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<td>Mr. Diamond</td>
<td>8/14/68</td>
<td>8/14/68</td>
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<tr>
<td>Stein</td>
<td>3/27/69</td>
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THIS FILE CLOSED AS OF JUNE 30, 1968
FOR FURTHER REFERENCE PLEASE SEE VOL. XI.
June 29, 1968.

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

Dear Mr. Shin:

Thank you for your letter dated June 18, 1968 enclosing two copies of final descriptive memorandum on PICIC.

Kindest regards,

Yours sincerely,

( SAID AHMED )
Managing Director
June 29, 1968

Mr. B.H. Shin
Development Finance Corporation
International Finance Corporation
1818 H Street, N.W.
Washington, D.C., 20438
U.S.A.

Dear Mr. Shin:

Thank you for your letter dated June 18.

I have enclosed two copies of final draft

memorandum on PICIC.

Kindly regard

Yours sincerely,

( SADI AHMED )
Managing Director

1968 JUN-6 AM 9:03
COMMUNICATIONS
RECEIVED
29 June 1968  
Apt. 5, 11101 Lake Ave.  
Cleveland, Ohio 44102  

Mr. Justo Garcia Rayneri  
International Finance Corp.  
Washington, D.C.  

Dear Mr. Rayneri:  

Many thanks for the list of Development Companies in Mexico, and the new one being formed in Peru. I hope to get around to using this information soon, as well as reading the booklets, which may go a long way to explaining some questions I have at this moment.

I was interested in reading Mr. Diamond's 1957 book Development Companies, and noted that in Mexico the average loan to and from DC's was 50,000 Pesos. I have been contemplating depositing about four times that much south of the border. I am wondering, at this moment, what Mr. Diamond's thoughts on this idea of a small private investor would be? Can you see much practical difference in investing with one of the financieras other than NF, rather than NF?

Are there DC's in other countries that are offering higher interest rates than Mexico's Financial Certificates?

Very truly yours,  

John Norman Dixon
June 28, 1968

Mr. Naoeado Nishihara
Daiichi Mutual Fire and Marine
Insurance Company
1, 4 Chome, Shiba - Tamuracho
Minato - Ku Tokyo, Japan

Dear Mr. Nishihara:

Thank you for your letter of June 22. We have now completed the compilation of comparative operational ratios of the 26 development finance companies excluding KDFC. As I promised I am enclosing a copy of it.

As you see it, it consists of two pages. I am sorry I cannot make it into one sheet to meet your request. I felt the companies and ratios are too many to be contained in one sheet.

With best personal regards,

Yours sincerely,

B.N. Shin
Development Finance Companies

cc: Mr. Diamond

Enclosure

BHShinier
All Division Chiefs

William Diamond

"MONTHLY REPORT ON DEVELOPMENT FINANCE COMPANY ACTIVITY"

June 20, 1968

Lately, some of you have been showing shares "Now Held by IFC" at dollar values reflecting devaluation. This is wrong. IFC does not keep its records this way. The item "Total Investment" means "Total Investment at Cost", both under "Total" and under "Now Held by IFC". Please add the words "at Cost" henceforth.

If you have any question about this, please see me.

cc Mr. Rosen
     Mr. Mathew

WDiamond: us
June 28, 1968

Sr. Don Jose Maria Marzo Churrusa
Director General
Banco del Desarrollo Economico Espanol
Apartado de Correos 50460
Principe 12
Madrid, Spain

Dear Mr. Marzo:

On behalf of Mr. Mathew who is away on vacation, I thank you for your letter of June 21, to him enclosing a copy of the form of loan agreement that is used by Banco del Desarrollo Economico Espanol.

We are grateful for your giving us the permission to distribute copies of it to those who, we think, have a bona fide interest in it.

Yours sincerely,

B.H. Shin
Development Finance Companies

cc: Mr. Mathew / Mr. Diamond

BhShinser
June 28, 1968

Mr. E. T. Kuiper
Wierdtijkje 8
Bergen, N. H.
The Netherlands

Dear Mr. Kuiper:

Mr. Diamond has asked me to send you a copy of the Table, Comparative Operational Ratios of Development Finance Companies 1967, which we recently put together.

This table summarizes in terms of ratios the operational results and position of each of the development finance companies connected with us.

I hope you will find this interesting and useful.

Yours sincerely,

B.H. Shin
Development Finance Companies

Enclosure

cc: Mr. Diamond

B.H. Shin
June 27, 1968

Mr. Rusen Akun  
Accounting Manager  
Mr. Çahan Eroğuz  
Assistant General Manager  
Türkiye Sinai Kalkınma Bankası A.S.  
Necati Bey Cadde 2h1-2h7  
Tophane  
İstanbul, Turkey  

Gentlemen:

Thank you for your letter of June 21 regarding the draft descriptive memorandum on Türkiye Sinai Kalkınma Bankası A.S. We are grateful indeed for your review of the draft and corrections and filling in the blanks.

We have put it into final form. I am enclosing five copies of the final version.

In due course we will be also sending a set of the descriptive memoranda on other development finance companies connected with us.

Yours sincerely,

\[Signature\]

B.H. Shin  
Development Finance Companies  

Enclosure  

cc: Mr. Jeffries (with incoming letter and attachment)  

BHShiner
Mr. William Diamond

Amal K. Bose

Reporting Formats - Development Finance Companies

June 27, 1968

1. You asked me to examine the forms and contents of reports required in connection with periodic reviews by the SIC, and reports of end-use missions, and to present suggestions.

2. I understand that consideration is being given as to how best the SIC could review the growing number of IFC's investments. Shortening reports, covering more than one investment at a meeting and having additional special meetings are some of the possibilities being discussed. Given this background, I think the following additional principles should be taken into account in deciding on the nature and types of reports:

(a) The need to relate a report to the purpose it intends to serve vis-à-vis those for whom it is primarily written (IFC management, SIC members or the Bank); and

(b) economy of effort in report writing, avoidance of duplication and the need to derive the maximum benefit of the first-hand knowledge obtained by missions.

Obviously these principles are likely to be in conflict in many cases and a balance must be struck or a compromise made.

Suggested Reporting

3. I suggest the following:

(a) End-use missions prepare two distinct reports: firstly, a report in the form of a memorandum addressed to the Director of the IFC Department (hereafter called the "special report") dealing with certain specific subjects and summarizing the mission's findings; secondly, a more general purpose report (hereafter called the "general report") conforming to a prescribed format, which is described below.

(b) The format of the general report should also be used for reports to the SIC for its follow-up review meetings.

(c) In certain circumstances (as indicated below), the special report may be dispensed with.

1/ You may wish to devise other names for these reports.
4. The special report The purpose of this report would be to give the Director of the DFC Department and others concerned a reasonably quick and succinct account of the mission's major findings, relating them as nearly as possible to the areas of concern or significance as listed in the mission's terms of reference and as determined by its findings. For that reason it would be necessary to draw up the terms of reference carefully, basing them on the knowledge at the time of special interest or problem areas. This report should ordinarily be ready in not more than ten days from the time of the mission's return. Its length should not exceed three or four pages.

5. Because of its highly individual character, no format is prescribed for the special report, but the following is an indicative list of subjects which it could contain:

- significant developments since the previous mission; performance and significant achievements; major issues and problems, how they are being dealt with; recommendations for action.

6. The general report The suggested format for this report is given in the annex. The substantive portion of the report would be in two parts, the main body and its annexes, with the latter containing as much as possible of the merely factual information, while the former providing the analysis with a judicious selection of facts. The main body would point out the key issues in judging the status of the investment, and in drawing lessons for the future. The format recommended is likely to call for greater uniformity in presentation than exists now while, hopefully, having enough flexibility to take account of individual circumstances. This report should be ready in not more than four weeks, and the length of the main body should not exceed ten pages.

Rationale of Suggested Reporting

7. My suggestions have the following main elements, and the following justification thereof:

(a) A single format (viz. that of the general report) would be used for recording an end-use mission's findings, as well as for briefing the SIC for its follow-up meetings. This would result in greater economy of effort and use of a mission's findings than if different formats were to be used.

(b) The "two reports system" appears appropriate in most cases. In recent months the DFC Department has been endeavoring to schedule missions to visit the dics more frequently than before - annually in most cases and oftener in others. The terms of reference of recent missions had defined specific areas or questions to be studied (often involving matters of detail), rather than asking only for a broad-brush review. The resulting reports thus addressed themselves, and gave more than usual weightage, to these specific
questions rather than trying to be merely tours de horizon. The special report could deal more fully with such questions. This type of report is likely to compel very early attention on the organization of thoughts and focusing on issues. It would thus provide a fairly quick account of the mission's main findings, and act as a useful forerunner of the general report.

(c) On the other hand, the SIC is interested in broader issues and decision-making, for which it needs more comprehensive material. The general report would provide this. Alternatively, it would preserve basic information and impressions gathered by the mission for the IFC management and the Bank.

Variations

8. In cases where there is not enough justification for having a special report, in terms of its purposes as indicated above, it could be dispensed with. The Director of the DFC Department would instruct the staff concerned in such cases.

9. In situations where no SIC review is scheduled in the near future, or an SIC review does not arise because there is no IFC investment in the DFC, the general report could (but not necessarily in every case) deal briefly with subjects adequately covered in the special report.

AK890e:d11

cc: Messrs. Jeffries
    Garcia-Rayneri
    Pollan
    Powell
    Sekse/Helling
    Dr. Khosropur
DEVELOPMENT FINANCE COMPANIES

FORMATS OF GENERAL REPORTS

1. The "general report" of a mission should have the following parts:
   (i) Statement on authorship and sources.
   (ii) Table of contents.
   (iii) Basic data on Bank group investments.
   (iv) The report: part 1 - status of the dfc
        part 2 - evaluation and prospects
   (v) Annexes.

2. The above format should be used also for reports for SIC follow-up reviews.

3. The main body of the report (i.e. part (iv) above) should be between six and ten pages, not normally exceeding ten pages. The annexes should also be concise, not exceeding a total of fifteen pages.

4. For an SIC review, the report as a whole should be self-contained. It should have a covering memorandum addressed to the SIC, unless the second part of the main body of the report is brief enough and could substitute for it. This memorandum should be a very brief statement of the conclusions of the staff review and of issues which the SIC may consider, together with recommendations where appropriate.

   (i) Statement on authorship and sources

5. Information should be given on the authorship of the review paper, in the usual manner. In addition, for the SIC review the statement should indicate the sources of information on which the paper was based, the latest mission which visited the dfc and any other missions which had taken place since the previous SIC review, and the date of the latter.

   (ii) Table of contents

6. A full table of contents must be provided. All the annexes should be listed.

   (iii) Basic data on Bank group investments

7. This section would be similar in content to what is now presented in most reports to SIC as "Part I", but should not contain evaluation or judgments which are now often included in this part under paragraphs entitled, e.g., "Relations with dfc", "Joint operations", "Audit" and "Reporting arrangements". This section should have substantially the following format:
**IFC investment No. 1/**

Date approved  
Date agreement signed  
Date effective  
Date(s) paid-in  
No. and amount of shares subscribed, par value and price paid per share  
Amount(s) paid-in  
Share sales  
No. and amount of shares now held

**Agreements and Arrangements with IFC**

Summary of provisions of share sales agreement  
Summary of provisions of other agreements (e.g. protocol with Government)  
Audit requirements and practice, name of auditors  
IFC representation on the board  
List of joint operations

**Share information**

Share capital (authorized, issued, paid-in)  
Distribution of shareholding by categories (a list of major shareholders), showing IFC contribution  
"Share information" in the form given in Attachment 1  
Dividend record

**Bank loan(s) 2/**

Information in the form given in Attachment 2  
Summary of any special features of most recent Bank loan, as appropriate

**Policy limits 1/**

Limits on indebtedness, maximum investment in equity capital, maximum exposure in specific sector or in individual enterprise, and similar limits, indicating them as percentages and in amounts, and cases where exceeded

---

1/ Separately for each investment. Similar form for underwriting of capital or standby agreement.  
2/ Form as circulated by Mr. Mathew with his memorandum of September 6, 1967. Where shares are not quoted, the form will need some adjustment to reflect this.  
3/ Applies to IDA credits also.  
4/ Some of these limits may be provided in the dfe's charter or in loan agreements.
(iv) The report, part 1

8. This part should contain a brief account and critical examination of the main events and significant developments during the period since the previous mission/SIC review. It should provide factual information succinctly, and just enough of it to enable appreciation of the critical commentary. It should not necessarily seek to be comprehensive, but rather, should emphasise the salient features. Its length should not ordinarily exceed six pages. As much as possible of factual information should be given in the annexes. The following should be used as a check list of subjects to be covered:

(a) important developments in the economy affecting the DfC;

(b) significance and effects of any changes in ownership, Board, management, or organization and in procedures for appraisal or supervision; performance of management;

(c) relations with IFC and the Bank, and with the Government, business sector, clients;

(d) changes in availability and terms of resources, use and adequacy of resources;

(e) appropriateness or adequacy of operating policies and significant deviations therefrom;

(f) volume and type of operations, how they compare with forecasts, trends; relative importance of various forms of financing undertaken and significance thereof;

(g) changes in terms of financing and trends in their distribution; trends in returns on various forms of investments (including short-term);

(h) the extent of other activities such as technical assistance, promotions, etc.;

(i) quality of portfolio, extent of protection afforded against risks by reserve funds;

(j) financial performance, how it compares with forecasts and with that of a few other DfCs; acceptability of auditors, quality of audit reports.

9. The subjects should be preferably (but not invariably) dealt with in the sequence given above, taking into account the coherence of narration.

(iv) The report, part 2

10. This part should have two broad objectives: (i) to present the conclusions and evaluation, and (ii) to attempt to forecast what lies
ahead for the dfc in the next year or two. It should conclude with an
indication of lessons which can be drawn for the future, and recommendations
on any action required by IFC. The length of this part should not normally
exceed four pages.

11. For the first task, the material should aim to achieve a synthesis
of the critical commentary made in part 1, and point out the key issues in
judging the status of the investment. Because of the wide variations in the
characteristics of the dfcs, it is more difficult to give a specific list
of subjects which ought to be considered. The authors should exercise their
judgment. However, the subject matter could be approached from a number
of perspectives, such as those given in the following indicative list:

(a) outstanding issues and problems at time of previous SIC
review, whether these have been resolved or their present status;

(b) performance of the dfc in relation to earlier expectations,
in terms of volume and nature of operations and as a developmental institution;

(c) performance in relation to original purpose of the Bank group
investments, evolution of its relationship with the Bank group;

(d) performance relative to other comparable dfcs;

(e) major issues and problems now confronting the dfc, its
awareness of problems and adequacy of measures taken to deal with them;

(f) place of the dfc in the economy, its role in industrial/sector
financing and capital market.

The treatment of the subjects should take into account their relative
importance, and follow a sequence best suited to each individual circumstance.

12. The material for the second task, i.e. forecast of the future,
should include the following subjects:

(a) business outlook, estimated demand for the dfcs' funds and
forecast of activity;

(b) likely sources and costs of funds in future, problems;

(c) forecast of financial performance.

(v) Annexes

13. The annexes should provide as much as possible of the factual
information needed for the report. Information in the annexes should as
far as possible not be repeated in the reports, and vice versa. The
annexes should be brief, and should make use of tabular forms where possible.
The main purpose of the annexes would be to update information contained in
the previous mission's report/report to SIC. For this reason references should be made, where applicable, to such a previous report. The annexes should provide (a) a list of principal shareholders, (b) a list of Board members, (c) the statement of operating policy, (d) most recent financial statements, and (e) "comparative ratios", as listed in Mr. Shin's memorandum of May 17, 1968, for the dfc and a few other selected dfcs.

14. Other than the above, no check list of annexes is suggested. These could include information on subjects such as economic matters having special bearing on the dfcs' activities, organization, procedures, resources, policies, operations, finances and prospects. The aim should be to keep the number of annexes down to the minimum, by combining in one annex the treatment of several related subjects and, e.g. by not having any annex giving detailed financial forecasts (unless essential).
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<th>Earnings per share (currency unit)</th>
<th>Dividend per share (currency unit)</th>
<th>Market price ex-dividend (currency unit)</th>
<th>Price-Earnings Ratio</th>
<th>Yield (%)</th>
<th>Volume of shares traded in ( Shares)</th>
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**COMPANY Share Information**

- Share Index Industry Share Index
- Material Price
- Price-Earnings Ratio
- Yield
- Volume of Shares

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*To annex
Attachment 1*
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<th>Dates $^1/$</th>
<th>Rate of Interest $^2/$</th>
<th>Amortization $^3/$</th>
<th>Exchange Risk</th>
<th>Amount of Loan</th>
<th>In $ Million</th>
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| Total      |                        |                   |               |                |             |              |             |             |

$^1/$ a - date of effectiveness, b - terminal date for crediting, c - closing date for disbursements.

$^2/$ Percentage rate, followed by indication in parenthesis whether fixed or variable.

$^3/$ For fixed repayment schedules, show total amortization period and grace period; e.g. 12/2 would mean amortization extended over 12 years, including 2 years grace, from time of effectiveness. Indicate by "Std." where amortization corresponds to the sum of amortizations of subprojects.

$^4/$ To three places of decimals.

"Free limit" for individual subprojects, and aggregate limit for subprojects not requiring prior approval.

Or Credit no.
June 27, 1968

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

Dear Mr. Gondicas:

Again this year we have decided 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 National Investment Bank for Industrial Development, S.A. We would appreciate your reviewing it and returning by July 27 one copy to us with any corrections and comments you would care to make. We would be particularly grateful for your filling in the blanks in pages 1, 3 and 4 and annex 2 and also for providing information on the questions put down in the notes attached to annexes 2 and 3. 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 format and content of the memorandum approved by you last year.

When this memorandum on National Investment Bank for Industrial Development, S.A. is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

E.N. Shin
Development Finance Companies

Enclosures

cc: Mr. Jeffries (with draft descriptive memorandum)

BHShiner
June 26, 1968

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

Dear Mr. Rohnfelder:

I refer to my letter to you of May 14, 1968 in which I asked you to review and comment on the draft descriptive memorandum on Banque Ivoirienne de Developpement Industriel by June 14.

We have not as yet received your reply. We would be grateful if you check into this and let us have the benefit of your comments on the draft as soon as possible.

Yours sincerely,

B.H. Shin
Development Finance Companies

cc: Mr. Sekse

BHShin:er
After yesterday's discussion of R68-99 (Financing of Government-owned Development Banks) I noticed the growth of a new version of the mystery of the dog that did not bark in the night --- namely, the Alternate who did not speak in the morning. Those who spoke to me attributed this abstention variously to a becoming modesty and to indecision. The true situation was simply that my views were stated precisely by Mr. Merchant and Mr. vom Hofe, and I did not want to weary the Board with tedious repetition. However, I now recognise that this was an occasion on which I should have stated briefly our support for the recommendations in the paper, and this memorandum is to confirm this for the record.

cc: Mr. Mendels

(cc: Messrs. McNamara, Cope and Diamond - 6/26)
June 26, 1968

Mr. Vicente R. Jayme  
Executive Vice President  
Private Development Corporation  
of the Philippines  
CBTC Building  
Ayala Avenue  
Makati, Rizal  
Manila, Philippines

Dear Mr. Jayme:

I refer to my letter to you of May 10, 1968 in which I asked you to review and comment on the draft descriptive memorandum on Private Development Corporation of the Philippines by June 10.

We have not as yet received your reply. We would be grateful if you check into this and let us have the benefit of your comments on the draft as soon as possible.

Yours sincerely,

B.H. Shin  
Development Finance Companies

cc: Mr. Powell

BHShinner
June 26, 1968

Mr. Felix Chang  
President  
China Development Corporation  
181-5 Chung Shan Road N., 2nd Sec.  
Taipei, Taiwan  
Republic of China  

Dear Mr. Chang:

I take pleasure in enclosing two copies of a final version of the descriptive memorandum on China Development Corporation, a draft of which I was advised had been shown to you by the recent IFC mission to CDC and approved by you.

We are grateful for your cooperation in bringing this memorandum up-to-date. We will be glad to send additional copies of it. If you want to have more, please let us know how many.

In due course we will send you a series of the descriptive memoranda on other development finance companies with which the World Bank Group is associated.

Yours sincerely,

B.B. Shin  
Development Finance Companies  

Enclosures

cc: Mr. Pollan (with a copy of the descriptive memorandum on CDC)  

BHShin:er
June 25, 1968

Khun. Kraisri Nimmanahaeminda
General Manager
Industrial Finance Corporation
of Thailand
491 Silom Road
Bangkok, Thailand

Dear Khun. Kraisri:

Thank you for your letters of June 17 and 18 on the descriptive memorandum on Industrial Finance Corporation of Thailand.

I am grateful indeed for your having undertaken a thorough review of the memorandum and correcting the date for the latest amendment of IFCT's Statement of Policies and some typographical errors.

I am enclosing 12 copies each of the revised pages. I would appreciate your replacing the relevant pages with these new ones.

