discrimination. The Bank has not pressed DFCs on this point.

Provision of Cheap or "Free" Capital by Government

19. Until June 1968, the World Bank would not lend to DFCs which were controlled by governments.* Only in the case of the Development Bank of Ethiopia did the government have outright ownership and control of a DFC.

* See the President's Memorandum R68-99 of June 11, 1968, discussed by the Executive Directors on June 25, 1968.
which the Bank Group supported; in other cases, governments or governmental institutions had at most a minority position among the shareholders, and in most cases, all the shareholders were private. The creation of a wholly new privately-controlled company, however, required that its financial prospects be good enough—not immediately, but in due course—to attract private investors. It was never easy, and it was sometimes not possible, to attract private investors into a DFC, for the prospective returns were relatively unattractive. Generally, therefore, government subsidy was essential to induce private investors to subscribe to the share capital of a DFC.

20. A convenient form of subsidy was found to be a low-cost (often interest-free) loan. It was also found valuable for this loan to be at long term and subordinated to the DFC’s other debt and sometimes even to its share capital, thus giving it enough of the characteristics of equity to justify the name "quasi-equity". (Annex 2 is a list of all subordinated loan capital provided to the DFCs associated with the World Bank Group; and Annex 3 lists their non-subordinated borrowings from governments.) Such a loan thus served several purposes.

a. It served as a subsidy. It reduced the average cost of capital and increased the average spread on borrowed funds, thereby enhancing profitability, assuring a better return to the shareholder and better debt-service coverage to the creditor. Moreover, since it provided substantial cash at low cost, which could be profitably placed pending investment, it assured immediate income, encouraged the company to start immediately
building an adequate staff, and permitted an early beginning to the accumulation of reserves.

b. It served as quasi-equity. Because it was accepted by conventional lenders (like the World Bank) as part of the base for borrowing, it made it possible to increase the leverage on share capital. Moreover, if subordinated not only to other debt but to share capital as well (which was often the case), it protected the shareholders and made it possible for the DFC to be more venturesome than might otherwise have been the case.

21. It was sometimes proposed that the government could make available some of the foregoing advantages by providing subsidies through annual budgetary allocations. Such an arrangement, however, would have exposed the DFC each year to the uncertainties of budget-making and parliamentary approval. The cheap long-term subordinated loan was intended to involve such exposure only once. However, support from the Government in other ways has been considered acceptable, often together with a cheap long-term subordinated loan. Examples of such additional support are tax concessions on income or capital gains, protection against competition from governmental credit institutions, guarantees for Bank loans (even though other private enterprises were not able to obtain them), protection against foreign exchange risk, and special rediscounting facilities from the central bank.

22. Thus quasi-equity was expected to help establish a viable company, under private control, with a minimum of government intervention in day-to-day decision-making. Of the 23 DFCs to which World Bank loans were made until mid-1969, all but two (the first two, in 1951) had quasi-equity before
the Bank made a loan or they had operated satisfactorily for several years. IFC pursued the same policy; in only two exceptional cases (Banco del Desarrollo Economico Español and C.A. Venezolana de Desarrollo) did it invest in a new DFC which did not have quasi-equity.

23. Quasi-equity had the desired effect on investors, on creditors and on DFCs themselves. But it aroused continuing criticism. Moreover, despite the apparently once-for-all exposure to governmental processes in obtaining quasi-equity, its existence has in some cases been a continuing invitation or excuse to intervention from both politicians and bureaucrats. And the presence of low-cost capital (and the hope of getting more of it in future) may in some cases have deprived a DFC of the discipline of raising capital on market terms and may thus have diminished its potential role as a mobilizer of private capital. Experience showed that not all the characteristics of quasi-equity are equally important to the various parties concerned, or equally important to the company itself. Accordingly, the President concluded in his memorandum of November 1, 1968, and the Executive Directors agreed on November 12, that the Bank should not insist in all cases on direct government financial assistance on quasi-equity terms, and that it should do so only when that seemed essential to induce private investors to subscribe to share capital and to provide an adequate basis for borrowing. It follows from what has been said here that the concessions requested from Government should be the least necessary to achieve the foregoing objectives.

24. It has been suggested that, when a DFC has reached an "adequate" level of profitability, it should give up the cheap and/or subordinated capital provided when the company came into existence. The DFC can hardly be expected, nor would/be appropriate to force it, to do so. Aside
from the fact that such an action would raise a question regarding the World Bank's loan contract, it would be a breach of faith with the investors who subscribed to the capital of the DFC and would discourage future investors. On the other hand, further injections of cheap or subordinated capital, after the initial one, are carefully scrutinized for justification and are not supported by the Bank Group unless essential to secure the objectives of the DFC.

25. If a DFC is government-owned, there is no need for quasi-equity to induce shareholders to invest. Moreover, such a company is inevitably subject to continuing parliamentary and governmental scrutiny and may have to rely on government for continuing and regular capital injections. But here, too, there may be an advantage to obtaining privileged long-term funds in order to help establish the financial independence of the company. The World Bank scrutinizes carefully the terms on which government capital is provided. It will insist, as the President pointed out in his memorandum (R68-99) of June 11, 1968, that "not only must management be technically competent, but there must be solid assurance of its continuity and freedom from governmental interference in carrying out its task" (p. 3).
Reference please note: AN/GL/1/8146

1st December, 1969.

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,

I acknowledge with thanks receipt of your letter dated October 22, 1969, and it would be greatly appreciated if you would kindly send us 30 copies of the final version of the memorandum on I.D.B.I.

With kindest regards,

and special thanks

Yours sincerely,

Dr. A. Neama
Managing Director.
Dear Mr. Shmuel

I request you to kindly forward a copy of the memorandum on D.P.I.

November, 1968

Yours sincerely,

[Signature]

Dr. A. Neeman
Manager, [Name]

COMMUNICATION

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**REMARKS**

An interesting fact - thanks

**From**

W. S.
DEVELOPMENT FINANCE COMPANIES

Memorandum on

Government Financing of Such Companies and

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Background

3. The Bank's underlying objective in promoting and financing DFCs is "to help build effective investment institutions which can channel domestic savings and external capital into productive private enterprises, thus contributing to the growth of the private sector and to the development
of the capital market and through them to the economic development of member countries" (p. 2, R68-204). Accordingly, the appraisal of a proposal to lend to a DFC is centered principally on the institution itself, rather than on the end-uses to which the Bank’s funds are put, which would be the sum of the individual projects (sub-projects) to be financed by the DFC with the proceeds of the Bank loan. This should not be read to mean that the Bank does not care about end-uses. To the contrary, and as will be seen below, the Bank is much concerned with the effective use of resources and is increasingly interested in the economic aspects, as well as the financial viability, of the projects financed by a DFC; this concern and interest are reflected in the Bank’s judgments on the DFCs to which it lends or proposes to lend. But the primary focus of the Bank’s interest is the institution, its activity, its financial condition and prospects, and its contribution to the economy of the country. This approach is reflected in the economic and financial criteria applied in assessing the work of a DFC.

4. Economic Criteria. From the economic point of view, the suitability of a project for Bank financing is judged by reference to its benefits to the economy. This is frequently measured by the discount rate which, over the life of the project, would equalize the streams of estimated costs to the economy required by the project and of estimated benefits derived from it. To apply this criterion to a DFC loan would require that all the costs, capital and operating, and all the benefits of all sub-projects which the Bank loan would be used to finance, be aggregated to result in a single return. This is hardly feasible, and of doubtful value in view of the diversity and complexity of the investment projects financed by a DFC.
5. Instead, the course followed is to assess the degree to which the policies and procedures of the DFC are geared to promoting economic development through effective resource mobilization and allocation. Such policies and procedures are the subjects of continuing discussion and negotiation between the Bank Group and the DFCs it finances, during which the Bank seeks to influence their conduct. For instance, on the resource allocation side, influence is exercised in several ways: first, by agreeing in advance on the DFC's general policy with respect to project appraisal; then by requiring Bank review of larger projects (the size depending on the maturity of the DFC and on the Bank's experience with it) before the DFC may use the funds to finance those projects; and, finally, by paying particular attention, in follow-up visits, to the care with which DFCs appraise the applications before them and to the nature and quality of the ensuing portfolio. In a rough way, the DFCs seek to take account of the probable economic impact (on employment, product costs, foreign exchange, value added, etc.) of the projects they finance. While no DFC associated with the Bank Group engages in full-fledged social cost-benefit analyses of projects, such techniques are being discussed with the DFCs in countries where the price mechanism works in such a way that decisions based on financial criteria are seriously at variance with those based on economic criteria.

6. It should be noted, however, that the principal responsibility for devising and pursuing policies to promote effective resource mobilization and allocation rests with governments, not with DFCs. Furthermore, DFCs must work within the framework of existing government policy and can do little to assure effective mobilization or allocation of resources where policy is not conducive in the first place; nor can they by analytical techniques fully compensate for the distortions which government policies might create. Consequently, the Bank has, in a number of instances, sought
to influence the economic policies of governments to correct distortions in exchange rates, tariffs, interest rates, and related instruments of policy which affect the mobilization of savings and the allocation of resources.

7. **Financial Criteria.** The Bank usually expects a revenue-earning entity to be financially viable. One of the tests commonly used in this respect is the annual financial rate of return on the investment of the entity. This test, which relates annual income (after operating expenses) to the total capital employed by the entity, measures the profitability of the entity year by year and permits a comparison with the cost of capital to it. The Bank has usually considered as satisfactory a return which is higher than its own interest rate. (Recent performance, in respect of this test, of the DFCs which have been the beneficiaries of Bank loans, is shown in Annex I.)

8. However, this test is of doubtful usefulness, if any, as a criterion for assessing the financial viability of a financial intermediary, as contrasted with a producer of goods. Another common test is the more normal one of profitability, the net return (after debt service) on equity. This is more useful for a DFC, private or public, which must justify its existence by its ability to attract share capital and by its ability to obtain and to service debt. (Recent return on equity of the DFCs associated with the Bank Group also appears in Annex I.) Of course, judgment on the adequacy of the return should take account of inflationary conditions, i.e., the real, not the nominal financial return must be satisfactory.
9. Account should also be taken of the fact that some DFCs are given developmental functions for which charges (or at least full charges) are not, or cannot, be made. Governments sometimes give such functions to DFCs, especially to government-controlled companies. These should be financed from special sources, such as direct budgetary allocations, when possible, and not, from the institution's own capital. Whether they are so financed or not, however, the World Bank expects the DFC's accounts to be kept in such a way as to permit accurate costing of its special development activities, so that its normal financial functions may be assessed and the earnings of those activities accurately measured. In such a case, however, it would not be sufficient for the World Bank to know that earnings on the normal financial functions are satisfactory; it will also wish to satisfy itself that the other activities of the DFC do not result in an impairment of the financial position of the company.

10. The financial viability of a DFC cannot, however, be appraised by any single, simple test. An aggressive company heavily involved in promotion and in equity investment may be sacrificing current earnings in the expectation of substantial dividend income and capital gains later. A new company with high administrative costs in relation to portfolio is likely to have, initially, fairly low returns. Moreover, the trend of the financial return, whether it is moving, stagnant, or declining, is relevant. The rate of return should therefore not be allowed to obscure the basic facts underlying a DFC's earnings, including in particular (a) the appropriateness of the interest rate and (b) the company's ability to service its capital and to raise new resources from both lenders and investors (which are the principal
subjects of this paper), and (c) the efficiency with which the company's staff and capital are managed. Analysis of these factors are among the objects of the Bank's appraisal of a DFC and of its continuing review of the DFC's operations.

Interest Rates Charged by DFCs

11. The World Bank has not in the past determined the interest rates charged by the DFCs it finances. It has, however, judged the adequacy of those interest rates and has thus exercised some influence on them.

12. The World Bank's first concern with the interest rate is economic: the rate should bear a reasonable relationship to the real cost of capital in the country concerned and to the prevailing interest rate structure. If the interest rate is too low, the resource allocation mechanism will not function properly and the DFC's capital might be used to finance uneconomic projects. As already noted, a DFC can only to a limited extent compensate by analytical techniques for distorting influences created by the under-pricing of the resources (including capital) required for the projects it finances. While this may or may not be a matter of concern to the shareholders of a DFC, it will always concern the World Bank as a provider of capital and the government as both a provider and guarantor of financial resources. Moreover, the Boards and sometimes the principal sponsors of the DFCs financed by the World Bank are committed, by policies agreed with the World Bank, to give attention to the economic use of their resources.

13. The second concern is financial. A development bank must be able to cover its costs and provide satisfactory provisions for losses, and should be able to make a profit beyond this, if it is to succeed in
mobilizing private resources, both from lenders and investors. As the President noted in his memorandum of November 1, 1968, the Bank's aim is, not only to develop sound productive enterprise, but also "to develop the capital market by building a strong financial institution capable of an autonomous financial life. That company must therefore be capable, by virtue of its financial position and earnings prospects, of attracting new capital" (p.6). This cannot be achieved if the DFC "is a device, as governments sometimes wish them to be, for making loans at concessional rates" (p.6).

The interest rate must therefore be higher than the average cost of borrowing--the spread depending on administrative costs, on the need for provisions, on the extra margin for safety required by creditors (including the World Bank) and on the surplus expected by shareholders.

14. For both the economic and the financial reasons referred to above, the inflationary situation in the country has to be borne in mind in judging the adequacy of the interest rate. This was the critical factor which led the Korean Development Finance Corporation to fix and maintain its interest on local currency lending at 20%; and it was not less important in determining the rates charged by the China Development Corporation (which have declined over the years) and by the financieras in Colombia.

15. It might be claimed that interest on medium- and long-term lending does not necessarily provide the whole of a DFC's earnings. This is true. Also important are interest on short-term investments (especially in the earlier years of a DFC, when it is likely to have substantial liquid funds), service fees, commissions on underwritings, dividends on equity investments, capital gains, etc. The spread a company needs can be affected by its income
from such sources as these. However, lending continues to be the predominant business of the DFCs being financed by the World Bank, income from other sources remains relatively small and the interest rate thus takes on critical importance.

16. Annex I, Columns 1 and 3, show the interest rates charged by DFCs and the spreads earned on relending the proceeds of World Bank loans. It will be noted that:

   a. The rates vary from 7% to 20%, with most of them falling between 8% and 10%.

   b. The spread on World Bank finance varies from 1.5% to 4.5%, with most DFCs obtaining around 3%.

17. Interest rates have only infrequently been a matter of contention between the World Bank and DFCs. Where there has been contention, the World Bank's influence has been directed towards raising rates. This is not surprising, since the principal influence in fixing interest rates has not been the financial institution's shareholders, whose interests are usually directed towards rates designed to assure satisfactory returns on their investment. The principal influence has, rather, been governments, which tend to be responsive to appeals for cheap credit—despite the effect of such a policy on savings, resource allocation and the development of the capital market. Discussion of interest rates has thus tended to be, less

* Usually, but not always. For sometimes shareholders are the same as (or may be closely associated with) the DFC's borrowers; they may have more to gain by borrowing cheaply (or having their friends borrow cheaply) than by earning an adequate return on their investment in the share capital of the DFC. And still other shareholders may be looking for collateral benefits rather than for a direct return.
between the World Bank and its borrowers than between the World Bank and
governments. Thus, for example, the Bank has been continuously in
discussion with the Moroccan Government since 1962 on the rates charged by
BNDE. Discussions on rates charged by the Industrial Finance Corporation of
Thailand and by the Development Finance Corporation of Ceylon accompanied
loans to those institutions. And the Bank has discussed interest rate
policy with the Brazilian Government in preparation for negotiation of a loan
for the Banco do Nordeste.

18. DFCs sometimes charge different rates of interest, depending on the
source of funds used. The Bank has felt that varying sources and costs, in
relation to the other factors referred to in paragraphs 12-13, should be taken
into account in coming up with a single interest rate. Unfortunately, many of
those providing finance (particularly governments and foreign aid agencies) seek
to fix spreads or relending rates and DFCs thus are often required to establish
multiple rates against their own judgments. On the other hand, DFCs generally
apply a single rate to all borrowers receiving loans from the same source,
without regard to the risks of the particular case. Although this may not
conform to normal commercial practice, the decision not to distinguish between
borrowers is understandable, given the nature of DFCs. Whether governmental or
private, they generally have some government capital and privileges, their
affairs are closely watched and they generally have the character of "institutions
affected by public interest." In the circumstances, there is danger that
discrimination between risks will be misinterpreted simply as discrimination. The
Bank has not pressed DFCs on this point.

Provision of Cheap or "Free" Capital by Government

19. Until June 1968, the World Bank would not lend to DFCs which were
controlled by governments. Only in the case of the Development Bank of Ethiopia
did the government have outright ownership and control of a DFC.

See the President's Memorandum No. 99 of June 11, 1968, discussed by the Executive
Directors on June 25, 1968.
which the Bank Group supported; in other cases, governments or governmental institutions had at most a minority position among the shareholders, and in most cases, all the shareholders were private. The creation of a wholly new privately-controlled company, however, required that its financial prospects be good enough—not immediately, but in due course—to attract private investors. It was never easy, and it was sometimes not possible, to attract private investors into a DFC, for the prospective returns were relatively unattractive. Generally, therefore, government subsidy was essential to induce private investors to subscribe to the share capital of a DFC.

20. A convenient form of subsidy was found to be a low-cost (often interest-free) loan. It was also found valuable for this loan to be at long term and subordinated to the DFC's other debt and sometimes even to its share capital, thus giving it enough of the characteristics of equity to justify the name "quasi-equity". (Annex 2 is a list of all subordinated loan capital provided to the DFCs associated with the World Bank Group; and Annex 3 lists their non-subordinated borrowings from governments.) Such a loan thus served several purposes.

a. It served as a subsidy. It reduced the average cost of capital and increased the average spread on borrowed funds, thereby enhancing profitability, assuring a better return to the shareholder and better debt-service coverage to the creditor. Moreover, since it provided substantial cash at low cost, which could be profitably placed pending investment, it assured immediate income, encouraged the company to start immediately
building an adequate staff, and permitted an early beginning to the accumulation of reserves.

b. It served as quasi-equity. Because it was accepted by conventional lenders (like the World Bank) as part of the base for borrowing, it made it possible to increase the leverage on share capital. Moreover, if subordinated not only to other debt but to share capital as well (which was often the case), it protected the shareholders and made it possible for the DFC to be more venturesome than might otherwise have been the case.

21. It was sometimes proposed that the government could make available some of the foregoing advantages by providing subsidies through annual budgetary allocations. Such an arrangement, however, would have exposed the DFC each year to the uncertainties of budget-making and parliamentary approval. The cheap long-term subordinated loan was intended to involve such exposure only once. However, support from the Government in other ways has been considered acceptable, often together with a cheap long-term subordinated loan. Examples of such additional support are tax concessions on income or capital gains, protection against competition from governmental credit institutions, guarantees for Bank loans (even though other private enterprises were not able to obtain them), protection against foreign exchange risk, and special rediscounting facilities from the central bank.

22. Thus quasi-equity was expected to help establish a viable company, under private control, with a minimum of government intervention in day-to-day decision-making. Of the 23 DFCs to which World Bank loans were made until mid-1969, all but two (the first two, in 1951) had quasi-equity before
the Bank made a loan or they had operated satisfactorily for several years.
DFC pursued the same policy; in only two exceptional cases (Banco del
Desarrollo Economico Español and C.A. Venezolana de Desarrollo) did it
invest in a new DFC which did not have quasi-equity.
23. Quasi-equity had the desired effect on investors, on creditors and
on DFC themselves. But it aroused continuing criticism. Moreover, despite
the apparently once-for-all exposure to governmental processes in obtaining
quasi-equity, its existence has in some cases been a continuing invitation
or excuse to intervention from both politicians and bureaucrats. And the
presence of low-cost capital (and the hope of getting more of it in future)
may in some cases have deprived a DFC of the discipline of raising capital
on market terms and may thus have diminished its potential role as a
mobilizer of private capital. Experience showed that not all the characteristics
of quasi-equity are equally important to the various parties concerned, or
equally important to the company itself. Accordingly, the President concluded
in his memorandum of November 1, 1968, and the Executive Directors agreed
on November 12, that the Bank should not insist in all cases on direct
government financial assistance on quasi-equity terms, and that it should
do so only when that seemed essential to induce private investors to
subscribe to share capital and to provide an adequate basis for borrowing.
It follows from what has been said here that the concessions requested
from Government should be the least necessary to achieve the foregoing
objectives.
24. It has been suggested that, when a DFC has reached an "adequate"
level of profitability, it should give up the cheap and/or subordinated
capital provided when the company came into existence. The DFC can hardly
be expected, nor would be appropriate to force it, to do so. Aside
from the fact that such an action would raise a question regarding the World Bank's loan contract, it would be a breach of faith with the investors who subscribed to the capital of the DFU and would discourage future investors. On the other hand, further injections of cheap or subordinated capital, after the initial one, are carefully scrutinised for justification and are not supported by the Bank Group unless essential to secure the objectives of the DFU.

25. If a DFU is government-owned, there is no need for quasi-equity to induce shareholders to invest. Moreover, such a company is inevitably subject to continuing parliamentary and governmental scrutiny and may have to rely on government for continuing and regular capital injections. But here, too, there may be an advantage to obtaining privileged long-term funds in order to help establish the financial independence of the company. The World Bank scrutinises carefully the terms on which government capital is provided. It will insist, as the President pointed out in his memorandum (B68-99) of June 11, 1968, that "not only must management be technically competent, but there must be solid assurance of its continuity and freedom from governmental interference in carrying out its task" (p. 3).
### Current Interest Rate, Exchange Risk, Interest Spread on Current Bank Loans, Administrative Cost, Debenture/Equity Ratio and Profitability of Development Finance Corporations

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Debenture/Equity Ratio</th>
<th>Profitability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>%</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>%</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>China</td>
<td>%</td>
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<td>6.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>%</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>%</td>
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<td>9.0</td>
</tr>
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<td>Egypt</td>
<td>%</td>
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<td>10.0</td>
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<tr>
<td>Finland</td>
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<td>11.0</td>
</tr>
<tr>
<td>Greece</td>
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<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>India</td>
<td>%</td>
<td>13.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Israel</td>
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<td>14.0</td>
<td>14.0</td>
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### Current Interest Rate, Exchange Risk, Interest Spread on Current Bank Loans, Administrative Cost

<table>
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<th>Country</th>
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<th>Current Interest Rate</th>
<th>Exchange Risk on Bank Loans</th>
</tr>
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<tr>
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<td>%</td>
<td>9%</td>
<td>Sub-borrower</td>
</tr>
<tr>
<td>China</td>
<td>%</td>
<td>10%</td>
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<tr>
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<td>%</td>
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</tr>
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<td>%</td>
<td>13%</td>
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<td>Korea</td>
<td>%</td>
<td>19%</td>
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</tr>
<tr>
<td>Liberia</td>
<td>%</td>
<td>20%</td>
<td>Sub-borrower</td>
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### General Notes
- "Quasi equity" means cheap, long-term, subordinated debt.
- Including guarantees.
- The last Bank loan was granted in 1965 and has been fully disbursed.
- The last Bank loan was granted in 1964 and has been fully disbursed.
- Operational 3 share capital of IFF is considered non-current debt.
- Low dividend government share capital of IIB is considered non-current debt.
- No Bank loan.
- Discrepancy between Item 7 and Item 11 is due to rounding.

### Development Finance Corporations

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Current Interest Rate</th>
<th>Exchange Risk on Bank Loans</th>
</tr>
</thead>
<tbody>
<tr>
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<td>%</td>
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<td>Brazil</td>
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### Development Finance Companies (Cont'd)

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<tr>
<th>Country</th>
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<th>Quasi Equity Ratio</th>
<th>Debt/Equity Ratio</th>
<th>Profitability (%)</th>
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<tr>
<td>Spain</td>
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<td>8.0</td>
<td>4.8</td>
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### General Notes
- Quasi equity means all cheap, long-term subordinated debt.
- Including guarantees.
- BNDE's lending rate is 7% under the interest rate policy of the Government which reimburses BNDE for interest paid on borrowed funds above 5%.
- Sub-borrower assumes the exchange risk on all sub-loans except for those funds which the sub-borrower repaid to PICIC and which PICIC has not yet repaid to the Bank. The Government is obliged to make satisfactory arrangements to protect PICIC against foreign exchange losses on those funds.
- No Bank loan.
- A Bank loan was granted in 1968 and been fully discharged.
- On IFC loan.
- Discrepancy between Item 7 and Item 11 is due to rounding.

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**Current Interest Rate, Exchange Risk, Interest Spread on Current Bank Loan, Administrative Cost, Debt/Equity Ratio and Profitability of Development Finance Companies (Cont'd)**

| Country    | Latest Interest Rate in % | Quasi Exchange Risk on Latest Bank Loan | 1968 Gross Income before Interest, Provisions & Taxes as % of Average Total Assets | 1968 Administrative Expenses as % of Average Total Assets | 1968 Balance before Gross Income as % of Average Total Assets | 1968 Financial Expenses & Administrative Expenses as % of Average Total Assets | 1968 Balance before Gross Income as % of Average Total Assets | 1968 Financial Expenses & Administrative Expenses as % of Average Total Assets | 1968 Profitability (%) |
|------------|---------------------------|----------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------|
| Malaysia   | 7.4                       | 6.6                                    | 1.2                                                                             | 1.2                                                                 | 1.7                                                                 | 6.4                                                                 | 10.7                                                                |                        |                        |                         |
| Morocco    | 5.9                       | 3.3                                    | 1.3                                                                             | 3.2                                                                 | -                                                                   | 1.3                                                                 | 5.6                                                                  | 2.1                                                                  | 12.5                                                                |
| Nigeria    | 6.7                       | 2.4                                    | 2.4                                                                             | 1.3                                                                 | 0.8                                                                 | 0.8                                                                 | 1.1                                                                  | 1.3                                                                  | 9.1                                                                  |
| Pakistan   | 4.2                       | 0.5                                    | 0.5                                                                             | 3.7                                                                 | 0.3                                                                 | 0.8                                                                 | 7.6                                                                  | 3.6                                                                  | 31.1                                                                |
| Philippines| 9.0                       | 7.7                                    | 1.4                                                                             | 5.7                                                                 | -                                                                   | 0.8                                                                 | 3.5                                                                  | 5.7                                                                  | 22.1                                                                |
| Spain      | 6.8                       | 3.2                                    | 0.2                                                                             | 3.0                                                                 | -                                                                   | -                                                                   | 6.5                                                                  | 2.7                                                                  | 20.6                                                                |
| Thailand   | 6.1                       | 6.9                                    | 3.2                                                                             | 3.8                                                                 | 0.7                                                                 | 1.0                                                                 | 4.0                                                                  | 2.8                                                                  | 12.6                                                                |
| Tunisia    | 4.5                       | 4.6                                    | 2.0                                                                             | 3.6                                                                 | 0.2                                                                 | 0.2                                                                 | 1.4                                                                  | 2.5                                                                  | 7.3                                                                  |
| Turkey     | 8.2                       | 5.7                                    | 1.1                                                                             | 4.6                                                                 | -                                                                   | 2.8                                                                 | 7.5                                                                  | 4.2                                                                  | 37.2                                                                |
| Venezuela  | 8.0                       | 6.6                                    | 1.8                                                                             | 4.8                                                                 | -                                                                   | -                                                                   | 1.0                                                                  | 1.5                                                                  | 9.6                                                                  |

**General Notes:** Data on Current Interest Rate and Exchange Risk on Bank Loan reflect current practices or arrangements.

**Quasi equity** means all cheap, long-term subordinated debt.

Including guarantees.

BNDE's lending rate is 7% under the interest rate policy of the Government which reimburses BNDE for interest paid on borrowed funds above 5%.

Sub-borrower assumes the exchange risk on all sub-loans except for those funds which the sub-borrower repaid to PICIC and which PICIC has not yet repaid to the Bank. The Government is obliged to make satisfactory arrangements to protect PICIC against foreign exchange losses on those funds.

No Bank loan.

A Bank loan was granted in 1968 and been fully discharged.

On IFC loan.

Discrepancy between Item 7 and Item 11 is due to rounding.

**IBRD/DFC**

**November 12, 1969**
## AMOUNT, TERMS AND REPAYMENT SCHEDULES OF SUB-ORDINATED LOANS FROM GOVERNMENT
### AS OF JUNE 30, 1969

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount (in millions)</th>
<th>Date of Agreement</th>
<th>Interest Duration and Grace Period Repayment</th>
<th>Subordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>IVE - Austria</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S 80</td>
<td>1958</td>
<td>1% 60 - 20</td>
<td>1979 - 2018</td>
<td>Ranked pari passu with share capital and subordinated to other debt.</td>
</tr>
<tr>
<td>S 60</td>
<td>1962</td>
<td>2% 50 - 16</td>
<td>1979 - 2012</td>
<td></td>
</tr>
<tr>
<td>S 40</td>
<td>1963</td>
<td>2% 50 - 16</td>
<td>1980 - 2013</td>
<td></td>
</tr>
<tr>
<td>S 30</td>
<td>1964</td>
<td>2% 50 - 16</td>
<td>1981 - 2014</td>
<td></td>
</tr>
<tr>
<td>S 30</td>
<td>1965</td>
<td>2% 50 - 16</td>
<td>1982 - 2013</td>
<td></td>
</tr>
<tr>
<td>S 30</td>
<td>1966</td>
<td>2% 50 - 16</td>
<td>1983 - 2010</td>
<td></td>
</tr>
<tr>
<td>S 20</td>
<td>1967</td>
<td>3% 40 - 17</td>
<td>1985 - 2007</td>
<td></td>
</tr>
<tr>
<td>S 8</td>
<td>1968</td>
<td>3% 40 - 15</td>
<td>1983 - 2008</td>
<td></td>
</tr>
<tr>
<td>DFCC - Ceylon</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cey Rs. 16</td>
<td>1956</td>
<td>0% 40 - 25</td>
<td>1982 - 1996</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>HC - China</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NT $ 100</td>
<td>1959</td>
<td>6% 30 - 15</td>
<td>1975 - 1989</td>
<td>Subordinated to other debt but not to share capital.</td>
</tr>
<tr>
<td>NT $ 100</td>
<td>1960</td>
<td>6% 30 - 15</td>
<td>1975 - 1989</td>
<td></td>
</tr>
<tr>
<td>NT $ 100</td>
<td>1961</td>
<td>6% 30 - 15</td>
<td>1977 - 1991</td>
<td></td>
</tr>
<tr>
<td>IFF - Finland</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fmk 1.5</td>
<td>1956</td>
<td>6% 45 - 44</td>
<td>2000 - 2001</td>
<td>Subordinated to all debts other than the 1963 debentures of Fmk 5 million but not to share capital.</td>
</tr>
<tr>
<td>Fmk 5.5</td>
<td>1963</td>
<td>5% 10 - 30</td>
<td>1984 - 2003</td>
<td></td>
</tr>
<tr>
<td>Fmk 5.0</td>
<td>1965</td>
<td>6% 25 - 15</td>
<td>1977 - 1981</td>
<td></td>
</tr>
<tr>
<td>Fmk 5</td>
<td>1966</td>
<td>5% 25 - 15</td>
<td>1973 - 1983</td>
<td></td>
</tr>
<tr>
<td>Fmk 35.0</td>
<td>1967</td>
<td>3.4% 25 - 20</td>
<td>1988 - 1992</td>
<td></td>
</tr>
<tr>
<td>ICICI - India</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rs. 75.0</td>
<td>1955</td>
<td>0% 30 - 15</td>
<td>1971 - 1985</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>Rs. 100.0</td>
<td>1956</td>
<td>5% for 1st Rs. 90</td>
<td>1971 - 1985</td>
<td></td>
</tr>
<tr>
<td>Rs. 100.0</td>
<td>1965</td>
<td>5% for next Rs. 10% 15 - 5</td>
<td>1971 - 1980</td>
<td></td>
</tr>
<tr>
<td>Rs. 50.0</td>
<td>1966</td>
<td>5% 15 - 5</td>
<td>1972 - 1982</td>
<td></td>
</tr>
<tr>
<td>Rs. 50.0</td>
<td>1967</td>
<td>5% 15 - 5</td>
<td>1972 - 1982</td>
<td></td>
</tr>
<tr>
<td>IMDBI - Iran</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rls. 600</td>
<td>1959</td>
<td>0% 30 - 15</td>
<td>1975 - 1989</td>
<td>Ranked pari passu with share capital and subordinated to other debt.</td>
</tr>
<tr>
<td>Rls. 350</td>
<td>1964</td>
<td>15% 15 - 5</td>
<td>1969 - 1979</td>
<td></td>
</tr>
<tr>
<td>Rls. 200</td>
<td>1965</td>
<td>15% 15 - 5</td>
<td>1970 - 1979</td>
<td></td>
</tr>
<tr>
<td>BIDI - Ivory Coast</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GFAF 1,250</td>
<td>1965</td>
<td>0% 30 - 15</td>
<td>1981 - 1995</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>KDPC - Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>W 2,025</td>
<td>1968</td>
<td>4% 40 - 10</td>
<td>1977 - 2006</td>
<td>Ranked pari passu with share capital and subordinated to other debt.</td>
</tr>
</tbody>
</table>

1/ Apart from the debentures of Fmk 35 million, IFF has the junior share capital of Fmk 11.5 million held by the Bank of Finland. The junior share capital is redeemed at the rate of Fmk 0.3 million each year.

2/ This is not regarded by the Bank as part of the company's borrowing base.

3/ The Government allows IMDBI to have a 3.5% spread from this loan.
<table>
<thead>
<tr>
<th>Company</th>
<th>Amount (in millions)</th>
<th>Date of Agreement</th>
<th>Interest</th>
<th>Duration and Grace Period</th>
<th>Repayment</th>
<th>Subordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBIDI - Liberia</td>
<td>US $ 1 1/2</td>
<td>1965</td>
<td>0%</td>
<td>30 - 20</td>
<td>1985 - 1994</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>MIDF - Malaysia</td>
<td>M$ 37.5</td>
<td>1963</td>
<td>0%</td>
<td>30 - 15</td>
<td>1979 - 1993</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>MNB - Nigeria</td>
<td>LN 2</td>
<td>1964</td>
<td>0%</td>
<td>30 - 15</td>
<td>1980 - 1994</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>PICTC - Pakistan</td>
<td>Pes. 30</td>
<td>1957</td>
<td>0%</td>
<td>30 - 15</td>
<td>1973 - 1987</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>PICTC - Thailand</td>
<td>B 15.0</td>
<td>1963</td>
<td>0%</td>
<td>30 - 15</td>
<td>1979 - 1993</td>
<td>Subordinated to share capital and other debt.</td>
</tr>
<tr>
<td>SNI - Tunisia</td>
<td>D 0.615</td>
<td>1965</td>
<td>0%</td>
<td>30 - 15</td>
<td>1980 - 1995</td>
<td>Ranked pari passu with share capital and subordinated to other debt.</td>
</tr>
<tr>
<td>TSEB - Turkey</td>
<td>L 358.1</td>
<td>1966</td>
<td>3%</td>
<td>35 - 15</td>
<td>1981 - 2000</td>
<td>Ranked pari passu with share capital and subordinated to other debt.</td>
</tr>
</tbody>
</table>

1/ The loan takes the form of promissory notes on which LBIDI gets interest at 6% and which are redeemable for cash to LBIDI in ten equal yearly installments beginning in 1975.
2/ This is an AID loan and not regarded by the Bank as part of the company's borrowing base.
3/ Representing a peso loan from US AID.
4/ In addition, SNI received a grant of D 500,000 from the Government.

IMDB/IDFC
November 13, 1969
### ANNEX III

**AMOUNT, TERMS AND REPAYMENT SCHEDULES OF NON-SUBORDINATED LOANS FROM GOVERNMENTS, CENTRAL BANKS, GOVERNMENT-OWNED LONG TERM FINANCE INSTITUTIONS, AND PUBLIC FUNDS TO DEVELOPMENT**

**FINANCE COMPANIES, AS OF DECEMBER 31, 1968**

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount (in millions)</th>
<th>Date of Agreement</th>
<th>Interest</th>
<th>Duration and Grace Period</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DFCC - Ceylon</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cey Rs. 9.8**</td>
<td>Various</td>
<td>1%</td>
<td>Up to 15</td>
<td>Various</td>
<td></td>
</tr>
<tr>
<td><strong>GDC - China</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FMT $ 100.0 *</td>
<td>1963</td>
<td>7.12%</td>
<td>30 - 15</td>
<td>1979 - 1993</td>
<td></td>
</tr>
<tr>
<td>FMT $ 100.0 *</td>
<td>1966</td>
<td>7.12%</td>
<td>30 - 15</td>
<td>1982 - 1996</td>
<td></td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Col $ 13,1**</td>
<td>1963</td>
<td>6%</td>
<td>6 - 2</td>
<td>1966 - 1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 11.1**</td>
<td>1968</td>
<td>6%</td>
<td>10 - none</td>
<td>1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 97.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Colombiana - Colombia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Col $ 11.1**</td>
<td>1963</td>
<td>6%</td>
<td>6 - 2</td>
<td>1966 - 1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 11.1**</td>
<td>1968</td>
<td>6%</td>
<td>10 - none</td>
<td>1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 257.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Norte - Colombia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Col $ 10.9**</td>
<td>1963</td>
<td>6%</td>
<td>6 - 2</td>
<td>1966 - 1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 31.7**</td>
<td>1968</td>
<td>9%</td>
<td>10 - none</td>
<td>1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 197.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Valle - Colombia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Col $ 19.2 /</td>
<td>1963</td>
<td>6%</td>
<td>6 - 2</td>
<td>1966 - 1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 40.9 /</td>
<td>1966</td>
<td>4%</td>
<td>10 - none</td>
<td>1966 - 1978</td>
<td></td>
</tr>
<tr>
<td>Col $ 4.9 /</td>
<td>1966</td>
<td>7%</td>
<td>10 - none</td>
<td>1966 - 1978</td>
<td></td>
</tr>
<tr>
<td>Col $ 25.0**</td>
<td>1968</td>
<td>7%</td>
<td>10 - none</td>
<td>1969</td>
<td></td>
</tr>
<tr>
<td>Col $ 123.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IFF - Finland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frk 7.0 /</td>
<td>1968</td>
<td>6-3/4%</td>
<td>3 months</td>
<td>1969</td>
<td></td>
</tr>
<tr>
<td><strong>NIBIR - Greece</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr. 250.0 **</td>
<td>1966</td>
<td>4%</td>
<td>9 - 2</td>
<td>1969 - 1975</td>
<td></td>
</tr>
<tr>
<td><strong>IDBI - India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rs. 90.0 /</td>
<td>1966</td>
<td>5-5/8%</td>
<td>15 - 5</td>
<td>1972 - 1981</td>
<td></td>
</tr>
<tr>
<td>Rs. 30.0 /</td>
<td>1967</td>
<td>5-5/8%</td>
<td>15 - 5</td>
<td>1973 - 1982</td>
<td></td>
</tr>
<tr>
<td>Rs. 25.0 /</td>
<td>1968</td>
<td>5-5/8%</td>
<td>15 - 5</td>
<td>1974 - 1983</td>
<td></td>
</tr>
<tr>
<td>Rs. 125.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IMDBI - Iran</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

* Funds from Government
** Funds from central bank
*** Funds from Government-owned long term finance institution

1/ Outstanding as of March 31, 1969. Grants of the Central Bank of Ceylon under a refinance scheme whereby DFCC can obtain finance up to 100% of the face value of the loans pledged in mortgage subject to DFCC's lending rate being not more than 7%. First loans under this were signed in 1966.