Yours sincerely,

B.H. Shin
Development Finance Companies

Enclosures

cc: Mr. Powell (with copies of incoming letters)
BHSShinser
June 25, 1968

Recommendation of Items for Operational Data Book, Policy Statement and Studies and Other Data

1. I refer to my memorandum to you of May 17, 1968 in which the division of the contents of Data Book II into three sections, namely: (a) Operational Data, (b) Policy Statements and (c) Studies and Other Data, was described among others. In that memorandum I indicated that, after weighing the usefulness of the contents of Data Book II, I would recommend a proper classification of them (including some for discontinuation).

Contents of Three Data Books

2. Having thought on the subject, I recommend the division of the contents of Data Book II as indicated in the attached three Tables of Contents: (a) Operational Data, (b) Policy Statement and (c) Studies and Other Data.

3. The new table of contents for Operational Data Book lists some new items to be added. For some items it lists revised titles to indicate more clearly what the contents are or to envisage revised contents. The table of contents for Studies and Other Data Book also lists several revised titles for better indication of the contents.

4. Upon your approval of the new listings in the two Tables of Contents the existing Data Books will be recalled and reissued with relevant tables being revised.

Items to be Discontinued

5. The new division, however, leaves out 8 of the existing 26 items in Data Book II. The items discarded, however, will be filed in my office, so that the information collected may not be lost. These items, together with the reasons for the exclusion are as follows:

(3) Status of Counterpart Fund Loans and U.S. AID Local Currency Loans to Development Finance Companies 8/31/64

(This is a compilation relating not only to our DFC's but to several others. It is out of date and no immediate usefulness is foreseen, nor is it easy to update it).
(7) Development Finance Companies' Administrative Expenses
(7 tables) 8/4/65

(Out of 7 tables, I propose to retain and update only one, Development Finance Companies' Total Assets and Administrative expenses since it contains data on total assets and administrative expenses over the years. Ratios for each of the years will be added. Comparative Ratios' Table to be newly added provides amounts of total assets and administrative costs (ratios) for 1967, but does neither provide these over the years nor administrative expenses (amount). Therefore, the proposed table, I think, deserves to be retained. The remaining tables to be discarded are more or less of temporary interest of that time when prepared and all are now out-of-date.)

(11) Table 2-Net Profits Before Tax and Provisions of Development Finance Companies for 1965 and 1966. 7/14/67

(Out of date. Little usefulness).

(17) Resources of Development Finance Companies. 3/30/67

(Comparative Ratio Table provides amounts of total assets which are close approximations to total resources provided in the Resources table.)

(21) b. Dividends Received and to Be Received by IFC on its Investments in Development Finance Companies. 11/23/66

(Table a. and b. are more or less overlapping and Table a. will be retained which provides basic information.)

(22) Basic Statistics on Selected Countries 12/28/66

(No longer important for operational purpose).


(Both are out of date. A new table called Annual Financial Commitments of Development Finance Companies from Commencement to 1967 to be prepared will replace part of the information provided in both tables.)
# OPERATIONAL DATA ATTACHMENT I

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   (to be added)

   10/1/67

   5/12/67

4. Repayment Schedules of Sub-ordinated Loan Capital and of Bank Loans to Development Finance Companies, as of September 30, 1965  
   9/30/65

   5/16/66

6. Foreign Shareholders and Their Shareholdings in Development Finance Companies, as of June 30, 1967  
   A. By Development Finance Company  
      12/22/67  
   B. By Foreign Shareholders Holding 1% or more of share capital  
      (to be added)

7. Policies of Development Finance Companies regarding Maximum Size of Loans, Equity Investments or Other Commitments in a Single Enterprise and Maximum Aggregate Equity Investments, and their Maximum Sizes Expressed in US$ as at December 31, 1967  
   (to be added)

8. Most Frequently Used Lending Rates of Development Finance Companies  
   (to be added)

9. Total Assets, Administrative Expenses and their Relationship from Commencement through 1964  
   8/4/65

10. Bearer of Foreign Exchange Risk on Bank Loans to Development Finance Companies  
    3/1/68

11. Aggregate Commitments of Development Finance Companies by Industry from Commencement through 1966  
    3/30/67

12. Profitability of Development Finance Companies from Commencement through 1966  
    7/11/67

13. Annual Financial Commitments of Development Finance Companies from Commencement through 1967  
    (to be added)
14. Number of Annual Approvals by Development Finance Companies during 1964 - 1st half of 1966 11/14/66

15. Reserves, Provisions and Equity as Percentages of Total Portfolio as of December 31, 1966 and 1967 5/28/68


17. Projects Presented by DFC's and Financed by IFC and Projects Jointly Financed by IFC and DFC's 4/16/68

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<td>DFCC - Ceylon</td>
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<td>NIBID - Greece</td>
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<td>IMDBI* - Iran</td>
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<td>BIDI - Ivory Coast</td>
<td>1 - 6</td>
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* Board Resolutions on restrictions on the size of investments.
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2. Names of Auditors and Due Dates for Submission of Audit Reports of Development Finance Companies to Bank 2/13/67


4. Study of Certain Features of Administered Funds Entrusted to Development Finance Companies 1/22/68

5. Training Activities of Development Finance Companies for Officers of Other Institutions 2/12/68
June 25, 1968

Dear Jack:

A quick acknowledgment of your note of June 17.

Travel is taking care of your Laissez-Passer, and Treasurer's, your account.

Thank you very much for "Some Farewell Thoughts". I've passed copies of it to Marty, James Raj and Dick Richards.

You will not be surprised to know that Eago Kuiper, who spent a week with us recently, shares the conclusions in your last paragraph. So do I.

I appreciate the standing invitation contained in your letter. I shall certainly take advantage of it, when ever I have the good fortune to be in London.

With best regards to Mary and to you.

Sincerely yours,

William Diamond
Director
Development Finance Companies

J.G. Beever, Esq.
51 Eaton Square
London, S.W. 1., England

cc Messrs. Rosen, Raj, Richards (with copy of incoming letter & enclosure)

WDiamond:us
June 26, 1946

Dear Jack:

I regret to inform you of the death of your father. Your personal presentation of your father’s papers will be held in your home on July 1.

Thank you very much for your recent telegram. I’ve been waiting eagerly to receive your letter. I have no plans to return to the States, however. I am considering a trip to Europe to attend the conference of the American Historical Association in the fall. I hope to return to the States in the spring.

I appreciate the kind invitation you extend me. I am glad to accept the opportunity to speak to the group. I am looking forward to meeting you and your family.

With best regards to you and your family.

Sincerely yours,

William Dismont
Director
Development Finance Corporation

L.C. Brown, Esq.
22 East Street
London, E.W.1, England

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: S. R. Cope  
SUBJECT: Financing of Government-Owned Development Banks by the World Bank Group  
DATE: June 25, 1968

1. I have been in touch with Mr. Merchant on the above subject. He said that the U.S. would go along with the proposal set out in your paper. There was some concern, however, that the matter might become public knowledge, and if this happened, it could be damaging to the case for IDA replenishment. He referred to the rather hostile attitude of Mr. Henry Reuss, Chairman of the House Subcommittee on International Finance, to the Bank loan to NIBID (Greece) and the fact that in the Sub-Committee's discussion last March the question of who controlled NIBID had been raised. He asked me whether the Bank was planning to make a press release or give any publicity to the policy change. I assured Mr. Merchant that the Bank had no intention whatever of giving any publicity to it, although it was always possible that in one way or another news of it would leak out and in the end it would have to become public knowledge. Mr. Merchant said that this answer satisfied him and that he would go along with the proposal.

2. Mr. Suzuki has told me that he has not heard from Tokyo on the subject. However he does not believe that the Japanese Government would raise any objections.

3. Mr. van Campenhout said that he had not studied the paper fully; but felt that the policy proposed was right.

4. Mr. Maude said that the U.K. agreed with the proposal but felt that it was formulated too rigidly. Mr. Reid has spoken to him on this point. I replied that the intention was quite the reverse: it was intended that we would abandon the rigidity of our previous position and in future examine cases on their merits, looking to the independence and quality of the finance company's management as the real test.

5. Mr. Plescoff said that he thought the paper was too timid: he would like to see government-owned and privately-owned companies treated on the same basis. I said that however cautiously worded the paper represented a change in policy the application of which would be governed by the merits of cases as they arise. He said that he agreed with the proposal.

6. I am trying to reach Mr. Stone. Mr. Gutierrez Cano is out of the country.

SRCope: gwh

c: Mr. Burke Knapp  
Sir Denis Rickett  
Mr. A. Broches  
Mr. M. M. Mendels

President has seen
Comparative Ratios

Mr. Shin will soon be sending you his "Comparative Ratios".

1. Are any of these ratios based on material which is not published? If so, which?

2. Can you see any reason why we should not send a copy to all our development finance companies?
<table>
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<th>IBRD</th>
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<td>Comments on subject relating to Bank/IDA &quot;Lending to Government-owned Development Finance Companies&quot;.</td>
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<td>Mr. McNamara</td>
<td>June 25, 1968 jgv</td>
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</table>
Dear Mr. President,

At the Board Meeting held on 21st May when you presented a tentative schedule of IBRD/IDA Board meetings from 5/21-8/16/68, I requested, inter alia, deferment of the subject relating to Bank/IDA "Lending to Government-owned Development Finance Companies" to a date in July when I would be back from my tour in East and Central Africa to participate in the discussions on this vital issue which originates with the African Governors and which has long been a subject of their agitation.

Unfortunately, I have learned through my alternate that rescheduling of this subject will not be possible.

I regret this inconvenience to me of not being present to participate in the discussions on this vital policy issue.

However, not being willing that this important subject should be decided without my participation, I have elected to submit my comments through you on this subject which I trust you shall be kind enough to present to the Board for its kind consideration.

Firstly, I should like to convey to you, Mr. President, the general expressions of good wishes and felicitations from all of the governments in East and Central Africa which I have visited, and their enthusiasm and support for your administration.

Moreover, there is growing expectation amongst my constituents in these parts that these policy dialogues will result in a new realism and direction in the Bank Group toward the involvement of policies designed to comport objectively with the complexities and diversities of the problems of economic development in the underdeveloped countries.

Secondly, I have found on the one hand, an amazing degree of stagnation, and, in a number of cases, recession in the level of investment activities in the private sector of many of the countries visited as a consequence of capital outflow and a lack of private initiative and investment capital. On the other hand, the capacity of many of the governments in Africa to cope with the demands in the public sector has been extended beyond their revenue possibilities.

In the three East African Community countries, Kenya, Uganda and Tanzania, for example, the recent creation of a Regional Development Bank is an attempt to create a catalyst for attracting and mobilizing developmental capital to stricken sectors of the economies of these three member countries. This latter effort is supplemental to the individual Government-owned Development Finance Companies which exist in each of the three countries, but whose impact on the economies of these countries has been minimal because of capital limitation, and their efforts to serve both the private and public sectors at the same time.
It might suffice to mention also, the existence of a semi-private Development Finance Company in each of the above three countries, with share capital of approximately £1.5 million derived from a 1/3 or 1/4% equity participation by like German, and British entities in partnership with the Government-owned Development Finance Companies in these three Community countries. However, like the predecessor Government-owned Development Finance companies in each of the three countries, these off-spring-semi-private Development Finance Companies have limited capital and tend to be highly selective in the types of financing activities, and in the size of their investments to between Shs.40-50 thousand or U.S. $500-$700.

Needless to say that the total overall impact which these separate and joint entities have been able to make, either, individually, or jointly, on the economies of these countries has been negligible.

In the rest of the countries in East and Central Africa, most of which are opting for membership in the East African Community, the result of economic stimulation to the individual economies through like entities is equally negative, and a few are now in process of creating one or the other type of Development Finance Company, with the exception of Ethiopia where, through the assistance of the World Bank, such an entity was first began in Africa some years ago.

In other countries in West Africa where Development Finance Companies are in the process of being formulated, or are contemplated, there is always the impediment of overcoming the Bank Groups' requirements for financial assistance. These requirements, unfortunately, have not only limited the growth of such entities, but in many circumstances have prevented their creation, or minimized their contribution to economic development and have made ineffectual their existence.

I submit, therefore, Mr. President, that the case for Bank/IDA lending to Development Finance Companies is meritorious. The arguments are, indeed, cumulative, valid and strongly favour Bank/IDA lending to Development Finance Company as a matter of policy and deserve your consideration and that of the Board's. The effectiveness of Development Finance Companies and their role in stimulating growth and economic development in the underdeveloped countries have been sufficiently documented in reports and projects of the Bank Group's operations in Latin America, Asia and in other parts of Africa where successful operations of the kind by the Bank Group have been carried out in the past. I, therefore, subscribe my unqualified support to the arguments in favour of Bank/IDA lending to Development Finance Companies as a matter of policy, and as an important new vehicle for assisting and stimulating balanced growth in the public and private sectors of the economies of the underdeveloped nations.

Finally, Mr. President, it has been said, "once the grip of tradition, or apathy or oppression has been broken and people can hope for a better way of life, their aspirations soar. But the institutions which must satisfy their aspirations change with the same old glacial speed."

Perhaps it would be incorrect and, indeed, wanton, to deny this institution its unexcelled role in its twenty-odd years of existence in responding to the challenges of the past and present. Still, it is not enough simply to respond to the present day challenges. Beyond this the Bank Group, with its enormous concentrations of skills, and new direction under your able leadership, should strive to exceed
present day challenges and move toward new realms of possibilities in forgoing an economic breakthrough in the underdeveloped world, thus opening up new hopes, new aspirations for the world's less fortunate peoples. Unless we can fulfill this noble and humane objective for all humanity, we shall never know the new joys, the new vistas and possibilities in this Development Decade. We should also be willing to explore the unknown - to attempt the unattainable - even the impossible, if our mission and purpose as a Development Finance Institution are to be realized. Otherwise, the Development Decade will have been a decade of abject failure for all Mankind, and a decade of despair and misery.

What is required to prevent this ugly despair and misery of the poor is a bold new forward thrust in new directions, toward yet undiscovered dimensions in development financing, applying new methodologies and a will to surmount the problems of human misery and want.

That institution, which lacks the means to effect needed changes in its system must also lack the means of its own preservation and survival, and, therefore, cannot escape the angry condemnation, of those it serves.

Sincerely yours,

S. OTHELLO COLEMAN.
Dear Mr. Shin:

Thank you very much for your letter of June 18 and a copy of Mr. Mathew's memorandum of May 17, 1968 on the subject, Comparative Ratios for DFC's. It is very useful for me. This is just the one what I asked Mr. Pollan to send me. Please make the Comparison in one sheet of table as possible.

With best personal regards,

Yours sincerely,

Naokado Nishihara

IFC's Special Representative in the Far East
June 21, 1968

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

Dear Mr. Shin

This is to acknowledge receipt of your letter of May 3, 1968. We are enclosing herewith one copy of the draft memorandum on TSKB which we made some corrections on the text and filled in the blanks on page 6, 7 and 8.

We would appreciate if you send us three extra copies.

Yours sincerely,

TÜRKİYE SINAI KALKINMA BANKASI A.Ş.

Rusen Aktin
Accounting Manager

Özhan Eroğuz
Assistant General Manager

Enclosure 1
June 21, 1966

Mr. John Norman Dixon
11101 Lake Avenue, #5
Cleveland, Ohio 44102

Dear Mr. Dixon:

In accordance with the request contained in your letter of June 18 to Mr. Diamond, I am pleased to attach a list of development finance companies in Mexico. This list appeared in "A Global Directory of Development Finance Institutions in Developing Countries", published by "The Development Centre of the Organization for Economic Co-operation and Development" and prepared by J. D. Nyhart and Edmond F. Janssens.

I would also like to mention that in January of this year, a new organization named "Asociación Latino Americana de Instituciones Financieras de Desarrollo" was created under the auspices of the Inter-American Development Bank and at the initiative of the Banco Industrial del Perú. If you need additional information you may want to write to the Secretary of the new institution, Mr. Juan Ramírez Valdavillegano, Director of the Banco Industrial del Perú, Casilla Postal 1230, Lima, Perú.

Very truly yours,

Justo García Rayneri
Development Finance Companies

Attachment

JGarcía/val

cc: Division
Compañía General de Aceptaciones
Padre Mier Ote. 13
Apartado Postal 787
Monterrey, N.L., Mexico

Crédito Bursátil, S.A.
Av. Isabel La Católica No. 39
Mexico, D.F., Mexico

Crédito Minero y Mercantil, S.A.
Paseo de la Reforma No. 144
Apartado 20608
Mexico, D.F., Mexico

Financiera Bancomer S.A.
Venustiano Carranza 42
6o Piso
Apartado 1087
Mexico 1, D.F., Mexico

Financiera Cafetalera, S.A.
Reformas 51
6th floor
Mexico, D.F., Mexico

Financiera Metropolitana, S.A.
422B, Avenida Juárez
Mexico City 1, D.F., Mexico

Financiera México S.A.
Paseo de la Reforma 243
5th floor
Mexico 5, D.F., Mexico

Impulsora Comercial e Industrial, S.A.
Centro Edificio "B"
Av. Juárez 42
Apartado 7085
Mexico 1, D.F., Mexico

Nacional Financiera, S.A.
Isabel la Católica No. 51
Mexico 1, D.F., Mexico
Bolsa de Valores de Mexico
Mexico, D.F.

Carlos Trouyet, S.A.
Av. Juárez 14-209
Mexico, D.F., Mexico

Corretajes e Inversiones Bursátiles S.A.
Isabel la Católica 43-301
Mexico, D.F., Mexico

Credito Americano de Mexico S.A.
Athenas 56-A
Mexico, D.F., Mexico

Crédito Mexicano, S.A.
Isabel la Católica 43-Piso 7
Mexico, D.F., Mexico

Financiera Colón, S.A.
Paseo de la Reforma 185-Piso 2
Mexico, D.F., Mexico

Financiera Comercial Mexicana S.A.
V. Carranza 48-Piso 5
Mexico, D.F., Mexico

Financiera y Fiduciaria Mexicana S.A.
Belívar 8, 108
Mexico, D.F., Mexico

Gibbon Alonso y Cía., S.A.
San Juan de Letrán 13-1208
Mexico, D.F., Mexico

Impulsora de Valores, S.A.
Martin Medalde 1350
Mexico, D.F., Mexico
Interamericana de Arrendamientos S.A.
Mexico 1, D.F., Mexico

Intercontinental S.A.
Paris 15, 3er Piso
Mexico, D.F., Mexico

López Velasco, Watson y Cía., S.A.
Uruguay 68-Piso 5
Mexico, D.F., Mexico

Pablo Scherer S.A.
Uruguay 7h-Piso 4
Mexico, D.F.

Padua y Cía., S.A.
Madero 47-201 al 206
Mexico, D.F., Mexico

Promociones y Corretajes, S.A.
Uruguay 68-Piso 7
Mexico, D.F., Mexico

Sociedad Financiera de Industria y Desquento S.A.
Madero 47
Mexico, D.F., Mexico

Sociedad Mexicana de Crédito Industrial S.A.
V. Carranza 54
Mexico, D.F., Mexico
Sir Denis was not able to get in touch with Mr. Plescoff and Mr. Gutierrez Cano because they were not in the Bank. It would be appreciated if you could get in touch with them for their views on this subject.
Financing of Government-Owned Development Banks by the World Bank Group

June 21, 1968

Sir Denis Rickett

I have been in touch with the offices of all the Directors of the Part I countries and have received comments from some of them. In some cases (Messrs. Fliescoff, Gutierrez Cano and Maude) I have not yet heard, while in others (Messrs. van Campenhout, Stone and Suzuki) they were not able to give a final reply. I am asking Mr. Cope to be kind enough to complete these enquiries on Monday when I shall be away in New York.

The following are the comments which I have received:

1. Mr. Reid said that he felt rather critical of the paper which did not go nearly far enough to meet the views of his government. The attitude adopted in it was similar to that of Mr. Woods about government-owned industrial companies, namely, that the World Bank should only finance them if no private capital was available and that, if and when private capital was available, it should take over the financing.

The Canadian Government's position had been set out in a statement to the IFC made early in 1967 which had subsequently been circulated as a Bank document. They felt that there was no reason why the World Bank Group should not finance government-owned development banks. They should, of course, be selective and proceed cautiously and should scrutinize the management carefully. Subject to this, their government saw no reason why the World Bank Group should not finance government-owned development banks in countries such as India, Pakistan, Ireland and Jamaica where private capital was available. To restrict World Bank financing to countries where private capital was not available would mean that, in practice, the World Bank would be operating only in the poorest countries such as Guinea and Mali which were often, unfortunately, those where there was the greatest amount of corruption.

2. Mr. Merchant said that he personally agreed with the proposal but could not give a final answer until he had received the views of the National Advisory Council. He would call Mr. Cope on Monday.

3. Mr. Skjerdal said that he agreed entirely with the conclusions of the paper though he questioned the accuracy of some of the statements in which the present practice was defended.

4. Mr. van Campenhout said that he had no difficulties about the paper. He would, however, examine it more fully and would, if necessary, ring Mr. Cope on Monday.
I have not heard from Messrs. Priestley, Gatterlee, Ching and Hande.

What will be the impact when Mr. Copeland leaves?

We have the same issue, the same problem, in another country, in a different condition for a group of banks. In other words, on an accelerated basis, we need more expertise from the group of bankers participating in the Accelerated Repatriation Process, in developing countries and more than that. Only so the money goes into the right place. We all agree that the paper made the impression that the new government of the country concerned is able to control the development bank.

Excerpts from Government-owned or government-owned-development banks, or non-government-owned-development banks, but non-government-owned-development banks are not the same as government-owned-development banks.

Excerpted from Government-owned-development banks, both government-owned-development banks and non-government-owned-development banks have a significant role in the financial system.

Govt. Bank Group to the Governor.

It is supposed that this is a government-owned-development bank, and it would be necessary for the world to act appropriately. Without any dependence on the management of such paper.

If you accept that the Government-owned-development bank should be controlled in the formation of the paper.
June 21, 1968

Data for Mr. Nishihara

I mentioned to you a few days ago that Mr. Nishihara would appreciate receiving some handy reference material on the principal features and results of our DFC clients. When we discussed this in Tokyo last week, he had in mind some important ratios and quantitative data in a convenient form.

I suggest that as to ratios, your existing compilation be used. Could you in addition give Mr. Nishihara a table summarizing the resources of "our" DFCs, the scale and nature of their operations and of their profits in 1967.

H Pollan: jb
Mr. Byong H. Shin

June 19, 1968

Amal K. Bose

Comparative Ratios for IDBI

As suggested by you I have reworked three of the ratios for IDBI in the table attached to my memorandum of June 10, treating the low interest Government share capital of IDBI as debt and the dividends paid on them as interest. The revised results are as follows:

Ratio Number

3. Profit before Tax and Provisions as a percentage of Average Equity - 23.8%

4. Profit after Tax as a percentage of Year-End Share Capital - 9.8%

5. Non-current Debt/Equity - 2.8:1

AK Bose:dl1

cc: Messrs. Powell
Hasan
June 19, 1968

Mr. Shin

Mr. Pollan

Progress on your compilation

I refer to your note of June 18 regarding the various "debts" which you claim the divisions of this department are still owing you.

The attachments are to meet your needs regarding the follow-up procedures of our dfe clients; they are on ICICI, NIDB, CDC and IMDBI. We passed to you this morning, a draft of the descriptive memorandum on CDC (Item 1(c) in your note). As you know this draft has already been vetted by CDC.

Attachments

HPollan:jb

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

Dear Mr. Ahmed:

Thank you for your letter of June 8 regarding the draft descriptive memorandum on Pakistan Industrial Credit and Investment Corporation Ltd. We are grateful for your review of the draft and corrections.

We have corrected the draft as you suggested and put it into final form. I am enclosing two copies of the final version.

We will be sending the descriptive memoranda on the other companies connected with us in due course.

With kind regards,

Yours sincerely,

B. H. Shin  
Development Finance Companies

Enclosure

cc: Mr. Sekse (with incoming letter and attachment)

B H Shin:er
18 June
11101 LAKE AVE., #5
CLEVELAND, OHIO 44102

Mr. William Diamond,
Dir., Devt. Finance Companies Dept.,
INTERNATIONAL FINANCE CORP.,
1818 H. St., N.W.,
WASHINGTON, D.C. 20433

Sir:

I have been trying for a number of weeks to get a list from Mexican Govt.
Personnel of the 100-120 or so, Investment Finance Companies in Mexico w/o success.
Could your Agency aid me in procuring such a list?

Many Thanks.

Very Truly Yours,

John Norman Dixon

JUN 19 BCC
No. A. 1438/2511

June 18, 1968

Mr. B. H. Shin
Development Finance Companies
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Shin:

In going through the final version of the descriptive memorandum on IFCT you kindly sent to us, we found some typographical errors as well as certain inaccurate information, which should be put right. These are:

1) Page 4, para. 15: "Snitwogse" should read "Snitwongse"
"Bankok" should read "Bangkok"

2) Page 5, para. 17, 3rd line: "February 23, 1967" should read "May 1, 1967", as this was the date the BANK formally approved the amendments. (Vide IBRD’s letter to IFCT dated May 1, 1967 signed by Mr. R. J. Goodman)

Page 5, para. 17; 13th line: "Capital" should read "Capital"

3) Page 7, para. 28, end of 7th line: There should be no full stop after "1966"

4) Annex 1, Page 1, 5th line from top of page: "February 23, 1967" should read "May 1, 1967"

Annex 1, Page 1, para. 5, 2nd line: "it own interest" should read "its own interest"

Annex 1, Page 1, para. 7(c): "exceeds" should read "exceed"

With apologies for any inconvenience which may be caused by the above corrections.

Yours sincerely,

[Signature]

Kraisri Nimmanahaeminda
General Manager
June 18, 1968

Mr. Naokado Nishihara
Daiichi Mutual Fire and Marine
Insurance Company
1, 4 Chome, Shiba - Tamuracho
Minato - ku Tokyo, Japan

Dear Mr. Nishihara:

At Mr. Mathew's request I am enclosing a copy of his memorandum of May 17, 1968 on the subject, Comparative Ratios for DFU's. I hope you will find it useful.

On the basis of this memorandum we are preparing a table containing comparative ratios for all the development finance companies connected with us. I will send you a copy of it in due course.

With best personal regards,

Yours sincerely,

B. H. Shin
Development Finance Companies

Enclosure

cc: Mr. Mathew

BISHIN/jb
June 18, 1968

As requested in your memorandum of May 20, 1968, I am attaching herewith a table giving comparative ratios for DFCC, IDBI, LBIDI, PDCP and IFCT.

Attachment

AKBose:phm

cc: Mr. Mathew
## COMPARATIVE RATIOS

<table>
<thead>
<tr>
<th>Years of operation</th>
<th>Development Finance Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DFGC</td>
</tr>
<tr>
<td>Total assets ($ million)</td>
<td>11</td>
</tr>
</tbody>
</table>

Ratio Number as given in Mr. Shin's memorandum of May 17

<table>
<thead>
<tr>
<th>Ratio Number</th>
<th>DFGC</th>
<th>IDBI</th>
<th>LBIDI</th>
<th>PDCP</th>
<th>IFCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5.3%</td>
<td>7.6%</td>
<td>3.1%</td>
<td>8.7%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2</td>
<td>5.7%</td>
<td>5.4%</td>
<td>2.8%</td>
<td>5.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>3</td>
<td>18.0%</td>
<td>10.9%</td>
<td>5.3%</td>
<td>18.8%</td>
<td>11.9%</td>
</tr>
<tr>
<td>4</td>
<td>12.6%</td>
<td>6.3%</td>
<td>6.0%</td>
<td>17.0%</td>
<td>12.3%</td>
</tr>
<tr>
<td>5</td>
<td>1.9:1</td>
<td>0.9:1</td>
<td>0.8:1</td>
<td>2.7:1</td>
<td>3.0:1</td>
</tr>
<tr>
<td>6</td>
<td>0.1:1</td>
<td>0.9:1</td>
<td>0.0</td>
<td>0.87:1</td>
<td>0.47:1</td>
</tr>
<tr>
<td>7</td>
<td>5.6%</td>
<td>10.8%</td>
<td>2.7%</td>
<td>25.2%</td>
<td>32.8%</td>
</tr>
<tr>
<td>8</td>
<td>21.1%</td>
<td>23.6%</td>
<td>(9.0%)</td>
<td>9.3%</td>
<td>28.6%</td>
</tr>
<tr>
<td>9</td>
<td>18.7%</td>
<td>5.4%</td>
<td>4.4%</td>
<td>0.5%</td>
<td>n.a.</td>
</tr>
<tr>
<td>10</td>
<td>6.6%</td>
<td>5.7%</td>
<td>5.5%</td>
<td>7.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>11</td>
<td>6.5%</td>
<td>8.7%</td>
<td>8.1%</td>
<td>10.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>12</td>
<td>0.5%</td>
<td>6.2%</td>
<td>6/</td>
<td>4.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>13</td>
<td>10.0%</td>
<td>1.7%</td>
<td>7/</td>
<td>7/</td>
<td>n.a.</td>
</tr>
<tr>
<td>14</td>
<td>1.1%</td>
<td>0.6%</td>
<td>2.7%</td>
<td>1.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>15</td>
<td>8.1%</td>
<td>8.3%</td>
<td>17/</td>
<td>14.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td>16</td>
<td>122%</td>
<td>115%</td>
<td>116%</td>
<td>135%</td>
<td>123%</td>
</tr>
</tbody>
</table>

1/ There is no quasi-equity.
2/ Equity portfolio includes investment in subsidiary company.
3/ Includes amortization of debenture and share issue expenses.
4/ Including reserves in linking increments.
5/ Linking increments reserves included in book value.
6/ Interest received on promissory notes representing Government loan; also, commitment fee paid on undisbursed KfW loan. Thus cost calculation not meaningful.
7/ There was no income from equity investments.
June 18, 1968

Messrs. Garcia, Pollan, Powell, Jeffries and Sekse
P.M. Mathew

Would you check for accuracy the description in the attached tables, Item E. Free Limit, aggregate Free Limit and Relevant Documentation and Item O. Bearer of Foreign Exchange Risk in Bank Loans, for companies under your care, bring it up-to-date and hand it over to Mr. Shin by June 24.

Attachment (2)
BHSKimser
P.M. Mathew                                          June 18, 1968

B.H. Shin

Progress report on my compilation

In accordance with your June 14 memorandum 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. Descriptive memorandum on DFC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Five Colombian financieras &amp; CAVENDES</td>
<td>Garcia</td>
<td>May 1</td>
</tr>
<tr>
<td>b) NIBID</td>
<td>Jeffries</td>
<td>May 1</td>
</tr>
<tr>
<td>c) CDC</td>
<td>Pollan</td>
<td>May 1</td>
</tr>
<tr>
<td>d) DFCC, IDBI and LBIDI</td>
<td>Powell</td>
<td>May 1</td>
</tr>
<tr>
<td>e) BNDE</td>
<td>Sekse</td>
<td>May 1</td>
</tr>
<tr>
<td>2. Comparative ratios for DFC’s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) DFCC, IDBI, LBIDI PDCP and IFCT</td>
<td>Powell</td>
<td>Requested on May 20</td>
</tr>
<tr>
<td>3. Annual financial commitments of DFC from...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Five Colombian financieras and CAVENDES</td>
<td>Garcia</td>
<td>Requested on May 17</td>
</tr>
<tr>
<td>b) DFCC, IDBI, LBIDI PDCP and IFCT</td>
<td>Powell</td>
<td></td>
</tr>
<tr>
<td>4. Project follow-up and end-use supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All companies except PICIC and PDCP</td>
<td>Every Division</td>
<td>Requested at staff meeting on April 26</td>
</tr>
<tr>
<td>5. Report on standard form of loan agreement between DFC and clients to ensure that the terms of sub-loans are known to us</td>
<td>Jeffries</td>
<td>Requested at Division Chiefs meeting on April 2</td>
</tr>
</tbody>
</table>

cc: Mr. Diamond
The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

<table>
<thead>
<tr>
<th>Withdrawn by</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann May</td>
<td>June 24, 2022</td>
</tr>
</tbody>
</table>
My first connection with Development Banks was in 1954, when as Managing Director of C.D.F.C., I was asked by Eugene Black to form a British Group to contribute to the equity capital of ICICI, which was then being planned. I became one of the first directors of ICICI when it was formed in February 1955, but resigned after I became Vice President of IFC in the summer of 1956.

When Eugene Black asked me, in October 1955, to leave CDFC and help to establish IFC, he said two things of historic interest. First, IFC would start with a restricted Charter, prohibited from investing in equity in spite of his efforts; second, that although he had tried to get it capitalized at $400 million minimum, it would start much smaller, but he hoped that it would grow and eventually take over from the Bank full relations with Development Banks and all financing of private industry.

The Charter's restriction proved even more crippling than he and I feared in 1955. It is on record from various memoranda (copies of which I sent to the then Director of Administration in 1961 for the IFC's Archives) that in the early years of IFC, 1957-1960, I organized regular annual review meetings by Management and General Counsel in an attempt to liberalize and diversify IFC's investment patterns, which became appallingly complex by reason of Garner's determination to get substantially the same yield on loan capital as would have been appropriate to equity. Although we experimented with quasi equity forms, such as convertible income notes, the experiments were as I always feared doomed to failure. They were used in certain cases however.

In January 1960 I told both Black and Garner that I should resign from IFC in 1961 unless we could get the Charter's restriction removed during 1961 so as to permit equity investment which I had always thought would be essential.

We succeeded, almost miraculously, in getting the many member governments involved to change the Charter so as to permit equity investment. This event was a turning point in IFC's history.

At the end of 1961 when Martin Rosen became Executive Vice President, after Robert Garner had resigned as President, I was heartened and relieved to find that he fully agreed on the need for equity investment and for the effective use of IFC's newly won powers. One of the first exercises of this power was to invest in the equity of Development Finance Companies. Up to that time IFC finance was of no interest to the DFCs, because they could get cheap loan money from the World Bank
with a governmental guarantee and were not interested in IFC's expensive and complex loans. But equity was another matter.

In fact, the first exercise of this power took the form of exercising conversion rights to converted income notes in two of the Colombian Financieras in which IFC had made investment some time before the Charter Amendment of September 1961.

It took, however, another two years before it was decided by IFC to have a representative on the Board of some DFCs where it had equity investment and where an IFC representative was appropriate. I served in 1963/64 on Boards of DFCs in Malaysia, Thailand, Pakistan, Turkey, Morocco, Nigeria and Venezuela. In an informal address in 1964 to the Directors and Department Heads of Bank and IFC, I gave my reasons for considering IFC nominees on DFC's Boards advisable and useful in certain circumstances.

Although an IFC representative on a Board cannot possibly, in a short visit, go into any detailed appraisal of the progress of the Institution which an appraisal mission can do in greater depth as the result of a much longer visit, I believe that he is a useful link both on the information side, in keeping IFC currently informed on progress, problems and thinking and also bringing to light policy problems sooner than they might otherwise have emerged.

J.G. Beevor.
No. A. 1401/2511

June 17, 1968

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

Dear Mr. Shin:

Thank you very much for the promptitude with which you were kind enough to send to us, with your covering letter of the 10th instant, 12 copies of the final version of the descriptive memorandum on IFCT.

We are glad to note the designation and the use of the symbol (B) to denote Thai currency, instead of (Bt), by the World Bank Group. And, as IFCT is one among the group, we will no doubt keep this in mind. Thank you.

Yours sincerely,

Kraisri Nimmanahaeminda
General Manager

KN:PP:pt

P.S. The last amendment of the Policy Statement was May 1, 1967 (not February 23, 1967). Will you please have this correction made accordingly.
Mr. B.H. Shin
Development Finance Companies
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

DEAR MR. SHIN:

Thank you very much for the promptitude with
which you were kind enough to send to us, with your cover-
letter of the 10th instant, 15 copies of the kind
version of the geotechnical memorandum of IFCT.

We were glad to note the geotechnical and the
use of the symposium (B) to generate their common interest of
(IFCT) by the World Bank Group. And as IFCT is one among
the group, we will no doubt keep this in mind. Thank you.

Yours sincerely,

KRISTI NAMNAMRIT
General Manager

KNIP: pt

29 OCTOBER 1983

The draft amendment of the policy statement was
published in the October 23rd, 1983, with your
permission. Please have this correction made accordingly.
June 14, 1968

Mr. S. N. Chia

P. N. Mathew

Progress report on your compilation

Please send us fortnightly (with a copy to Mr. Diamond) a statement in the following form showing progress in the analysis and compilation of data which you have undertaken:

**Analysis**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td>3. etc.</td>
<td></td>
</tr>
</tbody>
</table>

**Compilation**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Material due from (division)</th>
<th>due since (date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. etc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

cc: Mr. Diamond
June 11, 1968

Mr. Resid Egeli  
General Manager  
Turkiye Sinai Kalkinma Bankasi A. S.  
Necatibey Caddesi 24-1-247  
Tophane  
Istanbul, Turkey

Dear Mr. Egeli:

I refer to my letter of May 3 enclosing two copies of the draft descriptive memorandum on Turkiye Sinai Kalkinma Bankasi A. S. and requesting to return one copy with several blanks filled in and corrections and comments you would care to make.

We have not as yet received your reaction to the draft. We would greatly appreciate your checking into this matter and giving us the benefit of your reaction at your convenience.

Yours sincerely,

B.H. Shin  
Development Finance Companies

cc: Mr. Jeffries

BHHShin:re
The present position of the World Bank Group with respect to finance for government-owned development banks, defined as any institution in which the government directly or indirectly holds voting control, is as follows. The IFC cannot invest in such institutions because its Charter limits IFC's financing operations to private enterprises. The Bank/IDA, which are not subject to Charter limitations in this regard, are prepared to lend to government-owned institutions which finance agricultural development, including in some instances small related processing facilities; however, as a matter of policy, they have not been prepared to lend to government-owned development banks for the primary purpose of financing industrial ventures. 1/

The reason for the exclusion of government-owned industrial financing institutions has been that institutions of this kind are usually not well suited for the administration of loans to private industrial enterprises, since they tend to lack continuity of policy.

1/ The Bank has made loans to such governmental institutions as the Japan Development Bank and the Yugoslav Investment Bank for relending to industrial enterprises to which it could not for one reason or another lend directly. But in such cases, the Bank was not interested in the borrower except as a conduit; and the Bank was responsible for the appraisal of the ultimate borrowers' projects and had direct relationships with them. Also, legal reasons have led to lending to private development finance companies in the Philippines and Colombia through the channel of government financial institutions.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
and management and may sometimes be guided in their investment decisions by other than purely business considerations. Substantially the same reasons caused the Bank for many years to regard government-owned industries as unsuitable borrowers.

For a number of years representatives of developing countries, and in particular the African countries, have urged the Bank to change its policy in regard to both categories of potential borrowers. In 1966 the President of the Bank in his reply to a memorandum submitted at the Annual Meeting by the African Caucus noted that in recent years the Bank had taken the important step of exploring the possibility of lending to specific government-owned industries, to which he added that when the Bank had gained sufficient experience in that direction, further consideration would be given to the question of how Bank lending to government-controlled development finance companies might properly be handled. (SecM66-378, dated December 2, 1966)

In changing our policy with respect to the financing of government-owned industrial enterprises we made a distinction between ownership and management. Government ownership was no longer to be regarded as an impediment as such, provided that the Bank/IDA was satisfied about the quality and independence of the management.

I have considered whether the distinction between ownership and management which was made with respect to industrial enterprises can also be justified with respect to development banks. There is little doubt in my mind that the difficulties of assuring the sound use of money by a government-owned development bank will be greater than those arising in the case of an industrial enterprise. In the case of a specific enterprise, the Bank/IDA lend for a project which they have chosen and appraised, whose construction and operation they supervise, and on the basis of a loan contract which they administer; in the case of a development bank, these functions would be exercised largely by another staff, management and Board, with only certain review powers reserved to the Bank/IDA. On the other hand, it must be recognized that in some of the least developed countries there may well be needs for industrial development finance which, as a practical matter, can only be met, at least for the time being, by a government-owned or controlled institution. This squarely raises the question whether in those instances the Bank/IDA should be deterred by the possible difficulties and should as a matter of policy deny their assistance to an activity which may be of great importance to the economic growth of the country concerned. It seems to me that if we face that question we must conclude that the Bank/IDA should not withhold action in such cases solely because of government ownership or control.

It is neither necessary nor desirable at this time to try and spell out detailed criteria for possible lending to government-owned or controlled development banks for industrial purposes. I would expect, however, that the
instances in which such lending would prove appropriate, would arise in countries in which there is a clear priority need for an industrial development bank, but in which private investment funds are neither presently available for that purpose nor likely to become available in the foreseeable future. In such cases, despite the ingenuity that the IFC has shown in working out joint ventures between local governments, local investors, foreign investors, and the IFC itself, it may not be practicable to work out arrangements for a development finance company which would leave the government in a minority position.

In considering loans or credits to government-owned or controlled development banks, the Bank/IDA will of course attach key importance to issues of management. 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 within the framework of policies clearly agreed in advance. Our approach to financing government-owned development banks will have to be as flexible as that which we have followed in the case of private development finance companies, and tailored to the ability of each institution to assume gradually greater responsibility for project selection, appraisal and supervision.

In summary, Bank/IDA financial assistance to government-owned or controlled development banks in order to finance industrial development should not be categorically excluded. I therefore intend to approach this question with an open mind and to be guided in my recommendations by the merits of the cases as they present themselves.

Robert S. McNamara  
President
June 11, 1963

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

Dear Mr. Loemburgen:

Again this year we have decided 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 July 11 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 format and content of the memorandum approved by you last year.