2/ These are loans from the Fondo para Inversiones Privadas (Private Investment Fund) of the central bank.

3/ From Fund for Injured administered by the central bank.

4/ These are loans from the Fondo para Inversiones Privadas (Private Investment Fund) of the central bank.

5/ Outstanding as of March 20, 1969. These are Managed Funds administered by IMDBI on behalf of several government agencies.
### AMOUNT, TERMS AND REPAYMENT SCHEDULES OF NON-SUBORDINATED LOANS FROM GOVERNMENTS, CENTRAL BANKS, GOVERNMENT-OWNED LONG TERM FINANCE INSTITUTIONS, AND PUBLIC FUNDS TO DEVELOPMENT FINANCE COMPANIES, AS OF DECEMBER 31, 1968 (CONT'D)

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount (in millions)</th>
<th>Date of Agreement</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDBI - Israel</td>
<td>39.0</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td>NIDB - Nigeria</td>
<td>1.0</td>
<td>1966</td>
<td>0% for first 2 years 18 - 2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2 -3/4% for remainder</td>
</tr>
<tr>
<td>BANDESCO - Spain</td>
<td>304.0</td>
<td>1965</td>
<td>5%</td>
</tr>
<tr>
<td>IFCT - Thailand</td>
<td>29.8</td>
<td>1965</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>64.2</td>
<td>1968</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>94.1</td>
<td></td>
<td>15 - 2</td>
</tr>
<tr>
<td>SNI - Tunisia</td>
<td>0.12</td>
<td>1964</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>0.2</td>
<td>1966</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>0.6</td>
<td></td>
<td>15 - 3</td>
</tr>
<tr>
<td>TSEB - Turkey</td>
<td>1.52</td>
<td>1954</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>24.5</td>
<td>1967</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>26.0</td>
<td></td>
<td>15 - n.a.</td>
</tr>
<tr>
<td>CAVENTES -</td>
<td>1.2</td>
<td>1964</td>
<td>3%</td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td></td>
<td>Various</td>
</tr>
</tbody>
</table>

* Funds from Government

** Funds from central bank

*** Funds from Government-owned long term finance institution

1/ These are long-term deposits of the Israel Treasury.

2/ Rediscount line granted by the central bank.

3/ Loan from the Caisse Nationale de Securite Sociale.

4/ These are Turkish Lira Bonds purchased by the Central Bank and the State Pension Fund.
Mr. Douglas Gustafson

Zamir Hasan

Some Thoughts on your Four General Points on DFC Lending Policy

1. I have read with great interest your "Four General Points”. Here are some thoughts on them:

Debt Service Cover for DFCs.

2. Under this heading you have made two points: (a) that the formula now in general use needs modification and (b) that the value of calculating the debt service cover for our DFC clients over the lives of the Bank loans is questionable.

3. (a) The formula for calculating the debt service cover generally used in our appraisal reports, as you state, is as follows:

\[
\frac{\text{EBIT} + \text{Collections of Principal from Sub-borrowers}}{\text{Interest Payments to Creditors} + \text{Principal Repayments to Creditors}}
\]

You have criticized this formula as being "half-way house in that it assumes that in the year the calculation is made the DFC stops borrowing and stops lending...”. You seem to favor a formula which would also include drawdown of new funds in the numerator, and disbursements of commitments to clients in the denominator.

4. For a financial institution like a DFC, a distinction has to be made, I think, between a measure of the ability of the borrower to service its existing debts and a measure of its total cash flows. The formula which is generally used now gives an indication of the ability of the borrower to service its existing debts. It does not attempt to measure the borrower's total cash flows. If the draw-down of new funds is included in the numerator and disbursements of new commitments in the denominator, as suggested by you, the element of the ability to service existing debt will be mixed up and confused with another quite separate element - the DFC's ability to meet its new commitments. The latter element, the ability of the DFC to meet its new commitments, is directly related to the problem of mobilization of new resources. This is quite a separate issue from servicing the existing debt, and should be treated as such, separately. Moreover, if the draw-down of new funds and disbursements of commitments to clients are included in the numerator and denominator respectively, an inference can possibly be drawn that new loans might be used for servicing the existing debt. That would be a dangerous policy for a DFC to follow.
5. You state in para 7, that "If the ratio were to be used to define the situation where the DFC concerned was really facing the problems meeting its cash obligations, then it seems to me that all the elements listed in paragraph 3 would have to be included ....". I agree fully with the thinking behind the statement. However, the ratio, as it is generally used, does not attempt to define the situation when the DFC is facing repayment problems and liquidation is imminent. The ratio is an indication of debt servicing ability in normal operating circumstances and not as a cover in a liquidation situation. (And in that situation, all of the elements listed in your paragraph 3 may not be included; creditor would in all probability have stopped all draw-down of new funds.)

6. On the grounds that sale of equity investments is similar to loan collections, I would include them in the numerator. However, it is difficult to estimate such sales and since their exclusion will make the ratio a little too conservative, which is acceptable, these may be ignored.

7. I think that if the limitations of the formula generally used now are understood (most important being that it does not measure total cash flows), it is useful ratio and serves its purpose as an indication of the ability of the borrower to meet debt service requirements on the existing borrowings.

8. (b) I agree with you that the feasibility of making meaningful assumptions for 15 years, which is the usual period of a Bank loan, is questionable at best. However, if the implication of your point is that we should not attempt to make such a calculation, then I do not agree with you. My suggestion is this. As you have stated, it is possible to forecast with moderate assurance commitment levels, new loans to be raised, the terms of same, share capital increases and spreads, etc. for 15 years, which is the usual period of forecasts that we prepare. Calculation of debt service cover for the period of the projections should, of course, be based on these assumptions. For the period beyond, a qualitative judgment should be made in relation to the figures calculated for the 5-year period of the projections. This judgment should take into account principally (a) the usual collection period of the sub-loans, particularly those in local currency, (b) the repayment period of the DFCs own borrowings, particularly the loans obtained from the government and, (c) a rough estimate of the profitability based in turn on an estimate of the volume of business and the spreads. It should be possible to come to some such judgment as "the debt service cover for the period beyond that covered by the projections is estimated to be less than (or more than) that for the period of the projections but should be at least ....".

I think that such qualitative judgment which is supported by some quantitative analysis, is better than an absolute figure calculated on the basis of assumptions made for 15 years, or none at all.

Approval of Equity Investments

9. I agree entirely with your analysis and rationale that it is an inconsistent approach to our clients not to extend the free limit concept to equity investments made by them. I agree with the conclusion implied in your analysis that equity investments made by DFCs involving amounts below the free limit for their loan operations, should not require prior approval by the Bank.
Degree of Subordination on Loans to be Included in Borrowing Base

10. I agree with your analysis generally, but I don't quite understand what your conclusion and recommendation are. I personally feel that in respect of degree of subordination of Government loans, each case should be treated individually and on its own merits. Our approach should be pragmatic. In the more developed of the less developed countries where the risks of financial failure are not judged to be high and/or where the Government might seem reluctant, we should not insist on the quasi-equity loan ranking to be pari-passu / subordinated to the share capital. In those countries, however, which are just starting on the road to economic development, it may be absolutely necessary to have the quasi-equity loan rank pari-passu with or subordinated to the share capital, if a private DFC is at all to be set up on a viable basis. I don't quite understand the last sentence 1/ of your paragraph on this point because the two points which you object to seem to me to be among the very reasons for obtaining government quasi-equity loans: the government does not derive any financial benefits so that the DFC itself may become more profitable and the government does not obtain a proportional managerial voice because it is considered that private management left alone would be more efficient. The profit that accrues to the government is broad national interest: a viable DFC comes into being which in turn helps the economic development of the country. I agree with your point however that the Bank should not insist on the government loan ranking pari-passu with or subordinated to the share capital where the shareholders are sophisticated financial institutions who are willing to let the government loan rank ahead of their equity or where the government is reluctant to do so.

Exclusion of Certain "Quasi-Equity" Maturities from a Borrowing Base

11. You state the rationale given for excluding certain quasi-equity maturities from a borrowing base is that this ensures that the debt limit will not be forced over the agreed level due to repayments of subordinated loans. You do not agree with this rationale. The rationale for excluding certain quasi-equity maturities can be better stated in terms of the elements of risk and security to which, I think, it is directly related. As I see it, the senior debt will be carrying less risk (will have better backing of equity and junior debt) if the earlier maturities of the quasi-equity loans are excluded when calculating the maximum borrowing limit. I agree with you that "at a point in time (in the future) if the safety of senior funds is jeopardized in liquidation, surely what counts is the total amount of the subordinated funds at that moment". However, the maturity period, "whether these funds mature in 2 years or 20 years", is not inconsequential because according to the new formula now being used, it has already served its purpose before the time of liquidation comes, by limiting the size of the other factor i.e. the conventional debt.

1/ The relevant part reads, ".....but the optics of this requirement are significant in that governments are asked to take the same or greater risks than shareholders but they derive no financial benefits from the profits of the DFC and they do not obtain a proportional managerial voice."
12. Consider the following case, for example:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>100</td>
</tr>
<tr>
<td>Quasi-equity</td>
<td>150</td>
</tr>
<tr>
<td>Debt</td>
<td>500</td>
</tr>
</tbody>
</table>

Suppose the repayment of the quasi-equity loan starts in 1960 at the rate of 15 units annually. Suppose further that a new senior debt is being considered, the repayment of which, following the pattern of recent Bank loans to DFCs, is to be in 15 years (beginning assumed in 1970). The maturities of the quasi-equity loan which will fall before the last maturity of the new proposed loan will amount to 75 units in aggregate. If these earlier maturities are excluded from the borrowing base, the maximum that can be borrowed is 25 units for an aggregate amount of 525 units, compared with maximum possible borrowings of 250 units for an aggregate of 750 units, other things remaining the same. Since the backing of equity and subordinated debt will be the same in both the cases, the smaller amount of senior debt (525 units) will be a better risk for the senior creditors.

13. I take this opportunity to raise another point - about the earliest maturities of the long-term debts. In the standard debt limitation clause, 'debt' is so defined as to include even those maturities of the long-term debt which fall due within the "current" period. I feel that the current maturities of the long-term debt should be excluded on the grounds that such portion cannot be considered as long-term debt and should not enter into calculation of long-term debt limit. The benefit of this adjustment will of course accrue to the DFCs.
Dear Bill,

I received the Spanish version of the book of IFC Development Finance Companies with a complimentary card of the Bank. I think I have to thank you personally for the remittance, and perhaps also Mr. Mathew, whom I ask you to give my best regards.

Remembering you and Mrs Diamond cordially,

[Signature]

Tucumán 2761
Olivos FCBM
Argentina
Señor
B. H. SHIN
Development finance Companies
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
1818 H. Street, N. W.
Washington, D. C. 20433
U. S. A.

Apreciado señor Shin:

Acabo de recibir los memorandos descriptivos sobre la situación financiera y actividades de siete Compañías Financieras de Desarrollo durante el año de 1968, que usted me había anunciado en su amable carta de Octubre 30.

Al agradecerle este valioso envío, me es muy grato reiterarle mis reconocimientos por el permanente interés que usted demuestra hacia nuestra institución.

De usted muy cordialmente,

ROBERTO OCAMPO MEJIA
Presidente
CORPORACION FINANCIERA DE CALDAS

Attn: Mr. Garcia

Corporación Internacional para Reconstrucción
y Desarrollo
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Subject: Letter of Intent

We are pleased to receive your proposal for the development of a new financial institution.

We are interested in exploring the possibilities of a new financial institution in Caldas.

Please provide detailed information on the proposed institution.

Sincerely,

[Signature]

[Date] 1990 DEC 1

[Reference Number]

[File Number]
November 21, 1969

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 your letter of October 17, in which you enclosed a copy of the "Table on Comparative Operational Ratios of Development Finance Companies."

The revised data were very effectively used in the preparation of our annual budget and five-year operational projections. We again want to express our appreciation for the excellent materials you send us from time to time, which are both informative and very useful.

With warm regards,

Sincerely yours,

M. J. Choi
Vice President
November 21, 1969

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

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which are both informative and very useful.

With warm regards,

Sincerely yours,

M. Z. Choi
Vice President

1969DEC-1 AM 9:49

GENERAL RULES

REVIEWED
November 21, 1969

Mr. H. Geoffrey Hilton

P. M. Mathew

Use of Engineers in the review of dfcs

The attached list shows the needs that we presently foresee for engineering help in the review of dfcs. While it would be best if an engineer could join our next mission to the dfc, this is not always essential; if one of your staff was visiting the country in the next 6 - 9 months in connection with your normal work, he could spend a few days with the dfc and prepare a report for us.

In certain cases, notably PICIC, ICICI, TSKB, NACIONAL and COLOMBIANA, your staff probably have, because of joint operations with the dfcs, a close familiarity with them and could probably prepare reports on the technical competence of each without the need of a visit. If this is so, would you assign the task of preparing such reports to appropriate staff? I have, nevertheless, included these companies in the list in case you decided that a visit was necessary.

While I assume that you will give us a chance to see in advance your instructions to your staff members deputed to visit a dfc, I believe the general purpose of such visits would be (a) to evaluate the competence of the company's technical staff; (b) to assess the adequacy of the company's procedures for technical evaluation of projects, control of disbursements in relation to progress of construction, and follow-up of enterprises, (c) to assess the quality of the company's portfolio through examination of files and visits to selected client enterprises; and (d) when the visit is in connection with the appraisal of the company for a loan, to assess the feasibility and timing of the execution of projects in the pipeline.

Shall we discuss?

cc: Mr. Fuchs

PMMathew:mbj
## Proposals for visit by Engineers to DFCs

<table>
<thead>
<tr>
<th>Company</th>
<th>Date of last visit by Engineer</th>
<th>Date of our next visit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I Existing clients</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. NACIONAL</td>
<td>Not recently</td>
<td>February</td>
</tr>
<tr>
<td>2. IMDRI</td>
<td>Never</td>
<td>February</td>
</tr>
<tr>
<td>3. KDPC</td>
<td>Never</td>
<td>February</td>
</tr>
<tr>
<td>4. PICIC</td>
<td>Not recently</td>
<td>March</td>
</tr>
<tr>
<td>5. SNI</td>
<td>Never</td>
<td>March</td>
</tr>
<tr>
<td>6. TSKB</td>
<td>Never</td>
<td>April</td>
</tr>
<tr>
<td>7. IPP</td>
<td>Never</td>
<td>June/July</td>
</tr>
<tr>
<td><strong># # # # # #</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. ICIICI</td>
<td>Not recently</td>
<td>not planned</td>
</tr>
<tr>
<td>9. IPCT</td>
<td>Never</td>
<td>not planned</td>
</tr>
<tr>
<td>10. IDBI</td>
<td>1966</td>
<td>not planned</td>
</tr>
<tr>
<td>11. Colombiana</td>
<td>Not recently</td>
<td>not planned</td>
</tr>
<tr>
<td>12. CALDAS</td>
<td>Not recently</td>
<td>not planned</td>
</tr>
<tr>
<td>13. VALLE</td>
<td>Never</td>
<td>not planned</td>
</tr>
<tr>
<td>14. NIBID</td>
<td>Never</td>
<td>not planned</td>
</tr>
<tr>
<td><strong>II New Companies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. YIB (Yugoslavia)</td>
<td>-</td>
<td>February</td>
</tr>
<tr>
<td>16. BAPINDO (Indonesia)</td>
<td>-</td>
<td>Early 1970</td>
</tr>
<tr>
<td>17. DFC (Ireland)</td>
<td>-</td>
<td>Early 1970</td>
</tr>
</tbody>
</table>

November 21, 1969
CONFIRMING OUR TALK FRIDAY EVENING.

IFC is the largest single shareholder of Corporacion Financiera del Norte (17.7%); Korea Development Finance Corporation (14.3%); Societe Nationale d'Investissements (20%).

It is the largest, with the Government (both equal), in the Nigerian Industrial Development Bank (25%), Liberian Bank for Industrial Development and Investment (24.9%); Malaysian Industrial Development Finance (10%).

See the attached.
## Annex to Item 21

### Total Shares Outstanding versus IFC's Shareholdings in Development Finance Companies, as of October 31, 1969

<table>
<thead>
<tr>
<th>Company (Country)</th>
<th>A. Total Number of Shares Outstanding</th>
<th>B. Of which IFC's Shareholdings</th>
<th>C. IFC's Shareholdings as % of Total Shares (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caldas (Colombia)</td>
<td>885,666 1/</td>
<td>91,755</td>
<td>10.4</td>
</tr>
<tr>
<td>Colombiana (Colombia)</td>
<td>13,125,891 2/</td>
<td>1,956,960</td>
<td>14.9</td>
</tr>
<tr>
<td>Nacional (Colombia)</td>
<td>9,695,100 3/</td>
<td>1,069,091</td>
<td>11.0</td>
</tr>
<tr>
<td>Norte (Colombia)</td>
<td>4,239,186 4/</td>
<td>750,000</td>
<td>17.7</td>
</tr>
<tr>
<td>Valle (Colombia)</td>
<td>7,932,252 5/</td>
<td>750,000</td>
<td>9.5</td>
</tr>
<tr>
<td>COFIEC (Ecuador)</td>
<td>560,000 6/</td>
<td>55,000</td>
<td>9.8</td>
</tr>
<tr>
<td>IFF (Finland)</td>
<td>14,000 7/</td>
<td>502</td>
<td>3.6</td>
</tr>
<tr>
<td>NIBID (Greece)</td>
<td>100,000 8/</td>
<td>7,038</td>
<td>7.0</td>
</tr>
<tr>
<td>HIDI (Ivory Coast)</td>
<td>140,000 9/</td>
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<td>7.1</td>
</tr>
<tr>
<td>KIFC (Korea)</td>
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<td>38,500</td>
<td>14.3</td>
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<tr>
<td>LARDI (Liberia)</td>
<td>100,000 11/</td>
<td>24,859</td>
<td>24.9</td>
</tr>
<tr>
<td>MIDF (Malaysia)</td>
<td>250,000 12/</td>
<td>25,000</td>
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<tr>
<td>ENDE (Morocco)</td>
<td>140,000 13/</td>
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<td>24.7</td>
</tr>
<tr>
<td>NIDB (Nigeria)</td>
<td>2,000,000 14/</td>
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<td>PICIC (Pakistan)</td>
<td>5,000,000 15/</td>
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<tr>
<td>BANDESCO (Spain)</td>
<td>420,000 16/</td>
<td>35,000</td>
<td>8.3</td>
</tr>
<tr>
<td>IFCT (Thailand)</td>
<td>50,000 17/</td>
<td>14,000</td>
<td>8.0</td>
</tr>
<tr>
<td>SNI (Tunisia)</td>
<td>300,000 18/</td>
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<td>20.0</td>
</tr>
<tr>
<td>TSKB (Turkey)</td>
<td>130,000 19/</td>
<td>14,020</td>
<td>10.8</td>
</tr>
<tr>
<td>CAVENDES (Venezuela)</td>
<td>400,000 20/</td>
<td>60,000</td>
<td>15.0</td>
</tr>
</tbody>
</table>

1/ As of September 30, 1969.
2/ As of August 31, 1969.
3/ As of June 30, 1969.
4/ Series A shares only.
5/ Excluding the Cumulative Participating Preference Shares.
6/ TSKB has issued 250,000 shares of par value LT 100 each and 80,000 shares of LT 500 each. Part of the latter shares is held by IFC. Thus, to show the proportion of IFC's ownership in TSKB, all shares have been converted into 130,000 shares of LT 500 each.

IBRD/DFC

November 13, 1969
Confirming our talk Friday evening.

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See the attached.

Attachment

WDiamond: us
**TOTAL SHARES OUTSTANDING VERSUS IFC’S SHAREHOLDINGS IN**

**DEVELOPMENT FINANCE COMPANIES, AS OF**

**OCTOBER 31, 1969**

<table>
<thead>
<tr>
<th>Company (Country)</th>
<th>A. Total Number of Shares Outstanding</th>
<th>B. Of which IFC’s Shareholdings</th>
<th>C. IFC’s Shareholdings as % of Total Shares (B/A)</th>
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<td>55,000</td>
<td>3.6</td>
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<tr>
<td>IFF (Finland)</td>
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Mr. B.H. Shin,
International Bank for Reconstruction & Development,
1818, H Street, N.W.,
Washington, D.C. 20433,
U. S. A.

Dear Mr. Shin,

We wish to acknowledge the receipt of the descriptive memoranda on development finance companies which you sent to us.

Many thanks indeed.

Yours faithfully,
for NIGERIAN INDUSTRIAL DEVELOPMENT BANK LTD.

M. O. ADEYINKA (Mrs.)
Librarian.
NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

M & K HOUSE
36/102 BROAD STREET
LAGOS
P.O. BOX 2352

DATE

17th November 1972

Our Ref: 72/010

Mr. R. S. SN
International Bank for Reconstruction & Development
1418 H Street, N.W.
Washington, D.C. 20433
U. S. A.

Dear Mr. Snn,

We wish to acknowledge the receipt of thesecurities
memorandum on development finance companies which you sent
to us.

Yours faithfully,

for Nigerian Industrial Development Bank Ltd.

M.O. ADEYEMI (MFR)

Interpret
Mr. Ravi Gulhati  
B. H. Shin  

Semi-monthly Report on Material due from Division  

Material due from our Divisions are as follows:  

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td>Colombiana, Nacional and Norte Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td>a) Austria, Greece and Turkey Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td></td>
<td>b) Israel, Korea and Liberia Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td></td>
<td>c) Ethiopia Sekse</td>
<td>Do</td>
</tr>
<tr>
<td>3. New Descriptive memorandum</td>
<td>Caldas, Nacional, Norte and COFIEC Garcia</td>
<td>Requested on March 21</td>
</tr>
</tbody>
</table>

cc: Division Chiefs
Muy estimado señor Shin:

Tengo el gusto de acusar recibo de su atenta comunicación de fecha 30 de Octubre próximo pasado, con la cual recibí una copia descriptiva de cada uno de los memorandos relacionados sobre las nueve compañías adicionales al listado que nos enviaron en Agosto 7, 1969.

Sin particulares para más, nos suscribimos muy atentamente,

Alvaro Jaramillo Vengoechea
Presidente
CORPORACIÓN FINANCIERA DEL NORTE
BARRANQUILLA - COLOMBIA

Presidencia

P-121

Noviembre 17 de 1969

H. M. SHN.

Compañía Financiera de Desarrollo
Minería Industrial y Recursos Naturales de Colombia
1918 H Street, N. W.
Washington, D. C. 20006

Me complace decirle a usted que en virtud de las comunicaciones de fecha 30 de Octubre de pasado mes, con los cuales me ha comunicado la realización de los trabajos para el diseño de la mencionada Compañía, he tenido la oportunidad de llamar la atención en el Acuerdo No. 1969.

Por lo que particular me permito hacerle known comunicaciones con este respecto.

Aviso: Tramitaciones de los acuerdos

Firmado

[Signature]

Président

1969 NOV 20 PM 8:23

GENERAL PRESS

RECEIVED

[Signature]
November 17, 1969

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

Dear Mr. Parker:

While you were here in Washington last October, I believe Mr. Powell called to your attention the draft descriptive memorandum on LBID which I had sent you for your review in my letter of August 6.

I would appreciate very much your checking into this matter and letting me know of any comments you would care to make at your earliest convenience.

Sincerely yours,

B. H. Shin
Development Finance Companies

Cleared with and copy
to Mr. Powell

BHSinh: jpk
November 14, 1969

Societe Tunisienne De Banque
1. Avenue H. Thameur
Tunis

Gentlemen:

On behalf of Mr. Diamond I acknowledge with thanks receipt of the annual reports of Societe Tunisienne de Banque, English texts for 1959-66 and French texts for 1967-68, which you have kindly sent to him.

Sincerely yours,

B. H. Shin
Development Finance Companies

cc: Mr. Pollan
EHShin:jpk
Four General Points on DFC Lending Policy

1. In connection with the Singapore and Greek operations we are currently involved in, four general points have come up that I think, at some stage, deserve further thought on our side. They are: (i) debt service cover for a DFC; (ii) IBRD approval of all equity investments involving IBRD funds, regardless of size; (iii) the degree of subordination necessary for a "quasi-equity" loan to be considered part of the borrowing base for senior debt and (iv) exclusion of certain "quasi-equity" loan maturities from a DFC's borrowing base. The purpose of this note is to focus and record my own thinking on these points, on which I have some problems. Hopefully it might also generate views from others.

Debt Service Cover for DFC's

2. For some time now we have been calculating a debt-service cover for our DFC clients over the lives of the Bank loans under consideration. The value of this computation is questionable in my view. The assumptions required are so significant and hence subject to such probabilities as to make the final outcome questionable. Moreover, and probably more importantly, there are conceptual problems in making such analyses for financial institutions. (The best way to arrive at this position is to actually try to do such a calculation for one of our clients.)

3. The latter point first. The following elements might go into the calculation of the ratio. Questionable items are shown in brackets.

\[
\text{EBIT} + \text{Collections of Principal from Sub-borrowers} + (\text{Draw-down of New Funds}) \quad \frac{1}{1} \\
\quad + (\text{Liquid Resources}) \\
\quad + (\text{Realization of Portfolio})
\]

\[
\text{Interest Payments to Creditors} + \text{Principal Repayments to Creditors} + (\text{Disbursements of Commitments to Clients})
\]

1/ The approach here is simplified for illustrative purposes. For example anticipated sales of equity investments are excluded as a cash source. It also assumes a direct relationship between "Draw-down of New Funds" and "Disbursements of Commitments to Clients", which may not be the case. Secondly, strictly speaking, the EBIT figure may not actually be available in cash but it is probably close to the cash figure.
4. Normally, a debt-service ratio is a dynamic type guideline; it is calculated to indicate the cash cover in normal operating circumstances, not as a cover in a liquidation situation. Consequently, it seems to me that if consistently applied to a DFC in this sense, the calculation should include all the elements listed above with the exception of "Liquid Resources" and "Realization of Portfolio" in the numerator. The result of course is extremely low ratios. The following results are for the last year of detailed projections made for the companies indicated.

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIBID</td>
<td>1973</td>
<td>1.04</td>
</tr>
<tr>
<td>TSB</td>
<td>1973</td>
<td>1.03</td>
</tr>
<tr>
<td>ICICI</td>
<td>1970</td>
<td>1.02</td>
</tr>
</tbody>
</table>

5. I believe, however, that the calculation actually made in most of our appraisal reports is as follows:

\[
\text{EBIT} + \text{Collections of Principal from Sub-borrowers} - \text{Interest Payments to Creditors} - \text{Principal Repayments to Creditors}
\]

6. This ratio is a halfway house in that it assumes that in the year the calculation is made, the DFC stops borrowing and stops lending, but the calculation does not provide for any realization of assets other than "Collections from Sub-borrowers" and on this item the implicit assumption is that items repayable in a year will be realized 100%. I am not sure what in fact the resulting ratio tells us and hence find it hard to hang much significance on it. (Even if it were a logical evaluation of a given set of circumstances, what should the limit be? A 1.5:1 ratio is obviously better than a 1.1:1 ratio, but is the latter too low? What is the lowest acceptable?)

7. If the ratio were to be used to define the situation where the DFC concerned was really facing problems meeting its cash obligations, then it seems to me that all the elements listed in paragraph 3 would have to be included, but to get a meaningful calculation some very difficult assumptions would be necessary, particularly for the elements contained in the numerator.

8. As to the first point, i.e. the assumptions required to calculate for 15 years the simple ratio outlined in paragraph 5, we might be able to forecast with moderate assurance, commitment levels, new loans to be raised, the terms of same, share capital increases and spreads for a 5 year period but the feasibility of doing this exercise for a 15-year period, with any degree of confidence, is questionable at best. Yet virtually all the elements of the cash flow have to be forecast to arrive at this ratio. However, in my view, the telling argument against use of the ratio is the conceptual argument.

9. Are there useful alternatives that could be used to measure cash flow matters? I have no firm ideas on this but two thoughts come to mind. One is a normal banking liquidity concept, i.e. requirement that a proportion of liabilities be maintained in various degrees of liquidity. Another is a comparison of maturities of borrowed funds and the maturities of loaned funds. Here again, however, there would be real problems in defining standards of acceptable performance for DFC's.
Approval of Equity Investments

10. We allow DFC's to use Bank funds for equity investments but we require that all such operations obtain the prior approval of the Bank. In reality, DFC's rarely use Bank funds for equity investments for a number of reasons, but they have the right to do so and some companies occasionally take advantage of this flexibility. Our approval is required, I think, because there is no repayment provisions between the DFC and its client when an equity participation is made and we take the view that this is an operation that requires special care. However, I think that the DFC's we deal with can be relied upon to exercise the necessary care on any operation up to the free limits set for them. I do not see an equity operation using Bank funds as something significantly more mysterious or difficult than a loan operation. Moreover, our review and approval of individual equity operations does not really get at the question we are concerned about: the company's cash flow position stemming from the fact that it has an obligation to repay us but has no such assurance of collection from its client. This can only be handled by an evaluation of the DFC's overall position. We do not make this evaluation, we simply evaluate the sub-project as an entity, just like we would an "A" project involving a debt obligation. If we thought there was a danger in a DFC going overboard in using our loan funds for equity (which incidentally means they are using their own equity funds for loans if we have limited their aggregate equities to their own net worth) we might conceivably want the right to stop this and the approval mechanism would make this readily possible. However, this is, in practical terms, very far fetched and we could probably stop it any way by application of ...... "the borrower shall conduct its affairs prudently ......etc." clauses. (In IFF's case, the problem is a real one since we finance 50% of each operation. This has put us in the position of having to approve occasionally very small projects.) I think it is an inconsistent approach to our clients to not extend the free limit concept to equities.

Degree of Subordination on Loans to be Included in Borrowing Base

11. We have generally, but not always\(^2\), required that subordinated loan funds rank no higher than parri passu with share capital in order to be included in the borrowing base. The most recent example of the application of this rule is the MIBID operation. It seems to me that the only rationale for insisting on this degree of subordination rather than simply subordination to senior debt is to protect the shareholders in liquidation. Here one could argue that if the Bank were responsible for putting a DFC deal together and that the shareholders of a specific case were either (i) unsophisticated\(^3\) or (ii) sophisticated but insistant on the parri passu (or lower) level of subordination, the Bank should press for this from the provider of the subordinated loan. However, the whole matter hinges on the degree of risk shareholders should shoulder. If they are sophisticated financial institutions and are willing to let a subordinated loan rank ahead of their equity, the Bank should not be the one to take up the issue with the government involved. Moreover, even if the shareholders are not very sophisticated, I think the parri passu ranking (or subordination to share capital) might well be one of the conditions we might ease up on when getting concessionary finance for a private DFC. Our policy should be to obtain the minimum concessions necessary. My view is to let the shareholders take some real risks. I think that our approach might be an unnecessary requirement in that experience to date suggests

\(^2\) CDC and IFF are two exceptions that come to mind.  
\(^3\) for lack of a better word.
that (1) this degree of subordination has not been critical to raising share capital for DFC's and (ii) the risks taken by our clients have not turned out to be of such significant magnitudes that this special type of backstopping in liquidation has been at all important. Because the odds of liquidation are low for our clients the ranking of government loans behind, or parri passu with, share capital has not in fact cost governments anything, but the optics of this requirement are significant in that governments are asked to take the same or greater risks than shareholders but they derive no financial benefits from the profits of the DFC and they do not obtain a proportional managerial voice.

Exclusion of Certain "Quasi-Equity" Maturities from a Borrowing Base

12. As long as we consent to including subordinated loans in a DFC's borrowing base, I find it hard to follow the practice of excluding from the borrowing base maturities of these loans that fall due prior to the last maturity of any Bank loans.

13. The rationale given for this practice, and it seems to me a superficial rationale, is that this ensures that the debt limit will not be forced over the agreed level due to repayments of subordinated loans. This is a very selective view of the potential problem of over-stepping the debt limit since the limit can also be over-stepped by quite a number of other developments. The debt limit is typically defined by the following:

Conventional Loans

| Share Capital + Reserves + "Quasi-Equity" (Early & Late Maturities) |

By excluding the early "quasi-equity" maturities, one factor from the company's entire cash flow (over a 15-year period) is isolated from change but no other factors are frozen. The purpose of the above ratio can only be to ensure that at all times, and in a liquidation situation, the backing for x amount of senior debt will be y amount of junior funds. At a point in time, if the safety of senior funds is jeopardized in liquidation, surely what counts is the total amount of subordinated funds at that moment. Whether these funds mature in two years or 20 years is inconsequential. (I must say, however, one by-product of this policy of excluding early maturities is that for an older DFC all the quasi-equity is excluded from the borrowing base and we are forced to look at the company as if it has no special funds, an approach that I generally support).

DOustafsonbda
Managing Director

November 13, 1969

Dear Mr. Shin,

Thank you very much for your letter of October 30, 1969 and the enclosed descriptive memoranda which, as usual, will be of very great interest.

Sincerely yours,

A. Gasem Kheradjou

A. Gasem Kheradjou

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.

133 Shiraz St. ( Bahjat Abad ) Tehran - Iran
P. O. Box 1801
Cable - INMIDEL

Corporation registered in Tehran, Comp. Reg. No. 6907, Comm. Reg No. 9189, with capital of 720,000,000 Rials fully-paid
Dear Mr. Smith,

Thank you very much for your letter of October 30. I trust you will find the enclosed payment card satisfactory. It will be of great interest.

Sincerely yours,

[Signature]

[Address]

1929 Nov 17 AM 8:50
Sec.D/19440

November 12, 1969

Dear Mr. Shin:

I acknowledge with thanks receipt of a copy of each of the descriptive memoranda of the nine development financial companies sent along with your letter of October 30, 1969, addressed to our General Manager Mr. S.S. Mehta. The memoranda will be very useful to us in I.C.I.C.I.

Yours sincerely,

Phiroze B. Medhora
Deputy 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.
November 15, 1969

Sec. D.109/14

Dear Mr. Singh:

I acknowledge with thanks receipt of a copy of the despatchive memoranda of the mine development financial committees sent forward with your letter of October 30, 1969, addressed to our General Manager, M. J. S. M. The memo leaves will be very useful to us in I.C.I.

Yours sincerely,

[Signature]

Philpotts & Megaw
Deputy General Manager

[Address]

Mr. B. N. Saha
Development Finance Committee
[Address]

[Signature]

[Address]
November 12, 1969

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:

I herewith acknowledge receipt of your kind letter of October 17, 1969 together with the revision of the table on Comparative Operational Ratios of Development Finance Companies, 1967 and 1968.

We always find them useful.

Sincerely yours,

P. Clarence Parker, Jr.
GENERAL MANAGER
November 12, 1969

Mr. R. 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:

I herewith acknowledge receipt of your kind letter of October 11, 1969
requesting assistance in the revision of the sale or conversion of the

We always like them useful.

Sincerely yours,

[Signature]

General Manager
Quito, November 11, 1969

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:

On behalf of Dr. Correa, I acknowledge receipt with thanks for your letter of October 17, and the enclosed revision of the Table of Comparative Operational Ratios of Development Finance Companies for 1967 and 1968.

Sincerely yours,

Raul Fdez Calle
Financial Manager
Guayaquil, November 11, 1969

Mr. G.H. Shin
Director of Finance, Companies
International Bank for Reconstruction and Development
1818 H Street
Washington, D.C.
U.S.A.

Dear Mr. Shin:

On behalf of Dr. Carlos I. Escobar, representing the Government of Ecuador, I acknowledge receipt with thanks for your letter of October 21 regarding the excellent evaluation of the reports of cooperation and operations of Development Finance Companies for 1967 and 1968.

Sincerely yours,

[Signature]

Henry H. Caffee
Financial Manager
Quito, November 11, 1969

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:

On behalf of Dr. Correa I take the pleasure of thanking you for the descriptive memorandums on Development Finance Companies attached to your letter of October 30, 1969 which will be very helpful to us for a better acknowledge of the Development Finance Companies organization through the world.

Sincerely yours,

Raúl Páez Calle
Financial Manager
November 11, 1969

Mr. B. H. Spain
Development Finance Committee
International Bank for Reconstruction and Development
18th Street N.W.
Washington D.C. 20433

Mr. Spain:

On behalf of Dr. Carson I take this opportunity of thanking you for the assistance and cooperation shown me in connection with the Development Finance Committee's recent letter of October 20, 1969 which will be referred to your office for a better acquaintance of the work of the Development Finance Committee organization through the World Bank.

Sincerely yours,

Raymond F. Ellis
Financial Manager
No. A. 2773/2512

Novembe 10, 1969

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

Dear Mr. Shin:

Thank you very much for the descriptive memoranda on the additional development finance companies as indicated in your letter of October 30, as well as for a copy of the revised table on Comparative Operational Ratios enclosed with your letter of October 17, which extremely useful.

Sincerely yours,

Kraisri Nimmanahaeminda
General Manager

KN:PP:ps
November 10, 1969

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

Dear Mr. Shin:

Thank you very much for the informative memorandum on the collateral development finance companies as indicated in your letter of October 20, as well as for a copy of the revised table on competitive operation ratios enclosed with your letter of October 15, which extremely useful.

Sincerely yours,

[Signature]

Kraisit Nimmanheminda
General Manager

KN: P.P.
Cher Monsieur Shin,

J'ai l'honneur d'accuser réception de votre lettre en date du 29 octobre 1969 par laquelle vous avez bien voulu me transmettre deux copies de la version définitive du memorandum B.N.D.E.