When this memorandum on Malaysian Industrial Development Finance Berhad is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

[Signature]

B.N. Shin
Development Finance Companies

Enclosures

cc: Mr. Jeffries (with draft descriptive memorandum)

BHShin:er
June 11, 1968

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

Dear Mr. Kharadjou:

Again this year we have decided 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 and Mining Development Bank of Iran. We would appreciate your reviewing it and returning by July 11 one copy to us with any corrections and comments you would care to make. Particularly, we would be grateful for your filling in a number of blanks in pages 6, 7 and 8 of the draft. Also we would highly appreciate your providing May 21 figures in the margin of the draft pages where the date is indicated. 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 format and content of the memorandum approved by you last year.

When this memorandum on Industrial and Mining Development Bank of Iran is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B.H. Shin  
Development Finance Companies

Enclosures

cc: Mr. Pollan (with draft descriptive memorandum)  
B:HShin:er
TO: HIS HIGHNESS
PRINCE MOULAY HASAN BEN MEHDI
BADEMAROC
RABAT

DATE: JUNE 10, 1968

CLASS OF SERVICE: LT

COUNTRY: MOROCCO

TEXT:

DELTA WE FEEL SURE BNDE'S BOARD ARE AWARE OF OUR LONG STANDING VIEW THAT
BNDE'S PROSPECTS WILL BE ENHANCED BY THE STRENGTH AN EXPERIENCES
ADVISER COULD BRING TO BNDE STOP OUR VIEW ON THIS MATTER WAS MADE
CLEAR TO OUR EXECUTIVE DIRECTORS AND AGREED BY THEM WHEN THE SECOND
BNDE LOAN WAS PUT TO THEM FOR APPROVAL STOP FOR THE REASONS DISCUSSED
FULLY WITH MR BENKIRANE DURING NEGOTIATIONS WE REGRET WE MUST MAINTAIN
THE POSITION THAT A SUITABLE ADVISER OF BNDE'S CHOICE REPEAT BNDE'S
CHOICE BE RECRUITED BEFORE THIS THIRD LOAN IS PRESENTED TO IBRD
EXECUTIVE DIRECTORS STOP IBRD'S POSITION REGARDING SELECTION AND ROLE
OF ADVISER REMAINS AS STATED IN PARAGRAPH 9 OF MAY 23 AIDE MEMOIRE STOP
REGARDING YOUR REQUEST FOR IBRD PARTICIPATION IN COST OF ADVISER IBRD'S
POLICY PRECLUDES SUCH SUBSIDIES TO PRIVATE REVENUE-EARNING INSTITUTIONS
AND ONLY EXCEPTIONS MADE SO FAR CONCERN TWO IBRD/IFC STAFF MEMBERS WHO
WERE DETACHED TEMPORARILY TO ASSIST DEVELOPMENT BANKS STOP BECAUSE OF
OUR WISH TO BE HELPFUL TO THE MAXIM EXTENT POSSIBLE IN SOLVING THIS

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME
DEPT.
SIGNATURE

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FOR USE BY ARCHIVES DIVISION

ORIGINAL (File Copy)

(IMPORTANT: See guide for preparing form)

Checked for Dispatch: ____________________
TO:  

DATE:  

CLASS·OF  
SERVICE:  

COUNTRY:  

TEXT:  

Cable No.:  

PROBLEM IBRD IS WILLING TO MAKE SIMILAR EXCEPTION FOR B.N.D.E STOP WE ARE THEREFORE READY TO B.E.A.R UP TO HALF TOTAL COST OF AN ADVISER FOR ONE YEAR IF HE WERE AN IBRD/IFC STAFF MEMBER

LEJEUNE
INTEBARRAD

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME M. P. Benkenk

DEPT. Middle East and North Africa

SIGNATURE (SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

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MPBart/MLLejeune/WDiamond/vam

Cleared w. & cc: Messrs. Diamond/Sekse T. Jones Petretti Williams Clarke

For Use by Archives Division

ORIGINAL (File Copy)

(IMPORTANT: See guide for preparing form)

Checked for Dispatch: __________
No. 0D/788/68

June 8, 1968

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

Dear Mr. Shin,

Please refer to your letter of May 15, 1968 enclosing a draft memorandum setting out the activities and operations of PICIC. We have reviewed the draft and have made some minor changes on pages 1, 2 and 6.

With best regards,

Yours sincerely,

(Iqbaluddin Ahmed)
I. THE COMPANY

Purpose and Powers

1. Pakistan Industrial Credit and Investment Corporation (PICIC) commenced business on November 26, 1957. Its objectives are to assist in the creation, expansion and modernisation of private industrial enterprise, to encourage private capital participation from local and foreign sources and to assist generally in the growth of the capital market. PICIC may pursue these objectives by extending long- and medium-term loans, by taking equity participations, by underwriting and sponsoring equity and debt security issues, by guaranteeing loans and obligations, and by providing managerial, financial and technical services to private industry.

Resources

2. Capital and Reserves. The authorized share capital of PICIC is Rs 150 million, of which Rs 40 million is subscribed and paid in. The initial paid-in share capital was Rs 20 million which was increased by Rs 10 million in 1961 and another Rs 10 million in 1963.

3. By the end of 1967, PICIC had accumulated reserves and retained earnings of Rs 37.37 million.

4. Government Loans. The Government has granted PICIC three long-term loans totaling Rs 70 million and subordinated to all other long-term debt and to paid-in share capital. The first Rs 30 million granted in 1957 is free of interest, and has a term of 30 years, including 15 years of grace. The second Rs 30 million, granted in 1961, bears interest at 4%, and has a term of 40 years, including 4 years of grace. The third Rs 10 million was granted in 1965 and fully disbursed in 1966. The loan carries an interest rate of 5% and has a term of 40 years, including 4 years of grace. PICIC has also been granted a rupee line of credit of Rs 30 million from US AID out of PL 480 funds. The rate of interest is 5% and the loan is repayable over 20 years, including a period of grace of about 10 years. This loan is subordinated to all foreign currency borrowings of PICIC, but not to share capital. (Disbursements out of this loan up to December 31, 1967 amounted to Rs 9.16 million.)

Currency: Rupees (Rs)

Rs 1 = US$ 0.21
US$ 1 = Rs 4.7619
Rs 1,000,000 = US$ 210,000
5. Foreign Borrowings. Total foreign currency lines of credit (including suppliers' credit) as of December 31, 1967 totaled $255.1 million, or Rs 1,214.5 million. Of this, Rs 794.4 million had been disbursed.

6. PICIC's total resources made available up to December 31, 1967 are summarized as follows:

<table>
<thead>
<tr>
<th>Resources</th>
<th>Made Available (in million rupees)</th>
<th>Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Reserves</td>
<td>37.4</td>
<td>37.4</td>
</tr>
<tr>
<td>Government loans</td>
<td>70.0</td>
<td>69.8</td>
</tr>
<tr>
<td>IBRD</td>
<td>684.2</td>
<td>319.9</td>
</tr>
<tr>
<td>AID</td>
<td>132.9</td>
<td>17.2</td>
</tr>
<tr>
<td>German credits</td>
<td>158.3</td>
<td>100.4</td>
</tr>
<tr>
<td>Japanese credits</td>
<td>90.0</td>
<td>50.7</td>
</tr>
<tr>
<td>U.K. credits</td>
<td>42.1</td>
<td>32.6</td>
</tr>
<tr>
<td>French credits</td>
<td>40.5</td>
<td>19.9</td>
</tr>
<tr>
<td>Polish credit</td>
<td>14.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Czechoslovak credit</td>
<td>14.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Italian credits</td>
<td>42.9</td>
<td>12.3</td>
</tr>
<tr>
<td>Belgian credits</td>
<td>25.8</td>
<td>-</td>
</tr>
<tr>
<td>Danish credit</td>
<td>1.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,391.2</strong></td>
<td><strong>723.4</strong></td>
</tr>
</tbody>
</table>

7. Borrowing Limitation. By agreement with the World Bank, PICIC is limited to incur indebtedness other than the amount of the subordinated Government loans payable after the date of the last outstanding maturity of Bank loans up to six times its own equity plus the total subordinated amount. As of December 31, 1967, PICIC's outstanding indebtedness in terms of this agreement was 5.36 times its borrowing base.

Organization

8. Ownership. Of PICIC's 4 million issued shares, 60% are held in Pakistan, with the balance being held by foreign shareholders in USA, UK, West Germany and Japan, and by IFC, which has 5%. The Government is not a shareholder.

9. Board of Directors. The Board of PICIC has now 21 members: the Managing Director, 12 Directors representing Pakistani shareholders, 3 Government representatives and 5 directors representing foreign shareholders. Nomination to the three Government directorships belongs to the Central Government with the understanding that two of the three nominees should represent the East Pakistan and West Pakistan Provincial Governments. One Government director on PICIC's Board is provided for in the first loan agreement between PICIC and the Government. In August 1963, PICIC's statutes were amended so as to permit also the provincial governments to be represented, as this was believed to be in the best interest of relations between PICIC and Government. The Board usually meets four times a year.
24. **Interest Rates.** Following the increase in the IBRD lending rate to 6% in 1966, the Government authorized PICIC to raise its interest rate on sub-loans employing IBRD funds. In 1968, after the increase in the IBRD current lending rate to 6¼%, PICIC raised its interest rate on sub-loans financed with IBRD funds. On other foreign exchange loans, PICIC charges 7½%. In 1968 the interest rate on rupee loans was increased from 8% to 8½%, the current debentures rate.

25. In addition to interest, PICIC's borrowers pay an appraisal fee of 1/2% of the loan amount, a commitment charge of 1½% per annum (which PICIC may at its discretion raise to 2% per annum, if all conditions or effectiveness of the loan are not fulfilled within 6 months from the date of sanction on undisbursed amounts, and the foreign exchange risk charge in those cases mentioned above. The average commission for opening letters of credit is 5/8 of 1%.

26. **Duration of Loans.** PICIC does not normally extend loans for more than 15 years. Although until 1964 most loans were for 10 years or less, the present trend is towards longer maturities reflecting longer term borrowings by PICIC.

27. **Size of Loans.** The average size of new loans sanctioned in 1967 was equivalent to $693,000, compared with $783,000 in 1966, $828,000 in 1965, $1,100,000 in 1964, $673,000 in 1963, $365,000 in 1961/62, and $192,000 in 1958/59. The large increase in the average size of loans in 1964 was partly a consequence of the raising of the lower lending limits in March 1963. Since then the trend is decreasing.

28. **Geographical Location.** PICIC has been more active in West than in East Pakistan. At the end of 1967 about 73% of PICIC financing had been in West Pakistan, although nearly 60% of loans sanctioned in 1966 were for East Pakistan.

29. **Distribution of Loans by Industry.** With respect to industrial diversification of loans sanctioned, textiles (cotton, woolen, silk and synthetic) and jute projects (46%) and food products and processing (21%) loom very large, whereas engineering, chemicals, cement and glass, paper products and printing, and inland water transport and shipping each account for between 4% and 8% of the total amount of loans sanctioned by PICIC in its ten years of existence. In 1967 projects in the textile sector showed the greatest relative increase, accounting for 54% of all loans approved.

30. **Options.** Loans to existing enterprises with a paid-in capital of more than $2.5 million or to new enterprises with a paid-in capital of between $2.5-5 million normally carry a right for PICIC to purchase shares in value equal to 20% of the original loan amount if a cash issue for shares is made during the subsistence of PICIC's loan.

31. In the case of new enterprises with a paid-in capital of $5 million or more, PICIC obtains true convertible debentures, embodying the option to convert at par 20% of the original foreign currency loan amount into new shares of the company.

32. **Loans for Balancing and Modernization.** Towards the end of 1964, the Government agreed to PICIC lowering its lending limit to $250,000 ($52,500) for loans to finance imports of equipment needed for the balancing and modernization of existing plants.
DEMOCRATIC AND POPULAR REPUBLIC OF ALGERIA

MINISTRY OF FINANCE AND PLANNING
Office of the General Secretary
No. 1094/FP/SG

Algiers, June 6, 1968

Mr. Abderrahmane Tazi
Executive Director
International Bank for Reconstruction
and Development
Washington, D.C. 20433, U.S.A.

Dear Sir:

I duly received your letter of May 21, 1968, concerning the policy followed by the IBRD group with regard to development finance companies.

You have yourself raised a question of basic importance in this connection, namely the attitude adopted by the IBRD and its affiliates in the matter of public development banks.

There can be no justification whatever for the exclusion of State development finance agencies from the operations of the World Bank and IDA.

To deal first with the question of form, the international finance organizations are comprised of the States that belong to them, and it is therefore an anomaly that the development banks set up by those States themselves should be subject to any discrimination with regard to them; the reason they became members of the Bank was to strengthen the financial institutions available to them, not to see those institutions excluded from international financing. The policy so far followed by the IBRD in this matter thus directly contradicts the very logic that prompted underdeveloped countries to join the international finance institutions.

Now is this policy justified on the practical level, for in the majority of the Third World countries only the State is in a position to undertake operations in the sphere of development; to reserve those functions to private enterprise would, in point of fact, be tantamount:

- either to surrendering them to foreign capital, which would further intensify the economic alienation of the colonial era, when industrial activities were conceived in terms of the economy of foreign countries and not as part of an economic integration of the colony in which they were undertaken;

- or to entrusting them to already-privileged strata of the population, more concerned with deriving the maximum private profit from the economic consequences of political changes than with placing industrial projects within a framework of balanced development.

TRANSLATION SECTION

Translated From: French
By: GHE safe

E-726/68
- or to making the execution of investments the need for which had been recognized, and the carrying of which had been provided for in the planning process, subject to the goodwill of the private sector;

- or to sacrificing coherence in economic activities and also the secondary investment-generation effects since the carrying out of projects would no longer depend on their economic soundness but rather on the extent to which it had been possible to interest private capital in them. And since the latter is attracted only by operations that present the smallest risks for the highest yield, other projects, the carrying out of which was called for by the planning process, would be compromised, thus further accentuating the lack of coherence from which the economies of the Third World suffer and which constitutes a major obstacle to their development;

- or to thinking of development in terms, not of national needs but of the level of initiative, at a time when this latter is weak or directed towards commercial speculation, it being precisely this fact that constitutes one of the handicaps to development;

- or to abandoning essential projects the scope of which was too great for the technical and financial potential of private entrepreneurs;

- or to confining attention, in many cases, to projects the scale of which was too limited to enable a high economic yield to be achieved.

It is quite clear that, as soon as the State assumes responsibility for development and for the large-scale operations that this entails, it must have at its disposal the institutions required to enable it to fulfil these functions; this is particularly true for the development bank.

It is therefore quite natural for the State to be concerned with establishing a development bank to finance productive investment, whether such investment is in the public or the private sector.

This is just as vital a matter to the State as the setting up of a central bank, and no one now disputes that this is a State prerogative.

But this does not constitute a reason why such a development institution should be excluded, a priori, from the operations of IBRD and its group.

It is also worth pointing out that the decision respecting the nature of a country's banking or financial organization belongs solely to the sphere of that country's sovereignty, and that the policy followed by the IBRD with regard to development banks that are in the form of public institutions does, in fact, constitute unsavourable interference in the internal affairs of a State.
Algeria's experience concerning the position adopted by the World Bank and IDA in the matter of the Algerian Development Fund (CAISSE ALGERIENNE DE DEVELOPPEMENT) has therefore been entirely negative; in point of fact, our development institution has not, so far, received any loans at all.

I should like to add that the experience of Algeria has been just as unfavorable in regard to the financing of specific projects.

From all the contacts that Algeria has had with the IBRD, and from an examination of the operations in which the latter has engaged with other countries, we can only conclude that unacknowledged political considerations have been responsible for the behavior of the international financial institutions.

The foregoing situation is harmful with respect to the technical problems posed by the operations of the IBRD and its affiliates.

These problems also relate, moreover, and even essentially, to the financial machinery employed by the IBRD, and they therefore go far beyond the particular point raised by your letter.

The importance of this machinery becomes immediately apparent when one considers that it governs the fixing of the rates of interest charged by the IBRD and also its supplies of funds; it is, therefore, here that the basic problems are to be found, and until they have been tackled the restraints and rigidities of the present machinery will continue to constitute a stumbling block.

If we confine ourselves to the relations between the IBRD and its Group and the development banks, it may be considered that, as regards corporate investment, it will be desirable for these international institutions to give systematic support to the development banks themselves, by opening lines of credit in their favor that can be used to finance programs forming part and parcel of the planning process; such lines of credit might relate to a certain proportion of the total value of operations to be financed within the framework of these programs, or to operations meeting certain conditions laid down in agreements.

I shall be only too pleased to provide you with any supplementary information you may require. I should furthermore be glad if you would keep me informed on how the examination announced in your letter is conducted, and on the direction it takes.

Yours very truly,

Minister of State for Finance and Planning

(signed)

Chérif Bekkayem

(Democratic and Popular Republic of Algeria)

Ministry of State for Finance and Planning
June 6, 1968

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

Dear Mr. Daniyan:

Again this year we have decided 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 Nigerian Industrial Development Bank Limited. We would appreciate your reviewing it and returning by July 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 format and content of the memorandum approved by you last year.

When this memorandum on Nigerian Industrial Development Bank Limited is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B.H. Shin
Development Finance Companies

Enclosures

cc: Mr. Pollan (with draft descriptive memorandum)

B.H.Shin: or
June 5, 1968

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

Dear Dr. Shin:

I write on behalf of Mr. Vicente R. Jayme, who is presently abroad, in reply to your letter of May 10th. Your letter also forwarded two copies of a draft memorandum on the Private Development Corporation of the Philippines.

In accordance with your request, we have reviewed your draft and have made some corrections thereon with the view to obtaining a more accurate description on our operations. Enclosed are five copies of the draft memorandum with our corrections incorporated.

We appreciate the opportunity of reviewing your draft, and we take note of the excellence of its format.

Very sincerely,

NARCISO A. FERRER
Assistant Vice President

NAF: evk
Enclosures.
Attached is a draft I have had prepared of an alternative paper for presentation to the Board on this subject. I am sending copies of it to Knapp and Broches and will discuss it with them. I suggest that you not bother reading it until we have had a chance to talk together about it, but I am sending it to you so that you will have it with you in case we need to communicate with you about the form of the paper as it would go to the Board.

cc - Mr. Knapp
Mr. Broches
Bank Policy Towards Lending to Government-controlled Development Finance Companies

1. The World Bank Group has not, until now, financed government-controlled industrial development banks. In the case of IFC, this is a statutory matter; the Corporation can, by its Articles of Association, invest only in private enterprises. The Articles of the World Bank and IDA permit them to finance governmental enterprises, but policy has been not to lend to private industry through a development finance company in which the government or governmental institutions have voting control. 1/

2. In 30 years of lending to development finance companies, involving $705 million in 51 loans to 22 companies in 18 countries, the Bank and IDA have so far made only one exception to policy in this regard: loans to the Development Bank of Ethiopia, all of whose shares are owned by the Imperial Government of Ethiopia. 2/ Meanwhile, the Bank has been making loans to agricultural credit institutions owned by government and has determined that government ownership of an industrial enterprise is not in itself an obstacle to a Bank loan, so long as its management is satisfactory in quality and is autonomous. Policy towards ownership of development

1/ The Bank has made loans to such governmental institutions as the Japan Development Bank and the Yugoslav Investment Bank for relending to industrial enterprises to which it could not for one reason or another lend directly. But in such cases, the Bank was not interested in the borrower except as a conduit; and the Bank was responsible for the appraisal of the ultimate borrowers' projects and had direct relationships with them. Also legal reasons have led to lending to government financial institutions in the Philippines and Colombia, but for the use of private development finance companies.

2/ When the first loan was made in 1951, Bank policy regarding ownership had not yet been clarified. When the second loan was made in 1961, the present policy existed, but the Bank did not wish to abandon a company it had helped create. A third loan was requested subsequently; but the Bank has refused to lend again until important changes have been made, including arrangements to put the Government into a minority position.
finance companies has been under continuing criticism, and this memorandum lays a basis for reviewing it.

3. The Bank's policy regarding ownership of an industrial development finance company was based on the belief that continuity of sound policy and of experienced management, and decision-making on the basis of economic and financial criteria, are more likely to be assured in a shareholder-owned company than in a government-owned company.

4. In an industrial development finance company, as in an agricultural bank or an industrial enterprise, sound management and effective use of capital are essential underpinnings for a decision to make a Bank loan. The question is whether these can be assured when government controls the institution. I do not believe this question should be answered in terms of political philosophy, as expressed in the "public vs. private" controversy, but should be considered pragmatically in terms of most effectively accomplishing the purposes sought when the Bank or IDA makes a loan. I have in mind the fact that the issue of lending to a government development bank arises most forcefully in the Bank's least developed member countries, whose governments are often, and indeed necessarily, responsive to demands which lead to investment decisions based on political factors. I question the efficacy of statutory provisions effectively to insulate a governmental development bank's decision-making process from political considerations. Indeed, I can understand the reasons for political decisions, and can sympathize with the fact that governments will make decisions on the basis of political as well as economic considerations. The World Bank's resources, however, should not be allocated on the basis of political considerations, and cannot justifiably be used for investments not decided on economic and financial criteria, or which do not yield satisfactory returns on capital employed. This, in my judgment,
is the compelling argument against lending to government-controlled development finance companies.

5. The argument has been made that there are countries in which a development finance company could make a crucial contribution to economic growth but in which private capital is not available; in such cases, governmental institutions should be eligible for Bank loans. I would call attention to the fact that we have a device to use where there is a case for a development finance company but where domestic private capital is insufficient to set it up properly. I refer to the device we have used in Nigeria and elsewhere -- where we have combined subscriptions by foreign investors and by the IFC with investments by government and, to the extent they can be tapped, by private domestic investors in such a way as to prevent government from holding a majority of the shares while avoiding foreign domination of the institution. Of course, the government will influence the institution on matters which it considers to be of major importance; this may well be the case if the government holds no equity at all. But government will find it much more difficult to make uneconomic decisions in a shareholder-owned company, and will be reluctant to force its way upon the shareholders, where it has not more than 25% of the shares while important foreign banking institutions and an international organization hold very substantial amounts of shares. This is a counter-weight which does not guarantee, but which gives confidence, that decisions will be taken on business grounds and that management and policy will not be changed for political reasons.
6. Incidentally, this policy of lending only to privately-controlled development finance companies has been of importance in helping attract about $36 million of foreign private capital into the equity of the companies the World Bank Group has been financing. This has been, in my opinion, an important achievement in introducing into our member countries foreign investment know-how and in establishing foreign connections for their development finance companies. It is also an achievement in terms of the Bank's Articles of Agreement.

7. There is a distinction between lending for an individual industrial enterprise and lending for a development finance company, which justifies the different views the Bank has had regarding their ownership. In the case of a specific enterprise, the Bank lends for a project which it has chosen, which it has appraised, which its Board of Directors approves, whose construction and operation it supervises, and on the basis of a loan contract which it administers. In the case of a development finance company, the decisions on the use of the proceeds of a Bank loan are made by another staff, management and Board, with power delegated to them by the Bank. Even though the Bank may resume the right to approve certain projects, this does not change the nature of the delegation. Prior approval of certain projects by the Bank does not involve the same appraisal process as would be the case if the Bank made a loan directly to the beneficiary enterprise. On the contrary, its purpose is to assure us that the development bank is appraising projects in a sound manner, is looking at all relevant factors; but responsibility for decision-making is not ours -- and cannot be, at this
distance. I am very much in favour of such delegation, and I look forward to an increasing volume of lending to development finance companies. But such delegation requires that we assure ourselves to the greatest possible extent that the decision-makers to whom we delegate, act on the basis of economic and financial criteria, and that we protect ourselves to the greatest possible extent against mismanagement by them of the Bank's resources.

8. Loans to agricultural credit institutions are also substantially different. Firstly, they are generally made for clearly defined agricultural development programs, in the formulation and justification of which the Bank has had an important part, and in whose supervision the Bank will play a part. Secondly, agricultural credit must often be linked to services of various kinds which governments alone can provide and often carries with it important elements of subsidy which only a governmental institution can bear.

9. Having regard to the legitimate wishes of our member countries to enjoy the services which a well-run development finance company can provide, I feel that, on balance, we ought not to change our present policy. We have the technique to set up a privately-controlled company whenever doing so makes economic sense. If a government's policy is to stimulate the private sector, if the climate for private investment is favorable, if there are investment opportunities sufficient in volume to provide a continuing demand for capital, if that capital is not being provided by existing institutions, then I believe we can generally organize a development finance company by bringing foreign capital in together with an IFC investment to do the job.

10. Since 1951, the Bank and IFC have promoted, or led in reorganizing, 18 development finance companies, 12 of them since 1961,
and have been involved in financing 27 of them in 23 countries. I am sure there are many other countries where creation of a privately-controlled development finance company is feasible, and I am prepared to consider any new proposal. I would want us to take, perhaps, a longer range view in the future, than we have taken in the past, of the feasibility of a proposed company. That is, we should give particular weight to the effect which the company itself could have, in time, in inducing the business it needs to yield an adequate rate of return, and we should be prepared -- IFC and the foreign partners it could persuade to join -- to wait a longer time for an adequate return on our investment.

11. There may, from time to time, be a special case in which the financing of industrial development was a matter of very high priority for Bank lending to a member country, in which it simply was not possible to set up a development finance company of the kind we now finance. If we could be reasonably satisfied, in such a case, that sound management and the purposes for which finance was provided would result in the effective use of resources, then I think a departure from policy would be appropriate and I would be prepared to recommend a loan.
June 4, 1968

Dear Hans:

Thank you for your letter of May 29 enclosing the draft descriptive memorandum on IMDBI. I am now working on it, incorporating your new comments. I will be soon sending it to IMDBI for their review and comments.

I am enclosing a draft tax paper on CDC which was prepared sometime ago and which may need some revisions. I would appreciate your updating it if you can while you are there.

I hope you and Sunit will be spending very pleasant and fruitful days.

With best personal regards,

Sincerely,

B.K. Shin
Development Finance Companies

Enclosure
COMMUNICATION: Letter

DATED: June 4, 1968

TO: Mr. Jakko Lassila

FROM: D. W. Jeffries

FILED UNDER: FINLAND - Mission

SUMMARY: EXTRACT:

I want also to thank you, Ossian Antson and John Nordman for your help in revising the descriptive memorandum. I enclose two copies of the final version. Similar memoranda on the other development finance companies with which the World Bank Group is associated are being prepared and a copy of each will be sent to you in due course.
No. A. 1106/2511

May 31, 1968

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

Dear Mr. Shin:

In compliance with the request contained in your letter of May 14, 1968, we have pleasure in enclosing here-with one copy of the Memorandum on IFCT, duly reviewed and corrected.

We shall appreciate it very much if you would be good enough to forward to us 12 copies of the said Memo when completed.

Yours sincerely,

Kraisri Nimmanahaeminda
General Manager

Encl: 1
May 31, 1968

Mr. H. Shin
Development Finance Corporation
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433

U.S.A.

Dear Mr. Shin:

I am in compliance with the request contained in your
letter of May 14, 1968, we have pleasure in enclosing here-
with one copy of the Memorandum on ICT July reviewed and
corrected.

We shall appreciate it very much if you would pe-

The Industrial Finance Corporation of Thailand

1196 Jomtien Road, Bangkok 5, Thailand

CAHIT: 3321

K: 96047-6 AINC: 26

Encl: 1
May 29, 1968

Mr. G. L. Mehta  Chairman  The Industrial Credit and Investment Corporation of India Ltd.  
163 Backbay Reclamation  Bombay 1, India

Dear Mr. Mehta:

In the absence of Mr. Diamond, I acknowledge receipt with thanks of your booklet "Management in Indian Industrial Enterprises". It will be brought to his attention upon his return.

With best regards,

Sincerely yours,

A. Muramatsu  
Development Finance Companies

AMuramatsu:svc
Brief History of Proposals Turned Down

Attached are a brief history of the proposals for IFC's assistance to DFID in Burundi, Jordan, Kenya, Sierra Leone, Tanzania and Zambia, all of which have been either turned down or been put in abeyance.

Attachments

Amuramatsu, cbb
May 23, 1968

A. Muramatsu

Burundi

At our 1966 Annual Meeting, the Government asked for IFC investment in the proposed National Bank for Economic Development of Burundi (BNDE/Bu). We explained that it would not be possible for IFC to invest in a multi-purpose finance company which would presumably be active mainly in the financing of small industry and agriculture. It was suggested that the Bank might find it possible to channel funds into agricultural projects through a well-organized Government finance company. Subsequently BNDE/Bu was established in January 1967. In October 1967 a Burundi mission met Mr. Diamond to renew its request for IFC investment in BNDE/Bu, bringing some materials on it. Mr. Diamond indicated that we would study the documents and react to them when the mission was paying another visit in December. This visit did not materialize, and no contact has been made since.

The memo of September 30, 1966 on the meeting held with the Burundi delegation on September 28 is attached.

Attachment
Amuramatsu, cbb
Mr. W. Diamond (through H. Pollen)  
A. Muramatsu  

Jordan  

The Industrial Development Bank (IDB) requested in September 1965 IFC's investment in it and the service of an adviser. We sent a mission to Jordan in November 1965. Its report was considered in January 21, 1966 by SIC, which concluded that further information on the prospective business of IDB should be required to determine the feasibility of a private dfc and that, if the prospective business proved to be large enough, IFC's investment should be conditional on a much larger Government subsidy. (The SIC minutes are attached.) Mr. Rosen visited Jordan in April 1966, and it turned out that IFC's investment was not sought at that time. A mission at a later date was promised. IFC arranged to send an adviser for a three-month period, which, however, became unnecessary due to an early arrival of the adviser from U.K. In May 1967 IFC informed IDB that it would send the promised mission in August. However, due to the war in the Middle East, the Jordanians wanted to have the mission at a later date. Our letter of August 16, 1967 informing the postponement of the mission is attached.

Attachments.

Ahuramatsu:obb
Mr. W. Diamond (through H. Follen)                   May 23, 1968

A. Muramatsu

Kenya

The Finance Minister indicated in January 1967 to Mr. El Emery his Government's interest in establishing a private dfc in Kenya involving principally the Government, IFC and the Aga Khan (IFC). This was followed up by Mr. Diamond who visited Kenya in November/December 1967. At that time, the Government clearly indicated that it was not politically feasible for it and IFC to join in strengthening IFC. An alternative proposal emerged then for setting up a broadly-based dfc in which all interested parties could join and in which the existing companies ceased to act separately and submerge their large-scale promotional and credit activities. This proposal was turned down by us because of the difficulties involved in the establishment of a new company in addition to several existing ones, in staffing and in the effects it would have on the existing institutions. This was conveyed to the Government by Mr. Diamond's letter to the Finance Minister dated April 9, 1968. A copy of the letter and the note on the discussions in Nairobi are attached.

Attachments

A.Muramatsu; cbb
Mr. W. Diamond (through H. Follan)  

A. Muramatsu  

Sierra Leone  

May 23, 1968

At the request of the Government, an IFC mission visited Sierra Leone in April 1965 to study the need and prospects for a dfc. The mission's report concluded that there was a need for such an institution, but that its volume of business, and, therefore, profitability would not be large enough to attract private investors and IFC. This view was conveyed to the Government on August 11, 1965 (a copy of the letter attached). The Government decided to pursue further the possibility of setting up a predominantly private dfc in Sierra Leone and asked for IFC technical assistance during the Annual Meeting in 1965, which had to be declined in view of extensive prior commitments of available staff and the unlikelihood of an IFC operation.

Attachment

Amuramatsu: cbb
At the time of Mr. El Emery’s visit to Tanzania in August 1963 and of our Annual Meeting in 1963, the Government requested IFC's participation in TDFC. The Government expressed its willingness to transform it into a predominantly private institution but was advised to study the need and scope for such an institution before submitting a specific proposal to IFC. Mr. Mathew's memorandum of October 1, 1963 on Mr. Rosen's meeting with the Tanzanian delegates is attached. No approach was made by the Government until the 1965 Annual Meeting when the Finance Minister inquired to Mr. Diamond about possible IFC interest in a new development bank. Mr. Diamond suggested that the proposal to set up a new institution tended to complicate the issue and it was agreed that a mission would be arranged to look into the institutional set-up for long-term finance in Tanzania and future prospects. This was followed up by Mr. Diamond's visit to Tanzania in January 1966 and Mr. Richie's visit in October 1966 as a member of the Bank economic mission to East Africa. The mission's finding was not very enthusiastic about the future role of the long-term financial institution in Tanzania. Before transmitting any views of us to the Government, foreign banks in the country were nationalized in February 1967. Since then no contact has been made.

Attachment

Amuramatsu.cbb
The Government requested in August 1961 an IFC investment in the Northern Rhodesia Industrial Development Corporation (NRIDC). A mission was sent in May 1962. After consideration of the mission's findings and the material furnished by NRIDC, we concluded that we were unable to consider an investment in NRIDC due to the poor prospective profitability and the political and institutional uncertainty. Mr. Diamond's letter of October 18, 1962 conveying this decision to NRIDC is attached.

At our 1964 Annual Meeting the Governor of the Central Bank informed Mr. Skillings of the Government's intention of setting up a private dfe. Mr. Skillings expressed and the Governor shared the doubts whether there would be a sufficient amount of business for a new dfe. At the 1966 Annual Meeting, the Deputy Governor of the Central Bank inquired about possible IFC interest in a new private dfe, and we explained the requirements for IFC's participation in general terms. When a Bank mission visited Zambia in February 1966, Mr. Sardanis, Managing Director of the Government-owned Industrial Development Corporation, informed it of the proposal of setting up a private dfe and inquired about the possibility of IFC investment in it. On May 2, 1966, Mr. Kasende, Permanent Secretary of Finance met Mr. Mathew to explain about the proposed dfe. At that time we pointed out that the Government's intention of letting the new dfe finance "medium" projects (US$ 20,000-50,000) would have an unfavorable impact on profitability and that the proposed dfe did not appear to be of a type which could now expect to get our assistance. A copy of Mr. Gupta's memo of May 13, 1966 on this meeting is attached.
Madrid, 22nd. May 1968

Mr. E.H. Shin
International Finance Corporation
1818 H. Street, N.W.
WASHINGTON, D.C. 20433

Dear Mr. Shin,

I am enclosing herewith one of the copies of the new memorandum on Bandesco that you sent me with your letter of May 1st.

I have found it correct and I would appreciate it were used only for a restricted distribution.

With kindest personal regards,

Yours sincerely,
May 9th, 1968

Mr. H. Shin
International Finance Corporation
1818 H. Street N.W.
WASHINGTON, D.C. 20433

Dear Mr. Shin,

I am enclosing herewith one of the copies of
the new memorandum on Banesco that you asked me with
your letter of May 7th.

I have found it correct and I would appreciate
it if we need only for a restricted distribution.

With kindest personal regards,

Yours sincerely,

[Signature]

1968 MAY 23 HM 10:39
COMMUNICATIONS
RECEIVED
May 21, 1968

Mr. B. H. Shin

J. Acevedo Navas

Financial Ratios

As requested in Mr. P. M. Mathew's memorandum of May 16, I attach hereto a table with the figures for the five Colombian financieras and for CAVENDES.

Attachmet

J.Acevedo/val

cc: Division
Mr. E. H. Shin

J. Acevedo Navas

Comparative Ratios for DFC's

In response to your memorandum of May 20, please find attached a table entitled "Comparative Ratios for Development Finance Companies", prepared in accordance with the instructions contained in Mr. Mathew's memorandum of May 17 on the above subject.

Attachment

Acevedo/val

cc: Division
Mr. Shin

Oliviero Pesce

Ratios

May 21, 1968

Please find attached figures regarding items in the attachment to Mr. Mathew's memorandum dated May 16, 1968 for BIDI, ENDE, PICIC, and SNI.

Attachment

OPesce:med
<table>
<thead>
<tr>
<th>Company</th>
<th>BIDI ($'000)</th>
<th>EMBE</th>
<th>PICIC</th>
<th>SNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>4,060</td>
<td>35,2961</td>
<td>135,150</td>
<td>8,200</td>
</tr>
<tr>
<td>B. (a)</td>
<td>2,835</td>
<td>5,940</td>
<td>8,400</td>
<td>2,870</td>
</tr>
<tr>
<td>(b)</td>
<td>171</td>
<td>1,705</td>
<td>7,610</td>
<td>1,560</td>
</tr>
<tr>
<td>(c)</td>
<td>-</td>
<td>1,2602</td>
<td>2,1112</td>
<td>28</td>
</tr>
<tr>
<td>(a + b)</td>
<td>3,006</td>
<td>7,645</td>
<td>16,210</td>
<td>1,430</td>
</tr>
<tr>
<td>C.</td>
<td>5,063</td>
<td>5,940</td>
<td>14,666</td>
<td>1,170</td>
</tr>
<tr>
<td>D.</td>
<td>8,069</td>
<td>13,585</td>
<td>30,876</td>
<td>5,600</td>
</tr>
<tr>
<td>E.</td>
<td>-</td>
<td>97</td>
<td>-</td>
<td>12.5</td>
</tr>
<tr>
<td>F.</td>
<td>198.7%</td>
<td>38.5%</td>
<td>22.8%</td>
<td>68.4%</td>
</tr>
<tr>
<td>G.</td>
<td>74.0%</td>
<td>21.7%</td>
<td>13.5%</td>
<td>35%</td>
</tr>
<tr>
<td>H.</td>
<td>4.2%</td>
<td>4.8%</td>
<td>5.8%</td>
<td>19%</td>
</tr>
<tr>
<td>I.</td>
<td>-</td>
<td>0.3%</td>
<td>-</td>
<td>0.15%</td>
</tr>
<tr>
<td>J.</td>
<td>-</td>
<td>3.8%</td>
<td>1.6%</td>
<td>0.5%</td>
</tr>
<tr>
<td>K.</td>
<td>4.2%</td>
<td>5.1%</td>
<td>5.8%</td>
<td>19.15%</td>
</tr>
</tbody>
</table>

1/ Excluding guarantees (we have not yet received the corresponding figures)
2/ Portion of general loan reserves set aside before taxation.
3/ Special and capital reserves set aside before taxation.
Comparative Ratios for Selected DFC's

1. The new Comparative Ratios table, Attachment I of Mr. Mathew's memorandum on May 17, 1968, added two new items, 1 and 9; and revised slightly the definitions of Items 3, 6, 10, 11, 13 and 15.

2. Would you please send me ratios on Items 1 and 9 and also let me know if there are any changes on the rest of the ratios according to the revised definitions where you have already given me the comparative ratios of the companies under your responsibility.
Messrs. Acevado, Gustafson, Pollan, Powell
and Sekas
P. M. Mathew

May 17, 1968

Would you check for accuracy the figures in the attached table
for Annual Financial Commitments for the Companies under your care,
provide information for a new column, "up to 1962", and, where there are
blanks or incomplete figures for 1967, fill them.

When you finish the table, please return it to Mr. Shin at
your convenience.

Attachment

BSShin: or
TO: DFC Division Chiefs
Messrs. Boyd, Khosropur, Shin

FROM: P. M. Mathew

SUBJECT: Comparative Ratios for DFC's

May 17, 1968

Attachment 1 to this Memorandum lists the ratios to be used in the comparative analysis of development finance companies in connection with SIC reviews. It replaces the list circulated on April 2, 1968.

Attachment 2 explains the use of each ratio and Attachment 3 defines some of the terms used.

Mr. Shin is to prepare a consolidation for all companies out of tables prepared by each Division for companies under its care. He is to check conformity of figures used with the definitions laid down.

Attachments

c: DFC Staff Instruction File (Mr. Gustafson)
Comparative Ratios for Selected DFCs

Indicate years of operation and the size of total assets in terms of U.S. dollars on top of the ratios for each company.

(a) Ratios of Profitability

1. Gross Return (i.e. Net Earnings before Financial Charges and Tax) as a percentage of Average Total Assets
2. Profit before Tax and Provisions as a percentage of Average Total Assets
3. Profit before Tax and Provisions as a percentage of Average Equity
4. Profit after Tax as a percentage of Year-End Share Capital

(b) Ratios of Structure

5. Non-current Debt /Equity 1/
6. Non-current Conventional Debt /Equity plus Quasi-Equity 2/

(c) Average Rate of Growth (last 3 years)

7. Average Annual Rate of Growth of Total Assets
8. Average Annual Rate of Growth of Profit before Tax and Provisions

(d) Portfolio

9. Year-end Equity Portfolio as a percentage of Year-end Total Equity and Term Loan Portfolio

(e) Financial Earnings and Margins

10. Gross Income (including net capital gains before tax) less Direct Financial Costs as a percentage of Average Total Assets
11. Income from Term Loans as a percentage of Average Term Loan Portfolio
12. Cost of Term Debt as a percentage of Average Term Debt
13. Equity Income (including net capital gains before tax) as a percentage of Average Equity Portfolio

(f) Administrative Costs

14. Administrative Costs as a percentage of Average Total Assets

(g) Reserves

15. Reserves (including retained earnings) plus Provisions as a percentage of Year-end Portfolio 1/ (Term Loan, Guarantee and Equity Investment)

(h) Share Capital

16. Book Value as a percentage of Par Value

1/ Including guarantees
2/ All maturities of quasi-equity falling due prior to the estimated last maturity of any Bank loan should be excluded from quasi-equity and included in debt.
EXPLANATION OF USES OF RATIOS

(a) Ratios of Profitability

1. This ratio enables the measurement of financial return on all funds employed. According to the Bank's Operational Memorandum No. 5.06 (paragraphs 12 and 14) "enterprises should earn enough to cover operating costs including depreciation, and leave a 'reasonable return' on the investment... defined in practice as something above the Bank's lending rate." It conforms to one of the most common operating measurements in business, net earnings before interest and tax (EBIT) as a percentage of average total assets, which is often used to measure the return on the investment of funds from all sources against the opportunity cost of capital. This ratio has comparative relationships with ratios 2, 10 and 14.