Je vous en remercie, et vous prie d'agréer, Cher Monsieur Shin, l'expression de mes sentiments distingués.

Le Directeur Général

Mohamed BENKIRANE
Mr. B. H. Shin
Development Finance Companies Dept.
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 for your letter of October 30th and the memoranda on development finance companies which came to hand in succession.

We are grateful to you for sending us from time to time the publications which are immensely helpful to us. We also wish to acknowledge receipt of: - "Shadow Prices for Project Evaluation in Less Developed Countries", "Development of Computer Simulation for Project Appraisal", "Statistical Indicators of Levels of Industrial Development", "Project Appraisal in Inflationary Conditions", "The World Bank, IDA and IFC: Policies and Operations", "Trends in Developing Countries", "Commodity Price Trends, 1969 Edition", "Cotton: Current Situation, Major Issues, and Recent International Discussions", and "Cotton Charts: A Graphic Summary", for which our genuine thanks are due.

Thanking you again and with best regards,

Yours sincerely,

Felix S. Y. Chang
President
Mr. B. H. Shin
Development Finance Company
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 for your letter of October 30th and the memorandum on development finance companies which came to hand.

We are extremely pleased to hear from you for sending us from time to time.

We must also thank you for the publications which we are immediately helpful to us.

We wish to acknowledge receipt of:

- "Shahrazad" paper in "Report of the Economic Development Committee"
- "Lesser Developed Countries" report in "Project Approvals" and "Report on Less Developed Countries"
- "Project Approvals in International Conventions"
- "The World Bank, IDA and IFC: Policies and Operations" and "Trends in Developing Countries: Current Situation, Major Issues, and Recent International Discussions" and "Corporation for Global Development" "A Graphic Summary" for which we are very grateful.

Thanking you again with best regards,

Yours sincerely,

Felix S. Y. Cheng
President

November 12, 1969

181-2 CHUNG SHAN ROAD N. SECT., TAIWAN, REPUBLIC OF CHINA
Cher Monsieur Shin,

J'ai l'honneur d'accuser réception de votre lettre en date du 30 octobre ainsi que des 6 mémoires descriptifs supplémentaires concernant diverses compagnies financières de développement.

Je vous en remercie, et vous prie d'agréer, Cher Monsieur Shin, l'expression de mes sentiments distingués. -

Le Directeur Général

Mohamed BENKIRANE
LE DÉVELOPPEMENT ÉCONOMIQUE

R.B. D. 1818, 38th NW
WASHINGTON DC 20433 (U.S.A.)

LE Directeur Général

Mohamed Brahimi

1re expression de mes sentiments distingués.

"Le Directeur Général"

Mohamed Brahimi

1er novembre 1968

R.B. D.
Mr. Richard H. DeMuth

William Diamond

Draft Paper on Pearson Commission Recommendations

Attached herewith is a revision of the "Pearson Paper" on development banks. Except for filling in the blanks, the changes are trivial.

Attachment

cc Mr. Mathew
Mr. Gulhati
DPC File

WDiamond:us
DRAFT PAPER ON PEARSON COMMISSION RECOMMENDATIONS
REGARDING DEVELOPMENT FINANCE COMPANIES

1. Text of Recommendation

"We recommend greater help to development banks and similar institutions in developing countries" (page 179).

2. Background of Recommendation

This proposal appears in a section dealing with project and program aid and follows the main recommendation urging aid-givers, including the World Bank Group, to "recognize the great value, in many cases, of more program aid." In this context, greater use of development banks is viewed by the Commission as another way of mitigating the inefficiencies of the conventional project approach: the latter tends to be biased in favor of large-sized investments to the detriment of the relatively small and widely scattered productive enterprises; this bias can be corrected by channeling aid through development banks situated in developing countries; these institutions can acquire detailed knowledge of local conditions and respond speedily to the needs of the medium and small investors.

Development banks are seen by the Commission not only as convenient retail outlets for dispensing aid from high-income to low-income countries. Their role in strengthening the local capital market is also underscored. In its historical review of the past two decades, the Commission noted the contribution made by such companies in facilitating savings and investment (see page 31). Elsewhere in the report, the importance of the function of financial intermediation is stressed (see pages 64, 65).

3. The World Bank Group's Activity

The World Bank's involvement with development banks dates from 1950 (FY 1951) when it assisted in the establishment of the Industrial
Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the World Bank has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few summary indicators of this activity are cited below to provide a bird's eye view:

a. Altogether, the World Bank Group has helped promote 12 development finance companies and helped reorganize another 6.

b. The World Bank Group has assisted in recruiting key personnel for some development banks and IFC is on the boards of 13 of them.

c. Officials of development banks have received training in the EDI or under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million in 26 companies in 24 countries, consisting of Bank loans (93%), IDA credits (4%) and IFC investments (3%). This sum reflects a rapid acceleration of commitments. Until the end of Fiscal 1963, commitments amounted to only $229 million; in the next 5 years, they totalled $497 million; and in Fiscal 1969, commitments reached $195 million. About 61% of gross commitments had been disbursed. Allowing for repayments and redemptions of about $149 million, the disbursed amount outstanding was $430 million.

\[a/\] The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.
World Bank Group policies towards development banks have been reviewed periodically, most recently by the Board in November 1968; and several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision-making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the World Bank Group. While they once had to be devoted primarily to manufacturing industry, they may now be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year, IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance. (These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.) These developments, all of them involving increased flexibility on the part of the World Bank Group, reflect the importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.

The 28 development banks presently associated with the World Bank Group, commit the equivalent of about $430 million per annum in loans, investments, etc.; and these in turn contribute to a total investment estimated at about $900 million. The vast bulk of these investments assist the manufacturing sector. Judging by the size of the operations, it is fair to say that development banks are financing primarily medium-scale enterprises and, to some extent, small enterprises. Without the intermediation of such institutions, the World Bank Group would not be able to reach a very significant part of the manufacturing sector of developing countries.
The principal objective of the World Bank Group, however, is not simply to find retail outlets for dispensing external finance and technical assistance, but to help build effective investment institutions in developing countries. Hence the Group encourages development banks to be active in mobilizing domestic capital, underwriting securities, subscribing to equities, selling from their portfolios in order to broaden ownership of enterprises, identifying and promoting investment opportunities and assisting entrepreneurs in formulating and carrying out investment proposals.

While some progress has been made on these lines, a great deal remains to be done. Most development banks have not acquired much capability as mobilizers of financial resources and remain dependent on government funds, or on international institutions or on foreign aid. Furthermore, development banks still, in the main, respond to investment opportunities presented to them by their clients and only rarely do they do much in the way of identifying and promoting projects on their own initiative.

Proposed Position with Respect to Recommendation

The World Bank Group fully accepts the recommendation of the Pearson Commission and intends to help development banks to the maximum extent feasible.

The Bank's Five-Year Program already reflects this view. The target for gross Bank and IDA commitments to development finance companies in the period 1969-73 is around $1,500 million, compared with $483 million in the preceding five-year period. In Fiscal 1969, the first year of the period, $193 million were committed. Although there is not yet a projection for IFC operations in this field, there is no doubt that IFC, too, will expand its role in financing development finance companies.

To achieve the target of the Five-Year Program, the number of development finance companies associated with the Group will grow to per-
The expansion in the number of companies, as well as in the volume of operations, is closely related to the changes of policy introduced in the past 18 months and referred to above, which make possible significant expansion of activity with development banks in Africa and in Latin America. In particular, the possibility of lending the government-controlled companies has resulted in the probability that three or four loans will be made to such companies in the present fiscal year. And, systematic exploration has begun of existing small development banks in Africa and of the possibilities of financing such institutions.

This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff dealing with development finance companies, a strain which the Bank has already taken measures to deal with. In Fiscal 1969 the number of professional staff in the Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As mentioned above, World Bank Group policies towards development banks are reviewed periodically as experience accumulates and new problems emerge. In view of the Commission's recommendation to extend greater help to development banks, present policies will be reviewed to make such changes as are necessary to implement the broad development strategy envisaged by the Commission.
November 6, 1969

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:

We acknowledge with thanks the descriptive memoranda on additional development finance companies enclosed with your letter of October 30, 1969.

Sincerely yours,

JOSE P. DE JESUS
Assistant Vice President

JPJ:elm
November 6, 1969

Mr. A. 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:

We acknowledge with thanks the descriptive memoranda
on 2 agricultural development finance companies enclosed with

Sincerely yours,

Jose P. De Guzman
Assistant Vice President

[Signature]
November 5, 1969

Mr. B. H. Shin
International Bank for Reconstruction and Development
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 30, together with which you forward a descriptive memoranda on Development Finance companies. I am grateful to you for this as we often found this information of tremendous value.

Sincerely yours,

P. Clarence Parker, Jr.
GENERAL MANAGER
November 5, 1969

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

Dear Mr. Shim:

I hereby acknowledge receipt of your letter of October 30, together with which you forwarded a descriptive memorandum on SD Development Finance Company. I am grateful to you for this as we often found this information of tremendous value.

Sincerely yours,

[Signature]

P. Clarence Parker II
Manager 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.

Dear Mr. Shin:

Thank you very much for your letter of October 30, 1969 enclosing one copy each of the descriptive memoranda on 13 development finance companies which I have read with interest.

Kind regards,

Yours sincerely,

(SAID AHMED)
Managing Director
November 5, 1969

Mr. B.H. Shanker
Development Finance Companies
International Bank for Reconstruction
And Development
1818 H Street, N.W.
Washington, D.C. 20438
U.S.A.

Dear Mr. Shanker:

Thank you very much for your letter of October 30, 1969, enclosing one copy each of the descriptive memoranda on the development finance companies which I have read with interest.

Yours sincerely,

(Signature)

Majeed Ahmed
Managing Director
Mr. B.H. Shin,
Development Finance Companies,
International Bank for Reconstruction & Dev.,
1818 H Street, N.W.
Washington D.C. 20433,
U.S.A.

Dear Mr. Shin,

This is to acknowledge with thanks receipt of your letter dated October 30, 1969 informing us that you have sent by air-print a copy each of the memoranda on the 6 additional companies.

We have today received the 6 additional memoranda, which will be of great interest to us.

Yours sincerely,

H.F.G. Leembruggen
General Manager
Mr. B.H. Shin,
Development Finance Companies
International Bank for Reconstruction & Dev.
1234 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin,

This is to acknowledge with thanks receipt of your letter dated October 30, 1969, informing us that you have sent preventive
a copy each of the memoranda on the additional commitments.

We have today received the additional memoranda which
will be of great interest to us.

Yours sincerely,

[Signature]

General Manager
Our Ref: LIB\GEN

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,

I write to acknowledge with thanks your two letters of the 17th and 21st ultimo addressed to Mr. Loganathan, forwarding the revision of the Table which you had sent us earlier on Comparative Operational Ratios of Development Finance Companies, and a copy of Economic Department Working Paper No. 49, entitled "Cotton Charts: A Graphic Summary of Postwar Trends in the World Cotton Economy," dated October 3, 1969.

This material will make interesting reading to all of us at DFCC and will be useful additions to our Library.

We have also noted the contents of the second paragraph of your letter of the 21st ultimo.

Yours sincerely,

J.S.E. de Fonseka,
ASSISTANT GENERAL MANAGER (LOANS)

JSEdeF:SG.
Mr. Ravi Gulhati

November 5, 1969

B. H. Shin

Progress Report on my Compilation

Since June 1968, I have been reporting on a semi-monthly basis to Mr. Mathew a list of information I was supposed to receive, but had not actually received from each Division. Mr. Mathew has asked me to give you such a list from now on. Therefore, I am sending you this memorandum.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
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<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
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<td>Colombiana, Nacional and Norte Garcia</td>
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<td>2. Procedures for obtaining investment licenses</td>
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<td>a) Austria, Finland, Greece, Malaysia, Spain and Turkey Gustafson</td>
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<td>b) Israel, Korea and Liberia Powell</td>
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<td>c) Ethiopia Sekse</td>
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<td>3. New Descriptive memorandum</td>
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<td>Caldas, Nacional, Norte and COFIEC Garcia</td>
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</tr>
</tbody>
</table>

cc: Division Chiefs
Our Ref: LIB/GEN.

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,

I write to acknowledge with thanks receipt of the descriptive memoranda on the 7 additional companies listed in the attachment to your letter dated 30th October 1969, addressed to Mr. Loganathan. The descriptive memoranda on 16 development finance companies which you sent to us on August 7, 1969, were also received and we thank you for same.

I also acknowledge receipt of the following literature which you had referred to in your letter dated September 25, 1969, addressed to Mr. Loganathan:


The above material will make interesting reading to all of us at DFCC and will be useful additions to our Library.

The contents of the second paragraph of your letter dated 25th September, have also been noted.

Yours sincerely,

S. Kanagaratnam,
ASST. GENERAL MANAGER (ADMIN.)

SG.
November 4, 1969

Dr. Bernd Nuernberg
Manager
Investment Control Department
German Development Company
5 Koeln-Lindenthal 1
Duerener Strasse 295
Germany

Dear Dr. Nuernberg:

Many thanks for your letter dated October 24, 1969.

You are quite right in pointing out that a number of problems remain to be solved in connection with the economic evaluation of projects. Regarding the specific points you have mentioned, I have the following thoughts:

1) We have not as yet come to any conclusion regarding permissible rates of protection in general or for different industries. We make judgments on a case by case basis, taking into account the nature and magnitude of external economies that may be expected.

2) The shadow rate of return on capital is applied gross of direct taxes, regardless of the type of industry or project.

3) The shadow rate of return on capital would, of course, vary from one country to another.

Many thanks for sending me the published material concerning your company which I am sure will be useful to me.

Thanking you very much,

Yours sincerely,

Ravi Gulhati
Chief Economist
Development Finance Companies

c.c. Mr. Gustafson

RGulhati:plm
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 the descriptive memoranda on development finance companies which you mention in your letter dated October 30.

I find the memoranda very useful and interesting.

Sincerely yours,

Jaakko Lassila

JL/rr
Helisinki, November 4, 1969

Mr. B.H. Shin
Development Finance Companies
International Bank for Reconstruction and Development
1866 H Street N.W.
Washington, D.C. 20433
U.S.A.


Dear Mr. Shin,

This is to acknowledge the receipt of the accompanying
memoranda on Development Finance Companies which
you mentioned in your letter of October 30.

I find the memoranda very useful and interesting.

Sincerely yours,

Jasenko Laszlo
Bogotá, D.E., November 4th, 1969

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 of October 30th and of the descriptive memoranda on nine additional finance companies which you kindly sent us. Needless to say that they are most interesting documents that will prove to be very useful.

Thanking you again for this remittance, I remain,

Cordially yours,

IGNACIO COPETE LIZARRALDE
President
BOGOTA, D.E., November 4th, 1968

Mr. B. H. Shin
Development Finance Companies
International Bank for Reconstruction
and Development
18th H Street, N.W.
Washington, D.C., 20433

Dear Mr. Shin,

I acknowledge receipt of your letter of October 30th and of the enclosed memoranda on these additional finance companies which you kindly sent us. Needless to say that they are most interesting documents that will prove to be very useful.

Thanking you again for the remittance, I remain

Yours,

Ignacio Cepeda Letarralde
President

1969 Nov. 7. AM 8:33
General Files
Deemed
OFFICE MEMORANDUM

TO: Files
FROM: Einar Sekse

DATE: November 4, 1969

SUBJECT: Assistance to Development Banks in Africa

1. Representatives of Eastern and Western Africa Departments (Messrs. Halbe and Paijmans), Agricultural Credit (Mr. Goffin), IFC (Mr. Kreuter), and DFC (Messrs. Girin, Guetta, and Sekse) met, on October 29, 1969 to discuss Mr. Guetta's paper of October 9 on development banks in French-speaking Africa. This is a summary of what I think was the upshot of the discussion on some main points, with a few additional comments of my own. Attached is also a note from Mr. Paijmans summarizing his main observations.

2. **Strategy of Bank Approach.**

   There were no real differences of views on the general question of how the Bank should set out on the task of assisting African development banks. The principal conclusion, to which all agreed, was that each case would have to be considered on its own merits, and recommendations suitable to each case be made. However, as Mr. Guetta had pointed out, the course of action taken in one country was almost certain to be considered by other countries as a precedent. Paijmans felt that Guetta's paper implied too much of an intention to apply a standardized solution to all cases. It was pointed out that this was not intended. While the paper points out the necessity of having certain general guidelines for the types of institutions and institutional activities the Bank will be prepared to assist, it fully recognizes the need to take into account the differences in the economic, institutional, and investment environments, and to work out solutions which are suitable to those environments.

3. **Specialized vs. Multi-Purpose Institutions.**

   There was general agreement that very few of the African countries we are talking about ("new" countries) could, for the time being, afford the luxury of specialized investment institutions for industry, agriculture, and possibly other economic sectors, such as tourism. Congo-Kinshasa is the most likely exception. We will therefore in most cases have to work toward the strengthening of existing multi-purpose institutions, or possibly (e.g. in Niger) toward a merger of specialized institutions for which there is scant justification.

4. **Internal Bank Group Coordination of Work.**

   There was also general agreement that the Bank Group, in its work with development banks, must operate as a coordinated entity, and not as a number of separate departments. Area Departments will have a main role in ensuring the coordination among the various other departments concerned (DFC, Agricultural credits, Tourism, Industrial Projects, Agricultural Industries) and IFC.
Whoever makes the appraisal, standards and requirements should be consistent, unless there are valid reasons for differentiation.

5. "Multi-Purpose" Bank Loans?

The DFC representatives raised the question of whether Bank loans to development banks in Africa would not have to become increasingly "multi-purpose" in character, i.e. that they could be used for worthwhile investments in any economic sector, but possibly after special sector and project studies and identification by the project department concerned. An agricultural credit, a tourism credit, and an industrial credit might thus be merged into one loan, of which a certain portion or portions might be earmarked for specific projects (agriculture, tourism) while the remainder would be freely usable for good projects in any sector, (or, alternatively, only in industry). Countries like Mauritania, Mali, et al, would probably not have sufficient prospects of new investments in any one economic sector to make sectorial credits through development banks practicable.

Mr. Goffin questioned the practical advantage of such an approach and had, in any event, strong reservations against leaving the appraisal of agricultural projects to the development banks themselves. He is here in line with similar views expressed by Mr. Postel-Vinay of CCCE.

As an added comment here, I continue to think that the possibility of "joint ventures", in particular between Agricultural Credit and DFC Dept., should be considered in our forthcoming review of development banks in the very small African countries.

6. Regional Development Banks.

Mr. Paijmans here went against the view expressed by Mr. Guetta, in his paper, that the Bank should actively pursue, and take a leading role in, the creation of new regional development banks. In certain circumstances, however, (see paragraph 9 of his attached paper) Mr. Paijmans could also see the justification of a regional institution. As a comment a posteriori, I doubt that many possibilities exist in Africa today for the EADB-type of a regional development bank. The African Development Bank is "regional" enough, but has difficulties in finding financeable projects. The "central bank" idea, mentioned below, might stand better chances of some success.

1/ Noting here that past dfc-loans have long been "multi-purpose" in principle, but in practice mostly used either exclusively for industry, or for industry and tourism.
7. **The "Central Bank" Idea.**

   This idea is based on working with the local development banks in their financing of projects, but through a central intermediary between the local development banks in a certain region or area and the Bank Group. One possibility, mentioned by Mr. Paijmans, would be to use the regional central banks (for West Africa and Equatorial Africa) as the central intermediary. Another would be to create one or more new "central banks for development banks".

   Our meeting did not discuss the possible mechanics of such arrangements. They would obviously have to be thought through and planned with great care. Simply making a loan to a regional central bank, for redistribution to local development banks on project basis, would not be satisfactory, in my view, because (a) the central bank would probably not accept any responsibility for the adequacy of the project appraisal, and (b) even if it would, we would find it difficult to rely on the central bank in this respect.

   An arrangement of this type would therefore, in my view, have to be combined with special technical assistance services for project appraisal, decision to finance specific projects, and supervision of projects. How this might be organized is outside the scope of this paper.

8. **Agricultural Credit.**

   Mr. Goffin explained that as far as the Agricultural Credit Division was concerned, their plans of operations in French-speaking Africa is indicated in the Lending Program: Senegal, Madagascar, Niger, Ivory Coast, and possibly Chad. He did not now envisage any initiative elsewhere.

---

**cc:** Mr. Diamond
       Mr. Mathew

**cc:** Mr. Girin
       Mr. Goffin
       Mr. Guetta
       Mr. Halbe
       Mr. Kreuter
       Mr. Paijmans
       Mr. Simmons

ESekse;ld
Attachment
Basic Review

1. It seems not advisable, if not impossible, to approach the subject of "Development Banks in French-speaking Africa" on a continent-wide basis. The similarities between the countries concerned are often merely institutional. Countries, resources and populations are too different as to allow such an approach though there may be cases in which some regional consideration may be justified or worthwhile.

2. Each development bank or similar institution should be seen in the framework of the banking system in the specific country in question. The prevailing central bank rules, the existence of short-, medium- and long-term credit institutions, the character, potential and resources of those institutions and the economic framework in which they operate with regard to, for example, the government's economic policy and local savings should all be taken into consideration before expressing a view on how a specific development bank or similar institution in a given country should be handled or advised.

Scope

3. In most countries under consideration, the scope of the economy is rather limited so that a multi-purpose institution would seem a priori the most reasonable proposal, in only some cases there may be sufficient scope to allow for a certain degree of specialization (a separate agricultural credit section, or a completely independent agricultural credit institution).

4. Answers to questions such as whether or not development banks should provide services to governments for example in the form of management of social funds, or to questions such as to what extent the development bank should be active in the field of short-term credit, will also vary from country to country. This will also be the case with respect to the development banks' involvement in handicraft enterprises which are felt to be of great importance, often being the only local training ground for African entrepreneurship; this sector will, however, need a precise definition in order to determine a possible role for development bank financing in this field. Consequently, different development bank policies may be required in different countries, and each case will have to be judged on its own merits.

5. Once a complete review along the above-mentioned lines is undertaken, it will be possible to catalogue all the existing institutions and to draw up the main characteristics of the respective fields in which they have to function. There is ample basic material available to determine these frameworks in a satisfactory way (for example, the EEC study on Possibilités d'industrialisation des États Africains et Malgache and the ECA work on industrial development).
Assistance

6. On the basis of the review it will be possible to select a number of countries (probably Cameroon, Congo (K), Gabon, Ivory Coast, Madagascar, Senegal) in which it may be possible to provide, on a relatively short term, assistance to a multi-purpose institution or to a very strictly limited number of specialized institutions. As already mentioned, it is felt that a policy of advocating several specialized institutions should be followed with the utmost caution and that emphasis on one multi-purpose institution is preferable, taking into consideration the size of the economies involved and the scarcity of the resources available with perhaps the Congo (K) as an exception. Potential intervention in this group of countries will have the greatest chance for success and might therefore be given priority.

7. When providing active assistance to these selected development banks, it is suggested that the general function of the existing banks should be intact, for example, they should not be forced to stop their revenue earning activities in the field of the short-term credit. Technical assistance will have to be provided to a substantial degree but not so much in the financial field as in the economic field. The guiding principle for the development banks' activities should be to help their countries in establishing, promoting and implementing a suitable and economically justified industrialization policy.

8. A second category of countries, resulting from the review stage, would group those in which there is little scope for the local banks to finance development in the industrial sector, agriculture is and will remain for a long time the mainstay of these countries' economies. Apart from the agricultural credit aspect, development banks in these countries will mostly play a token role. They may, however, deserve some Bank Group support but this will very seldom be able to be anything more than just a token support. A way in which Bank Group's assistance to these small institutions might be feasible, taking into consideration the size of the foreseeable demand, may be by grouping this demand and by providing a general line of credit to the area's central bank which credit could be drawn upon for refinancing purchases initially financed by the local development banks when assisting the establishment of small local or eventually regional industrial projects.

Regional Development Banks

9. Regarding regional banks, it is felt that, owing to the reasons explained above (i.e., the diversity of the factors involved) a bank covering a great number of countries is not an easy solution; also, such a bank risks becoming too heavy an institution, too rigid and prone to be subject to political pressures. However some kind of a regional approach may be justified. On the condition that a regional bank would be for the financing of industrial development exclusively and would function within the framework of an industrial common market - however small in size it may be - and in which strict fiscal discipline is respected (too often have unrealistic fiscal privileges allowed or even encouraged, the establishment of unrealistic undertakings). Consideration of the link: potential project - prevailing investment code, is thought to be of vital importance.
10. During this review and even more so when actively providing assistance to development banks at a later stage, it is important that all the Bank Group departments active in these fields move in a coordinated fashion (IFC, DFC, Industrial Projects Department, Agricultural Projects Department, Credit Division and Agricultural Industries Division). Coordination by Area seems to be the best guarantee in this respect.

October 29, 1969
On the Flow of Funds in Industrial Sector
In Selected Countries

1. You said that you were interested in the flow of funds, i.e. the uses and sources of funds, in the industrial sector in the countries in which the development finance companies financed by the Bank Group are operating. You asked me to review Bank's economic reports and our appraisal reports and collect information on the subject for the following ten countries, namely China, Colombia, Greece, India, Korea, Nigeria, Pakistan, Philippines, Thailand and Turkey.

2. I have reviewed 19 economic reports and 17 appraisal reports (see Attachments). It is found that only five economic reports and five appraisal reports contain such data. Though many of the economic reports provided the data on the public sector, they failed to do the same for the private industrial sector. Also many reports contain data on uses of funds within the industrial sector, but do not give the sources from which the funds came. In many reports some idea was given of the volume of operations of financial institutions, but no mention was made of what proportion of the total financing was for fixed capital formation, for changes in inventory and for warehousing purposes.

3. The five economic reports that contain the relevant data are on India, Colombia, Korea, China and Nigeria 1/. The quality of the data varies markedly among the countries. In the case of Nigeria only crude estimates on the sources of financing were given while for Korea and India a more sophisticated format was used, identifying the sources of funds, i.e. internal sources - depreciation and retained profit on one hand and external sources - increase in share capital, borrowing from financial institutions, issue of debentures, etc. on the other hand. However, the reporting of such data was not routine practice even for the country on which such data were once prepared. For instance the data contained in the 1966 country economic report on Korea was discontinued in the 1968 report.

4. The appraisal reports on development finance companies under review usually discussed in detail the financial structure, the function of individual financial institutions and the contribution of these institutions to the industrial sector. However, due to a lack of reliable data, most of them left out the statistics on the requirements of funds for industrial investment and the proportions shared by these institutions. Only five reports 2/took up this aspect. Three of them described only the company's

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2/ These are reports on India (DB-37a, August, 1967), Turkey (DB-29a, June, 1966), Colombia (DE-10a, May, 1968), China (DE-13a, December, 1966) and Philippines (DE-51a, June, 1969).
share in private fixed investment while the remaining two, the Indian and Colombian reports, presented data on a somewhat broader basis.

5. I talked with a few of the economists who were responsible for the economic reports under review (many are currently out of the country) to find out why the flow of funds data were not dealt with in the economic reports. According to them, the main reason lies in the difficulty of getting reliable data, although I suspect that questions of priority may be involved.

6. The scarcity of flow of funds data in industry appears to be equally true in publications outside the Bank Group. Miss San Lin has searched for the data on those ten countries in the Bank-Fund Joint Library. She has found only two publications on the subject, namely on India and Thailand.

7. I inquired from Messrs. Kalmanoff and Please whether they do have any data on the subject which we do not know of. Their replies were in the negative. In this respect Mr. Please told me that his Division had been interested in the subject, would make efforts to provide such information in the future, and would pass on to us whenever available.

8. The reviews that I and Miss San Lin have made of the flow of funds data are filed in my office and similar reviews in the future will also be filed.
Economic Reports Reviewed in Search for the Fund-flow Data on Industry

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Appraisal Reports Reviewed in Search for the Fund-flow data on Industry

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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  

We acknowledge with thanks the receipt of your letter dated October 30, 1969 and the descriptive memoranda on the additional development finance companies.

We found them interesting and we are sure they will be useful in our studies.

With best regards.

Sincerely yours,

TÜRKİYE SINAI KALKINMA BANKASI A. Ş.
November 3, 1969

Mr. H. Spil
Development Finance Committee
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20432
U.S. of America

Dear Mr. Spil:

We acknowledge with thanks the receipt of your letter dated October 30, 1969 and the advice, attached memoranda on the U.S. assistance development finance committee.

We found them interesting and we are sure they will be of interest in our studies.

With best regards,

[signature]
November 3, 1969

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

Dear Mr. Ahmed:

Thank you very much for your letter of October 25 regarding the PICIC's dividend rate for 1968 indicated in the table, Comparative Operational Ratios of Development Finance Companies, 1967 and 1968.

As you correctly pointed out, the 8.5% rate was the ratio of the total amount of dividend paid by PICIC to the year-end share capital, without taking into account the increase (Rs 10 million) in share capital that had taken place during the year. It was an error. We will correct it to 10% when we revise the table in the future.

I am most grateful for your calling this to our attention.

Sincerely yours,

B. H. Shin
Development Finance Companies

cc: Mr. Southall (with incoming letter's copy)
October 31, 1969

I give below the information requested in your memorandum of October 31.

<table>
<thead>
<tr>
<th>Company</th>
<th>Audit Report</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Finance Corporation of Ceylon</td>
<td>&quot;long-form&quot;</td>
<td>Only one &quot;long-form&quot; report received so far, that for fiscal year ended 1969. DFCC under no contractual or other obligation to submit in this form.</td>
</tr>
<tr>
<td>Industrial Development Bank of Israel, Ltd.</td>
<td>&quot;short-form&quot;</td>
<td></td>
</tr>
<tr>
<td>Korea Development Finance Corporation</td>
<td>&quot;long-form&quot;</td>
<td></td>
</tr>
<tr>
<td>Liberian Bank for Industrial Development and Investment</td>
<td>&quot;short-form&quot;</td>
<td>Sent &quot;pursuant to Section 5.03 of the Loan Agreement&quot;, although not strictly required in this form.</td>
</tr>
<tr>
<td>Private Development Corporation of the Philippines</td>
<td>&quot;long-form&quot;</td>
<td>Sent in this form by arrangement.</td>
</tr>
</tbody>
</table>

cc: Mr. Mathew
Mr. Robert S. McNamara

J. Burke Knapp

October 31, 1969

DFC Activities in Africa, FY 69 and FY 70

One of the subjects on our agenda is to discuss with Bill Diamond the possibility of incorporating in our lending program to some of the smaller African countries loans or credits to local "general purpose" publicly-owned development banks.

During the last two or three years this has been one of the requests made by the African Caucus and we have kept saying that in principle we would be prepared to engage in this form of lending. The attractiveness of this course is that it could provide a channel for meeting real "grass roots" needs in the countries concerned. The difficulty is to find or develop local institutions in whose operations we could have sufficient confidence; this sets us a task for which we are ill equipped in man power.

Could Mr. Diamond and I discuss this with you at an early opportunity? Attached as background for such a discussion is a note on DFC activities in Africa during FY 69 and FY 70.

Attachment

cc: Mr. Diamond
December 31, 1969

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 revised table on the "Comparative Operational Ratios of Development Finance Companies, 1967 and 1968".

We have found these ratios quite useful to us in determining how we compare with the other 26 DFCs.

Very truly yours,

LUIS V. SISON
Senior Vice President-Treasurer

LVS: cms
October 31, 1969

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

Dear Mr. Shinn,

This will acknowledge with thanks the receipt of the

revised table on the "Comparative Operating Ratios of

We have found these ratios quite useful to us in
determining how we compete with the other 50 DFCs.

Very truly yours,

Luis V. Sison
Senior Vice President-Treasurer

LV5: 69
1969 NOV 5 PM 2:16
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: J. Burke Knapp
SUBJECT: DFC Activities in Africa, FY 69 and FY 70

DATE: October 31, 1969

One of the subjects on our agenda is to discuss with Bill Diamond the possibility of incorporating in our lending program to some of the smaller African countries loans or credits to local "general purpose" publicly-owned development banks.

During the last two or three years this has been one of the requests made by the African Caucus and we have kept saying that in principle we would be prepared to engage in this form of lending. The attractiveness of this course is that it could provide a channel for meeting real "grass roots" needs in the countries concerned. The difficulty is to find or develop local institutions in whose operations we could have sufficient confidence; this sets us a task for which we are ill equipped in man power.

Could Mr. Diamond and I discuss this with you at an early opportunity? Attached as background for such a discussion is a note on DFC activities in Africa during FY 69 and FY 70.

Attachment

cc: Mr. Diamond
October 16, 1969

DFC Activities in Africa, FY 69 and FY 70

A. Fiscal 1969 and Until 1969 Annual Meeting

1. New Loans or Investments
   a. $15 million to BNDE Morocco, November, 1968.
   b. $ 6 million to NIDB Nigeria, March, 1969.

2. Appraisals and Negotiation Relating to Companies already associated with the Bank Group.
   a. SNI, Tunisia, in March/April 1969, to appraise the company for $10 million loan. Negotiations have just been completed and the loan is scheduled for November 1969.
   c. BNDE, Morocco, in May and September 1969, to appraise the company for a $15-19 million loan scheduled for December 1969.
   d. LBIDI Liberia, in August 1969, to appraise the company for a $3.5 million loan which, however, can be recommended only under certain conditions.

3. Additional Promotional and other Activities
   a. Burundi. A mission in April 1969 reviewed the operations of the BNDE, for which UNDP is providing technical assistance in project formulation and appraisal.
   c. East Africa. A visit in May 1969 to advise the East African Development Bank on organization, staffing and procedures.
   d. Ethiopia. A reorganization of investment finance institutions is under way. At the Government's request, a staff member visited Addis in May 1969 to advise on, and to help organize the task.
   e. Kenya. A staff visit in May 1969 to discuss with the Government lending to ICDO.
   f. Somalia. A mission in May 1969 reviewed the Somali Development Bank and presented a proposal for reorganization of SDB on lines which would make it suitable for a Bank loan.
g. Uganda. The Uganda Development Corporation was visited and the possibility of Bank assistance discussed.

h. Other Developments.

(i) During discussions with Mr. Postel-Vinay, head of the French Caisse Centrale de Coopération Economique (CCCE) in April and October 1969, it was agreed that CCCE and the Bank will endeavor to co-ordinate their assistance to development finance companies in French-speaking Africa. Concretely, our planned missions to Mauritania, Senegal, Cameroon, and Madagascar, are to be carried out in consultation with CCCE.

(ii) In September 1969, Mr. Serge Guetta, formerly of STB, Tunisia, who has had considerable experience in working with development finance companies in French-speaking Africa, joined the Bank's staff, and has contributed to the formulation of an action program.

B. Activities Already Scheduled or Visualized for FY 1970

1. Botswana. Following discussions during the Annual Meetings, we agreed to study and comment on papers to be sent to us regarding the proposed new Botswana Development Corporation.

2. Congo (Brazzaville). We agreed, during the Annual Meeting, to visit Brazzaville to review the possibility of assisting the National Development Bank.

3. Congo (Kinshasa). The proposed development finance company should come into existence in 1970. The Bank has found a Director General, and will assist in finding shareholders and senior staff.

4. East Africa (East African Development Bank). Following our staff visit to advise on reorganization, we have agreed to remain in touch with EADB and to provide advisory help whenever possible. A staff member from Legal Department will probably visit EADB in November 1969 to assist with legal organization and training.

5. Ethiopia. The Minister of Finance asked for Bank assistance in merging the two development finance companies. We have arranged to provide it, initially with a staff visit in November 1969.

6. Gabon. Although no request has been received for assistance to the Gabonese Development Bank, we hope to be able to arrange a staff visit to it before the end of 1970.


8. Ghana. Preliminary discussions were held, during the Annual Meeting, on possible Bank financing or other assistance to the National Investment Bank (NIB). The matter was left that NIB will send us information about its position and outlook to help us decide on the next steps. A preliminary visit is tentatively scheduled for early 1970.
9. **Ivory Coast.** An end-use review of BIDI is scheduled for November 1969.

10. **Kenya.** Following our May 1969 visit, ICDC has now sent the Bank a "draft" loan application. Further steps by us will be decided on after study of this document.

11. **Lesotho.** Draft legislation for a National Development and Savings Bank was given to us, during the Annual Meetings, and we have promised to comment on it, and to keep an eye open for possible management candidates.

12. **Liberia.** We are working with LBIDI to try and solve its management problems and pave the way for a Bank loan.

13. **Malagasy Republic.** One of the two Government investment companies, SNI, is having financial difficulties and we were requested, during the Annual Meeting, to help work out a solution. To start with, an economic mission, scheduled for November 1969, will get more information about the investment outlook and need for financing. A special DFC mission is foreseen for sometime during the first half of 1970.

14. **Mauritania.** A mission is scheduled for November/December 1969 to advise the Government on the reorganization of the Banque Mauritanienne de Développment.

15. **Mauritius.** The Government wants our help in transforming the Development Bank into a creditworthy borrower for tourism and possibly other investments. A review mission has been tentatively scheduled, its timing depending on staff (or consultant) availability.

16. **Morocco.** Loans to BNDE and CIH as mentioned before. An end-use review of BNDE is scheduled for April 1970.

17. **Nigeria.** An end-use review of NIDB is scheduled for November 1969. There is a possibility of a $12 million loan late in FY 1970.

18. **Senegal.** A mission is scheduled for January 1970 to advise the Government on suitable arrangements for investment finance.

19. **Somalia.** The Government, during the Annual Meetings, said it would reconsider our proposal for strengthening of SDB, and we reaffirmed our willingness to give technical assistance in this, provided a reasonable common basis for a program could be worked out. We are waiting to hear more from the Government in this matter.

20. **Sudan.** We have agreed to review the Industrial Bank of Sudan to determine how the Bank might be able to help it. A preliminary visit is scheduled to be made in November 1969.

21. **Swaziland.** A Bank Economic mission scheduled for February 1970 has been asked to give special attention to investment opportunities and potential business for a proposed dfc.

22. **Tunisia.** Loan to SNI as mentioned before. An end-use review of SNI is scheduled for April 1970.
23. **Uganda.** During the Annual Meeting, **UDC** expressed interest in receiving a Bank loan, and a review of it has been tentatively scheduled for May 1970.