2. An operational measurement of the rate of profit (before provisions and income tax which distort inter-DFC comparisons) obtained from the DFCs use of all resources, whether owner's or creditor's funds; as a financial business, financial charges are deducted as an operating cost. It has a comparative relationship to ratios 2, 10 and 14 below.

3. A measurement of the same profit as above, but in relation to owner's funds only and thus including the structural factor of leverage; its comparison with ratio 1 identifies the leverage factor in profitability:

\[
\text{\text{ratio 2}} = \frac{\text{Average Total Assets}}{\text{ratio 1}} = \frac{\text{Average Net Worth}}{\text{leverage factor, } x \text{ times.}}
\]

4. A measurement of per share return obtained at year-end by shareholders after tax (the annual rate of increment on share capital for retention and/or distribution); in this form it is comparable with the percentage dividend per share proposed or paid out for the year, and the related pay-out ratio:

\[
\text{\text{\% dividend}} \times \frac{\text{ratio 3}}{\text{100 = \% Payout.}}
\]

(b) Ratios of Structure

5. The relationship of year-end term debt obligations (contracted medium- and long-term debt and guarantees) to owner's equity investment—i.e. the leverage in the long-term resources of the DFC; this differs from the leverage in all funds implicit in the comparison of ratios 1 and 2 above, but conforms to the Bank's formula for measuring long-term indebtedness liabilities (including contingent liabilities) of a DFC.
6. The year-end relationship of long-term indebtedness (including guarantees) to the borrowing base, using the new Bank formula for debt limitation now applied, or to be applied, in Bank loans to DFCs.

(c) **Average Rate of Growth (last 3 years)**

7. A measure of the growth of business. The average of the last three annual rates of growth of the volume total resources of the DFC, comparable with the same annual rates of growth of profits (before tax and provisions) earned on those resources in ratio 8; inter-DFC comparisons should be made bearing in mind variations in size of resources, age of company, etc.

8. A measure of the growth of profits. The average of the last three annual rates of growth of the DFC's profits (before tax and provisions) comparable with ratio 7 above; inter-DFC comparisons should be made with the same considerations as in ratio 7.

(d) **Portfolio**

9. A measurement of the extent of investment in equity as a portion of all term financing.

(e) **Financial Earnings and Margins**

10. The margin between the DFC's gross income and financial costs (i.e. the "financial margin", an amalgam of all interest rate "spreads" with ancillary earnings and financial costs); this is an effective measurement of overall financial "spread" obtained on total resources (equity at no cost). It has a comparative relationship to ratios 1, 2 and 11.

11. The rate of financial income (interest, commissions, fees, etc.) derived from the term loan portfolio, comparable to the rate of cost of all the term borrowings of the DFC in ratio 12 below. The comparison gives a broad gauge of the "spread" on term lending of term borrowings (including quasi-equity) of the DFC.

12. The rate of financial cost of all outstanding long-term borrowings (including quasi-equity) comparable with 11 above. The amount by which this rate is reduced below the rate of interest paid on Bank funds or equivalent conventional borrowings is a rough indicator of the effects of low-interest borrowings (e.g. quasi-equity) or subsidization (e.g. Government rebates) in reducing the cost of borrowing by the DFC.
13. The rate of income being obtained on equity investments, which can be related to that on the term lending portfolio (ratio 11 above), and to the rate of dividend paid by the DFC to its own shareholders.

(f) Administrative Costs

14. A measurement of the impact of administrative costs (likely to be higher in new institutions) related to ratios 1, 2, 3 and 10 above.

(g) Reserves

15. Measures the reserve "cushion" maintained by DFCs in relation to the full portfolio risk (term loans, guarantees and equity).

(h) Share Capital

16. A broad measurement of equity accumulation above the original cost of shares.
EXPLANATORY NOTE ON TERMS

1. **Gross Return**
   
   Net earnings after deducting administrative expenses including depreciation and losses (or specific provisions for actual or anticipated losses) but not financial costs or tax (EBIT formula).

2. **Profit before Tax and Provisions**
   
   Net profit plus tax and provisions. Financial losses and write-offs are already taken care of before arriving at net profit.

3. **Total Assets**
   
   Guarantees and other contingent liabilities are excluded. Provisions for doubtful assets (loans, equity investments, and others) are treated in the same way as in the IFC accounts for the particular DFC.

4. **Equity**
   
   Paid-in share capital plus all retained earnings (including free reserves) and excluding dividend. Also included are hidden reserves and free provisions if judged by IFC to be equity.

5. **Non-current Term**
   
   Used synonymously. Both are taken to mean debt or loan, as the case may be, maturing more than one year from the date of contract.

6. **Quasi-equity**
   
   The new definition to be applied even where it has not yet been included in its Loan Agreement.

7. **Average Annual Rate of Growth (last 3 years)**
   
   Arithmetic average of the sum of each annual growth rate over the previous year, not the compounded rate.

8. **Income from Term Loans**
   
   All income derived from and in connection with term loans, e.g. interest, commitment charges, study fees and commissions.

9. **Direct Financial Costs**
   
   All direct costs involving borrowing e.g. interest, commitment charges, various fees and commissions. Excluded are financial losses from or write-offs of loans or equity investments made.

10. **Administrative Costs**
    
    All non-financial costs, including depreciation, amortization of establishment costs, Directors' fees, and bonus payments to Directors and employees.
May 16, 1968

MEMORANDUM FOR MR. TAZI

Subject: Development Finance Companies

In your memorandum of April 29, 1968 you asked about the Bank's principles and criteria in the promotion and support of industrial development finance companies in member countries.

The Bank has a double interest in promoting and strengthening development finance companies. One principal objective is to help build strong and effective investment institutions which can channel domestic savings and external capital into productive enterprises in the private sector; a second objective is to use development finance companies as channels through which to provide Bank finance to private enterprises which, for various reasons, the Bank cannot finance directly.

In considering whether to help establish, finance or otherwise assist a development finance company the Bank looks particularly to the following factors:

(a) Is the development of a strong private sector one of the overall aims of the member country concerned?
(b) Are there opportunities for a substantial volume of private investment?
(c) Would a new development finance company help to fill an important gap in the capital market of the member country or, if the company already exists, is it capable of using more capital effectively?
(d) Is the creation or expansion of a development finance company a matter of relatively high priority to the country concerned?

We expect to have a positive finding on each of these four questions as the basis for promoting or financing a development finance company in a member country.

The characteristics of development finance companies must reflect the conditions and the needs of the countries in which they are located. The Bank has always been prepared to accommodate itself to a variety of features and characteristics. There are, however, several characteristics which we have considered essential for Bank assistance. These are:

(a) The company must be well managed.
(b) Although we encourage foreign participation on development finance companies, the company must be domestically controlled (considering IFC, for this purpose, as domestic if the other shareholders so desire).
(c) The company must have prospects of paying in due course a dividend reasonable in terms of investment expectations in the country concerned.
You referred in our conversation to the opportunity we missed in Afghanistan. I am informed that the staff has given continuing attention to Afghanistan's request for assistance in setting up and financing a development finance company since 1963. The essential problem was that the staff was unable to produce a convincing case on the four questions cited in the above paragraph. There were doubts that the climate, the opportunities, and the entrepreneurs existed which would justify a shareholder-owned development finance company, and that such an institution was a matter of priority at this stage of Afghanistan's development. I am informed that the staff finally, last autumn, decided that there was a basis for proceeding. By that time, however, the Government of Afghanistan had decided to give a private American bank the responsibility for promoting and setting up the company. We have told both sponsors that we wish them success, and have repeatedly said that, if we were needed to help get the company launched, we would be prepared to consider the proposal put forward by them.

(Signed) Robert S. McNamara

Robert S. McNamara
May 16, 1968

Would you please supply Mr. Shin with figures (as of December 31, 1967)* of the DFU's under your care, regarding items in the attachment by Tuesday, May 21.

Attachment

* For DFCC, BIDI, IMDBI and MIDF, as of the end of the latest fiscal year.
A. Investment Portfolio, $/including guarantees

B. Equity
   (a) Paid-in capital
   (b) Reserves
   (c) Of which Specific Reserves $/
       Total (a + b)

C. Subordinated Debt $/

D. Sum of Equity and Subordinated Debt (B + C)

E. Provision $/

F. Equity plus Subordinated Debt as % of Investment Portfolio (B/A)

G. Equity as % of Investment Portfolio (B/A)

H. Reserves as % of Investment Portfolio (B(b)/A)

I. Provision as % of Investment Portfolio (E/A)

J. Specific Reserve plus provision as % of Investment Portfolio (B(c) + E)

K. Reserves and Provision as % of Investment Portfolio (H + I)

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General Note:

In converting into dollars, use currently effective exchange rate and round off.

1/ Representing all loans and share investments, but excluding investment designed to utilize idle funds.

2/ Retention of net income designated for specific uses e.g. reserve for bad loans or investments.

3/ Representing all debt subordinated to other debts regardless of whether they are quasi equity under Bank's loan agreement.

4/ Provision for possible losses charged as an expense item before the determination of net income.
May 15, 1968

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

Dear Mr. Ahmed:

Again this year we have decided 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 Pakistan Industrial Credit and Investment Corporation Limited. We would appreciate your reviewing it and returning by June 15 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 format and content of the memorandum approved by you last year.

When this memorandum on Pakistan Industrial Credit and Investment Corporation Limited is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Sekse (with draft descriptive memorandum)

BHShin : er
OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

FROM: William Diamond

DATE: May 14, 1968

SUBJECT: Mr. Tazi's Memorandum of April 29 to the President

1. As mentioned in our talk yesterday, I attach:
   a. a copy of Mr. Tazi's memo to the President;
   b. the reply I would propose that the President send to Mr. Tazi;
   c. a draft note to the President on tourism projects in Morocco.

2. Although (b) is ready for signature, I would appreciate any suggestions or amendments you might wish to make.

3. I am sending (c) to Mr. Lejeune and Mr. Chadenet, as well as to you. You may wish one of them to reply. The draft is at their disposal, as I am.

Messrs. Rosen/Raj
Lejeune
Chadenet
von Hoffman
Sekse

WDiamond/jm
Mr. Abderrahman Tazi

Robert S. McNamara

Development Finance Companies

May 14, 1968

1. Please refer to your memorandum of April 29, 1968 in which you asked about the Bank's principles and criteria in the promotion and support of industrial development finance companies in member countries.

2. The Bank has a double interest in promoting and strengthening development finance companies. One principal objective is to help build strong and effective investment institutions which can channel domestic savings and external capital into productive enterprises in the private sector; a second objective is to use development finance companies as channels through which to provide Bank finance to private enterprises which, for various reasons, the Bank cannot finance directly.

3. In considering whether to help establish, finance or otherwise assist a development finance company the Bank looks particularly to the following factors:

   (a) Is the development of a strong private sector one of the overall aims of the member country concerned and is there a climate conducive to the growth of the private sector?

   (b) Are there opportunities for a substantial volume of private investment?

   (c) Would a new development finance company help to fill an important gap in the capital market of the member country or, if the company already exists, is it capable of using more capital effectively?

   (d) Is the creation or expansion of a development finance company a matter of relatively high priority to the country concerned?

We expect to have a positive finding on each of these four questions as the basis for promoting or financing a development finance company in a member country.

4. The characteristics of development finance companies must reflect the conditions and the needs of the countries in which they are located. The Bank has always been prepared to accommodate itself to a variety of features and characteristics. There are, however, several characteristics which we have considered essential for Bank assistance. These are:
(a) The company must be privately controlled.

(b) Although we encourage foreign participation in development finance companies, the company must be domestically controlled (considering IFC, for this purpose, as domestic if the other shareholders so desire).

(c) The company must have prospects of paying in due course a dividend reasonable in terms of investment expectations in the country concerned.

5. You referred in our conversation to the opportunity we missed in Afghanistan. I am informed that the staff has given continuing attention to Afghanistan's request for assistance in setting up and financing a development finance company since 1963. The essential problem was that the staff was unable to produce a convincing case on the four questions cited in Paragraph 3 above. There were doubts that the climate, the opportunities, and the entrepreneurs existed which would justify a shareholder-owned development finance company, and that such an institution was a matter of priority at this stage of Afghanistan's development. There were also doubts, from domestic and foreign sources, it would be possible to put together a "privately owned" company. I am informed that the staff finally, last autumn, decided that there was a basis for proceeding. By that time, however, the Government of Afghanistan had decided to give a private American bank the responsibility for promoting and setting up the company. We have told both sponsors that we wish them success, and have repeatedly said that, if we were needed to help get the company launched, we would be prepared to consider the proposal put forward by them.
May 14, 1968

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

Dear Mr. Rohnfelder:

Again this year we have decided 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 Banque Ivoirienne de Developpement. We would appreciate your reviewing it and returning by June 14, 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 format and content of the memorandum approved by you last year.

When this memorandum on Banque Ivoirienne de Developpement is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B. H. Shin
Development Finance Companies

Enclosures

cc: Mr. Sekse (with draft descriptive memorandum)

BHShin: er
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: William Diamond

DATE: May 13, 1968

SUBJECT: Morocco: Reply to Memorandum from Mr. Tazi

Attached for your consideration is the memorandum you requested, replying to Mr. Tazi's memorandum of April 29. Your proposed reply is, in effect, a condensed paraphrase of part of Operational Memorandum No. 5.11, on development finance companies.

You have also asked for a note on Mr. Tazi's question, "why the Bank prefers BNDE to a government agency for financing tourism". It is being drafted in consultation with the Bank.

cc: Messrs. Knapp
    Rosen
    Lejeune
    Chadenet

WDiamond/jm
May 13, 1968

Morocco: Reply to Memorandum from Mr. Tazi

Attached for your consideration is the memorandum you requested, replying to Mr. Tazi's memorandum of April 29. Your proposed reply is, in effect, a condensed paraphrase of part of Operational Memorandum No. 5.11, on development finance companies.

You have also asked for a note on Mr. Tazi's question, "why the Bank prefers BMDE to a government agency for financing tourism". It is being drafted in consultation with the Bank.

cc: Messrs. Knapp
    Rosen
    Lejeune
    Chadenet

WDiamond/Jm
May 10, 1968

Mr. Vincente R. Jayme
Executive Vice President
Private Development Corporation
of the Philippines
CBTC Building
Ayala Avenue
Makati, Rizal
Manila, Philippines

Dear Mr. Jayme:

Again this year we have decided 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 Private Development Corporation of the Philippines. We would appreciate your reviewing it and returning by June 10 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 format and content of the memorandum approved by you last year.

When this memorandum on Private Development Corporation of the Philippines is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B. H. Shin
Development Finance Companies

Enclosures:
cc: Mr. Powell (with draft descriptive memorandum)
BShin: cr
May 9, 1968

Dr. Wilhelm Teufenstein
Generaldirektor - Stellv. und Vorstandsmitglied der
Oesterreichische Investitionskredit Aktiengesellschaft
Am Hof 14
Vienna 1, Austria

Dear Dr. Teufenstein:

I am glad to enclose two copies of a final version of the descriptive memorandum on the Oesterreichische Investitionskredit Aktiengesellschaft which you kindly revised and sent us under your letter to Mr. Jeffries of April 5, 1968.

We are at present preparing a series of descriptive memoranda on other development finance companies with which the World Bank Group is associated and will be sending you one copy of each when they become available.

Yours sincerely,

B. H. Shin
Development Finance Companies.

cc: Mr. D. W. Jeffries

BHShin: er
Dear Mr. Tempelstine:

I am glad to enclose two copies of a letter written on the subject of the December conference on universal freedoms, which you kindly conveyed to me when you last visited here. I regret to let you know that April 5, 1940.

You may be interested in a series of broadcasting addresses on world peace taking place over the North Bank Group at 3 a.m. each evening. They are conducted by Mr. R. Smith and are of great interest to us here. Your views on this change in procedure are appreciated.

Yours sincerely,

S. R. Smith

Development Finance Conference.

cc: Mr. D. W. Gellie

Reference: 28
May 7, 1968

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

Dear Mr. Shin:

We acknowledge with deep appreciation your kindness in furnishing us a copy of the amendment to the policies of Turkiye Sinai Kalkinma Bankasi A. S. We find the amendment of great interest and value.

To some extent, the developments in the Turkish economy, as reflected in the amendment to the policies of Turkiye Sinai Kalkinma Bankasi A. S., has some similarities in our country.

Very sincerely yours,

NARCISO A. FERRER
Assistant Vice President

NAF: evk
May 7, 1968

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

Dear Mr. Shin:

We acknowledge with deep appreciation your kindness in furnishing us a copy of the arrangement to
the policies of the Turkish State Karlikka Bankasi A.S.

We find the arrangement of great interest and value.

To some extent, the developments in the Turkish economy, as reflected in the arrangement of the policies
of Turkish State Karlikka Bankasi A.S., have some similar

ties in our country.

Very sincerely yours,

[Signature]

Narciso A. Perez
Assistant Vice President

1968 MAY 13 PM 2:24

Communications

REFERENCES
May 3, 1968

Mr. Resid Egeli  
General Manager  
Türkiye Sinai Kalkınma Bankası A.S.  
Necati Bey Caddesi 241-247  
Tophane  
İstanbul, Turkey

Dear Mr. Egeli:

Again this year we have decided 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 Türkiye Sinai Kalkınma Bankası A.S. We would appreciate your reviewing it and returning by the end of May one copy to us with any corrections and comments you would care to make. Also, we would be grateful if you fill in blanks on page 6, 7 and 8. 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 format and content of the memorandum approved by you last year.

When this memorandum on Türkiye Sinai Kalkınma Bankası A.S. is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

[Signature]

B.H. Shin  
Development Finance Companies

cc: Mr. D. W. Jeffries (with draft descriptive memorandum)

BHShin : er
Mr. Martin M. Rosen

William Diamond

GHANA - National Investment Bank

May 3, 1968

SIC decided at its meeting on April 15 in favor of going ahead with assistance in the reorganization of NIB. It recognized that the proposed institution would have to have the ability to finance some Government-owned and -operated businesses, but that adequate limits should be set on such financing, so that NIB retained the character of an institution aimed primarily at financing the private sector. SIC considered specially important the need for strengthening NIB's management.

Assisting such an institution would not be inconsistent with Bank Group policy. In Morocco, for instance, the Bank decided, in substance (see Side Letter to Loan Agreement from BMDE, dated December 21, 1962 attached) that while the proceeds of Bank Loan could not normally be used for financing Government enterprises, exceptions could be made with the Bank's agreement.

In the peculiar circumstances of Ghana, the following limits on NIB's financing of Government enterprises would be appropriate:

a) It should not finance new Government enterprises.
b) It should finance only those existing Government enterprises for which there is an agreed and reasonable timetable for privatization and which pass the test of economic, financial and managerial soundness.
c) This activity should cease at the end of 3-5 years.
d) It should be limited in amount to, say, N$1 million a year.

With these limitations, and with prior Bank approval whenever Bank funds are included, resources provided by the Group should be available to finance Government enterprises.

The amount of the Company's share capital should be smaller than proposed N$ ($) 6 million but consistent with needs for the next few years. I think N$ ($) 3 million is about right.

As you will see in the attachments, this would involve an IFC investment of about $650 - 750,000, and new foreign investment of about N$ ($) 650,000. I would hope we could help NIB get this amount, if the reorganization is one which we could ourselves support and leads to an IFC investment.
A proposal meeting the above specifications should be sent to the Ghanaians. This should be followed up by a meeting here, if the Ghanaians show interest.

Attached is a draft of a letter I would send to Mr. Gyampoh. A copy would go to the Government, via Brigadier Afrifa.

Attachments

Mr. El Emary
cc: Mr. Pollan
  Circ. (3)

PMathew/WDiamond/bda
BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE

December 21, 1962

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Re: Eligibility of Investment Projects

Gentlemen:

Referring to Section 3.01 of the Loan Agreement of even date herewith between us, we confirm that, except as shall be otherwise agreed between you and us, the proceeds of the Loan shall not be used by us to make credits or other investments in government-controlled industrial enterprises. For the purpose of this letter, the term "government-controlled enterprise" means (a) any corporation of which a majority of the outstanding voting stock is owned by the Government of Morocco or any of its agencies, and (b) any corporation of which a majority of the outstanding voting stock is owned, directly or indirectly, by any corporation referred to in the foregoing clause (a); and the term "industrial" means processing, fabricating or assembling.

Reference is also made to Section 3.02 of the Loan Agreement. We hereby request your agreement that we shall be entitled to withdraw from the Loan Account amounts on account of expenditures made for investment projects for which contracts were signed by us after May 15, 1962 to be submitted to, and approved by you, all in accordance with the provisions of the Loan Agreement.