24. **Union Africaine et Malgache de Banques Pour Le Développement (UAMBD).** We have agreed that a staff member will attend the Annual meeting of UAMBD to be held in Yaoundé, Cameroon, in June 1970, to exchange views and information. UAMBD has as members 11 development banks in as many French-speaking countries (Cameroon, CAR, Congo-Brazzaville, Dahomey, Gabon, Upper Volta, Madagascar, Niger, Senegal, Chad, Togo).

25. **Cameroon.** A staff member will join the March 1970 Economic Mission to examine possibilities of Bank assistance in investment financing.
Mr. William Diamond,
Director,
Development Finance Companies
Department
International Bank for Reconstruction
and Development
1818 H. St., N.W.
Washington, D.C.

Dear Mr. Diamond,

You may recall that I had written to you in June requesting permission to use the published reports of the Development Finance Companies with which you cooperate in connection with my dissertation.

This is a brief note to let you know of the progress I have made. I spent Monday of last week in the office of Mr. B. H. Shin going over some of the finance company reports. Mr. Shin was most helpful both in his advise and in making the information available. As a consequence, my trip was more fruitful than I had anticipated.

My plans are to try to get into your office for a day every two or three week until the end of the semester, and then in December and January to spend whatever time is necessary to go through the remaining reports and any other available information. Following this I expect to begin an analysis of the data.

I would hope at some time in the future to have the opportunity to discuss some of the analysis with you, and later to provide you with a copy of the completed document.

May I again express my appreciation for the opportunity to make use of your facilities.

Very Sincerely,

Joseph A. Kane
Department of Economics
LA SALLE COLLEGE
PHILADELPHIA PA 19141

October 30, 1969

To: Mr. William Molloy
Director
Development Finance Committee
Department of Education

I am writing to you to inform you of the progress I have made in regard to the information you requested in connection with the Development Finance Committee.

This is to inform you that I have received and processed the information you requested. I have been working closely with the Finance Committee and have included all the necessary information in my report. I am confident that this information will be of great value to your committee.

I would like to request that you provide me with your feedback on the information I have included in my report. I am eager to hear your thoughts and suggestions on how to improve the information I have provided.

I appreciate your time and consideration of this request.

Very truly yours,

[Signature]

[Name]
Department of Education

1969 May 3, AMII: 11

RECEIVED

[Stamp]
October 30, 1969

Dear Dr. Helmer:

Since I came back to Washington some of my colleagues and I have been giving further thought to the proposals you made for cooperation with the Bank in research and in particular for Bank support for a simulation laboratory to assess alternative development strategies in less developed countries. I mentioned to you before I left that I could not be optimistic about the Bank's readiness to support such a program at the present time and I have now to confirm that view. The Bank is a lending institution and has adopted the general principle of not making grants, believing that this is best left to foundations and other institutions set up specifically to handle financing of this kind.

Quite apart from that, however, we question the applicability of your approach to the field of economic development at least for the present. In our view, it would be premature to undertake such a highly organized approach as you are suggesting to the collection of data on social indicators or to the analysis and simulation of development, given the present and probable near-future state of knowledge about the systems and processes concerned. The successes of systems analysis in engineering and military applications have been achieved with the support of ample scientific and engineering data and well-verified theories. Similar foundations do not yet exist in the field of development and probably will not for a good many years. In our view this has been one of the clearest conclusions from the attempts that have already been made to transfer systems analysis methodology to these problems. We think much more needs to be learned about the sub-systems before trying to grapple with the whole and that most of the knowledge required will have to come from research in the field rather than in a laboratory.

I regret that I have to give you such a negative reply and wish to thank you and your colleagues again for the time you spent with me in Middletown. I would be interested in seeing how your program develops and in particular how your study on Connecticut goes.

Sincerely yours,

Alexander Stevenson
Deputy Director
Economics Department

Dr. Olaf Helmer
The Institute for the Future
Middletown, Conn. 06457

cc: Messrs. Christoffersen, Henderson
October 30, 1969

Mr. William I. Singleton
736 Sherburn Street
Winnipeg 10, Manitoba

Dear Mr. Singleton:

Thank you very much for your letter to Mr. Diamond of October 19 concerning readings on development banks.

Sometime ago a staff member of this Department prepared a preliminary annotated list of works on the subject, entitled "Preliminary Bibliography on Development Banks" March, 1969. I am enclosing a copy of it which you may find interesting and useful.

There are many topics you might pursue for the M.A. thesis. After reviewing the attached bibliography, you will be able to make your choice.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosure

BEShin/Mulhati: jpk
Dear Mr. Shin:


With regard to the ratio of Non-current Conventional Debt in relation to Equity plus Quasi-Equity, we noted that in its calculation you excluded from quasi-equity (i.e., three 100-million CPT loans) all maturities falling due prior to the estimated last maturity of the IBRD loan, and added them to non-current conventional debt (i.e., all long-term debts other than CPT). That we fully agree.

With best regards,

Sincerely yours,

Sincerely,

Ken Shen
Vice President

181-5 CHUNG SHAN ROAD N., SECTION 2 TAIPEI, TAIWAN, REPUBLIC OF CHINA
Mr. Shin

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

Dear Mr. Shin:


With regard to the ratio of non-current loans tied to dollar-denominated currencies, we noted that in its calculation you excluded from dollar-denominated loans (i.e., those 100-million CTF loans with maturity falling five years from now) congratulations on the non-current long-term debts (i.e., all long-term debts other than CTF) for the period of the initial five years. I note, however, that we fully agree.

With best regards,

Sincerely yours,

Yen Shen
Vice President

1969: Nov. 3 Pn 4:55

General Files

1969 - 2 CHUNG SHAN ROAD M. SECTION 2 TAIPEI TAIWAN REPUBLIC OF CHINA
Mr. B.H. Shin,
Room A 240
Development Finance Company
Department
World Bank
Washington, D.C.

Dear Mr. Shin,

This is a somewhat belated note to thank you for your most gracious assistance during my visit to your office, October 20th. Your advise in selecting a representative cross section of Finance Companies, and in making available their published reports made my trip even more successful than I had anticipated. May I also thank your secretaries, especially Mrs. Kiminas, who get the correct bus on the way home.

I am looking forward to another trip to your office in the near future.

Very sincerely,

Joseph A. Kane
Department of Economics
Dear Mr. Smith,

This is in response to your note to thank you for your most generous assistance during my visit to your office, October 50th. Your assistance in selecting a new life insurance policy was very helpful.

I am looking forward to another trip to your office in the near future.

Very sincerely,

Joseph A. Kane
Department of Economics
Mr. J. Burke Knapp  
October 30, 1969  

William Diamond  

Revised draft memorandum for the Board  

Attached is a revision of a draft memorandum to be sent to the Board on two aspects of development bank policy. The critical difference between this draft and the previous one is in the handling of the question of "rate of return" for help on which I must thank Yves Rovani.

Attachment

cc: Messrs. Cope  
Baum  
Evans  
Rovani  
Mathew  
Gulhati

WDiamond:jmb
DEVELOPMENT FINANCE COMPANIES

Memorandum on

Government Financing of Such Companies and

on the Interest Rates They Charge Their Borrowers

1. When the Executive Directors met on July 15, 1969 to consider a loan to the Development Finance Corporation of Ceylon (DFCC), a question was raised concerning the wisdom of interest-free government loans and a statement of the Bank's policy on the subject was asked for. At the same meeting, certain Executive Directors considered that the interest rate charged by DFCC on rupee loans was too low. On a previous occasion, on March 4, 1969, when a loan to the Industrial Development Bank of Turkey was under consideration, an Executive Director asked for a statement of the World Bank's policy regarding interest rates charged by the development finance companies (DFCs) which borrow from it.

2. The two questions, concerning low-cost funds provided by Government and the interest rate charged by DFCs, were discussed briefly in the President's Memorandum on "Policies of the World Bank Group Towards Development Finance Companies," R68-204, November 1, 1968. As they are closely related, they are here dealt with together.

Background

3. The Bank's underlying objective in promoting and financing DFCs is "to help build effective investment institutions which can channel domestic savings and external capital into productive private enterprises, thus contributing to the growth of the private sector and to the development
of the capital market and through them to the economic development of member countries" (p. 2, R68-204). Accordingly, the appraisal of a proposal to lend to a DFC is centered on the institution itself, rather than on the end-uses to which the Bank's funds are put, which would be the sum of the individual projects (sub-projects) to be financed by the DFC with the proceeds of the Bank loan. This approach is reflected in the economic and financial criteria applied in assessing the work of a DFC.

4. **Economic Criteria.** From the economic point of view, the suitability of a project for Bank financing is ordinarily judged by reference to its yield to the economy, i.e., to the discount rate which, over the life of the project, would equalize the streams of estimated costs to the economy required by the project and of benefits to be derived from it. To apply this criterion to a DFC loan would require that all the costs, capital and operating, and all the benefits of all sub-projects which the Bank loan would be used to finance, be aggregated to result in a single return. It is theoretically possible to do this, but it is hardly feasible and of doubtful value in view of the diversity and complexity of private investment projects (and in view of the fact that they cannot be defined in advance with any degree of accuracy).

5. Instead, the approach followed is to influence the criteria applied by the DFC in selecting its investment projects. This is done in several ways: first, by agreeing in advance on the DFC's general policy with respect to project appraisal; then, by requiring Bank review of larger projects (the size depending on the maturity of the IFC and on the Bank's experience with it) before the DFC may use the funds to finance those projects; and, finally, by paying particular attention, in follow-up visits,
to the care with which DFCs appraise the applications before them and to the nature and quality of the ensuing portfolio. In addition, the Bank has, in a number of instances, sought to influence the economic policies of government to correct distortions in the industrial sector and to apply interest rate policies which are conducive to better mobilisation of savings and allocation of resources. This latter point is developed further in a subsequent paragraph of this paper.

6. Financial Criteria. The Bank usually expects a revenue-producing entity to earn a reasonable annual financial rate of return on its investment. This test, which relates annual income (net of operating expenses) to the total capital employed by the entity, measures the profitability of the entity year by year and permits a comparison with the cost of capital to the entity. The Bank has usually considered as satisfactory a return (earnings before interest and taxes, on capital employed) which is higher than its own interest rate: i.e., a rate which permits the company to pay for capital at an average rate equivalent to the cost of World Bank loans, cover all costs of operation and still have something left over. Of course, judgment of the adequacy of the return must take account of inflationary conditions, i.e., the real, not the nominal return must be satisfactory.*

* Account should also be taken of the fact that some DFCs are given developmental functions for which charges (or at least full charges) are not, or cannot, be made. Governments sometimes give such functions to IFCs, especially to government-controlled companies. These should be financed from special sources, such as direct budgetary allocations whenever possible, and not from the institution's own capital. Whether they are so financed or not, however, the World Bank expects the DFC's accounts to be kept in such a way as to permit accurate costing of its special development activities, so that its normal financial functions may be assessed and the earnings of those activities accurately measured. In such a case, however, it would not be sufficient for the World Bank to know that earnings on the normal financial functions are satisfactory; it will also wish to satisfy itself that the other activities of the DFC do not result in an impairment of the financial position of the company.
7. Actual performance, in respect of this test, of the DFCs which have been the beneficiaries of Bank loans is shown in Annex I. As may be seen in Column 4, in most cases returns were, in 1968, significantly better than 6-1/2% and only four of the DFCs which are active borrowers from the World Bank earned in 1968 significantly less on the capital they employed than the Bank's then current rate. (These were the institutions in Ceylon, Morocco, Nigeria and Tunisia. In the Ceylonese, Moroccan and Tunisian cases, interest rates have been a continual subject of discussion and the Ceylonese and Tunisian institutions have recently increased their rates.)

8. The financial viability of a DFC cannot, however, be appraised by this simple and summary test alone. An aggressive company heavily involved in promotion and in equity investment may be sacrificing current earnings in the expectation of substantial dividend income and capital gains later. A new company with high administrative costs in relation to portfolio is likely to have, initially, fairly low returns on capital employed. Moreover, the trend of the rate of return on capital employed, whether it is moving, stagnant, or declining, is relevant. The rate of return should therefore not be allowed to obscure the basic facts underlying a DFC's earnings, including in particular (a) the appropriateness of the interest rate and (b) the company's ability to service its capital and to raise new resources from both lenders and investors (which are the principal subjects of this
paper) and (c) the efficiency with which the company's staff and capital are managed. Analysis of these factors are among the objects of the Bank's appraisal of a DFC and of its review of the DFC's operations.

**Interest Rates Charged by DFCs**

9. The World Bank has not in the past determined the interest rates charged by the DFCs it finances. It has, however, judged the adequacy of those interest rates and has thus exercised some influence on them.

10. The World Bank's first concern with the interest rate is economic: the rate should bear some relationship to the real cost of capital in the country concerned and to the cost of loans obtained abroad (including those of the World Bank). If the DFC charges interest less than this, there is a risk that its capital will be used to finance uneconomic projects. A DFC can only with difficulty and to a limited extent compensate by analytical techniques for distorting influences created by the underpricing of the resources (including capital) required for the projects it finances. While this may or may not be a matter of concern to the shareholders of a DFC, it will concern the World Bank as a provider of capital and the government as both a provider and guarantor of financial resources. Moreover, the Boards and sometimes the principal sponsors of the DFCs financed by the World Bank are committed, by policies agreed with the World Bank, to give attention to
the economic use of their resources.

11. The second concern is financial. A development bank must be able to cover its costs and provide satisfactory provisions for losses, and should be able to make a profit beyond this, if it is to succeed in mobilizing private resources, both from lenders and investors. As the President noted in his memorandum of November 1, 1969, the Bank's aim is, not only to develop sound productive enterprise, but also "to develop the capital market by building a strong financial institution capable of an autonomous financial life. That company must therefore be capable, by virtue of its financial position and earnings prospects, of attracting new capital" (p.6). This cannot be achieved if the DFC "is a device, as governments sometimes wish them to be, for making loans at concessional rates" (p.6). The interest rate must therefore be higher than the cost of borrowing—the spread depending on administrative costs, on the need for provisions, on the extra margin for safety required by creditors (including the World Bank) and on the surplus expected by shareholders.

12. For both the economic and the financial reasons referred to above, the inflationary situation in the country has to be borne in mind in judging the adequacy of the interest rate. This was the critical factor which led the Korean Development Finance Corporation to fix and maintain its interest on local currency lending at 20%; and it was no less important in determining the rates charged by the China Development Corporation (which have declined over the years) and by the financieras in Colombia.

13. It might be claimed that interest on medium- and long-term lending does not necessarily provide the whole of a DFC's
earnings. This is true. Also important are interest on short-term investments (especially in the earlier years of a DFC when it is likely to have substantial liquid funds), service fees, commissions on underwritings, dividends on equity investments, capital gains, etc. The spread a company needs can be affected by its income from such sources as these. However, lending continues to be the predominant business of the DFCs being financed by the World Bank, income from other sources remains relatively small and the interest rate thus takes on critical importance.

14. Annex I, Columns 1 and 3, show the interest rates charged by DFCs and the spreads earned on relending the proceeds of World Bank loans. It will be noted that:

a. The rates vary from 7% to 20%, with most of them falling between 8% and 10%;

b. In general, they are not higher than rates now prevailing in most developed countries;

c. The spread on World Bank finance varies from 1.5% to 4.5%, with most DFCs obtaining around 3%.

15. Interest rates have only infrequently been a matter of contention between the World Bank and DFCs. Where there has been contention, the World Bank's influence has been directed towards raising rates. This is not surprising, since the principal influence in fixing interest rates has not been the financial institution's shareholders, whose interests are usually* usually, but not always. For sometimes shareholders are the same as (or may be closely associated with) the DFC's borrowers; they may have more to gain by borrowing cheaply (or having their friends borrow cheaply) than by earning an adequate return on their investment in the share capital of the DFC. And still other shareholders may be looking for collateral benefits rather than for a direct return.
directed towards rates designed to assure satisfactory returns on their investment. The principal influence has, rather, been governments, which tend to be responsive to appeals for cheap credit—despite the inhibiting effect of such a policy on savings, resource allocation and the development of the capital market. Discussion of interest rates has thus tended to be, less between the World Bank and its borrowers than between the World Bank and governments. Thus, for example, the Bank has been continuously in discussion with the Moroccan Government since 1962 on the rates charged by BNIE. Discussions on rates charged by IFCT in Thailand and DFCC in Ceylon accompanied loans to those institutions. And the Bank has discussed interest rate policy with the Brazilian Government in preparation for negotiation of a loan for the Banco do Nordeste.

Provision of Cheap or "Free" Capital by Government

16. Until June 1968, the World Bank would not lend to DFCs which were controlled by governments. With but wo exceptions (the Development Bank of Ethiopia and the Oesterreichische Investitionskredit), governments or governmental institutions had at most a minority position among the shareholders of the DFCs financed by the World Bank; in many cases all the shareholders were private. The creation of a wholly private or a privately controlled company, however, required that its financial prospects be good enough—not immediately, but in due course—to attract private investors. It was never easy, and it was sometimes not possible, to attract private investors into a DFC for the prospective returns from such an investment were relatively unattractive. Generally, therefore, government subsidy was
essential to induce private investors to subscribe to the share capital of a DFC.

17. The most usual form of subsidy among the companies financed by the World Bank has been a low-cost (often interest-free) long-term subordinated loan in domestic currency. (Attached as Annex II is a list of all subordinated loan capital provided to the DFCs associated with the World Bank Group.) Such a loan, which had enough of the characteristics of equity to justify the name "quasi-equity," served several purposes.

a. It reduced the average cost of capital and increased the average spread on borrowed funds, thereby enhancing profitability, assuring a better return to the shareholder and better debt service coverage to the creditor.

b. Because it was accepted by conventional lenders (like the World Bank) as part of the base for borrowing, it helped increase the leverage on the share capital.

c. If subordinated, not only to other debt but to share capital as well (which was often the case), it protected the shareholders and made it possible for the company to be more venturesome than might otherwise have been the case.

d. Since it provided substantial cash at low cost, which could be profitably placed pending investment, it assured immediate income, encouraged the company to start immediately building an adequate staff, and permitted an early beginning to the accumulation of reserves.
18. It was sometimes proposed that the government could provide capital with some of the foregoing advantages of quasi-equity through the alternative course of providing subsidies by annual budgetary allocations. Such an arrangement, however, would have exposed the DFC each year to the uncertainties of budget-making and parliamentary approval. The long-term subordinated loan was intended to involve such exposure only once. However, support from the Government in other ways has been considered acceptable, often together with a cheap long-term subordinated loan. Examples of such additional support are tax concessions on income or capital gains, protection against competition from governmental credit institutions, guarantees for Bank loans although other private enterprises were not able to obtain them, protection against foreign exchange risk, and special rediscounting facilities from the central bank.

19. Thus quasi-equity was expected to help establish a viable company, under private control, with a minimum of government intervention in day-to-day decision-making. The World Bank required that a IFC have such resources at its disposal; if not, it had to give evidence of satisfactory and profitable operation over several years, before a loan would be considered. Of the 23 DFCs to which World Bank loans were made until mid-1969, all but two (the first two, in 1951) had quasi-equity before the Bank made a loan or they had operated satisfactorily for several years. IFC pursued the same policy; in only two exceptional cases (BANDESCO and CAVENDES) did it invest in a new DFC which did not have quasi-equity.

20. Quasi-equity had the desired effect on investors, on creditors and on DFCs themselves. But it aroused continuing criticism, especially its low
Moreover, despite the apparently once-for-all exposure to governmental processes in obtaining quasi-equity, its existence has in some cases been a continuing invitation or excuse to intervention from both politicians and bureaucrats. And, the presence of low-cost capital (and the hope of getting more of it in future) may in some cases have deprived a DFC of the discipline of raising capital on market terms and may thus have diminished its potential role as a mobilizer of private capital. Experience showed that not all the characteristics of quasi-equity are equally important to the various parties concerned, or equally important to the company itself. On balance, the President concluded in his memorandum of November 1, 1969, and the Executive Directors agreed on November 12, that the Bank should not insist in all cases on direct government financial assistance on quasi-equity terms, that it should do so only when that seemed essential to induce private investors to subscribe to share capital and to provide an adequate basis for borrowing. And, it follows from what has been said here, the concessions requested from Government should be the least necessary to achieve the foregoing objectives.

* Cheap of "free" government capital does not enable a DFC to improve the return on the capital it employs; only increasing income and reducing administrative costs can do this. Whether and increasing return on capital also results in a satisfactory return on equity depends on the DFC's capital structure and the cost of its loan capital. Hence cheap of "free" government capital does enable a DFC to improve its profitability and is therefore of primary concern to the shareholders. It is of some interest also to the creditors, because it improves debt service coverage and contributes to the build-up of surplus which strengthens the underpinning for the DFC's borrowing.
21. It has been suggested that, when a DFC has reached an "adequate" level of profitability, it should give up the cheap and/or subordinated capital provided when the company came into existence. The DFC can hardly be expected, nor would it be appropriate to force it to do so. Conceivably the World Bank's agreement might be obtained to an action changing one of the assumptions on which it makes a loan. But giving up any of the privileges of quasi-equity would be a breach of faith with the investors who subscribed to the capital of the DFC and would discourage future investors. On the other hand, further injections of cheap or subordinated capital, after the initial one, should be carefully scrutinized for justification and would not be supported by the Bank Group unless essential to secure the objectives of the DFC and of the Bank Group's financing it.

22. In the case of a DFC which is government-owned, there is no need for quasi-equity to induce shareholders to invest. Moreover, such a company is inevitably subject to continuing parliamentary and governmental scrutiny and may have to rely on government for continuing and regular capital injections. But here, too, there may be an advantage to obtaining privileged long-term funds in order to help establish the financial independence of the company. The World Bank will wish, as the President pointed out in his memorandum (R68-99) of June 11, 1968, to scrutinize carefully the terms on which such capital is provided. It will insist that "not only must management be technically competent, but there must be solid assurance of its continuity and freedom from governmental interference in carrying out its task" (p. 3).
October 29, 1969

Mr. Jaakko Lassila
General Manager
Teollistamisrahasto Oy - Industrialisation
Fund of Finland Ltd.
Lennrotinkatu 13, V krs.
Helsinki, Finland

Dear Mr. Lassila:

Thank you very much for your letter of October 22 on the revised version of the Comparative Operational Ratios table.

I note that the dividend on the 1968 net income was 7% instead of 5%. I am grateful to you for calling this to my attention. I will certainly correct the error when I revise the table in the future.

Sincerely yours,

B. H. Shin
Development Finance Companies

BHShin: jpk
cc: Mr. Gustafson
October 29, 1969

Mr. Mohamed Benkirane  
Director General  
Banque Nationale pour le Developpement Economique  
Boite Postale 407  
Rabat, Morocco

Dear Mr. Benkirane:

I take pleasure in enclosing two copies of a final version of the descriptive memorandum on Banque Nationale pour le Developpement Economique, which we have just put out in the light of the comments we received from you.

I am grateful to you for your kind cooperation in this regard.

Sincerely yours,

B. H. Shin  
Development Finance Companies

Enclosure

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

BHShin:jpk
Mr. Murick

T. M. Jones

Development Finance Companies Loans and Credits; Administration; 
Mr. Leeming's memo of September 1, 1969

In reading Mr. Leeming's memo to you, it appears (with one exception to be noted below) that he is not suggesting any departure from the present practice of the Controller's Department in the exercise of the various administrative functions cited, as a matter of internal working procedure. Letters to Borrowers on the matters listed under Controller's are usually drafted by that Department, but in accordance with Basic Document E-1, entitled Signature of Written Instruments, paragraph 3(b), are sent out by Area. The one exception is the matter of cancelling unused portions of loans, which Mr. Leeming has listed as item B(ii) under DFC Department. The initiative here is, and I feel should remain, with Controller's.

Items (i) and (iv) under DFC Department reflect current practice; and the official signature has been given to that Department for the matters listed in item (i) by sub-paragraph (d) of paragraph 3 of the Basic Document. This is at present the only exception to Area's signing powers in favor of the DFC Department. Item (iv) does not appear to involve official signatures. There remains only item (iii); if the signature were to be transferred from Area to DFC for these matters, it would have to be done either by expanding subparagraph (d) of the Basic Document or by a separate designation of the President or a Vice President. To expand subparagraph (d), language such as the following would have to be added:

"and consents, approvals or waivers in connection with the application or amendment of, or deviation from, any policy governing lending or investing by such institutions agreed between the institution and the Bank/Association pursuant to (the loan/credit documents)".

Query whether it is worth cluttering up subparagraph (d) with language of this kind just to transfer the signature from Area to DFC. Note that as stated by Mr. Leeming in item (iii), Area would probably be in on the decision in any event. If the purpose is to be achieved, it might be "cleaner" to do it by separate designation, which, not being directly tied to the form and terminology of the Basic Document, would also give more freedom in drafting.

The suggestion that the Controller's Department rather than Area be authorized to sign in connection with the matters outlined in Mr. Leeming's paragraph 3A seems even more difficult. If the Basic Document
were to be amended for the purpose, both subparagraphs (a) and (c) would need amending, each to provide for the necessary exceptions (in the case of (c), it would be the third exception). The exceptions would have to be in the form of a reference to a subparagraph, as currently in (c), since their descriptions would clearly be too long to spell out. The question is whether they can be spelled out at all in a form which would be acceptable, in the context of the Basic Document, as a new subparagraph.

I think not; the relevant subparagraphs of the Basic Documents classify the "instruments" authorized to be signed by brief substantive descriptions, rarely by subject matter: "amendments" (to loan/credit documents), "consents", "approvals", "notices", etc. The only way to provide for the exceptions now suggested would be to describe each one by subject matter, much the same as Mr. Leeming has indeed done in his paragraph 3A. To be accurate, such exceptions would require even lengthier descriptions, e.g., "agreements to accept on a date of maturity an amount less than the amount set forth in the relevant schedule of amortization pending formal revision of such schedule to conform to the aggregate of the schedules applicable to sub-loans".

Again, if the purpose is to be achieved, it would be better done by separate designation.

Apart from procedural and drafting considerations, Mr. Leeming's suggestions raise other questions: Currently, Controller's does not deal directly with Borrowers. The only documents relating to loans and credits it is authorized to sign are letters of credit, and these are directed to banks. Would it be practical for the Controller's Department to have responsibilities in respect of loans to dfc's different from those in respect of all other loans? Would Borrowers having both kinds be confused? What about loans for agricultural credits, which have many of the same characteristics as those for dfc's?
Mr. P. Perera  
1719 Hoban Road, N.W.  
Washington, D.C. 20007

Dear Phillips:

I am sorry to have held up so long returning to you your paper on ILI and giving you my reactions. The fact is there is little I can say beyond the views expressed when we met the week before last because, during our discussion, you did give me a pretty full description of the proposal.

The part of the proposal that strikes me most, the part that I think is really new, and the only part on which I can have a judgment is the proposed function of ILI taking up parts of the portfolio of development banks and thereby providing them with liquidity when needed and with assistance in developing a market for the securities they hold. This is, as I said, an exciting proposal and one which, if it works, could make a very important contribution to many development banks around the world.

My one concern in this connection is the fear that your company might well find itself locked-in when it purchases such securities. The securities ILI takes over may not have a ready market for some years to come and there will often be other factors inhibiting their sale to strictly financial investors. I know that you must have had this in mind, among other things, when you wrote on pages 7 and 8 of your paper about "sell back" arrangements but this will be at best a tricky business.

I think that you would be wise to explore this subject at length with some of the presidents of development banks. I would if I were you pick some of the more "developed" ones, particularly those that already have significant exposures in equity and especially those operating in a country where there is a stock exchange, even though it be a primitive one. You already know a good many of the people involved and I am sure talks with them would be very much worth your while.

As I said before, this is slim pickings for you after I kept you waiting a week, but there really is no more to say and I do want to reaffirm my original statement that you have a very good idea going.

With best wishes,

Sincerely yours,

William Diamond
Mr. Mohamed Nassim Kochman

William Diamond

October 27, 1969

Development Finance Companies: Status of Operations; Prospects

1. I refer to your memorandum dated October 21. The situation in the countries you mention, insofar as this Department is concerned, is as follows:

CAMEROON

2. After some years of financial difficulties, the position of the Banque Camerounaise de Développement (BCD) is now reportedly better. Its financial statements for the last two fiscal years show profits. Lending to industry in FY 1967/68 totalled about $2 million equivalent, out of total approvals of about $13 million equivalent (74% at short term).

3. We plan to review the BCD, as well as the investment outlook and investment finance in general, to determine how the Bank might best be able to help. One or two staff members will join the Bank economic mission, now scheduled for March 1970, to make this review. The Annual Meeting Delegation was informed of this.

CENTRAL AFRICAN REPUBLIC; CHAD

4. We have had no request for Bank assistance to development banks in these countries and do not presently plan any action during fiscal year 1969/70.

MADAGASCAR

5. It has become clear, during Bank staff visits to Madagascar, that the Government would welcome Bank assistance for the financing of new investments, particularly in industry, through a local intermediary. The two most important existing ones are: Société Nationale d'Investissements (SNI), which invests in equity only, and Banque Nationale Malgache de Développement (BNM), which makes short, medium, and long term loans to industry, agriculture, and other economic sectors.

6. Apparently, the Government is not fully satisfied with this set-up, and the Annual Meeting delegation informed us that, in particular, reorganization of SNI was being contemplated. They want our help for this, and we have promised to review the situation and see what we can do.

7. We have agreed that our review will take place sometime after the Bank economic mission, scheduled for the second half of November, has been able to give us a better idea of the general economic and investment outlook. Our mission to review the institutional set-up should in any event, take place sometime during the first half of 1970.

MAURITANIA

8. Unsatisfied with the performance of the Banque Mauritanienne de Développement (BMD), the Government intends to reorganize it so that it can become more active, in particular, in the financing of agricultural development.
9. Discussions held by the Government with Société Tunisienne de Banque (STB) and Caisse Centrale de Coopération Economique (CCCE) about a financial restructuration of BMD have not so far resulted in a concrete solution. Besides the problem of the financial reorganization, an essential problem which confronts the BMD is to find opportunities for sound development finance operations.

10. At the Government's request, a mission will be in Nouakchott sometime in November/December to give advice on the reorganization of the BMD and see whether and how the Bank might be of further assistance.

MAURITIUS

11. A Bank tourism mission visited Mauritius in April, 1969 and recommended that, because prospects for tourism looked favorable, the Bank consider making a loan for the construction of additional hotel facilities. The mission further recommended that this loan be channelled through a suitable financial intermediary; however, the mission and the Government agree that the Development Bank of Mauritius (DBM), as it is currently constituted, is not such an intermediary.

12. At the Government's request, a mission from the Development Finance Companies Department is likely to visit Mauritius in the near future to make recommendations for the strengthening of DBM. The mission will focus both on the steps that might be taken to make DBM a suitable intermediary for a tourism loan and on the changes which might be taken to make DBM more effective in its ongoing industrial and agricultural lending.

cc: Messrs. de la Renaudière
    Halbe
    Pajjmans
    Tolley

Cirin/Orloff/Sekse:jaw
Cher Monsieur Shin,

Je vous remercie de votre lettre en date du 17 octobre 1969 à laquelle vous avez bien voulu joindre une révision de la Table des Rations des Compagnies Financières de Développement.

Veuillez agréer, Cher Monsieur Shin, l'expression de mes salutations distinguées.

Le Directeur Général

Mohamed BENKIRANE
I. H. S. HIN
Development Finance Companies
I.R.D.
18th H. Street NW
WASHINGTON DC 20433 (USA)

Le Directeur Général

Le Directeur Général

19690CT30 AM11:34
Mr. B.H. Shin  
International Bank for Reconstruction and Development,  
1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

Dear Mr. Shin:

My very sincere thanks for your letter of October 17th, 1969 and the attached Table on Comparative Operational Ratios of Development Finance Companies, 1967 and 1968 which we received today.

With best regards,

Sincerely yours,

Reza Khonsary  
Manager, Economics Department
Mr. R.K. Spin
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Date October 25, 1963

Mr. Spin:

I very much appreciate your letter of October 1963 and the attached Table on Comparative OPERA-1969 and Financial Ratios of Development Finance Companies, 1969 and 1968 which we received today.

With best regards,

Sincerely yours,

[Signature]

[Name]
Manager, Economics Department
Dear Mr. Mathew,

unfortunately, I could not meet you once more before I had to leave Washington. I would, therefore, now like to thank you very much for having devoted your time to the most informative discussion on the Bank's policies towards development banks. I have appreciated also the opportunity to discuss with various staff members of your Department details of your operations in different countries and the possibilities of a closer cooperation of our two Institutions. I shall be glad if this exchange of views can be continued and some more joint operations of the World Bank Group and my Company in the development banking field will materialize.

It has been a pleasure meeting you again after quite some time has passed since I last saw you in Lagos.

With kind regards, I remain,

Yours sincerely,
Dear Mr. Matthew,

I hope this message finds you well. I wanted to take a moment to express my gratitude for your assistance during my recent visit to Washington, D.C. Your knowledge and guidance were invaluable to me, and I am deeply appreciative of your time and effort.

During my stay, I had the opportunity to discuss the Bank's policies towards development banks with various members of your Department. The conversations were enlightening, and I came away with a greater understanding of the potential of international cooperation and the possibilities of a closer relationship between the World Bank and foreign governments.

The recent meeting between our two institutions was particularly productive, and I look forward to future discussions on how we can continue to work together.

I wish you all the best in your work, and I hope to continue our collaboration.

Yours sincerely,

[Signature]
OFFICE MEMORANDUM

TO: Messrs. J. H. Collier and John C. de Wilde
FROM: Stanley Please
DATE: October 23, 1969

SUBJECT: Government Expenditure in African Countries

1. I am enclosing a short draft paper on "Civil Consumption Expenditure and the Size of the Nation" prepared by Ved Gandhi who has recently joined my Division. I would like to use this accompanying memorandum to indicate the purpose of the paper.

2. I do not need to emphasize the need for more understanding of the factors which determine the level and pattern of government expenditure in less developed economies. Our knowledge of the determinants of taxable capacity is much greater than a decade ago due in particular to the pioneering piece of empirical work of Marinus van der Mel and Sylvain Plasschaert in the Bank which set the ball rolling for the much more elaborate quantitative studies of Lotz, Morse, Hinrichs, etc. The Bank's own country work reflects this greater understanding. We do not so readily treat revenue generation as a simple policy variable but recognize that it is constrained by underlying structural economic factors (per capita income, openness of the economy, etc.).

3. In marked contrast is the state of our knowledge of the determinants of government expenditure. Our Reports reflect this ignorance (including those reports with which I have been concerned). We typically see government expenditures rising more rapidly than revenues and baldly state that their rate of growth should be reduced. In some cases -- most obviously defense -- such a recommendation is consistent with the fact that the level of expenditure is an immediate policy variable. In other cases it would seem a priori that there are likely to be underlying factors at work which delimit the room for manoeuvre in this regard. At one extreme some of these factors might be "naturally" given (e.g., the geographical dimensions of a country, the evenness of the distribution of its natural resources, etc.), whilst at the other extreme they are given by socio-political decisions which must be taken to a varying extent as a "given" for the purposes of fiscal analysis (e.g., a decision to have universal primary education, the rate of growth of population, etc.).

4. I consider that the Bank is uniquely placed to investigate more fully the nature of some of these factors. The work of Jochen Schmedtje and Lall was a beginning. I think the negative results from this work have been exaggerated particularly by Lall in his recent note in the Economic Journal in which he summarizes and evaluates the Bank study. I am, therefore, anxious to pursue this work more vigorously. This will entail both limiting it geographically to begin with and also limiting it functionally. I would like to set the geographical limitation to Africa and the functional limitation to such services as education and the administration of government.

5. These, however, are initial thoughts. I would like to seek your advice and cooperation in advancing this work. I have two new members of my staff (Gandhi and Stolber) whom I would wish to work on African fiscal problems -- the one in British and the other predominantly in French-speaking Africa. They will be servicing economic missions and in addition will be working on
this buttressing research study of expenditures. The attached paper is a preliminary excursion into the literature by Gandhi. I would welcome a meeting with you at which we could discuss the paper, but more particularly at which we could discuss the nature and content of our future research in this area.

cc: Messrs. Kamarck and Stevenson
    Messrs. Larsen, Hansen, Jansen, and Schmedtje
Draft Paper on Pearson Commission Recommendations

Here is a draft for a "Pearson Paper" on development banks, following the outline you proposed.

A few figures need checking; I shall send you corrections shortly.

I assume you will let me see any revisions you want to make.

Encl.

cc: Mr. P.M. Mathew
    Mr. Ravi Gulhati

WDiamond:ts
1. Text of Recommendation

"We recommend greater help to development banks and similar institutions in developing countries". Ch. 9, page 179.

2. Background of Recommendation

This proposal appears in a section dealing with project and program aid and follows the main recommendation urging aid-givers, including the World Bank Group, to "recognize the great value, in many cases, of more program aid". In this context, greater use of development banks is viewed by the Commission as another way of mitigating the inefficiencies of the conventional project approach. The latter tends to be biased in favor of large-sized investments to the detriment of the relatively small and widely scattered productive enterprises. This bias can be corrected by channeling aid through development banks situated in developing countries. These institutions can acquire detailed knowledge of local conditions and respond speedily to the needs of the medium and small investors.

Development banks are seen by the Commission not only as convenient retail outlets for dispensing aid from high to low-income countries. Their role in strengthening the local capital market is also underscored. In its historical review of the past two decades, the Commission noted the contribution made by such companies in facilitating savings and investment (see page 31). Elsewhere in the report, the importance of the function of financial intermediation is stressed (see pages 64, 65).
3. The World Bank Group’s Activity

The World Bank's involvement with development banks dates from 1951 (FY 1950) when it assisted in the establishment of the Industrial Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the World Bank has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few summary indicators of this activity are cited below to provide a bird's eye view:

a. Altogether, the World Bank Group has helped promote 12 development finance companies and helped reorganize another 6.

b. The World Bank Group has assisted in recruiting key personnel for some development banks and IFC is on the boards of 13 of them.

c. Officials of development banks have received training in the EDI or under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million in 28 companies in 24 countries, consisting of IBRD loans (93%), IDA credits (4%) and IFC investments (3%). This sum reflects a rapid acceleration of commitments. Until Fiscal 1962, commitments amounted to only $126 million; in the past 6 years, they totalled $187 million; and in Fiscal 1969, commitments reached $193 million. About 61% of gross

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a/ The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.
d. (Continued)

commitments had been disbursed. Allowing for repayments and redemptions of about $114.9 million, the disbursed amount outstanding was $430 million.

World Bank Group policies towards development banks have been reviewed periodically, most recently by the Board in November 1968; and several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision-making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the World Bank Group. While they once had to be devoted primarily to manufacturing industry, they may now be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year, IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance. (These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.) These developments, all of them involving increasing flexibility on the part of the World Bank Group, reflect the great importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.
The 28 development banks presently associated with the World
Bank Group, commit the equivalent of about $430 million per annum in loans,
investments, etc.; and these in turn contribute to a total investment esti-
mated at about $ million. The vast bulk of these investments assist
the manufacturing sector. Judging by the size of the operations, it is
fair to say that development banks are financing medium scale enterprises
and, to some extent, small enterprises. Without the intermediation of
such institutions, the World Bank Group would not be able to reach a very
significant part of the manufacturing sector of developing countries.

The principal objective of the World Bank Group, however, is not
simply to find retail outlets for dispensing external finance and technical
assistance, but to help build effective investment institutions in develop-
ing countries. Hence the Group encourages development banks to be active
in mobilizing domestic capital, underwriting securities, subscribing to
equities, selling from their portfolios in order to broaden ownership of
enterprises, identifying and promoting investment opportunities and assist-
ing entrepreneurs in formulating and carrying out investment proposals.
While some progress has been made on these lines, a great deal remains to
be done. Most development banks have not acquired much capability as mo-
ibilizers of financial resources and remain dependent on government funds,
or on international institutions or on foreign aid. Furthermore, develop-
ment banks still, in the main, respond to investment opportunities pre-
sented to them by their clients and only rarely do they do much in the way
of identifying and promoting projects on their own initiative.
4. Proposed Position with Respect to Recommendation

The World Bank Group fully accepts the recommendation of the Pearson Commission and intends to help development banks to the maximum extent feasible.

The Bank's Five-Year Program already reflects this view. The target for gross Bank and IDA commitments to development finance companies in the period 1969-73 is around $1,400 million, compared with $________ million in the preceding five-year period. In Fiscal 1969, the first year period, $193 million were committed. Although there is not yet a projection for IFC operations in this field, there is no doubt that IFC, too, will expand its role in financing development finance companies.

To achieve the target of the Five-Year Program, the number of development finance companies associated with the Group will grow to perhaps twice the current number of 28.

The expansion in the number of companies, as well as in the volume of operations, is closely related to the changes of policy introduced in the past 18 months and referred to above, which make possible significant expansion of activity with development banks in Africa and in Latin America. In particular, the possibility of lending to government-controlled companies has resulted in the probability that three or four loans will be made to such companies in the present fiscal year. And, systematic exploration has begun of existing small development banks in Africa and of the possibilities of financing such institutions.

This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff dealing
with development finance companies, a strain which the Bank has already taken measures to deal with. In Fiscal 1969 the number of professional staff in the Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As mentioned above, World Bank Group policies towards development banks are reviewed periodically as experience accumulates and new problems emerge. In view of the Commission's recommendation to extend greater help to development banks, present policies must be revised to make such changes as are necessary to implement the broad development strategy envisaged by the Commission.
Bogotá, D.E., October 23rd, 1969

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

Dear Mr. Shin:

In the absence of doctor Copete who is abroad, I acknowledge receipt of your letter of October 17th and of the revised version of Comparative Operational Ratios of Development Finance Companies, 1967 and 1968, which you kindly sent us. We find this a very interesting document and are sure it will be most useful.

Thanking you again for this remittance, I remain,

Sincerely yours,

[Signature]

LIONEL MORENO GUERRERO
Assistant to the President
CORPORACION FINANCIERA COLOMBIA
BOGOTA-COLOMBIA

SIR,

Bogota, D.E., October 23rd, 1966

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

Dear Mr. Shin:

In the presence of Doctor Copete who is expatriate of Colombia,
I acknowledge receipt of your letter of October 11th and of the revised version of Comparative Operations Report of Development Finance Companies, 1961 and 1968, which you kindly sent us. We find this very interesting document and we are sure it will be most useful.

Thanking you very for this remittance, I remain

Sincerely yours,

[Signature]

Ivonne Moreno Guerecho
Assistant to the President

1969 OCT 27 PM 3:33

GENERAL FILES
RECEIVED
Madrid, 23rd. October 1969

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 the 17th inst and for the copy of the revised version of the Table on Comparative Operational Ratios of Development Finance Companies that you have been so kind to send me.

With best personal regards,

Yours sincerely,

Jose Marzo Churrucua
October 16, 1962

Mr. 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 the 17th of June.

I attach hereto the copy of the revised version of the Table of Competent Operators of the Finance Development Bank of Egypt that you have been so kind to send me.

With best personal regards,

[Signature]

Yours sincerely,

[Signature]
Dear Mr. Diamond,

after my return to Germany, I would like to thank you once more for having been given the opportunity to discuss with you, Mr. Mathew and other gentlemen of your Department details of policies and procedures of the Bank's work with development finance companies as well as questions of mutual interest to both our Institutions in respect of a closer cooperation in the development banks field. The talks have been very informative and have revealed quite a number of interesting aspects of your activities.

I have also informed Dr. Alenfeld on our discussions.

It has been a pleasure seeing you again after considerable time has elapsed since we last met in Pakistan. With kind regards,

I remain,

Yours sincerely,

[Signature]

Dr. Bernd Nürnberg, c/o
DEUTSCHE GESELLSCHAFT FÜR WIRTSCHAFTLICHE ZUSAMMENARBEIT (ENTWICKLUNGSGESELLSCHAFT) MBH

Mr. William Diamond, Esq.
Director,
Development Finance Companies
Department,
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1818 H Street, N.W.,
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5 KÖLN-LINDENTHAL 1
DÖRNER STRASSE 295 - POSTFACH 1266
TELEFON 42 6621 - FS 888 1949
LANDESZENTRALBANK-KONTO KÖLN 3/784

IHR ZEICHEN
IHRE NACHRICHT VOM
Nü/sr
Oct. 23, 1969
Deutschland Gesellschaft für Wirtschaftliche Zusammenarbeit

(Entwicklungsgesellschaft) mbH

5 Koln-Lindenthal
Purscherstrasse 66
Postleitzahl 5000

Former address: 74 Rees 1943

Dr. Wilhelm Dismond, Ed.
Director

Development Finance Companies

Department
International Bank for Reconstruction and Development

1804 H Street, N.W.
Washington, D.C. 20433
U.S.A.

October 23, 1969

Dear Mr. Dismond,

I am writing to express my thanks for the opportunity to discuss with you, Mr. Matala and other representatives of your Department. I am especially grateful for the frank and constructive discussions we had.

I have been working closely with the various institutions in recent months. The visits have been very interesting to me and have revealed a number of interesting aspects of your activities.

After my return to Germany, I will be able to make a more detailed report on our discussions.

I look forward to seeing you again at the earliest possible time.

Yours sincerely,

[Signature]
October 23, 1969

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

Dear Mr. Shin:

Thank you very much for your nice letter dated October 17, 1969, which included an useful revision of the Table on Comparative Ratios of Development Finance Companies, 1967 and 1968.

I certainly appreciate your kindness, and remain,

Very truly yours,

Benjamin Martinez Moriones
President

BMM/ml
October 23, 1969

Mr. H. Shin
International Bank for Reconstruction & Development
1918 H Street N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin,

Thank you very much for your nice letter dated October 15, 1969, which included an notice regarding the transfer of the raises in Development Finance Corporations' 1967 and 1968.

I certainly appreciate your kindness and concern.

Very truly yours,

[Signature]

PENNAMIN MARTINEZ MORIONIS
President

19690127 PH 1:45
Mr. B.H. Shin,
Development Finance Companies,
International Bank for Reconstruction
& Development,
1818 H Street, N.W.
Washington D.C. 20433,
U.S.A.

Dear Mr. Shin,

Thank you for the useful up-dated table on Comparative Operational Ratios of Development Finance Companies, 1967 and 1968.

We are grateful to receive a copy of this comparative data.

Yours sincerely,

[Signature]

H. F. G. Lembruggen
General Manager
Dear Mr. Shin,


We are pleased to receive a copy of this competitive rates.

Yours sincerely,

[Signature]

H.E. Lim Hock Soon
General Manager
Helsinki, October 22, 1969

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:

I thank you for your letter of October 17 and the enclosed Comparative Operational Ratios of Development Finance Companies, 1967 and 1968, which we have studied with great interest.

I would like to point out a possible graphic error concerning line 17 (Dividend as % of par value of Share Capital) in the case of IFF. The dividend declared on the 1968 net income was 7% and not 5% as indicated in your table.

Sincerely yours,

Jaakko Lassila

JL/rr
HELSINKI, October 23, 1962

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

Dear Mr. Smith:

I thank you for your letter of October 17 and the enclosed comparison of operational results of Development Finance Companies, 1961 and 1962, which we have studied with great interest.

I would like to point out a possible typographical error concerning line 17 (dividing as x of the variable of the variable symbol) in the case of T3P. The giving is in the 1962 net income was $X and not $X as indicated in your report.

Sincerely yours,

[Signature]

Nasako Leasilla

[Handwritten note: 19690CT25 A01:34]
October 21, 1969

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 17, 1969, and its enclosure of the revised copy of the Table on Comparative Operational Ratios of Development Finance Companies.

Sincerely yours,

TÜRKİYE SINAI KALKINMA BANKASI A. Ş.
October 31, 1969

Dear Mr. H. Slin

Mr. Richard H. Slin, Finance Committee
Industrial Development Bank for Reconstruction and Development
18th & Street, N.W.
Washington, D.C. 20520
U.S. of America

Please refer to your letter of October 17, 1969, and the enclosures of the revised copy of the table on cooperative operation costs of development finance companies.

Sincerely yours,

[Signature]

TÜRKİYE SINAI KALKİNMA BANKASI A.S.
OFFICE MEMORANDUM

TO: Mr. William Diamond
FROM: Mohamed Nassim Kochman
SUBJECT: Status of Operations

I wish to inform you that I intend to visit the following countries: Mauritius, Madagascar, Chad, Central African Republic, Cameroon and Mauritania.

I would appreciate very much having a memorandum, before the end of October if possible, on the status of operations and future prospects in those countries.
October 21, 1969

Dear Mr. Shin:

I acknowledge with thanks receipt of a copy of the revised version of the table on Comparative Operational Ratios of Development Finance Companies sent under your letter dated October 17, 1969.

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 31, 1963

Dear Mr. Spin:

I acknowledge with thanks receipt of a copy of the revised version of the table on comparative operating ratios of Development Finance Companies sent under your letter dated October 1, 1963.

Yours sincerely,

[Signature]

E. R. Khetz
General Manager

Mr. B. H. Spin
Development Finance Companies
International Bank for Reconnaissance and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
Messrs. Cherif Hassan and J. Chanmugam

Mr. P. M. Mathew

October 20, 1969

Projects Presented by DFC’s and Financed by IFC and Projects Jointly Financed by IFC and DFC’s

I am sending you two copies of the draft under the above subject heading.

I would appreciate your arranging to check for accuracy the information on the companies under your responsibility in the draft and returning to me one copy at your convenience. Please review the 1968 and 1969 entries only, since relevant entries before 1968 have previously been checked by your Department.
October 19, 1969

Mr. Samuel A. Stern  
Wilmer, Cutler & Pickering  
Farragut Building  
900 - 17th Street, N.W.  
Washington, D.C.

Dear Mr. Stern:

I promised to send you a copy of an article by Mr. John White entitled "The Asian Development Bank: A Question of Style". Enclosed you will find the xeroxed copy of this article. I will be interested to hear your reactions.

Yours Sincerely,

Ravi Gulhati  
Chief Economist  
Development Finance Companies
October 19, 1969

Mr. Samuel A. Scarn
Witzenauer Center & Precinct
Federal Building
300 - 17th Street, N.W.
Washington, D.C.

Dear Mr. Scarn:

I am pleased to send you a copy of an article on
Mr. John White's article "The Latin Development Bank: A
Question of Style." I enclose you will find the original
copy of the article. I will be interested to hear
your reaction.

Sincerely,

[Signature]

[Title/Position]

[Organization]
Mr. J. Burke Knapp

October 17, 1969

William Diamond

Local Currency Financing for DFCs

Please recall the succession of drafts of the President's memorandum on "Policies of the World Bank Group towards Development Finance Companies", which led to the final version presented to the Board November 1, 1968.

The last draft you approved for presentation to him contained a section on Local Currency Financing. It concluded that "that there is no reason to distinguish in this regard between development finance companies and other borrowers". That version was presented to him on October 24. On his copy, the President added to the previously quoted sentence the following words "and in the future we will not plan to do so". Having written those words, he struck out the entire section.

At a meeting in your office on October 31 attended by Rosen, Cope and myself, we went over the President's amendments. You said the President had given you the following explanation for having stricken the entire section on financing of local expenditures:

He had never thought there could be a rationale for distinguishing between development bank projects and others. He didn't want to open a discussion on differences by acknowledging that a difference had existed in our minds. Therefore, you said, the President thought that by saying nothing the question of a difference would not arise and we could proceed to act as though there had never been a difference.

That, at least, is how I recall it. I believe Cope recalls it similarly.

I have the draft of October 16 with your written corrections; the draft of October 24 presented to the President reflecting your suggestions; and the President's written corrections on the draft presented to him, including the written addition and the excision referred to above.

Please forgive this talmudic exegesis.

cc: Mr. Cope
Mr. Lejeune

WDiamond:mbj
Mr. P. M. Mathew  

B. H. Shin  

Progress Report on my Compilation  

October 17, 1969  

In accordance with your memorandum of June 11, 1968, on the subject, I report as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Austria, Finland, Greece, Malaysia, Spain and Turkey</td>
<td>Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>b) India</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>c) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>d) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
</tr>
<tr>
<td>3. New Descriptive memorandum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caldas, Nacional, Norte and COFIEC</td>
<td>Garcia</td>
<td>Requested on March 21</td>
</tr>
</tbody>
</table>

A Bank's economic report which was said to include a section dealing with this subject has been now out in a draft form. Mr. Pollan is presently reviewing the section.
Mr. J. Burke Knapp

William Diamond

AFRICA

October 17, 1969

1. Re your memo of October 1, I await your call, or the President's.

2. In preparation for the meeting, you might wish to see the attached:
   a. Some notes on our activities in Africa in the past year, and planned activities over the coming year.
   b. A note by Guetta on a more active approach to French-speaking Africa. This note is now being looked at in the African Area Departments and in the Agricultural Projects Department, which it concerns no less than it does this Department.

3. A year ago this Department had no staff devoted full-time to Africa. We now have four people, under Sekse, involved only in new business in Africa. In addition, "old clients" in Tunisia, Morocco, Ivory Coast, Liberia and Nigeria, are being dealt with by other staff who, however, handle other countries as well.

4. Despite this, we are still constrained by manpower. Engagements to Congo (Kinshasa) for creating a new development bank and to Ethiopia for advising on the merger of two existing development finance companies into one which will be suitable for bank loans, will engage the two senior members of the African new business staff for most of their time in the coming year. Also, we have commitments for visits to seven countries, and have undertaken work with several others which could lead to the need for visits. Plus several watching briefs. We are obviously in the position of having to try to do the more important or urgent things first.

"Les Banques de Developpement en Afrique Francophone"
S. Guetta Oct. 9, 1969.
A. Fiscal 1969 and Until 1969 Annual Meeting

1. New Loans or Investments
   a. $15 million to BNDE Morocco, November, 1968.
   b. $6 million to NIDB Nigeria, March, 1969.

2. Appraisals and Negotiation Relating to Companies already associated with the Bank Group.
   a. SNI, Tunisia, in March/April 1969, to appraise the company for $10 million loan. Negotiations have just been completed and the loan is scheduled for November 1969.
   c. BNDE, Morocco, in May and September 1969, to appraise the company for a $15-19 million loan scheduled for December 1969.
   d. LBIDI Liberia, in August 1969, to appraise the company for a $3.5 million loan which, however, can be recommended only under certain conditions.

3. Additional Promotional and other Activities
   a. Burundi. A mission in April 1969 reviewed the operations of the BNDE, for which UNDP is providing technical assistance in project formulation and appraisal.
   c. East Africa. A visit in May 1969 to advise the East African Development Bank on organization, staffing and procedures.
   d. Ethiopia. A reorganization of investment finance institutions is under way. At the Government's request, a staff member visited Addis in May 1969 to advise on, and to help organize the task.
   e. Kenya. A staff visit in May 1969 to discuss with the Government lending to ICDC.
   f. Somalia. A mission in May 1969 reviewed the Somali Development Bank and presented a proposal for reorganization of SDB on lines which would make it suitable for a Bank loan.
g. Uganda. The Uganda Development Corporation was visited and
the possibility of Bank assistance discussed.

h. Other Developments.

(i) During discussions with Mr. Postel-Vinay, head of the French
Caisse Centrale de Coopération Economique (CCCE) in April and
October 1969, it was agreed that CCCE and the Bank will endeavor
to co-ordinate their assistance to development finance companies
in French-speaking Africa. Concretely, our planned missions to
Mauritania, Senegal, Cameroon, and Madagascar, are to be carried out
in consultation with CCCE.

(ii) In September 1969, Mr. Serge Guetta, formerly of STB,
Tunisia, who has had considerable experience in working with
development finance companies in French-speaking Africa, joined
the Bank's staff, and has contributed to the formulation of an
action program.

B. Activities Already Scheduled or Visualized for FY 1970

1. Botswana. Following discussions during the Annual Meetings, we agreed
to study and comment on papers to be sent to us regarding the pro-
posed new Botswana Development Corporation.

2. Congo (Brazzaville). We agreed, during the Annual Meeting, to visit
Brazzaville to review the possibility of assisting the National
Development Bank.

3. Congo (Kinshasa). The proposed development finance company should
come into existence in 1970. The Bank has found a Director General,
and will assist in finding shareholders and senior staff.

4. East Africa (East African Development Bank). Following our staff
visit to advise on reorganization, we have agreed to remain in touch
with EADB and to provide advisory help whenever possible. A staff
member from Legal Department will probably visit EADB in November
1969 to assist with legal organization and training.

5. Ethiopia. The Minister of Finance asked for Bank assistance in merging
the two development finance companies. We have arranged to provide it,
initially with a staff visit in November 1969.

6. Gabon. Although no request has been received for assistance to the
Gabonese Development Bank, we hope to be able to arrange a staff visit
to it before the end of 1970.

7. Gambia. A mission is scheduled for November/December 1969 to advise
the Government on suitable arrangements for investment finance.

8. Ghana. Preliminary discussions were held, during the Annual Meeting, on
possible Bank financing or other assistance to the National Investment
Bank (NIB). The matter was left that NIB will send us information
about its position and outlook to help us decide on the next steps.
A preliminary visit is tentatively scheduled for early 1970.
9. **Ivory Coast.** An end-use review of BIDI is scheduled for November 1969.

10. **Kenya.** Following our May 1969 visit, ICDC has now sent the Bank a "draft" loan application. Further steps by us will be decided on after study of this document.

11. **Lesotho.** Draft legislation for a National Development and Savings Bank was given to us, during the Annual Meetings, and we have promised to comment on it, and to keep an eye open for possible management candidates.

12. **Liberia.** We are working with LBIDI to try and solve its management problems and pave the way for a Bank loan.

13. **Malagasy Republic.** One of the two Government investment companies, SN1, is having financial difficulties and we were requested, during the Annual Meeting, to help work out a solution. To start with, an economic mission, scheduled for November 1969, will get more information about the investment outlook and need for financing. A special DFC mission is foreseen for sometime during the first half of 1970.

14. **Mauritania.** A mission is scheduled for November/December 1969 to advise the Government on the reorganization of the Banque Mauritanienne de Développement.

15. **Mauritius.** The Government wants our help in transforming the Development Bank into a creditworthy borrower for tourism and possibly other investments. A review mission has been tentatively scheduled, its timing depending on staff (or consultant) availability.

16. **Morocco.** Loans to BNDE and BIH as mentioned before. An end-use review of BNDE is scheduled for April 1970.

17. **Nigeria.** An end-use review of NIDB is scheduled for November 1969. There is a possibility of a $12 million loan late in FY 1970.

18. **Senegal.** A mission is scheduled for January 1970 to advise the Government on suitable arrangements for investment finance.

19. **Somalia.** The Government, during the Annual Meetings, said it would reconsider our proposal for strengthening of SDB, and we reaffirmed our willingness to give technical assistance in this, provided a reasonable common basis for a program could be worked out. We are waiting to hear more from the Government in this matter.

20. **Sudan.** We have agreed to review the Industrial Bank of Sudan to determine how the Bank might be able to help it. A preliminary visit is scheduled to be made in November 1969.

21. **Swaziland.** A Bank Economic mission scheduled for February 1970 has been asked to give special attention to investment opportunities and potential business for a proposed DFC.

22. **Tunisia.** Loan to SNI as mentioned before. An end-use review of SNI is scheduled for April 1970.
23. Uganda. During the Annual Meeting, UDC expressed interest in receiving a Bank loan, and a review of it has been tentatively scheduled for May 1970.

24. Union Africaine et Malgache de Banques Pour Le Développement (UAMBD). We have agreed that a staff member will attend the Annual meeting of UAMBD to be held in Yaoundé, Cameroon, in June 1970, to exchange views and information. UAMBD has as members 11 development banks in as many French-speaking countries (Cameroon, CAR, Congo-Brazzaville, Dahomey, Gabon, Upper Volta, Madagascar, Niger, Senegal, Chad, Togo).

25. Cameroon. A staff member will join the March 1970 Economic Mission to examine possibilities of Bank assistance in investment financing.
I hope it may not be too late to comment on your memorandum of September 4, on which I have the following points:

**Paragraph 2(b)**

I suggest that the Controller's Department, in case of doubt, should consult with Area Departments as well as with the Development Finance Companies Department on questions concerning the financial terms of the loan.

**Paragraph 2(c), as illustrated in paragraph 3 B (ii)**

*Cancellations of unused portions of loan*

I consider that cancellation should be explicitly identified as being of Area Department concern.
October 17, 1969

Dr. Yen Shen
Vice President
China Development Corporation
181-5 Chung Shan Road N., 2nd Sec.
Taipei, Taiwan
Republic of China

Dear Dr. Shen:

Thank you for your letter of July 21, to Mr. Diamond, regarding the Table, Comparative Operational Ratios of Development Finance Companies, 1967 and 1968, which we acknowledged on August 6, 1969.

I am enclosing a final version of this Table. The revision is made mainly to replace the unaudited by audited figures for some companies. We have also taken the opportunity to make few minor corrections and adjustments that were necessary.

In your letter to Mr. Diamond, you gave us the interesting observations on Items 6, 7 and 13. On Item 7 your explanation that the sudden decline in the growth rate of total assets was due to the large sum of repayments of the DLF loan to CDC is clear. We note that this is an inevitable but temporary phenomenon.

For Item 13 on equity income as % of average equity portfolio, we decided to use equity income including "stock dividends." You will notice from the final version the revised ratios for 1967 and 1968.

As for Item 6 we believe the 3.6 is the correct ratio for 1968. As explained in footnote 1 in page 1 of the Table we have excluded from equity that part of "quasi-equity" which falls due prior to the estimated last maturity of the IBRD loan. This practice reflects the thought that, as "quasi-equity" is free or low cost long-term loan, and subordinated, in liquidation, to other debts, it is treated as a part of the borrowing base. However, in due course it comes due for repayment. When it falls due, it becomes imprudent to include it in the borrowing base. Earlier Bank loans to the development finance companies including CDC do not reflect this view. Future loans will. We have therefore accorded the same treatment to all companies to make them comparable.
with one another. However, the corresponding ratio for 1967 should have been 3.4 instead of the 2.2 as given in the Table. This is corrected in the final version of the Table.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosure

cc: Mr. Southall (with copy of incoming letter)
BHShin:jpk
Mr. William Diamond  
October 17, 1969

Ravi Gulhati

Pearson Commission Recommendations on DFCs

You had requested a paper on this subject by the end of this week. Attached please find a draft.

I hope it will be possible before long to elaborate on the thought expressed in the final paragraph on page 4. You will appreciate that a meaningful discussion of this point will require extensive study and consultations with members of the department who know much better than I about the limitations arising from the present framework of World Bank Group policy vis a vis development finance companies.

I am also sending a copy of this draft to Mr. Shin with the request that he doublecheck all the facts and figures cited.

c.c. Mr. Shin  
Mr. Mathew
The following are the actions we have agreed to take in pursuance of discussions during the Annual Meeting:

1. **Botswana:**
   - Comment on papers regarding proposed new Botswana Development Corporation when received.

2. **Cameroons:**
   - Provide staff member for Bank Economic Mission, March 1970.

3. **Congo (Brazzaville):**
   - Arrange short visit in order to get acquainted with National Development Bank, (probably Sekse, following visit to Congo Kinshasa).

4. **Congo (Kinshasa):**
   - A time table for action exists.

5. **Ethiopia:**
   - Lethbridge to visit, in November, to start FIRC on its work of merger of DBE & EIC.

6. **Gabon:**
   - Visit when possible in order to get acquainted with situation.

7. **Gambia:**
   - Guetta on way back from Congo to visit in November/December to discuss arrangements for investment finance.

8. **Ghana:**
   - Visit when possible in order to explore whether Government and NIB have serious interest in seeking Bank finance.

9. **Lesotho:**
   - Comment on draft legislation for National Development & Savings Bank given to us at Annual Meeting.

10. **Malagasy Republic:**
    - After Bank Economic Mission has reviewed investment outlook and need for financing, arrange mission to study institutional arrangements.

11. **Mauritania:**
    - Sekse on way back from Congo to visit November/December in order to advise Government on reorganization of BMD.
12. Mauritius:
Advise Government on institutional arrangements for investment finance with a view to possible Bank loan - use consultant (Medhora) if feasible.

13. Senegal:

14. Sudan:
Lethbridge to visit in November/December to discuss prospects of Bank group action.

15. UAMBP:

cc: Mr. Diamond
    Mr. Sekse
October 17, 1969

(Salutation):

I am enclosing a revision of the Table we sent you on June 30, on Comparative Operational Ratios of Development Finance Companies, 1967 and 1968.

The revision is made to replace the unaudited by the audited figures for some 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. H. Shin
Development Finance Companies

Enclosure

cc: Division Chiefs
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. Lassila:

Mr. Jaakko Lassila  
General Manager  
Teollistaminenrahasto 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 Sindow 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
181-5 Chang Shan Road N., 2nd Sec.
Taipei, Taiwan
Republic of China

Dear Mr. Daniyan:

Mr. Silas B. Daniyan
General Manager
Nigerian Industrial Development Bank Limited
M & K House
96/102 Broad Street
Lagos, Nigeria

Dear Mr. Rohnfelder:

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

Dear Mr. Kheradjou:

Mr. A. Gaces 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 Kraisri:

Khun Kraisri Nimmanahaeminda
General Manager
The Industrial Finance Corporation of Thailand
101 Naret Road
Bangkok 5, Thailand

Dear Mr. Marzo:

Sr. Don Jose Maria Marzo Churraca
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. Benkirane:

Mr. Mohamed Benkirane
Director General
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.
General Manager
The Liberian Bank for Industrial Development and Investment
100 Broad Street
P. O. Box 547
Monrovia, Liberia

Dear Dr. Neuman:

Dr. Avraham Neuman
Managing Director
Industrial Development Bank of Israel Limited
9 Achad Haum Street
Shalom Meyer 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  
Am Hof 4  
Vienna 1, Austria

Dear Mr. Ben Yedder:

Mr. R. Ben Yedder  
1'Administrateur-Delegue  
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  
P. O. Box 1397  
Third Floor - Hemas Building  
York Street  
Colombo, Ceylon
Dear Mr. Kim:

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

Dear Dr. Correa:

Dr. Jose Antonio Correa  
President  
Ecuatoriana de Desarrollo S.A.  
Compania Financiera  
P. O. Box All  
Quito, Ecuador
Mr. W.A. Wapenhans

October 13, 1969

P.C. Goffin

Development Finance Company--Comments on Mr. Diamond's Memorandum of September 12, 1969

1. My comments are limited to Mr. Diamond's comments on Development Finance Company and do not take into consideration the relevance of this approach to agricultural credit operations. This latter subject was treated in my earlier memorandum to you.

2. Provision of Free Capital by the Government. Mr. Diamond justifies the provision of free capital to DFC on the grounds that such capital enhances the profitability of DFC; increases their borrowing base, protects shareholders and makes it possible for the Company to be more venturesome and increases income in early stages of development. Mr. Diamond goes even further. He argues that DFC should not be forced to give up the advantages of such quasi-equity or even may seek more such assistance at later stages of development after the Company has reached an "adequate" level of profitability as this would represent a breach of faith with investors. While I would certainly concede that "quasi-equity" assists the DFC; one would wonder why the opportunity cost of capital is never discussed. The real question which the paper almost totally neglects, is whether the Government might not invest its funds more economically in other areas of the economy. Moreover, Mr. Diamond eliminates from his analysis any use of possible mechanisms for making this judgment:

a) Since quasi-equity is free or given to the DFC at concessional rates, the normal market forces (as realized through the interest rates various competing entities are willing to pay for the use of scarce capital) do not come into play.

b) The provision of quasi-equity is not subject to periodic review by Government policy makers who might want to weigh competition alternative uses of scarce capital.

Thus, Mr. Diamond's agreement for the provision of free capital to DFC is justified purely on institutional grounds, rather than on more broadly economic grounds.
3. **Interest Rates.** Mr. Diamond's discussion on interest rates is largely unresponsive to the Executive Director's comment that the interest charged by some DFC's is too low. Nowhere in his discussion does he tell us what the relationship is between interest rates charged by DFC's and the market interest rates prevailing in the developing nations. One gathers from the discussion that DFC's interest rates are lower, but it is impossible to tell how much lower and how serious an impact this has on the allocation of scarce capital resources. Nor has Mr. Diamond dispelled the doubt that DFC's may, through concessionary rates, be embodying relatively less efficient enterprises.

4. **Rate of Return on Investment.** In Mr. Diamond's approach, adequacy of return is judged by measuring the return of the Development Finance Company. While he may be willing to review the care exercised by the DFC in their financial and economic evaluation of projects, there is no real test of the financial and, more particularly, the economic return on the investment of capital by end users. It hardly seems helpful to shrug off this question by noting that "the economic merit needs special analysis and consideration only to the extent that government policies and other factors have led to distortion in the economy." Moreover, it is hardly encouraging that in most cases returns of DFC's in 1968 were significantly better than 6-1/2%, the Bank's current rate at that time. Given the existing rates of inflation in most developing countries, the real rates of return were substantially lower than this and, in some cases, even negative.

cc: Messrs. Takahashi
    Picciotto

PCGoffin/wby
IBRD
DATE AND TIME OF CABLE: OCTOBER 13, 1969
LOG NO.: RC 30 / 13
TO: DIAMOND INTERFRAID
FROM: LONDON

TEXT:

VISITING WASHINGTON THIS WEEKEND WOULD LIKE SEE YOU CIRCA 1700 FRIDAY REGARDS

ALASTAIR MORTON
OFFICE MEMORANDUM

TO: Mr. William Diamond
FROM: Einar Sekse
SUBJECT: Development Banks in French-speaking Africa - S. Guetta Memo dated October 9, 1969

DATE: October 10, 1969

Attached is a revision of Mr. Guetta's memorandum, Dated October 9, on Development Banks in French-speaking Africa, in which he makes a number of recommendations on countries in which there would be possibilities for the Bank to work. I hope we can have a discussion about these recommendations sometime soon.

Attachment

ESekse:jmb
LES BANQUES DE DEVELOPPEMENT
EN AFRIQUE FRANCOPHONE.

1. La présente note a pour objet de donner une vue d'ensemble sur la situation des banques de développement de la plupart des anciens territoires français au sud du Sahara et de Madagascar, à savoir:

- Le Cameroun
- Le Congo Brazzaville
- Le Dahomey
- Le Gabon
- La Haute Volta
- La Mauritanie
- La République Centre-Africaine
- Le Sénégal
- Le Tchad
- Madagascar

Cette appréciation ne concerne pas cependant le Niger, la Guinée et le Mali qui feront l'objet d'un chapitre particulier, ni la Côte d'Ivoire où l'I.F.C. a déjà une participation.

CARACTERISTIQUES GENERALES

2. Toutes ces banques exercent leur activité dans des territoires disposant d'un réseau bancaire de crédit à court terme très étoffé et souvent même pléthorique. Quel que soit le degré de participation des états africains à ce réseau bancaire, on retrouve toujours à la base les établissements suivants:

- La Banque Nationale de Paris;
- Le Crédit Lyonnais;
- La Banque Internationale de l'Afrique Occidentale, dont le capital est détenu indirectement à concurrence de 51% par la
First National City Bank et dans une moindre mesure (20 à 25 %) par la Banque Nationale de Paris;

- La Société Générale.

3. Toutes ces banques se sont constituées à partir de la transformation de "Crédits sociaux" ou "Crédits populaires", créés au lendemain de l'indépendance de ces pays.

A l'origine, l'activité de ces crédits sociaux se limitait aux opérations suivantes:

- Crédits à l'habitat soit pour l'acquisition, soit pour la construction, de maisons à usage d'habitation;

- Crédits à la consommation, désigné sous le vocable de crédits ou financement de petit équipement (bicyclettes, voitures, radios, réfrigérateurs, meubles, etc. ...);

- Crédits personnels, consentis la plupart du temps à certaines personnalités sous la pression des autorités politiques.

Cet objet social justifie la multitude de petits dossiers qui encombrent actuellement la gestion des banques de développement.

4. A l'occasion de leur transformation en banque de développement, l'objet social a été élargi aux prises de participations aux crédits industriels et aux crédits agricoles; mais rares sont les banques qui sont parvenues à ce jour à se débarrasser des prêts personnels et des crédits à la consommation.

5. Toutes ces banques dès leur origine ont été constituées avec le concours de la Caisse Centrale de Coopération Economique qui s'est matérialisé sur trois plans:

- Participation au capital: Variable suivant les pays et dépassant dans certains cas la minorité de contrôle;

- Ressources: Indépendamment des fonds d'Etat et du réescompte, la CCCE assure la quasi totalité des ressources à long et à moyen terme de ces banques de développement;

- Assistance technique: Dans la plupart des cas, la CCCE a assuré la direction effective de ces affaires à leur démarrage. Par la suite, elle a formé dans son centre le personnel local, et elle continue encore à fournir en cas de besoin des cadres et des conseillers pour assurer la bonne marche des services.
6. Dans tous les territoires concernés par cette note, la CCCE en plus de sa participation aux banques de développement, dispose d'une agence propre qui fait fonction d'organisme d'exécution pour les crédits consentis par la France dans le cadre de l'aide bilatérale.

Ces agences représentent certainement pour la CCCE un budget substantiel.

7. Toutes ces banques de développement, si elles ont souvent des trésoreries déséquilibrées, disposent néanmoins de liquidités abondantes provenant de dépôts d'organismes publiques, paraétatiques, ou de collectivités dont elles ont le quasi monopole.

Cette considération les a conduit à rechercher des emplois à court terme, et toutes ont tenté de développer une activité proprement commerciale. Ces tentatives se sont heurtées cependant à la concurrence des banques de dépôt, mieux outillées pour ce genre d'opération, et aussi à une certaine réticence de la CCCE qui n'appréciait pas ce genre d'opération, craignant sans doute que les banques ne soient détournées ainsi de leur véritable vocation.

8. Toutes ces banques de développement ont eu depuis leur création et ont encore de très mauvais résultats d'exploitation. Rares sont celles qui parviennent à équilibrer effectivement leur gestion; plusieurs sont même largement déficitaires, et ceci s'explique par les deux raisons suivantes:

a) L'activité "Crédit social" engendre des frais de gestion énormes et disproportionnés aux résultats escomptés. En outre, cette activité concerne une clientèle dont la solvabilité est très discutable et qui laisse chaque année des déchets importants. Ceci se reflète dans les provisions considérables que ces banques sont tenues de constituer chaque année et qui ne laissent pas de bénéfice disponible.

b) Si les banques acceptent en accord avec leurs autorités de s'interdire toute activité de crédit social, et de se limiter aux opérations de banques de développement, les opportunités d'intervention compte tenu de leurs structures actuelles ne leur permettent pas d'équilibrer leur gestion. Le rythme actuel de la croissance économique dans la plupart des pays concernés, ne permet pas d'assurer une gestion équilibrée à une banque qui limiterait son activité aux prises de participation et aux crédits à moyen et long terme.

Il est intéressant de souligner à cet effet, que pour un pays aussi relativement développé que la Côte d'Ivoire, le bénéfice net de la B.I.D.I. par rapport à ses seuls fonds propres n'a été que de 5,5 % en 1967 et 6,3 % en 1968.
9. La dernière considération concerne les rapports de la CCCE avec ces banques de développement. Ces rapports sont d'une nature très particulière et les critiques qui apparaissent de la part des pays africains relèvent souvent du "dépit amoureux".

Les pays concernés considèrent trop souvent comme un dû l'aide apportée par la CCCE, et quand les résultats sont mauvais, ce qui est le cas pour les banques de développement, on a trop facilement tendance à incriminer la CCCE sans considération de l'aide financière consentie.

Cependant, il apparaît certain aujourd'hui, que de part et d'autre on est à la recherche de formules nouvelles susceptibles d'améliorer la situation de ces banques et de les intégrer davantage au processus de développement économique.

De ce fait, toute initiative de la part de D.F.C. serait vraisemblablement très bien accueillie tant du côté africain que du côté de la CCCE.

RECOMMANDATIONS

10. Compte tenu des considérations ci-dessus, la définition d'une politique d'intervention de D.F.C. dans cette zone géographique pourrait s'inspirer des recommandations suivantes. Notons que ces recommandations peuvent aussi concerner le Burundi, le Rwanda, le Mali et le Niger.

11. Il faut noter d'abord que même si le D.F.C. n'a pas l'intention d'envisager une intervention globale sur l'ensemble de ces territoires, toute initiative dans l'un des pays serait considérée comme un précédent à partir duquel l'ensemble des pays solliciterait l'aide du groupe de la Banque Mondiale.

12. Préalablement à toute intervention, le D.F.C. devrait d'abord définir l'objet social des banques de développement qu'il entend promouvoir. Cet objet social devant aussi bien s'inspirer de la situation économique des pays concernés, que du souci d'une rentabilité normale des organismes considérés. Il devrait prévoir trois types d'intervention: les prises de participation, les crédits et les prestations de service.