Please indicate your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE

Confirmed:

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By

President
CROSS REFERENCE SHEET

COMMUNICATION: Memo
DATED: May 3, 1968
TO: Mr. Evans

FROM: Mr. Chadenet

FILED UNDER: P&S- Agriculture

SUMMARY: Re: Agricultural Development Banks
Mr. Poore

May 3, 1968

Leopoldo Cancio

Development Finance Companies

I have recently been assigned the special project of Development Finance Companies for the Legal Department, and would appreciate your making arrangements for my name to be on the routing list of the monthly list "Summary of Operations - Development Finance Companies" which is sent out by Mr. Metherate.
May 1, 1968

Sr. Don Jose Maria Marzo Churuca  
Director General  
Banco del Desarrollo Economico Espanol  
Apartado de Correos 50460  
Principe 12  
Madrid, Spain

Dear Mr. Marzo:

Again this year we have decided 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 Banco del Desarrollo Economico Espanol. We would appreciate your reviewing it and returning by the end of May 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 format and content of the memorandum approved by you last year.

When this memorandum on Banco del Desarrollo Economico Espanol is completed, we will send you two copies of it. If you would like to have extra copies, please let us know how many.

Yours sincerely,

B. K. Shin  
Development Finance Companies.

cc: Mr. D. W. Jeffries (with draft descriptive memorandum)

BHShin : er
Cali, Abril 30 de 1968

Señor Doctor
Karl Georg Gabriel
1818 H. Street, N. W.
Washington D. C. 20433
U. S. A.

Muy apreciado doctor Gabriel:

A mi regreso de Bogotá, en donde permanecí por algo más de una semana como participante en la Reunión de Gobernadores del Banco Interamericano de Desarrollo, encontré el gentilísimo obsequio que usted me había prometido, un ejemplar de la obra "The New Industrial State" del profesor John Kenneth Galbraith.

Quiero agradecerle este valioso presente y anoche empecé a leerlo encontrando muy apasionantes los distintos temas iniciales.

Mientras tengo el gusto de saludarlo en Washington, reciba un cálido saludo de su afectísimo amigo.

Benjamín Martínez Moriones
Presidente
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<td>Mr. Worthington 252</td>
</tr>
<tr>
<td>Mr. Kanarck 800</td>
<td>Mr. Knapp 1220</td>
</tr>
</tbody>
</table>

From: Communications Unit, Room 244, Extension 2023
We talked. Mr. McNamara would be grateful to you for a very short reply to Mr. Tazi for Mr. McNamara's signature. Paragraph 2 of attached refers especially to Afghanistan where Mr. Tazi feels we missed an opportunity.

You were good enough to promise a note—no rush—on why the Bank prefers BNDE to a government agency for financing tourism.
We talked. Mr. McNamara would be grateful to you for a very short reply to Mr. Tazi for Mr. McNamara's signature. Paragraph 2 of attached refers especially to Afghanistan where Mr. Tazi feels we missed an opportunity.

You were good enough to promise a note—no rush—on why the Bank prefers BNDE to a government agency for financing tourism.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Abderrahman Tazi

DATE: April 29, 1968
SUBJECT: Industrial Development Banks -

I would appreciate it greatly if the Bank management would enlighten me about the principles and criteria followed by it in the promotion and support of industrial development finance companies in member countries.

I am particularly interested in it as in some of my constituent countries there is a feeling that their case for Bank support in the establishment of industrial finance companies is not receiving adequate recognition.

I would appreciate if I could be provided with an opportunity to discuss this matter with you at your convenience.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: G. D. Woods  
SUBJECT: Development Finance Companies

DATE: April 26, 1968

Apropos of our discussion on development finance companies and the Bank operating philosophy in countries where private investor claims for compensation exist, I attach a memorandum dated September 3, 1963 which Mr. Broches prepared for me at that time.

Attachment

President has seen
OFFICE MEMORANDUM

TO: Mr. George D. Woods
FROM: A. Broches
SUBJECT: The Bank’s Articles of Agreement and Private Enterprise

DATE: September 3, 1963

You have asked me to what extent the Articles of Agreement of the Bank contain any guidance with respect to Bank promotion of private enterprise.

The answer to this question is that the drafters of the Bank’s charter appear to have focused on the objectives to be achieved, namely the reconstruction and development of territories of members, without paying much attention to the question whether this process should take place within the public or the private sector. While the Articles assign great importance to private foreign investment, they appear to look at such investment as the source of funds for reconstruction and development projects, whether public or private. This is the way in which I read paragraph (ii) of the Bank’s purposes:

"To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources."

In fact, I dare say that in thinking of private foreign capital the drafters had uppermost in mind investment in bonds issued by governments in foreign capital markets.

The primary role assigned to private investment as a source of funds to finance reconstruction and development is also evidenced by the provision of Article III, Section 4(ii), which requires the Bank, before making or guaranteeing a loan, to satisfy itself that "in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower."

In listing eligible borrowers other than member governments, Article III, Section 4, mentions political subdivisions of member countries, and business, industrial and agricultural enterprises within their territories, without making a distinction between public and private enterprises. The guarantee requirement imposed by that Section applies equally to all borrowers other than member governments, whether they be public institutions or private enterprises..

..../..
Thus, the Articles express no view on the relative importance of, and relationships between, the public and private sectors of the economy and they leave the Bank free to determine which types of loans are most likely to encourage "the development of productive facilities and resources in less developed countries" (Article I (i)) and which projects deserve priority as being "the more useful and urgent projects" (Article I (iv)). The only limitation placed upon the exercise of discretion by the Executive Directors and the President of the Bank is that they may not be "influenced in their decisions by the political character of the member or members concerned" and that "only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I" (Article IV, Section 10).

There is attached hereto the full text of Article I, Article III, Section 4 and Article IV, Section 10 of the Bank's Articles of Agreement.

cc. Mr. Knapp
Mr. Wilson
ARTICLE I

Purposes

The purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.
ARTICLE III

Section 4. Conditions on which the Bank may guarantee or make loans

The Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:

(i) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.
ARTICLE IV

Section 10. Political activity prohibited

The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.
April 26, 1968

Mr. P. K. Teo
Assistant General Manager
United Overseas Bank, Limited
2, Chulia Street
Singapore 1
Singapore

Dear Mr. Teo:

Thank you for your letter of April 19, 1968 to Mr. Rosen. I am glad that you found Mr. Rosen's address to the Seminar on International Development of such interest. As requested, I am pleased to enclose further information on our approach to development finance companies.

Very truly yours,

D. W. Jeffries
Development Finance Companies

Enclosures

cc: Circ. (3)
DJeffries:tk
25th April, 1968.

Mr. James S. Raj,
Vice President,
International Finance Corporation,
Washington D.C. 20433,
UNITED STATES OF AMERICA.

Dear Mr. Raj,

I have been asked to acknowledge receipt of your letter of February 23, 1968, by Tun Tan Siew Sin. I have also been asked to thank you for your good wishes to him and his family and in return, to wish you the same.

2. I have been asked to thank you for the trouble you have taken to send the notes attached to your letter, outlining the various methods by which Ceylon, Republic of China, Israel and other countries are using to underwrite the foreign exchange risk on foreign exchange loans to the development Banks of these countries. These methods are being studied in the Treasury and the Central Bank will be consulted to see what is the best possible way for Malaysia. You can be assured that the assistance given by you is much appreciated and in course of time will, no doubt, bear concrete results.

3. Once again, I have been asked to thank you for your letter and the attached notes.

Yours faithfully,

(WONG Yoke Meng)
Finance Division,
for Permanent Secretary to the Treasury.
April 23, 1968

Mr. Andrew M. Kamarck

Charles G. Goor
Regional development banks

Attached, as requested, is the statement to the Board informing the Directors of the arrangements completed with the regional development banks on the statistical cooperation for the collection and processing of external public debt data.

cc: Mr. Stevenson
    Mr. Tiemann

CGG:sa
FROM: The Secretary

REPORT ON STATISTICAL COOPERATION BETWEEN THE BANK
AND THE REGIONAL DEVELOPMENT BANK

Since 1951 the Bank has collected detailed information on individual
transactions of external medium and long-term public debt from debtor countries
and processed these data into suitable summaries. As the same information
is needed by the regional development banks for their member countries, these
banks would, of necessity, have to duplicate our collection and processing
system to obtain the data themselves. To avoid this duplication, eliminate
the possible burden on the member countries of double reporting, and share
the benefits of its established organization and experience in this statisti-
cal collection of data, the Bank proposed and negotiated arrangements with
each of the three regional banks whereby the Bank would collect and process
the external debt data on a joint basis.

This arrangement has been in effect with the Inter-American Development
Bank since 1962 and recently became effective with the African Development
Bank and the Asian Development Bank. The collection system was developed in,
and is maintained by, the Economics Department and all of the work of process-
ing the data is done in that Department. The final products for each of
their member countries are sent to the regional development banks as they are
prepared.

Provision is made for the cooperation of each organization in obtaining
regular reports on external debt from its members on the standard forms used
by the Bank, in the improvement of the basic data and in encouraging compliance
with basic reporting requirements. Whenever possible, all data on external
debt obtained from other sources will be deposited by the participating
organizations in the Bank's central set of records.

The Bank's staff will perform the processing operations on the data
and produce statistical tables similar to those now prepared by the Bank.
For this purpose, the Bank will provide adequate staff and arrange for the
necessary procedures and facilities to handle the processing. Other provisions
refer to distribution and publication of the data, working arrangements and
channels of communications between each organization and the Bank and the
preparation of special tabulations.

Each regional development bank has agreed to pay the Bank a stipulated
fee for the services performed in connection with this operation. In addition
each regional bank will pay for the extra costs of any special tabulations or
studies it may request. Any of the organizations may initiate review of, or modification and changes, in the arrangement at the end of a calendar year and may cancel the arrangement with a minimum of 12 months' notice in writing.

As a result of these arrangements, each reporting member country of the regional banks makes out a single set of reports which satisfies the needs of both the regional banks and the Bank. This saves work and effort and insures the collection of a single set of figures for each country. The Bank by its central processing eliminates duplication of effort in this operation and prepares the basic set of tables for each country.

Prepared by: Economics Department

April 23, 1968
April 22, 1968

Mr. Rosen's Question:

Have we made the case that BNDE is unacceptable as a Bank borrower because of its low gross return?

Yes, I think so. But the table needs some qualification and amplification to make it. The gross returns there given are based on past operations while, in considering Bank lending, we should be more interested in the returns from current and future operations. In simplified form, this can be indicated by deducting administrative expenses from the current lending rate of the institution. Taking the 8 "unsatisfactory" dfc-s, the following picture emerges:

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<th>Lending Rate</th>
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<th>Gross Return on New Operations</th>
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<tr>
<td>1. NIDB</td>
<td>8.5</td>
<td>2.8</td>
<td>5.7</td>
</tr>
<tr>
<td>2. BIDI</td>
<td>7.25</td>
<td>3.05</td>
<td>4.2</td>
</tr>
<tr>
<td>3. SNI</td>
<td>8.25</td>
<td>2.02</td>
<td>6.23</td>
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<tr>
<td>4. LBIDI</td>
<td>8.0</td>
<td>2.7</td>
<td>5.3</td>
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<tr>
<td>5. MIDF</td>
<td>8.5</td>
<td>1.61</td>
<td>6.89</td>
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<tr>
<td>6. ENDE</td>
<td>7.0</td>
<td>1.28</td>
<td>5.72</td>
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<td>9.25</td>
<td>1.1</td>
<td>8.15</td>
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<td>8. IFCT</td>
<td>8.75</td>
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<td>6.25</td>
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SNI, MIDF, DFCC, and IFCT all pass the test of a return of 6.25% or more on this basis (although SNI and IFCT just barely so).

Alongside BNDE, NIDB, BIDI and LBIDI do not pass it.

Would We Lend to NIDB?

That is indeed an open question. Its high administrative costs may indicate an inefficient operation (although allowance must be made for its relative youth - 4 years old). Its large losses in 1967 (6.3% of average total assets) are rather exceptional. If continued large losses are expected, this is another indicator of an inefficient outfit and, unless it could be adequately strengthened, we probably would not recommend a Bank loan to NIDB.

Would We Lend to BIDI?

We could not lend to BIDI at the current rate of 6.25% because (a) BIDI would price itself out of business if it increased its lending rate to 8% or 9%, as would be necessary; and (b) BIDI is operating in a traditional low-interest economy (as Morocco) and has, at least for the time being, access to all the low-cost resources it needs from home and abroad (unlike Morocco). As in the case of NIDB, BIDI's high administrative costs indicate an inefficient operation (with the same allowance for youth as for NIDB), but we hope it will improve, although slowly. A Bank
loan to BIDI could only be justified if the low-cost, long-term, resources in the Ivory Coast dried out, in which case BIDI could set a higher lending rate for its loans.

Would We Lend to LBIDI?

Probably not. The comments about inefficiency made for NIDB and BIDI (as related to high administrative costs) also apply to LBIDI, and it may not only be a question of increasing its lending rate in order to bring the gross return to 6.25%, but also of improving the institution's efficiency in handling its resources.

In other words, if we consider the outlook for a satisfactory gross return in dcf-s which are candidates for Bank loans, BNDE stands out as one that does not qualify.

A further element is the need for loss coverage in each of the cases in point, which should be considered an additional expense in the handling of resources, and will hence affect the gross return. In BNDE's case, our judgment is that considerable protective reserves against losses are necessary.

ESekse:amm
Mr. Diamond

Do you think this makes the case to support you thesis?

Mr. Seke / Mr. Boyd

A good question. What are your (Boyd's) views?

L.D.
### DEVELOPMENT FINANCE COMPANIES: COMPARISON OF RETURNS

#### Percentages

<table>
<thead>
<tr>
<th>D.F.C.</th>
<th>Fiscal Year</th>
<th>Year of Operation</th>
<th>Gross Return</th>
<th>Profit Before Tax to Average Net Worth</th>
<th>Profit After Tax to Share Capital</th>
<th>Long-Term Lending Rate</th>
<th>Spread Between IBRD Lending Rate (6.25%) and DFC Lending Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIDB (Nigeria)</td>
<td>1967</td>
<td>4th</td>
<td>-2.5</td>
<td>-5.7</td>
<td>-6.4</td>
<td>8.5</td>
<td>2.25</td>
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<tr>
<td>BIDH (Ivory Coast)</td>
<td>1966/67</td>
<td>3rd</td>
<td>-2.18</td>
<td>-5.96</td>
<td>6.14</td>
<td>8.25</td>
<td>2.00</td>
</tr>
<tr>
<td>SNI (Tunisia)</td>
<td>1967</td>
<td>3rd</td>
<td>2.98</td>
<td>5.23</td>
<td>8.35</td>
<td>8.50</td>
<td>2.25</td>
</tr>
<tr>
<td>LHID (Liberia)</td>
<td>1967</td>
<td>3rd</td>
<td>-3.1</td>
<td>-5.3</td>
<td>6.0</td>
<td>8.0</td>
<td>0.75</td>
</tr>
<tr>
<td>MDF (Malaysia)</td>
<td>1966/67</td>
<td>5th</td>
<td>4.95</td>
<td>11.0</td>
<td>4.80</td>
<td>8.70</td>
<td>7.00</td>
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<tr>
<td>BNDE (Morocco)</td>
<td>1967</td>
<td>9th</td>
<td>-0.1</td>
<td>9.68</td>
<td>8.70</td>
<td>7.00</td>
<td>0.75</td>
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<tr>
<td>DPCG (Ceylon)</td>
<td>1966/67</td>
<td>11th</td>
<td>5.1</td>
<td>18.0</td>
<td>12.6</td>
<td>9.25</td>
<td>3.00</td>
</tr>
<tr>
<td>IFCT (Thailand)</td>
<td>1967</td>
<td>8th</td>
<td>-5.5</td>
<td>11.9</td>
<td>12.3</td>
<td>8.75</td>
<td>2.50</td>
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<tr>
<td>IVK (Austria)</td>
<td>1966</td>
<td>12th</td>
<td>-3.6</td>
<td>20.7</td>
<td>33.1</td>
<td>8.50</td>
<td></td>
</tr>
<tr>
<td>Colombiana (Colombia)</td>
<td>1967</td>
<td>7th</td>
<td>-6.7</td>
<td>11.0</td>
<td>12.0</td>
<td>12-14 1/2</td>
<td></td>
</tr>
<tr>
<td>Norte (Colombia)</td>
<td>1967</td>
<td>4th</td>
<td>-6.7</td>
<td>13.5</td>
<td>10.7</td>
<td>12-14 1/2</td>
<td></td>
</tr>
<tr>
<td>IGICI (India)</td>
<td>1967</td>
<td>13th</td>
<td>-6.8</td>
<td>25.5</td>
<td>18.6</td>
<td>8.5</td>
<td>2.25</td>
</tr>
<tr>
<td>IMRDI (Iran)</td>
<td>1966/67</td>
<td>7th</td>
<td>-6.8</td>
<td>23.4</td>
<td>16.9</td>
<td>8.0</td>
<td>1.75</td>
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<tr>
<td>CAVENDES (Venezuela)</td>
<td>1967</td>
<td>4th</td>
<td>-6.8</td>
<td>7.7</td>
<td>6.3</td>
<td>10-11 1/2</td>
<td>10/</td>
</tr>
<tr>
<td>NTHED (Greece)</td>
<td>1967</td>
<td>4th</td>
<td>-6.80</td>
<td>6.61</td>
<td>5.9</td>
<td>8-10</td>
<td>1.75-3.75</td>
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<tr>
<td>BANDESCO (Spain)</td>
<td>1967</td>
<td>5th</td>
<td>-6.97</td>
<td>20.0</td>
<td>15.3</td>
<td>7.25</td>
<td>11/</td>
</tr>
<tr>
<td>CALDAS (Colombia)</td>
<td>1967</td>
<td>6th</td>
<td>-7.4</td>
<td>12.1</td>
<td>12.0</td>
<td>12-14 1/2</td>
<td>9/</td>
</tr>
<tr>
<td>IFP (Finland)</td>
<td>1967</td>
<td>5th</td>
<td>-7.65</td>
<td>26.7</td>
<td>18.4</td>
<td>8.50</td>
<td>2.25</td>
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<tr>
<td>IDFI (Israel)</td>
<td>1966</td>
<td>9th</td>
<td>-7.86</td>
<td>9.92</td>
<td>6.35</td>
<td>8.00</td>
<td>1.75</td>
</tr>
<tr>
<td>TSKR (Turkey)</td>
<td>1967</td>
<td>17th</td>
<td>-8.13</td>
<td>27.6</td>
<td>31.7</td>
<td>8.75</td>
<td>2.50</td>
</tr>
<tr>
<td>PICIC (Pakistan)</td>
<td>1967</td>
<td>10th</td>
<td>-8.37</td>
<td>28.17</td>
<td>34.18</td>
<td>8.00</td>
<td>1.75</td>
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<tr>
<td>NACIONAL (Colombia)</td>
<td>1967</td>
<td>9th</td>
<td>-8.4</td>
<td>17.1</td>
<td>16.7</td>
<td>12-14 1/2</td>
<td>9/</td>
</tr>
<tr>
<td>PDIP (Philippines)</td>
<td>1967</td>
<td>5th</td>
<td>-8.5</td>
<td>18.8</td>
<td>17.0</td>
<td>10.50</td>
<td>4.25</td>
</tr>
<tr>
<td>CDX (China)</td>
<td>1967</td>
<td>5th</td>
<td>-8.5</td>
<td>25.3</td>
<td>28.6</td>
<td>9.0</td>
<td>2.75</td>
</tr>
<tr>
<td>VALLE (Colombia)</td>
<td>1967</td>
<td>6th</td>
<td>-9.3</td>
<td>19.6</td>
<td>16.0</td>
<td>12-14 1/2</td>
<td>9/</td>
</tr>
<tr>
<td>KDPC (Korea)</td>
<td>(new)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10.25</td>
<td>4.00</td>
</tr>
</tbody>
</table>

1/ Gross income minus administrative expenses and losses in fiscal year, as percentage of average total assets.
3/ Reflects low-interest economy, large amounts of short-term investments, and high administrative costs. Trend: Increasing.
4/ Reflects large amounts of low-yielding short-term and equity investments and relatively high administrative costs. Trend: Increasing to satisfactory level.
5/ Reflects lack of investment possibilities, high administrative costs, and large short-term investments. Trend: Increasing.
6/ Reflects substantial short-term investments, relatively high administrative costs, and little new activity. Trend: Increasing to satisfactory level.
7/ Reflects historical low-interest economy. Trend: Increasing to satisfactory level.
8/ Reflects high administrative costs and substantial short-term investments. Trend: Increasing to satisfactory level.
9/ Actual cost to the Colombian financieras of the IBRD loan (through Banco de la Republica) is 9%, so their spread is 3-5 1/2%.
10/ CAVENDES borrows from IFC at 8%, which leaves it a spread of 2-3 1/2%.
11/ BANDESCO raises funds from local bond issues at 4.75%, thus retaining a spread of 2.5%.
<table>
<thead>
<tr>
<th>Year of Investment</th>
<th>IFC Investment</th>
<th>Bogota</th>
<th>Medellin</th>
<th>Caldas</th>
<th>CFC</th>
<th>GEN</th>
<th>OF</th>
<th>IFP</th>
<th>NIBD</th>
<th>BID</th>
<th>KOPG</th>
<th>LEBDI</th>
<th>MIFD</th>
<th>IFID</th>
<th>NIDB</th>
<th>FICIO</th>
<th>PDGP</th>
<th>BANDES</th>
<th>COIF</th>
<th>SNI</th>
<th>TSKB</th>
<th>CAYENDES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>2.02</td>
<td>2.04</td>
<td>0.72</td>
<td>0.16</td>
<td>0.75</td>
<td>0.20</td>
<td>0.79</td>
<td>0.75</td>
<td>0.82</td>
<td>1.50</td>
<td>1.46</td>
<td>0.21</td>
<td>0.29</td>
<td>0.19</td>
<td>0.58</td>
<td>0.92</td>
<td>3.38</td>
<td>1.34</td>
<td>7.5</td>
<td>15.67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Associated Financing**

| Share Capital | 4.12 | 3.43 | 0.94 | 1.57 | 3.20 | 2.63 | 4.30 | 1.75 | 1.67 | 0.50 | 2.89 | 6.20 | 3.21 | 3.21 | 0.96 | 0.23 | 0.61 | 1.91 | 6.91 |
| Quasi-equity | -    | -    | -    | 2.81 | 5.13 | 7.50 | 1.00 | 12.50 | 4.00 | 5.6  | -    | 7.05 | -    | -    | 0.96 | -    | -    | -    | -    | -    | 13.07 |
| Loans:          |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       | 6.52 |
| Domestic public loan financing | 1.16 | -    | 1.72 | -    | -    | -    | -    | -    | -    | 0.50 | -    | -    | -    | -    | -    | -    | 2.75 | -    | -    | 3.58 |
| Domestic private loan financing | 2.92 | 0.44 | -    | 2.35 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | 2.35 | -    | -    | 2.57 |
| Gov't. Foreign loan financing | -    | -    | -    | 5.00 | 5.00 | 2.50 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | 2.57 |
| Foreign private loan financing | 0.68 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Loans from International Agencies | 0.55 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| IBRD Loan       | -    | -    | -    | 7.00 | -    | 5.00 | -    | 5.00 | 15.00 | -    | 15.00 | -    | 2.50 | 5.00 | -    | -    | -    | -    | -    | -    | -    |
| Total Associated Financing | 12.76 | 7.95 | 0.94 | 15.48 | 2.38 | 12.70 | 21.80 | 6.25 | 22.17 | 20.00 | 8.14 | 1.06 | 28.35 | 3.21 | 3.21 | 7.17 | 5.23 | 2.61 | 1.91 | 13.65 | -    | 19.60 |
| Ratio of Associated Financing to IFC Investment | 6.31 | 3.94 | 0.71 | 1.31 | 9.65 | 6.52 | 12.11 | 17.03 | 27.03 | 13.31 | 5.39 | 3.74 | 13.81 | 11.21 | 11.21 | 37.71 | 9.01 | 0.71 | 5.61 | 10.01 | 12.25 |

1. In the form of share capital or later converted to share capital except in the case of CAYENDES.
2. 7.5 million, 1967, which is a loan.