13. Les possibilités de prises de participation seront fixées suivant les normes habituelles en fonction des fonds propres de la banque de développement et du capital des entreprises à promouvoir; il est nécessaire de prévoir également les secteurs d'intervention.
Les crédits:

- A l'industrie: Principalement aux petites et moyennes entreprises accompagnées ou soutenues par l'action nécessaire en matière d'études et de promotions. Pour les grands projets, la banque de développement peut intervenir par la participation à des pools de financement.

- A l'agriculture: Crédits à moyen et long terme - L'intervention de la banque de développement peut être envisagée dans les pays qui ne disposent pas d'organismes spécialisés. Cependant, cette intervention doit être nécessairement conditionnée par la mise en place préalable des structures d'accueil qui font souvent largement défaut dans les pays concernés - Établissement d'un cadastre, délimitation de la propriété, établissement de titres fonciers, création de coopératives ou de mutuelles, etc...

D'autres départements spécialisés du groupe de la Banque Mondiale pourraient aider à la mise en place de ces structures.

- A l'habitat: Secteur important sur le plan économique et fondamental sur le plan social; l'établissement d'une politique cohérente de crédit à l'habitat, dégageant entre autre les sources de financement nécessaires pour l'accession à la propriété par la construction de maisons à usage d'habitation, peut permettre une intervention utile efficace et rentable de la banque de développement.

- A court terme: Dans ce domaine, les interventions de la banque de développement seraient limitées aux opérations suivantes:

  - Financement à court terme des entreprises créées avec le concours ou la participation de la banque de développement. (Crédit de campagne - facilités de caisse - escompte).
  - Participation à des pools bancaires pour le financement de productions nationales (arachides, coton, sucre, café, etc...).
  - Intervention, sans monopole, dans le financement de marchés publics (opérations de préfinancement et escompte de créances nées).
15. Les banques de développement doivent s'interdire toutes opérations de crédits personnels, à la consommation et à l'artisanat; celui-ci serait assuré par des caisses administratives; en effet, tant que l'artisanat n'a pas atteint un stade de rentabilité effective, il s'agit bien plus de subvention que de crédit. Le crédit à la consommation devra être assuré par les entreprises importatrices elles-mêmes, ou si l'état y a convenance, par des sociétés intéressées, ou encore par des sociétés de "Ducroi" qui permettraient le financement auprès du système bancaire. Notons au passage que bien souvent pour des raisons de recettes douanières, l'état peut avoir convenance à susciter l'importation de certains biens, qui provoque le besoin de crédit à la consommation.

16. Prestations de service: Les banques de développement doivent être en mesure d'assurer techniquement dans des conditions convenables la gestion d'opérations spéciales qui leurs seraient confiées. Elles devraient être notamment l'organisme d'exécution des crédits de la C.E.E., de l'USAID, du groupe de la Banque Mondiale et si possible aussi de l'aide bilatérale française.

17. Relations avec la CCCE. Le D.F.C. devrait autant que possible rechercher une coopération avec la CCCE qui dispose de moyens non négligeables pour financer ces banques de développement. C'est donc à partir des banques de développement existantes que le D.F.C. devrait agir, en évitant d'aider ou de créer des organismes concurrents. L'intervention du D.F.C. comporterait pour chaque cas quatre phases distinctes:

- Etude et diagnostic;
- Plan d'assainissement de la situation;
- Restructuration du capital en cas d'intervention de I.F.C. et définition de l'activité nouvelle;
- Programme d'assistance technique et financière respectives de la CCCE et du D.F.C.

Il serait souhaitable que l'I.F.C., en cas d'intervention, détienn avec la CCCE une minorité de contrôle (34 % du capital).

18. Le D.F.C. devrait rechercher avec la CCCE des possibilités de fusion entre la banque de développement et le bureau local de la CCCE. Cette opération procurerait aux banques de développement, outre un regain de prestige, des revenus substantiels, en même temps qu'elle se traduirait vraisemblablement par une économie sensible pour la CCCE.

19. Fusions éventuelles avec d'autres banques commerciales. Dans certains pays où l'infrastructure bancaire est jugée pléthorique par rapport au volume d'opérations du système bancaire, il peut être intéressant de
rechercher également la fusion avec une banque de dépôt locale. Des possibilités dans ce sens peuvent exister avec la B.N.P. qui se trouve installée partout en même temps que la B.I.A.O. et qui dans certains cas dispose de deux guichets qui n'ont pas encore fusionnés, l'un émanant de l'ancien Comptoir National d'Escompte de Paris, l'autre de la B.N.C.I.

20. Banques régionales. Dans certains cas enfin où le potentiel économique du pays considéré est jugé trop faible pour assurer l'existence d'une banque de développement, le groupe de la Banque Mondiale devrait susciter la création d'organismes sous-régionaux, et cela, quelle que soit l'issue des expériences déjà tentées dans ce domaine. C'est sans doute le moyen le plus accessible pour inciter et aider certains pays à une politique économique régionale. En outre, le prestige de la Banque Mondiale peut lui permettre de jouer un certain rôle d'arbitre dans ce domaine.

PLANNING D'EXECUTION


22. Madagascar. Le Bilan de la Banque Nationale Malagasy est équilibré. Le pourcentage des fonds propres affecté aux immobilisations et participations est inférieur à 50%. La Banque développe une assez bonne activité avec des engagements globaux supérieurs à 3 milliards de Francs Malgaches (32 m. $US). En 1968, le bénéfice net déclaré de 7,500,000 Fr.M. est évidemment très faible, mais il a été constitué des provisions pour risques à hauteur de 110 m. de Fr.M. Par rapport aux autres banques de développement de l'Afrique Francophone, la gestion peut être considérée comme satisfaisante.

Deux considérations sont à retenir dans notre approche au problème malgache:
- Nous ne devrons pas encourager une concurrence entre deux organismes à caractère paradigmatique; le marché malgache ne le justifiant pas, cette concurrence provoquerait une regrettable perte d'énergie, outre que les deux organismes risqueraient d'être déficitaires.

- La CCCE participe à hauteur de 35% au capital de la B.N.M. Il serait mal venu d'encourager, par une quelconque action, la S.N.I. à concurrencer la B.N.M. au moment où l'on envisage une collaboration avec la CCCE pour l'ensemble de l'Afrique Francophone.

Préalablement à toute intervention, le D.F.C. devrait d'abord étudier l'opportunité de la co-existence des deux organismes, et suivant les résultats, susciter la fusion, ou recommander une stricte démarcation entre les activités respectives.


L'expérience au Sénégal serait intéressante à tenter compte tenu de l'ensemble du programme à mettre en œuvre et des fortes chances de succès si l'action est entièrement et sérieusement menée. Il semblerait du reste que le gouvernement a pris déjà certaines mesures d'assainissement de la banque. Licenciement massif de personnel pléthorique qui avait plus que doublé en 1968 - Constitution d'un comité de gestion - Là aussi, compte tenu sans doute des difficultés de la B.N.D.S., le gouvernement a envisagé de céder à une autre banque locale l'U.S.B. (associée au Crédit Lyonnais) le département crédits industriels. Sous réserve d'étude, cette cession ne paraît pas souhaitable.

24. La Mauritanie. La B.M.D. existe également avec une participation de 35% de la CCCE. Sa situation est cependant totalement à revoir - Activité très faible et exploitation largement déficitaire. Elle dispose néanmoins de certains moyens - Il souligner également que l'État mauritanien en même temps qu'il était préoccupé par la reconversion et l'assainissement de la B.M.D. a autorisé la création d'une nouvelle banque de dépôts; la Société Mauritanienne de Banque, créée avec le concours de la Société Générale (France) et dans laquelle il a suscrit au capital à hauteur de 5%. Il existe également en Mauritanie un guichet de la B.I.A.O., qui est de loin la banque la plus active. Peut-être n'y-a-t-il pas place dans le pays pour trois banques qui se voudraient actives et rentables. Sans doute y aurait-il lieu de suggérer une fusion avec la S.M.B. en même temps que la mise sur pied d'un programme de reconversion et d'assainissement de la B.M.D. ?
Le cas de la Mauritanie est intéressant à étudier, compte tenu du sérieux avec lequel les autorités considèrent le problème de leur banque de développement. A souligner qu'il y aurait lieu de prévoir en particulier dans ce cas, une large assistance technique, et une aide du département agricole pour la mise sur pied de structures d'accueil dans ce domaine. Nous sommes l'objet de sollicitations pressantes de la part de ce pays et on voit mal à quel groupe régional on pourrait rattacher la B.M.D.

25. Le Gabon. Au 30 septembre 1968, la Banque de Développement du Gabon présentait une situation saine - 30% des fonds propres affectés aux immobilisations. La trésorerie semble équilibrée, et la banque dispose de larges liquidités. Le compte de profits et pertes accuse un résultat nul après constitution de 50 m. de Frs. CFA de provisions pour risques.

L'activité économique au Gabon peut permettre une amélioration sensible du chiffre d'affaires et des résultats de la B.D.G. dans le cadre d'une activité élargie.


Le D.F.C. reprendrait alors l'idée de la création de la banque de développement de l'U.D.E.A.C., idée largement évoquée dans un passé récent et qui avait fait l'objet d'études avancées.

27. Banques Régionales. Dahomey - Togo - Haute Volta. Sans doute à partir du Togo - La Banque Togolaise de Développement est une petite affaire au capital de 300 m. Frs. CFA. avec une participation de 20% de la CCE. Le volume d'engagements est faible - 1,2 milliard de Frs. CFA ($480,000 US$) et réparti sur un très grand nombre de petites affaires. L'utilisation n'est pas déficitaire - La banque semble disposer d'un certain encadrement. A l'échelle régionale, une banque susceptible de s'intéresser aux secteurs industriel, agricole, habitation et commercial peut trouver sa justification. A souligner toutefois la situation très difficile et très précaire de la Banque de Développement du Dahomey.

28. Cas particuliers. Le Niger n'a pas suivi le même processus que les autres territoires africains en matière de banque de développement. Le crédit "social" "Crédit du Niger" est resté spécialisé dans les opérations de crédit à l'habitat et crédit à la consommation; le gouvernement nigérien, avec le concours de la Société Tunisienne de Banque, a créé en 1960 la Banque de Développement de la République du Niger dont il est majoritaire, mais au capital de laquelle participe aussi la CCE. Cette banque, qui fait fonction de Banque de Développement et de Banque Commercial développe une bonne activité et enregistre des résultats satisfaisants. Il apparaît aujourd'hui que cette institution qui a bénéficié d'un certain concours de circonstances, a pu être
réalisée en partie grâce au fait que le Niger était sans doute le pays africain où l'infrastructure bancaire était des plus faibles; il n'existait qu'un seul guichet de la B.I.A.O. Sans doute en temps utile conviendra-t-il d'envisager une intervention à la B.D.R.N. sous forme de lignes de crédit.

29. **Le Mali et la Guinée**, compte tenu de leur situation particulière, nécessitent des études séparées.
October 9, 1969

Mr. Harry Stoker
Executive House
777 Douglas Street
Victoria
British Colombia

Dear Mr. Stoker:

Many thanks for your letter of October 2 and for letting us know where you can be contacted in the next two months.

Did you hear from Leembruggen? We told him where to reach you.

I did hear about Jimmy's retirement. I too hope he will be available for consultant assignments so that the experience he has gathered over the years can continue to be put to use.

I send you my best wishes for a good holiday.

Sincerely yours,

William Diamond
Director
Development Finance Companies

CC: DFC File

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**REMARKS**

R Picciotto
Mr. S. Takahashi  
R. Picciotto  

October 8, 1969  

DFC - Government Financing and Return on Capital

1. As it stands, the draft policy statement on the above subjects makes no distinction between economic and financial returns of development bank projects. This is unfortunate. As appraisal tools, the two concepts are complementary but distinct. The paper would greatly gain in clarity and depth if it analyzed the two concepts separately.

Economic Return

2. Although a development bank is busy making loans, its main business is not to make loans (para 19a). It is to contribute to the guidance and growth of key sectors of the economy in which it operates. This applies to the World Bank, on a worldwide scale, and it should also apply on a national scale, to the development finance companies which the World Bank assists. Therefore, the justification of World Bank investment in a DFC should be viewed in terms of its ultimate impact on the economy of the member country.

3. This is not to say that institutional building aspects should be overlooked. Strong, flexible and well managed financial institutions extend the beneficial influence of World Bank assistance to DFC's far beyond the direct impact of Bank lending per se. On the other hand, institution building is only a means to an end, not an end in itself. Without a clear concept of the past and proposed influence of a development finance company on sectoral policy and growth, institutional appraisal is at best incomplete. At worst, it encourages the setting up, or the perpetuation, of an ineffective resource allocation mechanism.

4. A development finance company does not use capital. It merely transfers it. But it does use scarce manpower and other administrative inputs in order to allocate capital among possible competing uses. In economic terms, therefore, investment in a development bank is justified only if the cost of its administration is more than offset by the increased output value resulting from improved capital allocation attributable to DFC operations. This means that the average economic return of the projects financed by a DFC (net of DFC administrative expenses) represents a meaningful approximation of the return on investment in a DFC only if the projects in which the DFC invests would not have materialised without DFC promotion or finance. On the other hand, the same measure would not be meaningful for a DFC which makes loans only to enterprises which could easily have secured finance elsewhere and owe nothing to DFC advice or promotion.
5. Ex post assessment of economic justification for a DFC project must therefore include a judgment about its innovative function together with a detailed economic analysis of its portfolio. Similarly, ex ante economic assessment of a DFC operation requires a projection of its lending activities and strategy and, at the same time, of the administrative costs which such a program will entail. To the extent that the proposed lending program breaks new ground in terms of new technologies, new markets and new management practices, the average economic return of the subprojects making up the lending program (net of DFC administrative outlays) does provide a useful indication as to the economic worth of the DFC project.

6. In contrast to the financial return, the economic return concept sketched here does not depend on the interest rate policy followed by the DFC, nor does it depend on the cost of DFC borrowings or its capital structure. By weighing administrative costs against volume and quality of business, the economic return of a DFC operation ultimately measures the vision, skill and dedication of its management and staff.

7. No one will deny the difficulty of setting up realistic, yet innovative, lending programs. However, in a DFC as in any other enterprise, there can be no meaningful assessment of institutional performance without operational targets. The lending program of a development bank is only the translation of sector judgments into investment action. As such, it is a powerful and flexible tool of development policy which the World Bank should not fail to use to full advantage in industry as well as in agriculture.

Financial Return

8. I have few comments on the financial return aspects of the draft policy statement. For a DFC, as for any other project financed by the World Bank, an adequate financial return is required to ensure satisfactory operation and continued growth of the project entity. The draft outlines the considerable advantages, from the institutional standpoint, of financial devices such as "quasi equity" in cases where lending rates are too low to carry the high overheads of development bank work. However, it does not bring out clearly enough the hidden economic costs which low interest rate policies may entail, e.g. encouragement of a capital intensive bias in the borrowing sector, discouragement of public and private resource mobilization efforts, and cumbersome reliance on administrative criteria for investment project selection.
Gentlemen:

We confirm receipt of two copies of the final version of IVK's descriptive memorandum 1968 thanking you for having corrected the draft.

In connection with paragraph 33 of the memorandum you ask for further specification of the term "other reserves" we used in the explanatory note in our letter of August 5. The respective amount of AS 5,529,000,- represents an addition to the so-called "Investitionsrücklage", a tax-exempt allocation to reserves earmarked for the company's addition to fixed assets (buildings, machinery, etc.).

We hope to have been useful to you and remain

Sincerely yours,

[Signature]

ÖSTERREICHISCHE INVESTITONSKREDIT AKTIENGESELLSCHAFT
Osterreichische Investitionskredit Aktiengesellschaft

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

September 25, 1969

Reference: 10.11.71, 15.11.71

Dear Mr. President,

We are forwarding to you, a copy of the final version of our agreement dated this 25th September 1969.

In connection with paragraph 7 of the memorandum, you will note that the amount of $250,000 represents our commitment to the company's application for assistance in equipment, machinery, etc., to become available in the future.

We hope to have been useful to you and remain

Sincerely yours,

Osterreichische Investitionskredit
Aktiengesellschaft

[Signature]

[Address]

[Date]

[Phone]
OFFICE MEMORANDUM

TO: Files
FROM: K. Georg Gabriel

DATE: October 7, 1969

SUBJECT: Currency Repayment Provisions on Bank Loans to Development Finance Companies

Further to the recent meetings held to discuss this subject (see Mr. Goodman's memorandum to Mr. Knapp of September 23), I met separately with Messrs. Cope and Diamond and with Mr. Aldenarol to explore the possibility of giving DFC borrowers the option to include in Bank loan agreements with them a provision under which their repayment obligations would be limited to the dollar equivalent of the currencies disbursed under the respective loans. Under this option, the Bank would continue to be free to disburse whatever currencies it had available and on repayment dates to call back whatever currencies it then needed, but the exchange risk on non-dollar currencies disbursed under a given loan would be carried by the Bank.

Mr. Cope found the proposal attractive but thought that in view of the Bank's policy of strict exchange rate neutrality, under which the Bank limits its exchange risk exposure to non-dollar currencies held as retained earnings, the proposal created more problems than it solved. In a separate meeting, Mr. Aldenarol took the view that there was no prospect for this type of proposal being accepted by the Executive Directors and that consequently there was nothing to be gained by exploring it further.

KGS/100
Mr. William Diamond

E. Waldo Mauritz

Audit Reports - Development Finance Companies

October 7, 1969

You asked me to comment on the differences between the "long-form" and "short-form" audit reports and to give my opinion as to the relative values of the two types of reports.

The "short-form" audit report is one which contains (1) the "accountant's report (opinion)" and (2) the basic financial statements, that is, balance sheet, statement of income and statement of retained earnings (or in numerous instances) statement of reserves and appropriations of income.

The "long-form" audit report is one which contains (1) the "accountant's report (opinion)" and the same basic financial statements contained in the "short-form" audit report, plus the following: schedules or exhibits containing more detailed information on significant balance sheet, income and expense account items (such as loans, investments, changes in reserve accounts and details of significant income or expense accounts), supplementary information in comment form on significant changes in balance sheet accounts from the preceding year, comments or explanations on accounting for differences of income and expenses, and a section on scope of work performed by the auditors during the examination.

The accountant's report in both instances is the same for the first two paragraphs of the report, that is, generally the first paragraph indicates that the accountant has examined the balance sheet and financial statements in conformity with generally accepted auditing standards and the second paragraph, assuming there are no qualifications to the report, contains the accountant's expression of opinion as to the fairness of the presentation of the financial statements for the period under review.

The "long-form" report should, and usually does, contain another paragraph referring to the schedules and supplementary information and should indicate whether the independent accountant is taking full or partial responsibility for the information contained in the schedules and supplementary information.

For our purposes at the Bank and IFC, I believe that the long-form report is of greater value. My reasons for this statement are as follows:
(1) The information contained in the long-form report, i.e., supplementary comments, schedules, etc., provide a basis for a more intelligent analysis of the financial condition of the changes from year to year.

(2) Many of the companies in which DFC has investments, either in the form of loans or equity, or both, lack the competence or staff to prepare internal management reports furnishing the type of information we should receive at least annually on financial position and results of operations.

(3) Assuming we have made a good choice of independent accountants (and this is usually the case), we are in a position to receive in the long-form report a reasonably objective review of the financial affairs of the company on an annual basis.

Although the "short-form" audit report has become the more common audit report in the United States, particularly as to large companies and certainly those listed on the stock exchanges, it must be recognized that their internal reporting procedures are considerably more sophisticated than what we encounter in the developing countries. Despite this fact, it is not at all uncommon for banking institutions with extended credit to U. S. enterprises to request and receive a "long-form" type audit report in order to furnish their credit officers with certain types of information they need as to the operating details of the company.

I will be happy to discuss this matter with you at any time and submit any additional information you may require.
Mr. William Diamond

Neil Orloff

Public Statements Made at the 1969 Joint Annual Meeting

October 7, 1969

1. This report analyzes the official public statements made at the 1969 Joint Annual Meeting of the World Bank Group and IMF. The focus of this report is on that specific part of the official public statements which directly relates to the work of the Development Finance Companies Department.

2. The subject matter which has been investigated has been subdivided into the major topic areas of (1) development banks, (2) capital markets in less-developed countries, and (3) industry and industrial financing in less-developed countries. These major topic areas have, in turn, each been subdivided into categories designed to facilitate future action by the Development Finance Companies Department.

3. Part I of this report analyzes the speeches according to the dimension of common subject matter. Part II of this report is a series of summaries of the relevant portions of each of the individual speeches. Part III of this report is a complete collection of the unabridged official public statements made at the Annual Meeting.
OFFICE MEMORANDUM

TO: Files
FROM: P. M. Mathew
DATE: October 7, 1969
SUBJECT: Notes of a Meeting with Mr. Mittendorf - October 2, 1969

1. PICIC -
   a) DEG has made an equity investment alongside of PICIC in Pakistan Fertiliser Co.; is pleased with arrangements to market fertiliser through Burma oil company's gasoline outlets; is concerned about the working capital needed to finance fertiliser sales.
   
   b) Mr. Mittendorf thought that there was increasing Government influence on PICIC. Difficult to cite instances. Sayed Ahmed is not strong enough to resist. We referred to uniform 15-year term of loans out of Bank funds as an instance that had come to our notice.

2. E. Africa -
   Mr. Mittendorf wanted to know what we were doing or planning to do in E. Africa. We explained the position. He thought more promotion was needed to take advantage of opportunities, and that the companies he was associated with in E. Africa were not in a position to promote.

3. Somalia -
   He is not in touch. We told him of our work.

4. Burundi -
   DEG has a small share investment which it intends to increase next year.

5. Gabon -
   A Kreditanstalt mission returned some two months ago. KfW and DEG are in preliminary states of considering assistance to the Gabonese Development Bank.

6. Brazil -
   We told him our present and prospective work in Brazil.

cc: Messrs. Mirski, Sekse, Southall

PMMathew:mbj
All Division Chiefs

Ravi Gulhati

Assistance to Development Banks for Project Appraisal

October 7, 1969

Mr. Avramovic has raised with me the question of how to meet the request made by IMDBI (Iran) as well as other DFCs in other countries for help in connection with project appraisal. Apparently, such a request was made by Mr. Ehsani sometime this summer. (There is mention of this in Mr. Avramovic's Progress Report on his Mission to Iran dated May 21, 1969.) The IMDBI would like to refer to international experience regarding the level and growth in demand of various manufactured products as well as investment requirements and production costs. There is no doubt that the availability of such international comparative information would be quite valuable in providing guidelines for project appraisal.

Mr. Avramovic tells me that he attempted to get the collaboration of UNIDO in meeting this request. It seems that UNIDO is not able at this time to provide such help. Most of their studies are only now getting underway and it will be some time before they are able to make much of a contribution. However, it is Mr. Avramovic's judgment, and I agree, that UNIDO is the most appropriate place where such project and industry information should be assembled and analyzed. Provided the Bank is prepared to urge UNIDO to get on with this work and to extend to UNIDO such financial and other assistance as may be required, the whole exercise can be completed much more quickly than would otherwise be the case.

I would like to get your judgment on how widespread and urgent is the need for such information in DFCs in different parts of the world. Would you give some thought to this question and let me know your views during the next few days. I would also welcome the opportunity of discussing with you how our Department reviews such project appraisals as are submitted to us by DFCs. The availability of international norms on demand, investment requirements and production costs may strengthen our capability in exercising this review function. Conceivably, the Industrial Projects Department of the World Bank may also profit by the UNIDO exercise.

cc: Mr. William Diamond
Mr. P.M. Mathew
Mr. Dragoslav Avramovic
October 7, 1969

Mr. Mohamed Benkirane
Director General
Banque Nationale pour le Developpement Economique
Boite Postale 407
Rabat, Morocco

Dear Mr. Benkirane:

Thank you for your letter of September 19, concerning the draft descriptive memorandum on Banque Nationale pour le Developpement Economique.

In the light of your comments on the draft we are revising the draft. We will be sending you two copies of a final version of the descriptive memorandum on BNDE.

Sincerely yours,

B. H. Shin
Development Finance Companies

cc: Mr. Pollan

BHShin:jpk
October 1, 1969

Mr. Congressman
Director General
PeacefulAtomic Bank for Development
New York, New York

Dear Mr. Congressman:

Thank you for your letter of September 17 concerning
the great geologists' memorandum on nuclear nationalism.

Development Economics

In the light of your comments on the great we
research and the great we will be sending you two copies of
a final version of the geologists' memorandum on NEHE.

Sincerely yours,

[Signature]

cc: Mr. Pollan

[Handwritten note:]

1969 Oct 8 Pm 2:33
October 6, 1969

Mr. William Diamond  
Director  
Development Finance Companies Department  
International Bank for Reconstruction and Development  
Washington, D.C.

Dear Mr. Diamond:

I was very glad to receive copies of "Development Finance Companies; Aspects of Policy and Operation; and "Las Compañías Financieras de Desarrollo", which you have sent to me on the second instant.

I have enjoyed reading such interesting publications, and wish to thank you for your courteous attention.

Sincerely yours,

Raul Barbosa  
Executive Director
Progress Report on my Compilation

In accordance with your memorandum of June 14, 1968, on the subject, I report as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td></td>
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</tr>
<tr>
<td>Colombians, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Austria, Finland, Greece, Malaysia and Turkey</td>
<td>Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>b) India</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>c) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>d) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
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<tr>
<td>3. New Descriptive memorandum</td>
<td></td>
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</tr>
<tr>
<td>Caldas, Nacional, Norte and COFIEC</td>
<td>Garcia</td>
<td>Requested on March 21</td>
</tr>
</tbody>
</table>

A Bank's economic report which was said to include a section dealing with this subject, has been now out in a draft form. Mr. Pollan is presently reviewing the section.

cc: Division Chiefs
Mr. B.H. Shin

J. Acevedo Navas

Sub-projects reviewed by Division I (Latin America)

The projects above individual limits credited during the quarter July 1 - September 30, 1969 are as follows:

Colombia - Loan 53h CO

- Compañía de Empaques S. A. (CF Nacional)
- Pastas La Muñeca (CF Valle)
- Industria Nacional de Repuestos (CF Valle)

Venezuela - Loan 128 VE

- Corporación M. G. Textiles S. A.
- Polifilm de Venezuela
Comments on Mr. Fred Preu's "Follow-up on ICI Spring Review Discussion"

1. The memorandum from Mr. Preu and his letter of September 3 clearly call for a few comments.

   Generally speaking, Mr. Preu appears to confuse development banks with development policy.

   In point of fact, his memorandum deals with three separate subjects:

   (i) the exodus from the countryside and the resulting concentrations of unemployed workers around large cities;

   (ii) the need to promote, through private enterprise, the rise of a class of local entrepreneurs and its importance for economic growth in Africa; and

   (iii) the ways and means needed to cope with the two issues just mentioned through the development of agribusiness.

2. To begin with, it should be pointed out that the flight from the countryside is a social phenomenon of the modern world, and that there is nothing specifically African about it. It is, however, a serious problem for any underdeveloped country, since it compels it to enlarge the infrastructure of its large cities and hence to invest in basic services capital that would certainly show a more immediate profit elsewhere.

3. Unemployment in Africa is not a consequence of this exodus from the country, but a partial cause of it; it also constitutes a worrying problem that is one of the distinguishing marks of an underdeveloped country.

   Stress should, however, be laid on the fact that African unemployment has
not, so far at least, produced the widespread famines that have occurred in other places. Doubtless this is because nature is more bountiful in Africa than elsewhere.

4. We entirely agree with Mr. Preu as to the absolute need to establish a class of small private entrepreneurs in the African countries, but the achievement of this aim often runs into difficulties that are hard to surmount, however much good will there may be on the part of the institutions that provide assistance to underdeveloped countries.

   a. If the public authorities incline towards a socialist solution they leave little scope for the rise of a class of private entrepreneurs (as, for example, in the case of Guinea and Mali); the same occurs if the choice made is in the direction of an economic structure based on cooperatives. In both these cases the action taken will inevitably tend to bring about the disintegration of this class and induce the few effective entrepreneurs to leave the country.

   b. In those underdeveloped countries which allow scope for private enterprise, either because a liberal philosophy prevails in economic matters, or because a public sector and a private sector are allowed to exist side-by-side (the situation most frequently met with), the local businessman who owns capital is attracted, first and foremost, by investments that will show an immediate profit. Thus, we find him taking an interest in trade, in real estate investment; possibly in agriculture, if there is an agricultural tradition, only on rare occasions in industry to begin with. This is a question of psychological make-up. Conditioned by environment, and
progress in this direction is necessarily slow.

5. Until, therefore, this sorely needed class of local private investors appears on the scene, two other types of investment should also be considered:

- Public investment, provided that is is selective and well managed; the experience of the past 10 years may well provide very useful lessons with regard to the action to be taken in this field.

- Foreign private investments. Whatever the real extent of the tensions provoked by extended foreign control over the economy of a country, this type of investment is desirable and even necessary during an interim period. It is worth emphasizing in this connection that one cannot find a single African country that does not make a direct appeal to the foreign private investor, and that all the investment codes are packed with (often excessive) incentives to attract these investors.

6. To return to the problem of the development banks, which is what we are concerned with, there can be no doubt that these should, so far as their funds allow, give every possible assistance to all types of local activity, but it would be a great mistake for them to turn their backs on foreign investors.

7. The most that can be allowed is a policy of discrimination in favor of local investors when the two groups are in competition, but this situation is still very rare, and even nonexistent in Black Africa. It should also be stressed that the foreign investor is often very anxious (not solely for reasons of generosity) to go into partnership with local investors and that,
in many countries, the only possible partners are the State or its institutions.

8. The suggestions put forward by Mr. Preu for promoting the private sector are interesting, but let us recall that this choice is first and foremost a matter for the public authorities and that Mr. Preu's program extends well beyond the sphere of activities of the development bank itself.

Development Banks

9. In this regard we by no means share the opinion of Mr. Preu, although it is difficult to tell from his memorandum what precise role he assigns to development banks.

10. Profit-making and the distribution of dividends appear to shock him. Assuming one accepts that banks in general are institutions that "deal in money," sound management and a fair return are, in the end, the only real conditions of these establishments' survival and the best pledges they can offer investors.

11. It should be stated next that this point of view in no way conflicts with the dynamism that banks must show in their development activities. To a banker, the concept of risk is not the result of a mathematical equation and, whatever guarantees they may manage to secure, development banks do, by definition, run greater risks than ordinary commercial banks. It is precisely in Africa that certain development banks have had found this out to their cost in the past few years.

12. We do not think that it helps the cause of development heedlessly to
finance projects that are doomed to failure, merely because they are "private" projects. State-owned banks have all too often been found guilty of thoughtless mismanagement in financing government projects whose subsequent losses place a heavy strain on national resources; if this tendency is to be cut short it hardly seems reasonable to adopt the same policy for private projects.

13. It is certainly true that development banks need to show dynamism and imagination; they must seek out every opportunity to lend and must work in collaboration with all the development specialists (engineers, economists, lawyers, analysts, etc). The last word in the matter of financing must, however, be left to the banker, who is alone able to consider in combination all the factors involved and estimate the degree of risk entailed. So far as guarantees are concerned, it is clear that, in an underdeveloped African country, these are not of the same kind as in an industrial country, but, when they can be secured, they should be sought and accepted by the banker. The "educational" role that development banks necessarily play in an underdeveloped country when seeking to promote private investments has been overlooked by Mr. Preu. Nothing could expose the economy, and particularly its private sector, to greater danger than to allow business to develop in a state of anarchy, with no regard for either yields or obligations.

14. None of these activities can be carried on unless the banks manage to keep their cash position in balance and to run its businesses at a profit.

15. If we carry Mr. Preu's ideas to their logical conclusion we would find
an establishment which, under cover of its developmental role, allowed itself to incur larger and larger annual deficits, such as can only be covered by the State. The institution would then be no more than a Government department - a budget department - and become meaningless from the banking point of view.

16. It may, in point of fact, be genuinely accepted nowadays that these considerations have already been overtaken by events - at least if we confine our attention to the continent of Africa. The majority of the African countries have had experience of development banks, and this experience has taught them many lessons. The watertight compartments between the public and private sectors; (depending on) whether the majority of shares are held by the State or not, have disappeared. If there is a single test that must be applied, one which experience has shown to be indispensable, and which the majority of the countries are prepared to accept, it is the basic requirement that development banks must be independent, which is the only way of avoiding the misuse of resources that is so harmful to economic growth.
TO: Mr. William Diamond  
FROM: Serge Guetta  
SUBJECT: Comments on Mr. Fred Preu's "Follow-up on ICI Spring Review Discussion"

1. La note de M. Preu et sa lettre du 3 septembre appelle évidemment quelques commentaires.

Monsieur Preu semble d'une façon générale confondre "Banques de développement" et "Politique de développement".

Sa note traite en fait de trois sujets distincts:

- L'exode rural et les concentrations de chômeurs qu'il engendre autour des grandes villes.
- La nécessité de promouvoir par l'initiative privée une classe d'entrepreneurs locaux, et son importance dans les possibilités de croissance économique africaine.
- Les voies et moyens nécessaires à la réalisation des deux points ci-dessus par le développement de l'Agri-Business.

2. Signalons d'abord que l'exode rural est un phénomène sociologique du monde moderne qui n'a rien de spécifiquement africain. C'est un problème grave cependant pour tout pays sous-développé car il l'oblige à accroître l'infrastructure des grandes villes et à investir de ce fait des capitaux qui seraient certes plus immédiatement rentables ailleurs.

3. Le chômage en Afrique n'est pas une conséquence de cet exode rural, mais partiellement à l'origine; c'est aussi un problème préoccupant qui est une des premières caractéristiques d'un pays sous-développé. Encore convient-il de souligner que le chômage en Afrique n'a pas provoqué, pour le moment du moins, des famines généralisées comme cela a été le cas ailleurs. Sans doute la nature africaine est-elle plus généreuse qu'ailleurs.

4. Nous sommes tout à fait d'accord avec M. Preu sur l'absolue nécessité de créer dans les pays africains une classe de petits entrepreneurs privés, mais cette réalité, quelle que soit la bonne volonté des institutions d'aide aux pays sous-développés se heurte souvent à des difficultés difficilement surmontables.

a. Si les pouvoirs publics s'orientent vers une option socialiste, ils laissent peu de place à la promotion d'une classe d'entrepreneurs privés (exemples: La Guinée, Le Mali); il en est de même si l'option s'oriente vers une structuration économique à base de coopératives.
Dans ces deux cas, on assistera inévitablement à une désintégration de cette classe et à un exode vers l'étranger des quelques rares entrepreneurs valables.

b. Dans les pays sous-développés qui laissent place à l'initiative privée, soit du fait d'un libéralisme économique, soit du fait de la coexistence entre un secteur public et un secteur privé (ce qui est le cas le plus fréquent), l'homme d'affaires local, détenteur de capitaux est surtout attiré par les placements immédiatement rentables. C'est ainsi qu'on le verra s'intéresser au négoce, aux investissements immobiliers - éventuellement à l'agriculture s'il y a des traditions agricoles mais rarement et d'emblée à l'industrie. C'est une affaire de structures mentales conditionnée par l'environnement et dont l'évolution est nécessairement lente.

5. Donc en attendant la création de cette classe souhaitée d'investisseurs privés locaux, deux autres types d'investissement sont aussi à considérer:

- L'investissement public, à condition qu'il soit sélectionné et bien géré; l'expérience de ces 10 dernières années peut permettre des enseignements très utiles sur l'action à mener dans ce domaine.

- L'investissement privé étranger. Quelles que soient les tensions réelles que provoquent à terme une main-mise étrangère sur l'économie d'un pays, ce type d'investissement est souhaitable et nécessaire dans une phase transitoire. Il est intéressant de souligner à cet égard que pas un seul pays africain ne manque de faire expressément appel aux investisseurs privés étrangers, et que toutes les chartes d'investissement redoublent d'avantages (souvent excessifs) pour attirer ces investisseurs.

6. Pour revenir au problème des banques de développement qui nous intéresse, il est certain qu'elles doivent dans la mesure de leurs moyens, aider au maximum toutes initiatives locales, mais ce serait une profonde erreur de refuser tout concours aux investisseurs étrangers.

7. On peut à la limite admettre une politique discriminatoire au bénéfice des locaux quand les deux types d'investisseurs sont en concurrence, mais ce cas est encore très rare voir même inexistant en Afrique Noire. Il convient aussi de souligner que l'investisseur étranger est souvent très désireux (pas seulement par générosité) de s'associer à des investisseurs locaux et dans bien des pays il ne trouve que l'État ou ses institutions comme seuls partenaires.

8. Les suggestions retenues par M. Preu pour la promotion du secteur privé sont intéressantes. Rappelons cependant que cette option est d'abord le fait des pouvoirs publics et que le programme de M. Preu dépasse largement l'action de la seule banque de développement.
La Banque de Développement

9. Sur ce point nous ne partageons pas du tout l'opinion de M. Preu - encore que l'on voit mal d'après sa note quelle mission exacte il réserve à la banque de développement.

10. La réalisation de bénéfices et la distribution de dividendes semblent le choquer. Dans la mesure où l'on admet que la banque en général est une institution qui fait "le commerce de l'argent", une gestion saine, un rendement convenable sont, à terme, les seules vraies conditions de survie de l'établissement et les meilleurs gages qu'il est susceptible d'offrir aux bailleurs de fonds.

11. Précisions de suite que cette optique n'est absolument pas contradictoire avec la notion de dynamisme dont doit faire preuve la banque dans l'action de développement. La notion de risques pour un banquier, n'est pas la résultante d'un équation algébrique et par définition, quelles que soient les garanties dont elle s'entoure, la banque de développement prend plus de risques que la banque commerciale ordinaire. Certaines banques de développement précisément en Afrique, en ont fait l'expérience ces dernières années.

12. Nous ne pensons pas que c'est faire œuvre utile en matière de développement que de financer d'une façon inconsiderée des projets voués à l'échec pour le seul motif qu'il s'agit de projets "privés". On a trop souvent constaté des abus inconsiderés dans la gestion de banques à majorité étatique pour des financements de projets publics dont les résultats déficitaires sont un poids pour le pays; il ne paraît pas raisonnable pour faire échec à cette tendance d'adopter la même politique à l'égard des projets privés.

13. Certes, la banque de développement doit faire preuve de dynamisme et d'imagination, elle doit rechercher toutes les opportunités d'intervention et toutes les possibilités de financement en collaboration avec tous les spécialistes du développement (Ingénieurs, économistes, hommes de loi, analystes, etc.), mais le dernier mot en matière de financement doit revenir au banquier qui seul peut faire la synthèse de tous les éléments et apprécier la qualité du risque à prendre. En matière de garanties, il est évident que dans un pays africain sous-développé, elles ne sont pas de même nature que dans un pays industrialisé, mais quand elles sont possibles, le banquier doit les rechercher et les prendre. Le rôle "éducatif" que doit nécessairement jouer la banque de développement dans un pays sous-développé en vue de promouvoir les investisseurs privés, a échappé à M. Preu. Rien ne serait plus dangereuse pour l'économie d'un pays et plus particulièrement son secteur privé, que de laisser les affaires se développer dans l'anarchie, et sans souci du rendement et des obligations respectives.

14. Toute cette action ne peut se poursuivre que si la banque parvient à maintenir son équilibre de trésorerie et une gestion bénéficiaire.
15. A la limite si l'on suit M. Preu dans sa conception on peut imaginer un établissement, qui sous prétexte de faire du développement admettrait des déficits annuels de plus en plus importants et qui ne peuvent être couverts que par l'État. L'organisme ne serait plus alors qu'un département étatique, un service du budget qui perdrait toute signification bancaire.

16. On peut en fait admettre sérieusement aujourd'hui que ces considérations sont dépassées si l'on s'en tient du moins au Continent Africain. La plupart des pays africains ont fait leurs expériences en matière de banques de développement et cette expérience est très riche d'enseignements. Le cloisons étanches entre l'activité publique ou privée, la majorité étatique ou non ont disparu. S'il est un seul critère qui doit être retenu, que l'expérience impose et que la plupart des pays sont disposés à admettre, c'est essentiellement l'indépendance des banques de développement, seule susceptible d'éviter des abus préjudiciables à la croissance économique.
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 Mr. Diamond,

Many thanks for your letter of September 24th.

The publication I had in mind is entitled, "Development Finance Companies: Aspects of Policy and Operation". If it is still available I should be grateful for a copy.

With many thanks and kind regards,

Yours sincerely,

Lewis Perinbam,
Director,
Special Programs Division.
February 30, 1969

Mr. William National
Deputy Administrator
International Finance Corporation

Dear Mr. National:

Many thanks for your letter of December 4th.

The purpose of the letter is to explain "Development Finance Corporation: Aspects of Policy and Operation." If an effort were made, I am sure it would be extremely beneficial for a country.

With many thanks and high regard,

 Yours sincerely,

[Signature]

[Name]

Deputy Administrator

Special Programs Division

[Handwritten notes]
September 30, 1969

Professor J.D. Nyhart
Massachusetts Institute of Technology
Alfred P. Sloan School of Management
50 Memorial Drive
Cambridge, Massachusetts 02139

Dear Professor Nyhart:

Sometime ago Mr. Diamond asked me to review and make comments, if any, on the paper, entitled Development Banking: Return Performance of 186 Development Finance Institutions, May, 1969, a copy of which you sent to him on July 3, 1969. In the meantime I took an extended vacation and it is only now that I have been able to go through your paper.

I am impressed with the tremendous amount of laborious statistical work involved in the analysis. Above all, I am impressed as usual with your lucid presentation to make this rather unduly subject interesting.

The following are a few of my comments on the paper which you might want to see.

Firstly, one of your performance measurements, Total Revenues over Development Portfolio Assets (TR/DP), is, it seems to me, not a good choice. It was explained on page 26 of the paper that the rationale for choosing this ratio is the emphasis on total revenue in proportion to the development portfolio assets, "since extremes caused by either high non-development portfolio revenues or low development portfolio assets will tend to stand out". However, the "standing out" could be dampened by development portfolio revenues (DR), since the value of TR/DP is a sum of the values of DR/DP and NDR/DP (non-development portfolio revenues over development portfolio assets). It is often true that a high value of TR/DP is due to a high value of the first component, i.e. DR/DP, or vice versa. It seems that a better way to distinguish the relationship between TR and DP is the introduction of a new element, Total Revenues minus Development Portfolio Revenues/Total Assets minus Development Portfolio Assets (TR-DR/TA-DP), or more briefly NDR/NDP. This new concept, together with TR/TA and DR/DP, forms a tripartite relationship. TR/TA moves along with both DR/DP and NDR/NDP, but the latter two are inversely related to each other for a given value of the first. The individual values of these three point out not only the total performance of an institution but also the performance of different types of operations within the institution more distinctively and meaningfully than the TR/DP measurement can do.
Secondly, I see little value in relating your five measurements to the 18 independent variables. It was not surprising that your statistical tests have turned out to be inconclusive in many cases. Many independent variables do not seem to have any functional relationships at all in the first place. A few relationships proved through the tests are nothing new. They are rather common sense. The following are some of the reasons for the emergence of such inconclusive results.

The performance levels, i.e. the values of the five measurements, depend fundamentally on several important factors, namely, the level of interest rates and equity income, and the proportion of earning assets (development portfolio assets plus non-development portfolio assets). These are the basic factors that affect the values of TR/TA, DR/DP and TR/DP, while the non-development revenues element, if it is large, can be an additional factor that affects TR/DP. For EBIT/TA and NP/NE further additional factors become important: administrative costs for EBIT/TA, and administrative costs, interest rates payable, the debt proportion of total resources, and taxes for NP/NE. The 18 independent variables can explain a behavior of the five measurements only when they can affect, in the first place, those fundamental factors. To take the leverage as an example, how large the leverage a company enjoys has nothing to do with the values of TR/TA, DR/DP, TR/DP, EBIT/TA, and the tests correctly affirmed it by showing the values of less than \( \pm 1.98 \) (see page 66). But the leverage is definitely related to NP/NE (its value is \( \pm 2.192 \)), for the leverage was a prime factor to enlarge NP in many cases. Similarly, the age of the institution has nothing to do with the values of the first four mentioned above, but it has something to do with the values of the NP/NE through the leverage factor, since over the years it can build up debt.

Finally, from a practical viewpoint I cannot help but wonder how useful the presentation in a quartile form (with the implication of value judgements) of the results of the five measurements can be. For those who are engaged in evaluating the operational performance of development finance institutions these values provide little yardstick. It seems to me that the universe from which the statistical data are drawn is so wide and diverse that any generalizations or conclusions drawn, would be rather meaningless for practical use. To take as an example the values of TR/TA given in the paper, the median of TR/TA is 5.5\% and its quartile ranges are: 29.9\% to 7.9\% for the first quarter (you designate "good" performance); 7.8\% to 5.6\% for the second quarter ("fair"); 5.5\% to 3.7\% for the third quarter, ("poor"); and 3.6\% to 0\% for the fourth quarter, ("bad"). It is too sweeping criteria by which to judge the operating performance of any particular institution, since the performance depends directly on such fundamental factors as interest
level, proportion of earning assets, administrative costs, leverage, and taxes, some of which are dependent upon governmental policies and beyond the control of the management of the institution in review.

I am sorry I have been unable to send these comments sooner, but I still hope you will find them of some value.

Sincerely yours,

B. N. Shin
Development Finance Companies

cc: Mr. Diamond
September 30, 1969

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

Dear Dr. Neaman:

I refer to my letter of August 6, in which I sent you two copies of our draft descriptive memorandum on Industrial Development Bank of Israel Limited and asked you to review the draft, fill the blanks in it, and return by September 6, one copy with any comments you wish to make.

I have no date received from you no reply to this request, and I am wondering whether my letter has reached you. I am enclosing a duplicate copy of my previous letter together with two copies of the draft memorandum on IDBI.

I would be most grateful for your checking into the matter and letting me have your reply as soon as possible.

Sincerely yours,

[Signature]

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Powell

EHShin:jpk
September 25, 1969

Mr. W.A. Wapenhans

P.C. Griffin

Mr. Diamond's Memo on IFDC Policies

1. I believe our approach in recommending projects based on economic and financial justification is the right one. IFDC's approach is mainly institutional and financial. While this approach has its merits, it does not for Agricultural Credit projects take into account economic factors which are of critical importance to their success.

2. The underlying factors of our approach are:

   a) In practically all countries in which there are Bank-financed agricultural credit projects, agriculture is of paramount importance usually providing 60% of total employment, 40-50% of total foreign exchange earnings and 30-50% of GNP. In the Bank's Economic Reports, Agriculture is not only recognized as important, but also in considered a priority sector for investment.

   b) The rational allocation of resources (capital, management, technical skills, etc.) to priority productive sectors and to highest priority projects within sectors is essential if economic development is to take place.

   c) The department has, therefore, adopted the policy of undertaking sectoral reviews to determine priorities and detailed project preparation before making investments. Projects are analyzed and justified on economic as well as financial and institutional grounds.

3. This approach is particularly well suited to the objectives of agricultural credit projects. These objectives are:

   a) To reach large numbers of farmers, including small farms close to the subsistence level.

   b) To make agricultural credit a viable banking operation and, at the same time, build up sound institutions. This means that credit should be fully repaid. Neither the provision of credit nor the administration of it should be considered a subsidy.

   c) To base the acceptance of loan applications on economic criteria rather than on collateral.

   d) To induce farmers to save through making deposits in credit agencies. By doing so, the farmer contributes to mobilizing resources within the country.

4. The fact that agricultural credit projects depend upon the actions of large numbers of individual farmers whose economic, financial and technical knowledge is certainly more limited than that of the industrial corporation has meant that the Agriculture Department has had to pay close attention to the end use of Bank funds. It has been necessary to provide guidance to lending institutions in directing farmers toward making viable investments. Moreover, the high incidence of subsidies and artificial price controls (or supports) in the agriculture has meant...
that there are often significant discrepancies between financial and economic rates of return. For this reason, purely financial criteria for project evaluation are insufficient. Finally, mobilizing savings for new investment has frequently been a difficult problem in rural areas and it has been found necessary to provide guidance to borrowers as to farmers' financial contribution to projects, lending terms, interest rates and even tax policies. Thus, in order to fulfill the objectives of lending to large numbers of farmers, making financially, technically and economically viable investment decisions which in turn lead to further investment of generated earnings, the Bank has had to consider not only the capabilities of the lending institution, but also to take into account a wide range of economic considerations.
W.A. Wapenhans

P.C. Griffin

Mr. Diamond's Memo on DFC Policies

September 24, 1969

1. I believe that our approach in recommending projects based on an economic and financial justification is the right one. DFC's approach is mainly institutional and the paper does not cover how their projects or sub-projects have any economic priority or justification.

2. I agree with your suggestion that a discussion with Mr. Diamond on the subject is preferable to writing lengthy memos. My main reaction is one of principle.
September 19, 1969

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

Dear Mr. Leembruggen:

Thank you for your letter of August 21, enclosing a copy of our draft descriptive memorandum on Malaysian Industrial Development Finance Berhad, receipt of which in my absence Miss San Lin, one of my colleague, acknowledged on August 27.

I am most grateful for your careful review and filling in blanks. In the light of your comments I have put the draft into final form. I take pleasure in enclosing two copies of a final version of the descriptive memorandum on MDF.

Sincerely yours,

B. H. Shin  
Development Finance Companies  

Enclosures  

cc: Mr. Gustafson (with a copy of the final version descriptive memorandum)
Cher Monsieur Shin,

Je vous remercie de votre lettre en date du 7 août 1969 à laquelle vous avez bien voulu joindre les descriptive memoranda des 16 sociétés de développement associées à la B.I.R.D.

J'espère que vous avez bien reçu les quelques petites modifications que nous avons apportées au mémorandum que vous nous avez transmis et qu'il vous est maintenant possible de les diffuser auprès de nos confrères.

En vous remerciant de votre coopération, je vous prie de croire Cher Monsieur Shin, à l'expression de mes sentiments distingués.

Le Directeur Général

Mohamed BENKIRANE
Monseur H. SHIH  
Development Finance Committee  
International Bank for Reconstruction  
and Development  
I. 8th N. Street N.W.  
WASHINGTON DC

Cher Monsieur SHIH,

Je vous transmets le volet final du rapport de M. L. F. L. de Léogâne

vous avez bien voulu joindre les annexes mentionnées, les 10 sociétés de 40-

développement associées à l'H.R.D.

J'espère que vous avez bien lu ces deux documents.

Je vous renouvelle mes salutations et vous espère vous voir bientôt.

Cher Monsieur H.,

J'exprime à nouveau ma gratitude pour avoir été choisie pour les différentes tâches que nous avons entreprises.

Je vous renouvelle mes salutations et j'espère vous voir bientôt.

Le Directeur Général

Monsieur H.

1959SEP23 KNL:12
September 22, 1969

Oesterreichische Investitionskredit
Aktiengesellschaft
Am Hof 1
Vienna 1, Austria

Gentlemen:

Thank you very much for your letter of September 12, 1969, drawing our attention to some typographical errors in the descriptive memorandum on Oesterreichische Investitionskredit Aktiengesellschaft.

I have now corrected those and am enclosing two copies of the revised memorandum on IVK.

I refer to the explanatory note on section 33 of the memorandum you have kindly given us in your letter of August 5, 1969. It follows from this that reserves consist of write-off reserves, legal reserves, free reserves and other reserves. I am wondering what "other reserves" are. I would appreciate your specifying further the "other reserves".

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

BHShin: jpk

cc: Mr. Gustafson with a copy of corrected descriptive memorandum
Progress Report on my Compilation

In accordance with your memorandum of June 11, 1968, on the subject, I report as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Colombians, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Austria, Finland, Greece, Malaysia</td>
<td>Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>Spain and Turkey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) India</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said that a Bank economic mission to India will include this subject in its report which was expected to be put out by the end of July.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>d) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
</tr>
<tr>
<td>3. New descriptive memorandum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Caldas, Nacional, Norte and COFIEC</td>
<td>Garcia</td>
<td>Requested on March 21</td>
</tr>
<tr>
<td>b) BNDE</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said he sent a reminder to BNDE on the draft which he had left with BNDE for review during his mission.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

cc: Division Chiefs
MEMORANDUM

September 15, 1969

To: Messrs. Knapp, Raj, Cope, Chadenet & Evans

From: William Diamond

Subject: Proposed Note to Board on Certain Issues Concerning Development Finance Companies

1. Attached is a draft paper for the Executive Directors, resulting from the President's promise to deal with two issues raised at recent Board Meetings. I should very much appreciate your comments and recommendations.

2. Two months ago the Executive Directors received a paper on certain aspects of agricultural credit projects, which are related to the issues discussed in the attached Note. Accordingly, I have in the attached Note drafted several paragraphs comparing our approach to agricultural credit loans and our approach to loans to development finance companies. Aside from being diffident about the contents of those paragraphs, I am not sure it is wise to deal with the differences in approach in this Note. Even if the paragraphs are eliminated from the Note, however, they may help focus attention on an issue that needs consideration. That, indeed, is the main reason for including them in this draft.

3. The Annexes will be ready in about 2 days and will be sent to you separately.
Note on Bank Policy Regarding

Government Financing of Development Finance Companies

and Interest Rates Which They Charge Their Borrowers

1. When the Executive Directors met on July 15, 1969 to consider a loan to the Development Finance Corporation of Ceylon (DFCC), a question was raised concerning the wisdom of interest-free government loans and a statement of the Bank's policy on the subject was asked for. At the same meeting, certain Executive Directors considered that the interest rate charged by DFCC on rupee loans was too low. On a previous occasion, on March 4, 1969, when a loan to the Industrial Development Bank of Turkey was before the Board, an Executive Director asked for a statement of the World Bank's policy regarding interest rates charged by the development finance companies which borrow from it.

2. The two questions, concerning low-cost funds provided by Government and the interest rate charged by development banks, were discussed briefly in the President's Memorandum on "Policies of the World Bank Group Towards Development Finance Companies", R68-204, November 1, 1968. As they are closely related, they are here dealt with together.

Provision of Free Capital by Government

3. Until June 1968, the World Bank would not lend to development finance companies which were controlled by governments. With but one exception, Governments or governmental institutions had at most a minority position among the shareholders of the development finance companies financed by the
World Bank; in many cases all the shareholders were private. The creation of a wholly private or a privately controlled company, however, required that its financial prospects be good enough - not immediately, but in due course - to attract private investors. It was never easy, and it was sometimes not possible, to attract private investors into a development bank; for the prospective returns from such an investment were relatively unattractive. Generally, therefore, Government subsidy was essential to induce private investors to subscribe to the share capital of a development finance company.

4. The most usual form of subsidy among the companies financed by the World Bank has been a low-cost (often interest-free) long-term subordinated loan in domestic currency. (Attached as Annex 1 is a listing of all subordinated loan capital provided to the development finance companies associated with the World Bank Group.) Such a loan, which had enough of the characteristics of equity to justify the name "quasi-equity," served several purposes.

a. It reduced the average cost of capital and increased the average spread on borrowed funds, thereby enhancing profitability, assuring a better return to the shareholder and better debt service coverage to the creditor.

b. Because it was accepted by conventional lenders (like the World Bank) as part of the borrowing base, it helped increase the leverage on the share capital.

c. If subordinated, not only to other debt but to share capital as well (which was often the case), it protected the shareholders and made it possible for the company to be more venturesome than might otherwise have been the case.
d. Since it provided substantial cash at low-cost, which could be profitably placed pending investment, it assured immediate income and encouraged the company to start immediately building an adequate staff.

5. It was sometimes proposed that the Government could provide capital with some of the foregoing advantages of quasi-equity through the alternative course of providing subsidies by annual budgetary allocations. Such an arrangement, however, would have exposed the finance company each year to the uncertainties of budget-making and parliamentary approval. The long-term subordinated loan was intended to involve such exposure only once. In other ways, however, support from the Government has been considered acceptable, often together with a cheap long-term subordinated loan. Examples are tax concessions on income or capital gains, protection against competition from governmental credit institutions, guarantees for Bank loans at a time when other private enterprises were not able to obtain them and special rediscounting facilities from the central bank.

6. Thus quasi-equity was expected to help establish a viable company, under private control, with a minimum of government intervention in day-to-day decision-making. The World Bank required that a development bank have such resources at its disposal; if not, it must give evidence of satisfactory and profitable operation over several years, before a loan would be considered. Of the ____ companies to which World Bank loans were made until mid-1968, all but two (the first two, in 1951) had quasi-equity before the Bank made a loan or had operated satisfactorily for several years. IFC pursued the same policy; in only two exceptional cases (BANDESCO and CAVENDES) did it invest in a new development bank which did not have quasi-equity.
7. Quasi-equity had the desired effect, but experience led to some observations. Firstly, despite the apparently once-for-all exposure to governmental processes in obtaining quasi-equity, its existence has in some cases been a continuing invitation to interventions from both politicians and bureaucrats. Secondly, of the various characteristics of quasi-equity, the one that aroused the greatest criticism has been its low cost. Thirdly, the presence of low-cost capital (and the hope of getting more of it in future) may in some cases have deprived a development finance company of the discipline of raising capital on market terms and may thus have diminished its potential role as a mobilizer of capital. Finally, not all the characteristics of quasi-equity are equally important to the various parties concerned, or equally important to the company itself. On balance, the President concluded in his memorandum (R68-204) of November 1, 1968, and the Executive Directors agreed on November 12, that the Bank should not insist in all cases on direct government financial assistance on quasi-equity terms, that it should do so only when that seemed essential to induce private investors to subscribe to share capital and to provide an adequate basis for borrowing. And, it follows from what has been said here, the concessions requested from Government should be the least necessary to achieve the foregoing objectives.

8. The question of inducement to invest does not arise if a development finance company is government-owned. Moreover, such a bank must inevitably be subject to continuing parliamentary and governmental scrutiny and may have to rely on government for continuing and regular capital injections. The World Bank will nevertheless wish, as the President pointed out in his memorandum (R68-99) of June 11, 1968, to scrutinize carefully the terms on
which such capital is provided. It will insist that "not only must management be technically competent, but there must be solid assurance of its continuity and freedom from governmental interference in carrying out its task."

9. It has been suggested that, when a development bank has reached an "adequate" level of profitability, it should give up the benefit of cheap capital. It can hardly be expected to do so, nor would it be appropriate to force it. Conceivably the World Bank's agreement might be obtained to an action changing one of the assumptions on which it made a loan. But giving up any of the privileges of quasi-equity would be a breach of faith with the investors who subscribed to the capital of the development bank and would discourage future investors.

10. Summing up, the Bank's underlying objective in promoting and financing development finance companies is "to help build effective investment institutions which can channel domestic savings and external capital into productive private enterprises, thus contributing to the growth of the private sector and to the development of the capital market and through them to the economic development of member countries." Government is one source of capital, sometimes the only practical one for providing domestic savings to a development finance company; and the terms on which such capital is provided can do much to strengthen the company. The World Bank insists that, when government capital is made available, it be on conditions which assure adequate protection for the World Bank's loans and which facilitate achievement of its underlying objective in financing a development bank.
Interest Rates Charged by Development Banks

11. The World Bank has not in the past determined the interest rates charged by the development finance companies it finances. It has, however, judged the adequacy of those interest rates and has thus exercised some influence on them.

12. The World Bank's first concern with the interest rate is economic: the rate should bear some relationship to the real cost of capital in the country concerned and to the cost of loans obtained abroad (including those of the World Bank). If the development finance company charges interest less than this, there is a risk that its capital will be used to finance uneconomic projects. A development finance company can only with difficulty and to a limited extent compensate by analytical techniques for the underpricing of the resources (including capital) required for the projects it finances. While this may or may not be a matter of concern to the shareholders of a development bank, it will concern the World Bank as a provider of capital and the government as both a provider and guarantor of financial resources. Moreover, the Boards and sometimes the principal sponsors of the development finance companies financed by the World Bank are committed, by policies agreed with the World Bank, to give attention to the economic use of their resources.

13. The second concern is financial. A development bank must be able to cover its costs and risks, and should be able to build up a surplus, if it is to succeed in mobilizing resources, both from lenders and investors. As the President noted in his memorandum of November 1, 1969, the Bank's aim is, not only to develop sound productive enterprise but also "to develop the capital market by building a strong financial institution capable of an autonomous financial life. That company must therefore be capable, by virtue
of its financial position and earnings prospects, of attracting new capital." This cannot be achieved if the development bank "is a device, as governments sometimes wish them to be, for making loans at concessional rates." The interest rate must therefore be higher than the cost of borrowing --the spread depending on administrative costs, on the need for provisions, on the cushion required by creditors (including the World Bank) and on the surplus expected by shareholders.

14. For both the economic and the financial reasons referred to above, the inflationary situation in the country has to be borne in mind in judging the adequacy of the interest rate. This was the critical factor which led the Korean Development Finance Corporation to fix and maintain its interest on local currency borrowing at 20%; and it was no less important in determining the rates used by the China Development Corporation (which have declined over the years) and by the Colombian financieras.

15. It might be claimed that interest does not necessarily provide the whole of a development finance company's earnings. This is true. Also important are interest on short-term investments (especially in the earlier years of a development bank), service fees, commissions on underwritings, dividends on equity investments, capital gains, etc. The spread a company requires can be affected by its income from such sources as these. However, lending continues to be the predominant business of the development banks being financed by the World Bank, income from other sources remains relatively small and the interest rate thus takes on critical importance.

16. Annex 2 shows the interest rates charged by development banks, and the spreads earned on relending the proceeds of World Bank loans. It will be noted that:
a. The rates vary from 7% to 20%, with most of them falling between 8% and 10%.
b. In general, they are not higher than rates now prevailing in most developed countries.
c. The spread on World Bank finance varies from 1.5% to 4.5%, the median being around 3%.

17. Interest rates have only infrequently been a matter of contention between the World Bank and development finance companies. Where there has been contention, the World Bank's influence has been directed towards raising rates. This is not surprising, since the principal influence in fixing interest rates has not been the financial institution's shareholders, whose interests are usually * directed towards rates designed to assure satisfactory returns on their investment. The principal influence has, rather, been governments, which tend to be responsive to appeals for cheap credit -- despite the inhibiting effect of such a policy on savings, resource allocation and the development of the capital market. Discussion of interest rates has thus tended to be, less between the World Bank and its borrowers than between the World Bank and governments. Thus, for example, the Bank has been continuously in discussion with the Moroccan Government since 1962 on the rate charged by the BNDE. Discussions on rates charged by IFCT in Thailand and DFCC in Ceylon accompanied loans to those institutions. And the Bank

* Usually, but not always. For the shareholders sometimes are the same as (or may be closely associated with) the finance company's borrowers. They may have more to gain by borrowing cheaply (or having their friends borrow cheaply) than by earning an adequate return on their investment in the share capital of the development finance company.
has required a satisfactory arrangement on interest rates with the Brazilian Government as a precondition for considering a loan for BNB.

Rate of Return on Investment

18. The World Bank ordinarily expects that any project it finances will yield an adequate return on the investment it requires. It has generally considered as satisfactory a return somewhat in excess of its own interest rate, i.e. somewhat over 7% today. As noted in the discussion of the interest rate, inflationary conditions must of course be taken into account in judging the adequacy of the rate of return -- that is, the **real** return must be satisfactory, not the nominal return.

19. A project to finance the business of a development finance company is no exception; as in other kinds of projects, the company should earn a satisfactory return on the capital it employs. However, several questions often arise in considering the rate of return in the case of a development bank project:

a. Is the adequacy of return to be judged by measuring the return to the development finance company, or the returns to them many ultimate users of the capital provided by the company? Of course, a development bank is expected to consider carefully the return on the investment of each of its clients. The World Bank's review of large sub-projects and its follow-up on loans to development finance companies include an examination of the care exercised by the company on this issue. If the World Bank's concern were only to provide capital to industry, this would be enough and the return to the development bank itself on the capital it employed would be of little significance -- so long, of course, as the
solvency of the development bank and the repayment of the World
Bank's loan were assured. But the World Bank is also interested
in the development bank as an entity in itself, required to justify
borrowing by its own financial record and position and its earnings
prospects and (in the case of a private or mixed institution) to
attract investment in its share capital. Moreover, an adequate
return on its capital is an important indication, though not
necessarily a conclusive one, that its resources are being invested
in an economic manner; the need to produce a satisfactory return
imposes on management a discipline which might otherwise be
lacking.

b. Should a distinction be made between a privately owned and a
government-owned development bank in this regard? It should
not. A government bank, perhaps more than a private one, should
finance only economically justified enterprises. And a government
bank, not less than a private one, should establish a satisfactory
autonomous financial life as a basis for borrowing.

c. Should account be taken of the fact that some development finance
companies are given developmental functions for which charges
(or, at least, full charges) are not or cannot be made? Governments
sometimes give such functions to finance companies. These should
be financed from special sources, such as direct budgetary
allocations, wherever possible, and not from the institution's
own capital. Whether they are so financed or not, the World Bank
expects the development bank's accounts to be kept in such a way
as to permit accurate costing of its special development activities,
so that its normal financial functions may be assessed and
the return on those activities measured.

20. The shareholders of the development bank may, of course, be interested
less in the return on the capital it employs than in the return on its equity,
that is, the return on the shareholders' funds. Whether a development bank
which makes a satisfactory return on its total capital also earns a satisfactory
return on equity, depends on its capital structure and the cost of its loan
capital. Hence the shareholders' interest in cheap loans from government.

21. Cheap or free government capital does not enable a development bank to
improve the return on the capital it employs; only increasing income and reducing
administrative costs can do this. But cheap or free government capital does
enable a development finance company to improve its profitability and is
therefore of primary concern to the development bank's shareholders. It is of
some interest also to the development bank's creditors, because it improves
debt service coverage and contributes to the build-up of surplus which
strengthens the underpinning for the development bank's borrowing.

22. In practise, the World Bank has not been as rigorous in insisting that
a development finance company earn a return significantly better than the World
Bank's interest rate, as it has been in the case of other projects. The reason
is that the World Bank has taken cognizance of the multiplier effect of a loan
to a development finance company as well as the factors mentioned in (a) and
(c) of Para. 19. Nevertheless, as may be seen from Column 4 of Annex 2,
in most cases returns were, in 1968, significantly better than 6-1/2% and
only four of the development finance companies which are active borrowers
from the World Bank earned in 1968 significantly less on the capital they
employed than the Bank's then current rate. These were the institutions in
Ceylon, Morocco, Nigeria and Tunisia. In the Ceylonese, Moroccan and Tunisian cases, interest rates have been a continual subject of discussion. The Ceylonese and Tunisian institutions have recently increased their rates.

Development Finance Companies and Agricultural Credit (Very tentative)

23. On July 16, 1969, the Secretary circulated (SEC M69-373) a "Note on Financial and Economic Rates of Return under Agricultural Credit Projects". The approach to agricultural credit projects described in that Note differs in certain respects from the approach used in this Note on development finance companies. The essence of the difference lies in the fact that, in the former case, the "project" whose return is measured is the end-use to which the capital is put - the production of cattle, or the purchase of fishing boats, or mixed cropping, etc. The return on that end-use is measured in two ways: its contribution to the economy of the country ("the rate of economic return") and its profitability to the entity or individuals which carry out the project ("the financial rate of return"). The return is not measured in relation to the activity of the intermediaries through which the World Bank's capital is made available. In this Note, the reverse is the case. It is the return on the capital employed by the development finance company that is measured, not the return to the ultimate users of that capital, although that too is of concern in assessing the quality of operation of a development bank.

24. One important reason for this difference in approach is a practical one. In the agricultural case, the end-uses are relatively simple and homogeneous (a thousand farmers cropping according to an agreed pattern or a thousand ranchers improving their lands and herds in an agreed manner or a dozen fishing boats to be purchased by individuals to expand and modernize the fleet), and they are susceptible of evaluation on the basis of a model. The
activities of the industrial or multi-purpose development finance company are much more diverse and complex and cannot, moreover, be determined in advance. Nor would it be feasible to assess the rate of return to the end-users ex post facto, on the basis of any model or generalization; the return could be calculated only by combining the evaluations of every individual case. It is doubtful that this would provide a meaningful result -- only an average of widely disparate figures of varying significance -- or that it would be more useful than the general knowledge derived from continuing contact with the development bank's management, staff and procedures, that its funds are being effectively used.

25. Another reason is that, in the case of agricultural credit, the financing of agriculture is the primary concern of the World Bank. In the other case, the financing of productive enterprise is important but by no means more important than the objective of creating strong viable investment institutions. A third factor -- relevant and important, but not of decisive importance -- is that agricultural credit has, and will continue to have, a heavy component of research, education and social policy, which makes the real return to the provider of the credit both difficult to calculate and of doubtful significance. These factors were noted in the memorandum of July 16.

26. These comments should not give the impression that the apparent difference in approach, between the Note on agricultural credit projects and this Note, is sharp and definitive. Pragmatism rather than principle makes the difference. The World Bank is concerned with the institution which provides agricultural credit, and with its financial viability. In lending to development finance companies, it is concerned, not only with the financial
position of its borrowers, but also with the economic quality of the projects it finances. Interest rates have been an issue in agricultural credit loans, no less than in loans to development finance companies. The Bank has hoped to establish the viability of its agricultural credit intermediaries, as it has been insistent in maintaining the financial viability of the development finance companies it has promoted and financed.
Messrs. Richardson, Hartwich, Bart and Horsley

R.H. Springuel

Development Finance Companies Loans and Credits
Loan Administration

September 15, 1969

Mr. Lejeune asked me to obtain the department's comments on the attached memorandum on the above subject. Please let me have your comments verbally or in writing by September 18.

cc: Messrs. Masoni/Siebock
I think you might want to send Y. C. Foo
a letter of thanks for his work over the years.  
Shall I draft one for you? Alternatively, you might
prefer me to write. Please let me know.

cc Mr. Gustafson

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

Gentlemen:

Thank you for your letter of August 22, and the enclosed descriptive memoranda on ÖSTERREICHSICHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT. The version you gave paragraphs 5 and 15 concerning IVK’s borrowing base actually is correct on review of agreements in writing between IBRD and IVK up to now. Since IVK already received ten ERP loans we shall duly take measures in order to amend IVK’s borrowing base accordingly.

We would like to draw your attention, however, to some typographical errors in the final version of IVK’s descriptive memorandum 1968:

- Page 5 section 22 first line: 1968 instead of 1967
- Page 7 section 33: Financial Exp./ATA 1966: 0.6% instead of 0.7%
- Total long-term debt/Net worth (year end) 1966: 12.7 instead of 12.4
- Earnings after tax but before reserves/Average net worth 1967: 6.6% instead of 10.6%

Annex 2 Liabilities:
- Short-Term 1968: 180 instead of 171
- Other reserves and miscellaneous 1968: 77 instead of 86

We assure you our further co-operation and remain

Sincerely yours,

ÖSTERREICHSICHE INVESTITIONSKREDIT
AKTIENGESELLSCHAFT

[Signature]

[Dev Bank's Gen.]
Mr. William Diamond

Serge Guetta

September 10, 1969

Comments on Mr. Fred Preu's "Follow-up on ICI Spring Review Discussion"

1. La note de M. Preu et sa lettre du 3 septembre appelle évidemment quelques commentaires.

Monsieur Preu semble d'une façon générale confondre "Banques de développement" et "Politique de développement".

Sa note traite en fait de trois sujets distincts:

- L'exode rural et les concentrations de chômeurs qu'il engendre autour des grandes villes.

- La nécessité de promouvoir par l'initiative privée une classe d'entrepreneurs locaux, et son importance dans les possibilités de croissance économique africaine.

- Les voies et moyens nécessaires à la réalisation des deux points ci-dessus par le développement de l'Agribusiness.

2. Signalons d'abord que l'exode rural est un phénomène sociologique du monde moderne qui n'a rien de spécifiquement africain. C'est un problème grave cependant pour tout pays sous-développé car il l'oblige à accroître l'infrastructure des grandes villes et à investir de ce fait des capitaux qui seraient certes plus immédiatement rentables ailleurs.

3. Le chômage en Afrique n'est pas une conséquence de cet exode rural, mais partiellement à l'origine; c'est aussi un problème préoccupant qui est une des premières caractéristiques d'un pays sous-développé. Encore convient-il de souligner que le chômage en Afrique n'a pas provoqué, pour le moment du moins, des famines généralisées comme cela a été le cas ailleurs. Sans doute la nature africaine est-elle plus généreuse qu'ailleurs.

4. Nous sommes tout à fait d'accord avec M. Preu sur l'absolue nécessité de créer dans les pays africains une classe de petits entrepreneurs privés, mais cette réalité, quelle que soit la bonne volonté des institutions d'aide aux pays sous-développés se heurte souvent à des difficultés difficilement surmontables.

a. Si les pouvoirs publics s'orientent vers une option socialiste, ils laissent peu de place à la promotion d'une classe d'entrepreneurs privés (exemples: La Guinée, Le Mali); il en est de même si l'option s'oriente vers une structuration économique à base de coopératives.
Dans ces deux cas, on assistera inévitablement à une désintégration de cette classe et à un exode vers l'étranger des quelques rares entrepreneurs valables.

b. Dans les pays sous-développés qui laissent place à l'initiative privée, soit du fait d'un libéralisme économique, soit du fait de la coexistence entre un secteur public et un secteur privé (ce qui est le cas le plus fréquent), l'homme d'affaires local, détenteur de capitaux est surtout attiré par les placements immédiatement rentables. C'est ainsi qu'on le verra s'intéresser au négoce, aux investissements immobiliers - éventuellement à l'agriculture s'il y a des traditions agricoles mais rarement à l'industrie. C'est une affaire de structures mentales conditionnées par l'environnement et dont l'évolution est nécessairement lente.

5. Donc en attendant la création de cette classe souhaitée d'investisseurs privés locaux, deux autres types d'investissement sont aussi à considérer:

- L'investissement public, à condition qu'il soit sélectionné et bien géré; l'expérience de ces 10 dernières années peut permettre des enseignements très utiles sur l'action à mener dans ce domaine.

- L'investissement privé étranger. Quelles que soient les tensions réelles que provoquent à terme une main-mise étrangère sur l'économie d'un pays, ce type d'investissement est souhaitable et nécessaire dans une phase transitoire. Il est intéressant de souligner à cet égard que pas un seul pays africain ne manque de faire expressément appel aux investisseurs privés étrangers, et que toutes les chartes d'investissement redoublent d'avantages (souvent excessifs) pour attirer ces investisseurs.

6. Pour revenir au problème des banques de développement qui nous intéresse, il est certain qu'elles doivent dans la mesure de leurs moyens, aider au maximum toutes initiatives locales, mais ce serait une profonde erreur de refuser tout concours aux investisseurs étrangers.

7. On peut à la limite admettre une politique discriminatoire au bénéfice des locaux quand les deux types d'investisseurs sont en concurrence, mais ce cas est encore très rare voir même inexistant en Afrique Noire. Il convient aussi de souligner que l'investisseur étranger est souvent très désireux (pas seulement par générosité) de s'associer à des investisseurs locaux et dans bien des pays il ne trouve que l'État ou ses institutions comme seuls partenaires.

8. Les suggestions retenues par M. Preu pour la promotion du secteur privé sont intéressantes. Rappelons cependant que cette option est d'abord le fait des pouvoirs publics et que le programme de M. Preu dépasse largement l'action de la seule banque de développement.
Le Banque de Développement

9. Sur ce point nous ne partageons pas du tout l'opinion de M. Preu - encore que l'on voit mal d'après sa note quelle mission exacte il réserve à la banque de développement.

10. La réalisation de bénéfices et la distribution de dividendes semblent le choquer. Dans la mesure où l'on admet que la banque en général est une institution qui fait "le commerce de l'argent", une gestion saine, un rendement convenable sont, à terme, les seules vraies conditions de survie de l'établissement et les meilleurs gages qu'il est susceptible d'offrir aux bailleurs de fonds.

11. Précisions de suite que cette optique n'est absolument pas contradictoire avec la notion de dynamisme dont doit faire preuve la banque dans l'action de développement. La notion de risques pour un banquier, n'est pas la résultante d'un équation algébrique et par définition, quelles que soient les garanties dont elle s'entoure, la banque de développement prend plus de risques que la banque commerciale ordinaire. Certaines banques de développement précisément en Afrique, en ont fait l'expérience ces dernières années.

12. Nous ne pensons pas que c'est faire œuvre utile en matière de développement que de financer d'une façon inconsiderée des projets voués à l'échec pour le seul motif qu'il s'agit de projets "privés". On a trop souvent constaté des abus inconsiderés dans la gestion de banques à majorité étatique pour des financements de projets publics dont les résultats déficitaires sont un poids pour le pays; il ne paraît pas raisonnable pour faire échec à cette tendance d'adopter la même politique à l'égard des projets privés.

13. Certes, la banque de développement doit faire preuve de dynamisme et d'imagination, elle doit rechercher toutes les opportunités d'intervention et toutes les possibilités de financement en collaboration avec tous les spécialistes du développement (ingénieurs, économistes, hommes de loi, analystes, etc.), mais le dernier mot en matière de financement doit revenir au banquier qui seul peut faire la synthèse de tous les éléments et apprécier la qualité du risque à prendre. En matière de garanties, il est évident que dans un pays africain sous-développé, elles ne sont pas de même nature que dans un pays industrialisé, mais quand elles sont possibles, le banquier doit les rechercher et les prendre. Le rôle "éducatif" que doit nécessairement jouer la banque de développement dans un pays sous-développé en vue de promouvoir les investisseurs privés, a échappé à M. Preu. Rien ne serait plus dangereux pour l'économie d'un pays et plus particulièrement son secteur privé, que de laisser les affaires se développer dans l'anarchie, et sans souci du rendement et des obligations respectives.

14. Toute cette action ne peut se poursuivre que si la banque parvient à maintenir son équilibre de trésorerie et une gestion bénéficiaire.
15. À la limite si l'on suit M. Preu dans sa conception on peut imaginer un établissement, qui sous prétexte de faire du développement admettrait des déficits annuels de plus en plus importants et qui ne peuvent être couverts que par l'État. L'organisme ne serait plus alors qu'un département étatique, un service du budget qui perdrait toute signification bancaire.

16. On peut en fait admettre sérieusement aujourd'hui que ces considérations sont dépassées si l'on s'en tient au moins au Continent Africain. La plupart des pays africains ont fait leurs expériences en matière de banques de développement et cette expérience est très riche d'enseignements. Le cloisons étanchés entre l'activité publique ou privée, la majorité étatique ou non ont disparu. S'il est un seul critère qui doit être retenu, que l'expérience impose et que la plupart des pays sont disposés à admettre, c'est essentiellement l'indépendance des banques de développement, seule susceptible d'éviter des abus préjudiciables à la croissance économique.
September 3, 1969

Mr. William Diamond, Director
Development Finance Companies Dept.
IBRD
Washington, D. C.

Dear Bill:

Thank you for sending me a copy of Development Finance Companies: Aspects of Policy and Operation, which you edited.

I have read some 30 pages. I find it difficult to agree that a development bank should be concerned first with a profitable operation and with a satisfactory return to its shareholders. Development, especially in Africa, is difficult, costly, time-consuming and involves risk taking of a high order. Making a profit is not first priority. I think the technical aspects of developing projects and loan applications should be subsidized and placed either in a bank or in a development center separate from a bank. The technicians should be responsible for working up ideas that are feasible and should assist the entrepreneurs for a year or two in proving out projects, some of which might be marginal and some of which would not present 150% collateral for a loan. But to develop is to take chances which a development banker should be willing to assume.

Following the ICI meetings I wrote the attached paper, quoting you on page 3 on the negative aspects of small industry development in Africa. But beginning on page 5 I listed 15 "program approaches" for creating and assisting African institutions in the agri-business development process. Maybe my overriding point is that we cannot stand by and not offer help in solving the politically dangerous unemployment situation in Africa. We've got to move in on this problem and bring all our talents to bear, taking chances along with the Africans we want to develop.

Yours very truly,

Fred L. Preu
Private Enterprise Officer
Bureau for Africa
September 3, 1969

Dear Bill:

Thank you for sending me a copy of Development Finance Corporation: Aspects of Policy and Operation, which you edited.

I have read some 30 pages. I find it difficult to state what a development bank should do concerning trade. There is a great deal of emphasis in Africa on trade, especially in Africa, the continent. I think the emphasis should be on developing countries and on the problems of a free market. The emphasis should be on developing countries and on the problems of a free market. The emphasis should be on developing countries and on the problems of a free market.

I think the emphasis should be on developing countries and on the problems of a free market. The emphasis should be on developing countries and on the problems of a free market. The emphasis should be on developing countries and on the problems of a free market.

Yours very truly,

[Signature]

Private Investment Officer

[Stamp: 1969 SEP 5 AU 9:13]
Dear Mr. Shin:

This is to acknowledge with many thanks receipt of your letters of August 7 and August 19, together with one copy each of the memoranda on the selected development finance companies and 10 copies of the memorandum on KDFC.

The memoranda are very valuable in our better understanding of other development finance companies, for comparative purposes.

I wish to take this opportunity to thank you for the kind arrangement you made in revising the memorandum on KDFC.

With warm regards,

Sincerely yours,

C. H. Kim
President

GSP/dsl
Korea Development Finance Corporation

Telephone (539) 2 6 1
Cable Address: KODEFICO

September 7, 1969

Dear Mr. Shin:

This is to acknowledge with many thanks receipt of your letters of August 1 and August 12 together with one copy each of the memorandums on the selected development finance companies and 10 copies of the memorandum on KDC.

The memorandums are very valuable in our better understanding of other development finance companies for comparative purposes.

I wish to take this opportunity to thank you for the kind arrangement you made in revising the memorandum on KDC.

With warm regards,

C. H. Kim
President

September 7

CSP/457
Ref. No. 1052  

September 2, 1969

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,

Thank you for your letter of August 7, 1969, as well as for the descriptive memoranda on various development finance companies you have been kind enough to send us.

Your attention is much appreciated.

Yours sincerely,

[Signature]

A. Papantonakis  
Manager
September 7, 1955

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

Dear Mr. Shin,

Thank you for your letter of August 7, 1955, as well as for the descriptive memorandum on various development finance companies you have been kind enough to send us. Your attention is much appreciated.

Yours sincerely,
A. President

[Signature]
August 27, 1969

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

Dear Mr. Leembruggen:

On behalf of Mr. Shin, who is at present away on vacation, I am writing to thank you for your letter of August 21, 1969 and the draft memorandum on Malaysian Industrial Development Finance Berhad which you so kindly reviewed and corrected.

Mr. Shin will see the letter and the memorandum upon his return and will send you copies of the latter after putting it into final form.

Sincerely yours,

Valerie San Lin
Development Finance Companies

cc: Mr. Gustafson

Valerie San Liner
SOCIETE NATIONALE D'INVESTISSEMENT (SNI)
(National Investment Corporation)
68, Avenue Habib Bourguiba
Tunis

Tunis, August 18, 1969
SNI No. 4097/DDE/EF/TO

Mr. B.H. Shin
Development Finance Companies
Banque Internationale Pour La Re-
construction et le Developpement
1618 H. Street, N.W.
Washington D.C. 20433

Dear Sir:

We have received your letter of August 1, 1969 enclosing a copy of
your memorandum on SNI, which we approve with one reservation, as follows:

In our Profit and Loss Account to December 31, 1968, there appears
a heading: "Special profits on the sale of participations" in the amount
of D 77,130.-, giving a total profit of D 256,587.861, which you reduced
to D 179,500 in your "Income statement".

The difference represents the amount of this sale, which you have
left out of account in the latter document, while showing it on the balance
sheet under "Other reserves".

We wish to point out that, under the French system, which we use,
when a business increases its capital by capitalizing reserves and distrib-
uting bonus shares, the beneficiary company merely records the transaction
in its accounts at a token value of 1 millime, on the principle that such
a transaction does not increase the real value of the shares.

It is not until it has sold out the shares that the company enters
the actual proceeds of the transfer in the profit and loss account.

However, this method is only valid if, at the time a balance sheet statement is drawn up, the securities are re-valued at the current price on the date of the statement or, at the very least, an average value for each share is calculated on the basis of quotations over the 2 or 3 months immediately preceding the date of the statement.

Such a valuation is, however, only possible if there is a stock market where the volume of dealings makes a regular quotation possible.

Since at present there is no such exchange - although it is proposed to set one up in the near future - SNI enters the shares at their face value or acquisition value without making a current valuation at the time a balance sheet is drawn up.

As a result, the entering of bonus shares at their face value is not likely to cause an over-valuation of security holdings; particularly in the case of SNI and the transaction in question, which took place and was entered in its books before December 31, 1965, it was quite normal for these shares to be entered at their face value since, under the terms of Convention III, the Tunisian Government guarantees our balance sheet assets as at December 31, 1965.

At all events, the important thing was that after the stock was sold the proceeds should be included in the operating results. This is the position of SNI and it is shared by our auditors.

However, in order to show clearly that it was an exceptional transaction which is not part of our normal activities, we showed it in the
Profit and Loss Account rather than in the Operating Account.

We trust this explanation will make it clear why the proceeds of the sale were included in our profits for 1968.

Yours very truly,

/s/ R. Ben Yedder
Managing Director
August 22, 1969

Mr. R. Ben Yedder
l'Administrateur-Delegue
Societe Nationale D'Investissement
68, Ave. Habib Bourguiba
Tunis, Tunisia

Dear Mr. Ben Yedder:

Thank you for your letter of August 18, 1969, giving us your explanation of the treatment of the extraordinary income for 1968 of D 77,130 in reference to the final version of the descriptive memorandum on Societe Nationale D'Investissement.

I will be going away on vacation tomorrow, and I have brought this matter to the attention of my colleagues here in this Department. You will hear from us if we have any comments to offer.

Sincerely yours,

B. H. Shin
Development Finance Companies

Cleared by and
cc: to Mr. Nougaim (with a copy of the incoming ltr.)

B. H. Shin
August 22, 1969

Mr. Vicente R. Jayme
Executive Vice President
Private Development Corporation
of the Philippines
Commercial Center
P. O. Box 757
Makati, Rizal - D 706
Philippines

Dear Mr. Jayme:

Thank you for your letter of August 15, 1969, on the draft descriptive memorandum on Private Development Corporation of the Philippines.

I am most grateful for your reviewing the draft. I have now put it into final form and I take pleasure in sending you two copies of the final version of the memorandum on PDCP.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

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

EHShinier
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,

Thank you for your letter of August 6, 1969.

I return a copy of your new draft memorandum on MIDF, which has been duly reviewed and corrections made. We have also filled in the blanks on page 4, paragraph 14.

The memorandum is very suitably presented on a factual basis and we do not think we could improve upon the presentation.

Yours sincerely,

H.F.C. Leembruggen
General Manager
Malaysian Industrial Development Finance Berhad

Dear Mr. Shin,

Thank you for your letter of August 6, 1968.

I return a copy of your new draft memorandum on MIDF, which has been duly reviewed and corrections made. We have also added in the paragraphs on page 14, paragraph 14.

The memorandum is very satisfactorily presented on a factual basis and we go on thinking we could improve them over the presentation.

Yours sincerely,

[Signature]

H.E. A. I. ERMAKUDEN
General Manager
To: Mr. William Diamond  
From: Joerg Jaeckel  
Subject: Development Banks in Africa  

It might be of interest to you to know that the German IFO-Institut fuer Wirtschaftsforschung in Munich has recently published a booklet on development banks and companies in Africa (Basic Data on 95 African Financing Institutions). The study was sponsored by the Fritz Thyssen-Foundation in Cologne.  

1. Mr. Mathews  
2. Mr. Shin  

Could I get a spare copy for this division?
August 19, 1969

Mr. C. H. Kim
President
Korea Development Finance Corporation
11, Namdaemoon-Ro 1-Ka, Chung-Ku
Seoul, Korea

Dear Mr. Kim:

Thank you very much for your letter of August 6, commenting on the draft descriptive memorandum on Korea Development Finance Corporation.

In the light of your comments we have revised the draft and put it into final form. I take pleasure in enclosing two copies of a final version of the memorandum on KDFC and sending by air-print eight copies of it.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

B.H.Shin: cbb

cc: Mr. Powell with copy of final version of descriptive memorandum
Mr. P. M. Mathew                          August 19, 1969

B. H. Shin

Progress Report on my Compilation

In accordance with your memorandum of June 14, 1968, on the subject, I report as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
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<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Colombiana, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968 at staff meeting</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Austria, Finland, Greece, Malaysia Spain and Turkey</td>
<td>Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>b) India</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said that a Bank economic mission to India will include this subject in its report which was expected to be put out by the end of July.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>d) Ethiopia</td>
<td>Sekse</td>
<td>Do</td>
</tr>
<tr>
<td>3. New descriptive memorandum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Caldas, Nacional, Norte and COFIEC</td>
<td>Garcia</td>
<td>Requested on March 21</td>
</tr>
<tr>
<td>b) EMBDE</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said he sent a reminder to EMBDE on the draft which he had left with EMBDE for review during his mission.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. H. Shin

cc: Division Chiefs
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 with thanks receipt of your letter of August 7, 1969 enclosing one copy each of the descriptive memoranda on the development finance companies as listed in your letter.

Yours sincerely,

H.F.C. LEEMBRUGGEN
General Manager
Dear Mr. Shin,

I acknowledge with thanks receipt of your letter of August 18, 1969 enclosing one copy each of the respective memoranda on the development finance companies as listed in your letter.

Yours sincerely,

H.T. Lambruggen
General Manager
August 18, 1969

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

Dear Mr. Shin:

We herewith acknowledge receipt of the descriptive memoranda on the developing finance companies for which we thank you. We are also looking forward to receiving the rest of the memoranda.

Yours very truly,

P. Clarence Parker, Jr.
GENERAL MANAGER
The Library Bank for Industrial Development and Investment

100 Broad Street
R.O. Box 254
Montevideo, Lida

August 18, 1969

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

Dear Mr. Shin:

We hereby acknowledge receipt of the pro-Sbi
five memos from the Development Finance Company
for which we thank you. We are also forwarding to you
the rest of the memos.

Yours very truly,

[Signature]

General Manager
August 18, 1969

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

Attention Mr. B. H. Shin
Development Finance Companies

Gentlemen:

We acknowledge with thanks the descriptive memoranda on the development finance companies enumerated in the list attached to your letter of August 7, 1969.

We appreciate your sending us these memoranda as they keep us informed of the status of other institutions similar to ours.

Yours sincerely,

VICENTE R. JAYME
Executive Vice President

JPJ:sst
PRIVATE DEVELOPMENT CORPORATION
OF THE PHILIPPINES
P.O. BOX 9891, MANILA
TELEPHONE 88-00-81

August 19, 1960

International Bank for Reconstruction and Development
1818 H Street, N.W., Washington
D.C. 20036, U.S.A.

Accretion Mr. E. Shih
Development Finance Corporation

Gentlemen:

We acknowledge with thanks the generous support
of the Development Finance Corporation extended in the
form of a loan of $1,700 to

We appreciate your sending us these memoranda as
they keep us informed of the status of other institutions
similar to our own.

Yours sincerely,

VICTOR K. TAYME
Executive Vice President

1975: see
Sr. 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 Sr. Shin:

Por medio de la presente acusamos recibo de su carta de fecha 12 de agosto del presente año. Al respecto deseamos informarle que en fecha 20-6-69 le fue remitida correspondencia, copia de la cual se anexa, mediante la cual le comunicábamos no tener ninguna observación al Memorándum Descriptivo sobre la C. A. Venezolana de Desarrollo, a la vez que le solicitábamos nos fueran enviados 30 ejemplares adicionales.

Al parecer, dicha comunicación se extravió en el correo lo mismo que la suya de fecha 3-7-69, la cual tampoco ha sido recibida por nosotros.

Rogamos a Ud. excusar la tardanza, la cual no se debe ni a Uds. ni a nosotros.

Muy atentamente,

Simón Guevara H.
Gerente General
Encargado

Anexo: lo indicado
SGH/mcr.
C.A. VENEZOLANA DE DESARROLLO
(Sociedad Financiera)

CERTIFICADO AEREO

C-037

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

Estimado Sr. Shin:

Por medio de la presente, informo que en fecha 4 de agosto de 1973 se recibió en este gerencia una comunicación de la sociedad C.A. VENEZOLANA DE DESARROLLO, relativa a los detalles de su proyección para el año 1974.

Además, se ha recibido una comunicación de la sociedad C.A. VENEZOLANA DE DESARROLLO, en la cual se pide la cesión de los derechos de propiedad sobre ciertas terrenos en el municipio de Caracas.

Por lo anterior, se pide la intervención de la Comisión de Desarrollo para que se proceda a la cesión de los derechos de propiedad.

Atentamente,

[Signature]

General Director

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

Estimado Sr. Shin:

En relación a su carta del mes próximo pasado, recibida por nosotros el 12 del presente, nos place comunicarle que hemos revisado el trabajo realizado por Uds. sobre la C. A. Venezolana de Desarrollo, al cual no tenemos ninguna observación que hacer, y sólo desearíamos que, de ser posible, nos enviaran 30 ejemplares adicionales cuando el mismo sea publicado.

Anticipándoles las gracias, nos es grato reiterarnos

Muy atentamente,

[Signature]

Jacques Vera M.
Gerente General

JVM/mcr.
August 16, 1969.

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 August 7, 1969 enclosing a copy each of the descriptive memoranda on the development finance companies.

I am looking forward to the receipt of the rest of the memoranda.

Yours sincerely,

(Said Ahmed)
Managing 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.

Dear Mr. Shin:

Thank you for your letter of August 16, 1963 enclosing a copy of
the descriptive memoranda of the development
finance companies.

I am looking forward to the receipt of the rest of the memoranda.

Yours sincerely,

(Signed) Ahmed
Managing Director
August 15, 1969

Mr. B. K. 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:

We are pleased to return a copy of your new draft memorandum on Private Development Corporation of the Philippines. After going through it, we found this to be accurate and up to date as of December 31, 1968.

Please accept our apologies for not having sent the draft sooner. We hope the delay did not cause you any inconvenience.

Very truly yours,

VICENTE R. JAYME
Executive Vice President

TRP/rsf
Encl.
August 15, 1969

Mr. J.D. van Oensen
Vice President and Manager
Bank of America
P.O. Box 97
Singapore

Dear Mr. van Oensen:

On behalf of Mr. Diamond, who is away at present, I acknowledge with many thanks your letter of August 12 enclosing the attractive and informative booklet published by the Bank of America for Singapore's 150th Anniversary.

It was thoughtful of Dr. Wabnitz to suggest your sending us this publication, and I know Mr. Diamond will be interested to see it when he returns.

Yours sincerely,

P. M. Mathew
Deputy Director
Development Finance Companies

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

cc: Mr. Diamond

[Signature]
Madrid, August 14th 1969

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 the 7th inst. and for the descriptive memorandans on the development finance companies that you have sent me.

With best regards,

Yours sincerely,

[Signature]

Jose Maria Marzo Churruga
No. A. 2149/2512
August 14, 1969

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:

We thank you for your letter of August 7, which encloses descriptive memoranda on the development finance companies. They are found both interesting and useful.

We are looking forward to having those on the remaining yet to be finalized.

Sincerely yours,

P. Prabhailakshana
Asst. General Manager

PP:vc:pt
August 1, 1969

No. A. 2148. 5751

MR. B. N. Shin
Development Finance Companies
International Bank for Reconstruction and Development
1878 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Shin:

We thank you for your letter of August 7, which enclosed descriptive memoranda on the Development Finance Companies. They are found both interesting and useful.

We are looking forward to having these on file.

Sincerely yours,

P. Praputtraksa
Asst. General Manager

Postmark: 1969-06-19 PM 4:08
13 August, 1969

Mr. Wm. 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,

Many thanks for your letter of 30 July and for the three books on
development banks which have now arrived. I shall read these with very
considerable interest. I am having the bibliography which you sent
checked here to see how many of the books are available in our own library.

It was very good to have met you in Manila and Mary, Derek and I hope that
we shall have a chance to meet you again somewhere before too long.

Walter Surrey is here at the moment conducting a series of seminars on
foreign investment, and we are enjoying them very much.

With kindest regards.

Yours sincerely,

David E. Allan,
Professor of Law.
13 August 1966

Mr. W. M. Drewett,
Director,
Development Finance Company,
International Bank for Reconstruction
and Development,
1818 H Street, N.W.,
Washington, D.C. 20433.

U.S.A.

Dear Mr. Drewett,

Many thanks for your letter of 30 July and for the three books on
Mendel's Principles for your students. I am very pleased with your
development plans which you outlined. I am paying the philosophy which you sent
with consideration. I am pleased to see you make of the books are services to our own library.

It was very good to have met you in Vienna and Munich. I hope that
we shall have a chance to meet you again somewhere before too long.

With kind regards,

Yours sincerely,

David B. Allen
Professor of Law

[Signature]
August 12, 1969

Dear Mr. Vera:

On July 3, I wrote to you, saying that you may feel free to postpone the reviewing of our draft descriptive memorandum on C.A. Venezolana de Desarrollo sent to you on May 27. I am wondering whether you are still too busy to review the draft. Otherwise, I would appreciate your doing so and returning one copy of the draft by September 12.

Sincerely yours,

B. H. Shin
Development Finance Companies

Mr. Jacques Vera M.
Gerente General
C. A. Venezolana de Desarrollo
Apartado 62191
Caracas, Venezuela

cc: Mr. Garcia

B. H. Shin:er
August 12, 1969

Mr. William Diamond, Director
Development Finance Companies
International Bank for Reconstruction and Development
1818 H Street, N.W.
WASHINGTON D.C. 20433, USA

Dear Mr. Diamond,

At the request of Dr. W.D. Wabnitz, Executive Vice President, Development Bank of Singapore, I am pleased to enclose copy of our booklet on Singapore that we published on the occasion of Singapore's 150th Anniversary.

I trust you may find the contents of interest.

Sincerely yours,

J.D. van Oenen
Vice President and Manager

Encl:
August 15, 1960

Dear Mr. Diamand,

At the request of Dr. W.D. Wapiti, Executive Vice President, Development Bank of Singapore, I am pleased to enclose a copy of our booklet on Singapore's first 25 years of development, to be published on the occasion of Singapore's 25th Anniversary.

I trust you may find the content of interest.

Sincerely yours,

Vice President and Manager

J.D. van Oelen

Encl.: J.D. 1960:1c

File: 19
August 7, 1969

(Salutation);

I take pleasure in sending you by air-print one copy each of the descriptive memoranda on the development finance companies in the attached list that we have thus far put into final form.

We will be sending to you those on the rest of the companies associated with the World Bank Group as soon as they are finalized.

Sincerely yours,

[Signature]

B.N. Shin
Development Finance Companies

(Inside Address)

Attachment

cc: Division Chiefs (with a copy each of the descriptive memorandum)
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. Lassila:

Mr. Jaakko Lassila
General Manager
Teollistamirahasto 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
161-5 Chung Shan Road N., 2nd Sec.
Taipei, Taiwan
Republic of China

Dear Mr. Daniyan:

Mr. Silas B. Daniyan
General Manager
Nigerian Industrial Development Bank Limited
M & K House
96/102 Broad Street
Lagos, Nigeria

Dear Mr. Rohnfelder:

Mr. Gerhard Rohnfelder
Managing Director
Banque Ivoirienne de Développement 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 Kraisri:

Khun Kraisri Nimmanahaeminda  
General Manager  
The Industrial Finance Corporation of Thailand  
101 Naret Road  
Bangkok 5, Thailand

Dear Mr. Marzo:

Sr. Don Jose Maria Marzo Churruca  
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. Benkirane:

Mr. Mohamed Benkirane
Director General
Banque Nationale pour le Développement
Économique
Boîte 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.
General Manager
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 Achad 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:
Dear Dr. Teufenstein:

Dr. Wilhelm Teufenstein
Chairman, Board of Management
Österreichische Investitionskredit Aktiengesellschaft
Am Hof 4
Vienna 1, Austria

Dear Mr. Ben Yedder:

Mr. R. Ben Yedder
l'Administrateur-Delegue
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
Development Finance Corporation of Ceylon
P. O. Box 1397
Third Floor - Hemas Building
York Street
Colombo, 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 Dr. Correa:

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

1. Development Finance Corporation of Ceylon
2. China Development Corporation
3. Corporacion Financiera Colombiana (Colombia)
4. Corporacion Financiera del Valle (Colombia)
5. Development Bank of Ethiopia
6. Teollistamisrahasto Oy - Industrialization Fund of Finland Ltd.
8. The Industrial Credit and Investment Corporation of India Ltd.
9. Industrial and Mining Development Bank of Iran
10. Banque Ivoirienne de Developpement Industriel (Ivory Coast)
11. Nigerian Industrial Development Bank Limited
12. Pakistan Industrial Credit and Investment Corporation Ltd.
13. Banco del Desarrollo Economico Espanol (Spain)
14. Industrial Finance Corporation of Thailand
15. Societe Nationale D'Investissement (Tunisia)
16. Turkiye Sinai Kalkinma Bankasi A.S. (Turkey)
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 for your letter of June 30, which encloses a Table of Comparative Operational Ratios of Development Finance Companies, 1967 and 1968. It has been found of great interest to us. The new format in the presentation of the said Table is magnificent.

It is worthy of note that our Administrative Cost ratios are still high when compared with some other prominent DFCs. However, when our loan portfolio has been expanded to a greater extent and our attempt to cut down the administrative costs has been fulfilled, such ratios will certainly be reduced. At present, we are making a five-year projection, which when completed will be a rough indicator of our future ratios.

With best regards.

Sincerely yours,

Kraisri Nimmanahaeminda  
General Manager
August 5, 1965

Mr. B.H. Shin
Development Finance Corporation
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 June 30 which enclosed a Table of Comparative Operating Ratios of Development Finance Companies, 1965 and 1966. It has been brought to our attention that our Administrative cost ratios are still higher than some other prominent banks. However, when our loan portfolio has been expanded to a greater extent and our attempt to cut down the administrative costs has been fulfilled, such ratios will certainly be reduced. At present, we are making a five-year projection, which when completed will be a rough indication of our future ratios.

With best regards,

Sincerely yours,

[Signature]

Khristi Nimmaphan
General Manager

1669AUG'65 P.M. 1:27

KN: 508
August 6, 1969

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

Dear Mr. Southall:

It was indeed a great honor for me to participate in the 1969 Industrial Projects Course of the Economic Development Institute. I feel much obliged to you for whatever you have done to make my participation possible.

I wish to repeat to you from the bottom of my heart that my participation has been fruitful and my stay in the United States has been most enjoyable. I returned Taipei via Europe on July 26, 1969.

I wish to take this opportunity to thank you for your kindness and hospitality extended to me during my stay in the United States.

With warmest personal regards.

Sincerely yours,

[Signature]

Thomas Wang
Controller

181-5 CHUNG SHAN ROAD N., SECTION 2 TAIPEI, TAIWAN, REPUBLIC OF CHINA
China Development Corporation

August 6, 1969

Mr. Colin M. Southall
Development Finance Companies
International Bank for Reconstruction
and Development
18th Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Southall,

It was indeed a great honor for me to participate in the 1969 Industrial Projects Course of the Economic Development Institute. I feel much obliged to you for whatever you have done to make my participation possible.

I wish to express to you from the bottom of my heart that my participation has been fruitful and my stay in the United States has been most enjoyable. I return exceeding visa 12th July 69. I hope to take this opportunity to thank you for your kindness and hospitality extended to me during my stay in the United States.

With warmest personal regards,

Sincerely yours,

[Signature]

Thomas Wang
Controller

1969 June 12 AM 8:45

181 - 2, Chung Shan Road I, Section 2, Taipei, Taiwan, Republic of China
August 6, 1969

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

Dear Mr. Shin:

Thank you for your letter of July 23 enclosing copies of the draft memorandum on KDFC. I am grateful for your suggestion to include KDFC in the series of memoranda on DFCs.

We have reviewed the draft and find it well prepared, reflecting KDFC factually. In response to your desire for correction and comments, may I suggest the uptodating of a few aspects? First, with reference to paragraph 13, we recently have recruited 9 more college graduates to bring the size of our professional staff to 33 (including trainees). Second, with reference to the operations summary in paragraph 15, our investment activities as at the end of June are summarized in the attached sheet. Paragraph 20 (Industrial Diversification) would then reflect this change.

As regards "Management" in paragraph 12, since the Chairman of KDFC acts only on the Executive Committee and Board of Directors to which the President reports as the head of Management, we have considered that Mr. Hong serves in the foregoing capacities rather than as a part of Management per se.

If it is not too much trouble. I would appreciate the inclusion of these updating data.
Would it be possible for you to send us 10 copies of the Memorandum when it is finally completed, for our own uses?

With my warm regards,

Sincerely yours,

C. H. Kim
President

/osc
## KDFC's Operation

**As of June 30, 1969**

<table>
<thead>
<tr>
<th>Stage</th>
<th>No.</th>
<th>Won In million</th>
<th>Foreign Exchange In thousand $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposals received</td>
<td>81</td>
<td>4,927</td>
<td>25,765</td>
</tr>
<tr>
<td>Rejects/withdrawals</td>
<td>48</td>
<td>3,093</td>
<td>14,946</td>
</tr>
<tr>
<td>Approved by KDFC</td>
<td>19</td>
<td>898</td>
<td>6,126</td>
</tr>
<tr>
<td>Agreements executed</td>
<td>15</td>
<td>638</td>
<td>3,235</td>
</tr>
<tr>
<td>Disbursements made</td>
<td>7</td>
<td>550</td>
<td>667</td>
</tr>
<tr>
<td>Repayments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Industrial Diversification

<table>
<thead>
<tr>
<th>Industry</th>
<th>No.</th>
<th>$ Equivalent (000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food processing</td>
<td>1</td>
<td>193</td>
<td>2.0</td>
</tr>
<tr>
<td>Textiles (incl. silk)</td>
<td>7</td>
<td>2,522</td>
<td>27.1</td>
</tr>
<tr>
<td>Rubber</td>
<td>1</td>
<td>1,743</td>
<td>18.7</td>
</tr>
<tr>
<td>Chemical/Petrochemical</td>
<td>1</td>
<td>495</td>
<td>5.3</td>
</tr>
<tr>
<td>Glass</td>
<td>3</td>
<td>1,019</td>
<td>10.9</td>
</tr>
<tr>
<td>Basic metals</td>
<td>1</td>
<td>714</td>
<td>7.7</td>
</tr>
<tr>
<td>Metal products</td>
<td>3</td>
<td>2,108</td>
<td>22.6</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>2</td>
<td>532</td>
<td>5.7</td>
</tr>
</tbody>
</table>

**Total**                      | 19  | 9,326              | 100.0 |
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:  

In response to your letter of July 8, we have reviewed the descriptive memorandum on Österreichische Investitionskredit Aktiengesellschaft prepared by your staff. We have filled in all blanks and have thoroughly checked all figures and passages. Corrections were necessary in the paragraphs 4, 5, 15, 16 and 22. Also the figures in paragraph 33 on page 7 have been revised. According to calculation principles given on the additional page 9 changes became evident in positions 5, 6 and 7.

We enclose the corrected draft and ask you to send us copies of the completed memorandum. If you need further information, please, let us know.

Sincerely yours,

[Signature]

ÖSTERREICHISCHE INVESTITIONSKREDIT  
AKTIENGESELLSCHAFT  

Encl.
Dear N. R. 

In response to your letter of 16th, we have developed the necessary coordination on the part of the Department of Industrial Development and Reconstruction and Development.


Sincerely yours,

[Signature]
August 6, 1969

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

Dear Mr. Parker:

As did last year, we are going to bring up-to-date the series of memoranda describing the development finance companies with which the World Bank Group is associated in order to use it for a restricted distribution to other development finance companies and to other parties who have a legitimate interest in a particular company. We believe that such memoranda have served a very useful purpose in the past.

Enclosed are two copies of a new draft memorandum on the Liberian Bank for Industrial Development and Investment. We would appreciate your reviewing it and returning by September 6, one copy to us with any corrections and comments you would care to make. In reviewing the draft please bear in mind our aim that it be a strictly factual description without elements of evaluation. The draft follows closely the content of the memorandum approved by you last year.

When this memorandum on LBIDI is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Powell (with a copy of the draft descriptive memorandum)

BHShin:er
August 6, 1969

Dear Dr. Shen:

I acknowledge with thanks receipt of your letter to Mr. Diamond of July 24, commenting on the operational ratios of China Development Corporation in 1968.

Mr. Diamond is presently away on vacation, and is expected to be back around the end of the month. I assure you that your letter will be shown to him on his return.

Sincerely yours,

E. H. Shin
Development Finance Companies

Dr. Yen Shen
Vice President
China Development Corporation
181-5 Chung Shan Road N., 2nd Sec.
Taipei, Taiwan
Republic of China

cc: Mr. Diamond (with the incoming ltr.)
Mr. Southall

EHShin:er
August 6, 1969

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

Dear Mr. Leembruggen:

As did last year, we are going to bring up-to-date the series of memoranda describing the development finance companies with which the World Bank Group is associated in order to use it for a restricted distribution to other development finance companies and to other parties who have a legitimate interest in a particular company. We believe that such memoranda have served a very useful purpose in the past.

Enclosed are two copies of a new draft memorandum on Malaysian Industrial Development Finance Berhad. We would appreciate your reviewing it and returning by September 6, one copy to us with any corrections and comments you would care to make. We would also be grateful if you fill in the blanks in page 1, paragraph 14. In reviewing the draft please bear in mind our aim that it be a strictly factual description without elements of evaluation. The draft follows closely the content of the memorandum approved by you last year.

When this memorandum on MIDF is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Gustafson (with a copy of the draft descriptive memorandum)

B. H. Shin:er
August 6, 1969

Dr. Avraham Neaman  
Managing Director  
Industrial Development Bank  
of Israel Limited  
9 Acha'd Ha'am Street  
Shalom Mayer Tower  
Tel Aviv, Israel  

Dear Dr. Neaman:

As did last year, we are going to bring up-to-date the series of memoranda describing the development finance companies with which the World Bank Group is associated in order to use it for a restricted distribution to other development finance companies and to other parties who have a legitimate interest in a particular company. We believe that such memoranda have served a very useful purpose in the past.

Enclosed are two copies of a new draft memorandum on Industrial Development Bank of Israel Limited. We would appreciate your reviewing it and returning by September 6, one copy to us with any corrections and comments you would care to make. We would also be grateful if you fill in the blanks in page 4, paragraph 15; page 5, paragraph 17; page 6, paragraphs 23 and 27; page 7, paragraph 30; page 8, paragraph 32; and page 9, paragraph 36. In reviewing the draft please bear in mind our aim that it be a strictly factual description without elements of evaluation. The draft follows closely the content of the memorandum approved by you last year.

When this memorandum on IDBI is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Powell (with a copy of the draft descriptive memorandum)

B. H. Shin:er
August 6, 1969

Mr. Gordon M. Street
East Asia & Pacific
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Mr. Street:

It was indeed a great honor for me to participate in the 1969 Industrial Projects Course of the Economic Development Institute. I feel much obliged to you for whatever you have done to make my participation possible.

I wish to repeat to you from the bottom of my heart that my participation has been fruitful and my stay in the United States has been most enjoyable. I returned Taipei via Europe on July 26, 1969.

I wish to take this opportunity to thank you for your kindness and hospitality extended to me during my stay in the United States.

With warmest personal regards.

Sincerely yours,

Thomas Wang
Controller
August 6, 1949

Mr. Gordon M. Street
East Asia & Pacific
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

Dear Mr. Street:

It was indeed a great honor for me to participate in the 1949 Industrial Projects Course of the Economic Development Institute. I feel much obliged to you for whatever you have done to make my participation possible.

I wish to express to you from the bottom of my heart that my participation has been limited and my stay in the United States has been most enjoyable. I returned today via Europe on July 26, 1949.

I wish to take this opportunity to thank you for your kindness and hospitality extended to me during my stay in the United States.

With warmest personal regards,

Sincerely yours,

Thomas Wang
Controller

181—2 CHUNG SHAN ROAD N. SECTION 2 TAIPEI, TAIWAN, REPUBLIC OF CHINA
August 5, 1969

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 from you of a table entitled "Comparative Operational Ratios of Development Finance Companies, 1967 and 1968".

Although the DFCs are operating under variable circumstances, still we find it extremely useful to know how we relate with the experiences of the others. Should we have additional comments on the format and presentation, we shall inform you accordingly.

Very truly yours,

LUIS V. SISON
Senior Vice President-Treasurer

LVS:cms
PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Cable Address: "PDCORPE"
O.C. Box 2390, Manila
Telephone: 68-68-46

August 5, 1969

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

Dear Mr. Stein:

This will acknowledge with thanks the receipt from you of a cable entitled "Comparative Operating Ratios of Development Finance Companies, 1967 and 1968."

Although the DFCs are operating under very special circumstances, we will find it extremely useful to know power ratios as well as the experience of the other firms. Should we have additional comments on the format and presentation, we shall be glad to receive them.

Very truly yours,

Luis V. Sison
Senior Vice President-Treasurer

LVS:come

1969 Aug. 12 M.n 0:42
August 1, 1969

Mr. R. Ben Yedder  
L'Administrateur-Delegue  
Societe Nationale D'Investissement  
68, Ave. Habib Bourguiba  
Tunis, Tunisia

Dear Mr. Ben Yedder:

Thank you very much for your letter of July 22, enclosing your comments on the draft descriptive memorandum on Societe Nationale D'Investissement together with the financial statement for 1968.

In the light of your comments I have revised the draft and put into final form. I take pleasure in enclosing two copies of the final version of the memorandum on SNI.

Sincerely yours,

B. H. Shin
Development Finance Companies

Enclosures

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

EHShiner
Progress Report on my Compilation

In accordance with your memorandum of June 14, 1968, on the subject, I report as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material Due From Division</th>
<th>Due Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project follow-up and end-use supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Colombiana, Nacional and Norte</td>
<td>Garcia</td>
<td>Requested on April 26, 1968</td>
</tr>
<tr>
<td>2. Procedures for obtaining investment licenses</td>
<td>Gustafson</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>a) Austria, Finland, Greece, Malaysia Spain and Turkey</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>b) India</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said that a Bank economic mission to India will include this subject in its report which was expected to be put out by the end of July.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Ceylon, Israel, Korea and Liberia</td>
<td>Powell</td>
<td>Requested in March 1968 at staff meeting</td>
</tr>
<tr>
<td>d) Ethiopia</td>
<td>Sakse</td>
<td>Do</td>
</tr>
<tr>
<td>3. New descriptive memorandum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Caldas, Nacional, Norte and COFIEC</td>
<td>Garcia</td>
<td>Requested on March 21</td>
</tr>
<tr>
<td>b) BNDE</td>
<td>Pollan</td>
<td>Do</td>
</tr>
<tr>
<td>Mr. Pollan said he sent a reminder to BNDE on the draft which he had left with BNDE for review during his mission.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

cc: Division Chiefs