**Note 1:** Associated financing has been taken to mean:
(a) Financing provided by others including IBRD loans between the time of the IFC commitment and its final disbursement but excluding financing in this period to which even a distant consequential effect could not be attributed; and
(b) Financing outside the above period if it is known to have been part of a package including the IFC investment or consequential to it.

**Note 2:** For computing the period referred to in Note 1, the nearest dates for which figures are available have been taken.

**Note 3:** In the case of IBRD loans and foreign government loans, the amount of the loan granted is included. In the case of other loans, what is usually included is the figure for loan outstanding in the balance sheet, since it is not practical without considerable research to ascertain the amount of the loans granted.

**Note 4:** See "Notes on Companies" for explanations of figures for each company.

**Note 5:** The limitations of the criteria mentioned in Note 1, and absence of exact comparability between some of the figures used indicate the need for caution in drawing conclusions from the Table.
NOTES ON COMPANIES

CFC - Bogota - The period to which the figures relate is June 30, 1961 (our commitment) till December 31, 1962 (a date close to our last disbursement).

CFN - Medellin - The period to which the figures relate is June 30, 1961 till June 30, 1963 (a date close to our last disbursement).


Credit is taken for the entire additional share capital paid in during 1964 since this increase was clearly foreseen as a consequence of the IFC investment. However, credit is not taken for the new loans raised during the year since they were not clearly foreseen.

IFF - The entire package of financing of which the IFC investment was a part is included.

NIBID - The share capital increase which accompanied the IFC investment is included.

BIDI, KDFC, LBIDI, MIDF, BNDE, NIDB - The entire package of financing of which the IFC investment was a part is included.

PICIO - The share capital increase which accompanied the IFC investment is included.

PICOP - The entire package of financing of which the IFC investment was a part is included.

BANDESCO - 1963, 1965 - The share capital increase which accompanied the IFC investment is included.

IFCT - The entire package of financing of which the IFC investment was a part is included.

SNI - Only the foreign exchange inflow which accompanied the IFC investment is included.

TSIB - 1963, 1967 - The share capital increase which accompanied the IFC investment is included.

CAVENDES - 1963 - The period to which the figures relate is January 1, 1964 (the date on which CAVENDES started operations after receiving the first installment of the IFC investment) till June 30, 1965 (a date close to our last disbursement). The entire package of financing of which ours was a part is included.
Mr. Martin M. Rosen,
Executive Vice President,
The International Finance Corpn.,
1818 H Street, N.W.
Washington D.C.

Dear Mr. Rosen,

It afforded us no small amount of pleasure to closely study your very educative address to the Seminar on International Development sponsored by York University School of Business at Toronto on November 7, 1967.

We are particularly interested in your observations on Development Institutions, more so because the Singapore Government envisages opening a Development bank here shortly.

Perhaps you have a manual setting out the exact functions carried out by such institutions and how these are conducted. If so, we would greatly appreciate your letting us have a copy of such manual for our reference and study.

Many thanks.

Sincerely yours,

P. K. Teo
Assistant General Manager.

PKT/SL
16th April, 1968

Dear Mr. Rosen,

It affords us no small amount of pleasure to close this study your very executive address to the Seminar on International Development, sponsored by the University School of Business at Toronto on November 9, 1967. We are particularly interested in your presentation on Development Institutions, more so because the Singapore Government envisions opening a Development Bank shortly. Perhaps you have a human setting out the exact functions carried out by such institutions and you please use opportunity to explain these.

I appreciate your letter and have a copy of such material for our reference and study.

Many thanks.

Sincerely yours,

P. K. Teo
Assistant General Manager.

UNITED OVERSEAS BANK LIMITED

HEAD OFFICE
2, CHIJLA STREET
SINGAPORE 1

1968 APR 25 AM 8:22
COMMUNICATIONS
GENERAL FILES
REFERENCE

PKT/ST
Mr. Einar Sekse

J. G. Boyd

Justification of the Gross Rate of Return Formula as Applied to DFCs

April 18, 1968

I think in our discussions about the gross rate of return formula as applied to the operations of DFCs in your recent table, we both agreed that it was one relatively effective way of measuring the efficiency of DFCs, but that it only tells part of the story. A better global view could be obtained if it were possible to combine it with some other business-like measurement which would encompass the whole network of what might be termed "the business as a whole".

(a) The Utility of the Gross Rate of Return Ratio

The gross rate of return based on an "average total assets" ratio falls within the family of ratios which are increasingly used in businesses of all kinds as a measurement of the management's optimum use of funds. Instead of looking at the pre-tax or post-tax profit ratios, however, in this instance we are trying to get a view of the gross financial return on the average total assets in a financial year after only deductions for administration and losses (provisions, writeoffs, capital losses, etc.). The deductions for direct financial costs (e.g. interest and other charges paid on borrowings, dividends paid on equity) have not been made under this formula, so that the percentage gross return on the average of all these funds can be seen on a comparative basis in a general relationship to the financial returns currently obtaining the investment of long-term capital of all kinds in world capital markets. Its use is in fact in line with the Bank's Operational Memorandum No. 5.06 (paragraphs 12-14 especially). In the case of all DFCs associated with the Bank Group, for instance, the returns expected by bondholders on IBRD bonds is important, as well as the return obtained by IBRD on relending these funds to DFCs. Since IBRD funds derived from the U.S. and European bond markets form a major and increasing element in the funds resources of these DFCs, a gross rate of return on average total assets which is less than in current interest rates on IBRD bonds or IBRD lending rates points out a situation of either existing or potential weakness in the financial returns being obtained by a DFC. Of course a more accurate comparison could be made of the "point-in-time" situation by relating the gross rate of return of the DFC to such other ratios as:

(i) the direct financial cost of the DFC's borrowings of IBRD funds as a percentage of average borrowings outstanding during the year;

(ii) the same ratios for other major borrowings of the DFC from other sources;

(iii) the dividends paid by the DFC on share capital.

In a general sense, this gross rate of return ratio provides a useful broad brush yardstick of financial return in terms of something like the opportunity cost of capital. It could of course be further refined by introducing such elements as present value, etc., but this does not appear necessary in a general comparative approach of this kind.
Referring to the specific use in your table, however, I think a useful comparison could have been added by including a column giving the profit before tax as a percentage of average total assets. A comparison of the gross rate of return and the profit before tax rate of return on average total assets would show the impact of financial charges on the DFC (i.e., the gross return rate less the financial costs rate). Another comparison obtained from this would be that between the profit before tax on average total assets and on average net worth (equity). This gives the "leverage factor" involved in the DFC's structure (i.e. Profit as % of Average Net Worth = Total Debt / Leverage Factor). Profit as % of Average Total Assets / Equity

A column giving the Leverage Factor in each case would be a useful and significant addition.

(b) The Limitation of this Ratio

The principal limitation of the gross return formula applied to the DFCs is that it is only a partial measurement of what we ought to know. The question has yet to be asked "what is the business? What is the unit we are looking at? Is this a measurement of the total business unit? Or, in Bank terminology, is this a measurement of the total project or program for which funds have been lent?"

The answer is of course, that it is not. It is only a partial measurement of the business, albeit an important element — the DFC. It does not measure the efficiency of the business (or program) as a whole, which includes the sub-projects which the DFC has financed. If the "whole business" of providing finance to productive enterprises through the intermediary DFC is to be measured on a basis of efficiency measured by return on funds employed, another ratio is needed to measure the returns obtained in the enterprises financed by the DFC. In a well run DFC which valued this measurement and had set up a reporting system with the sub-projects, this might be quite an easy measurement to make, but I suspect that few DFCs have done this or have been able to do this. If such information were available, however, a number of ratios could be candidates for measurement, although I doubt whether the gross rate of return formula is the best. My own preference would be the following three ratios, expressed as a percentage of average total assets of all the enterprises combined which are financed by equity or loan investments of the DFC:

(i) Earnings before interest payments and tax;
(ii) Income (or corporate) tax;
(iii) Financial costs other than dividends.

The following other ratios might also be useful:

(iv) Profit after tax as a percentage of total average net worth;
(v) The same as (iv) as a percentage of total year-end share capital;
(vi) Dividends as a percentage of total year-end share capital.
(c) Distribution of the Returns

If it were possible to have a bird's eye view of the returns on each "IFC Program" (if it may be called such), one of the key comparisons that would be possible in the case of each IFC would be some general assessment of whether the return of the IFC itself was out of line with the returns being obtained on the sub-projects. The IFC, being in a position of "sub-distributor" of the product (funds) of which the Bank is the "wholesaler", requires a sufficient rate of return to pay the administrative and financial costs of acting as a channel for distributing the funds, plus a margin to cover the assumption of risk, creation of adequate reserves, maintaining creditworthiness (i.e., debt service cover) and a reasonable distribution to shareholders comparable with similar financial institutions in the same country. At the same time the financial charges to the sub-projects should not be so high as to inhibit their profitability unduly (if sound commercial enterprises of some maturity, one might expect the average return of the sub-projects to be higher than that of the IFC). Such a comparison could give an informative general idea of the balance of the "take" down the line of distributing funds to productive enterprises in underdeveloped countries, which is our "whole business".

(d) Margins in IFCS

Although the concentration on the gross rate of return formula provides a good comparative yardstick for the above purposes, there is another important yardstick which has recently been adopted in this department in measuring IFC performance which has an importance in being closely related to the use of the concept of "spread". If one assumes that the income of an IFC is wholly or almost wholly financial income, since it is a financial business, this income (including not capital gains or losses) corresponds in other businesses to the total net sales figure. The variable cost element applicable to this figure is, to a major degree, the financial costs (which corresponds approximately to the "cost of sales" in other businesses). The financial income less the financial costs in a financial business is thus an approximate equivalent to the gross contribution or "margin on sales" figure of other businesses. Since it is not exactly the "spread" as it is normally used, it might perhaps be termed the "Financial Margin" of a IFC. A further useful refinement might be considered of using this as a sister-ratio beside the "Gross Return" ratio, both measured as a percentage of average total assets. This "financial margin" would show at a glance the margin available for administration costs, provisions and reserves, and distribution of dividends in each case.

cc: Messrs. Diamond
    Mathew

lgs
April 16, 1968

Mr. Resid Egeli
General Manager
Turkiye Sinai Kalkinma Bankasi A.S.
Necatibey Caddesi 241-247
Tophane
Istanbul, Turkey

Dear Mr. Egeli:

I have circulated to each of the other development finance companies with which the World Bank Group is associated, a copy of the text of amended resolution, November 9, 1967, of the Turkiye Sinai Kalkinma Bankasi on economic criteria to be applied in project appraisal, together with a copy of its background report prepared for the members of the TSKB's Board of Directors. In the report, we took the liberty of changing the specified exchange rate and interest rate to be used for project appraisal to "the special rate" respectively, presuming that you would not object the slight modifications.

We are grateful indeed for your having permitted us to circulate the valuable papers among the other companies. We are sure that they will find the papers interesting and enlightening.

For your information, I am sending a copy each of the amended resolution and the background report, a distribution list and a copy of my letter covering the papers.

Yours sincerely,

B. H. Shin
Development Finance Companies

BHS:sa
Enclosures

cc: Mr. Jeffries
Mr. Naokado Nishihara

B. H. Shin

Data on Development Finance Companies

April 16, 1968

1. Attached are three statistical tables prepared at your request, namely:


(b) Financial Commitments of Development Finance Companies during 1962-1967;

(c) Administrative Expenses of Development Finance Companies during 1966.

2. As year-end figures for 1967 have not yet been completely assembled, columns for 1967 and total in the Table (b) on Financial Commitments of the Development Finance Companies are left incomplete.

Attachments

cc: Mr. Diamond/ Mr. Mathew
COOPERATION WITH REGIONAL BANKS

11. Mr. Kamarck reported that the Bank had reached agreement with the three regional banks - African, Asian and Inter-American - on the coordination of the collection and processing of external debt data by the Bank on behalf of all four. A meeting of the economic departments of the four institutions would be held in the fall to discuss further possible cooperation.
April 8, 1968

Mr. G. Wishart
Chief Liaison Officer
IBRD European Office
4, Avenue D'Iéna
Paris (16e), France

Dear George:

Thanks a lot for your personal note of April 3. Knowing your interest in the subject, I particularly appreciate the kind comment.

But - what a period of gestation! The first draft was delivered to a Vice President in November 1964, and it appeared 40 months later!

We were delighted to have seen you, too bad we merely saw Mollie at a distance and didn't have a chance to speak to her. We're sorry, please tell her.

And please do, on your next trip, let us know so that we can get together for a little while.

Best wishes,

William Diamond

[Signature]

WDiamond/jm
April 8, 1936

Mr. C. Masters
Chief Hospital Officer
IRD Armament Office
P.O. Avenue, D'Iberville
Parchman, Miss.

Dear George:

Tranquil a few days from your pleasant home at April & knowing your interest in the subject I particularly appreciate the kind comment.

But want a break or rest now! The first draft was delivered to the President in November and it is expected to have a chance to work on in the next few months. We are delighted to have seen you and am very much interested in the matter of your opinion and advice. My advice to you is to work on the problem and please go on your next trip. I am glad to know of that.

Best wishes!

[Signature]

W. F. H. Durrance

November 17
Dividends

The following information concerning expected dividends from BIDI, BNDE, PICIC and SNI is given as a summary and in supplement of our earlier notifications to you in this matter.

BIDI


BNDE

The Board, on March 20, was apprised of management's intention to propose a 4% dividend for 1967 (although earnings of the year after envisaged allocations would cover only about 3%). The Board will probably meet on May 31 to propose a dividend.

(a) The Annual Shareholders' Meeting, not yet scheduled, is likely to be held in June (June 21 in 1967).

(b) If a dividend of 4% is decided on, the amount would be DH 300,000 on our shares.

(c) Last year, payment was received on September 5. (We have been pressing for prompter payment.)

PICIC

The Board, on March 14, proposed a 10% dividend for 1967.

(a) The Annual Shareholders' Meeting is scheduled for April 12.

(b) 10% would be Rs. 200,000 on our shares.

(c) Last year, payment was received on June 20. (Payment has always been received before June 30.)
SNI

The Board is to meet on April 22, and will probably propose a dividend for 1967. It is likely to be 4%, like last year.

(a) The Annual Shareholders' Meeting, not yet scheduled, is likely to be held in June (June 9 in 1967).

(b) If a dividend of 4% is decided on, the amount would be D 12,000 on our shares.

(c) Last year, payment was received on October 3.
April 3, 1968

Dear Bill:

I spent yesterday evening reading the new operational memorandum on Development Finance Companies and I just want to send you my congratulations on it. I think it is very good indeed and that it covers everything! It was worth waiting for!!

It was very nice seeing both Lois and yourself last Friday.

Yours ever,

G. C. Wishart

Mr. William Diamond, Director
Development Finance Companies Department
International Finance Corporation
Washington, D.C.
Messrs. Garcia, Jeffries, Pollan, Powell, Sekse, Shin
P. M. Mathew

Comparative Ratios for DFCs

Please refer to my memorandum to you dated April 2, on the above subject.

For the purpose of these data, "non-current debt" should be taken to mean debt maturing more than one year from original contract date.

cc: Mr. Gustafson (DFC Staff Instruction File)

Circ. (3)

PMMathew:mbc
Catalytic Effect of IFC Investments in Development Finance Companies

1. We spoke about this in the morning. I can only offer the Nigerian Industrial Development Bank (NIDB).

2. NIDB is the result of a reconstruction in 1964 of the Investment Company of Nigeria Limited (ICON). IFC invested practically US$1.4 million in NIDB's share capital and attracted along with this amount additional investments of US$2.8 million divided between US$1.4 million from Nigeria (mainly the Central Bank) and US$1.4 million from foreign sources.

3. Apart from share investments, NIDB has obtained Nigerian Government loans of US$11.2 million equivalent, US$8.4 million of which have so far been disbursed. Therefore, taking into consideration share investments made at the time of NIDB's creation and loans obtained by NIDB since then, IFC has helped stimulate the availability of a total of US$15.6 million in NIDB.

AMuramatsu/HPollan/bj

c.c. Messrs. Eynon Horsley
Messrs. Garcia, Jeffries, Pollan, Powell, Sekse, Shin

P. M. Mathew

Comparative Ratios for DFCs

April 2, 1968

You are aware that SIC desires that we present comparative ratios on selected dfc's in the Investment Reviews on dfc's submitted to it. A list of ratios considered useful for this purpose is given in the Attachment.

Accordingly, each division should immediately work out the ratios for its companies. The basis will be the audited accounts of the last completed financial year. The information should be revised from time to time.

Mr. Shin should consolidate the information after checking with the divisions on the accuracy of the calculations and circulate it to all staff members of the Department.

Whenever an Investment Review is being prepared, the concerned division chief should select some five companies for comparison (or contrast) with the dfc being reviewed. The comparative ratios should then be presented in a table using the form of the Attachment.

Attachment

cc: Mr. Gustafson (DFC Staff Instruction File)

Circ. (3)

PMMathew:abc
Comparative Ratios for Selected DFQs

(a) Ratios of Profitability

1. Profit before Tax and Provisions as a percentage of Average Total Assets
2. Profit before Tax as a percentage of Average Net Worth
3. Profit after Tax as a percentage of Year-End Share Capital

(b) Ratios of Structure

4. Non-current Debt/Equity
5. Non-current Conventional Debt/Equity plus Quasi-Equity

(c) Average Rate of Growth (last 3 years)

6. Average Annual Rate of Growth of Total Assets
7. Average Annual Rate of Growth of Profit before Tax and Provisions

(d) Financial Earnings & Margins

8. Financial Income (including net capital gains) less Direct Financial Costs as a percentage of Average Total Assets
9. Income from Non-Current Loans as a percentage of Average Non-Current Loan Portfolio
10. Cost of Non-Current Debt as a percentage of Average Non-Current Debt
11. Equity Income (including net capital gains) as a percentage of Average Equity Portfolio

(e) Administrative Costs

12. Administrative Costs as a percentage of Average Total Assets

(f) Reserves

13. Reserves (including retained earnings) plus Provisions as a percentage of Average Portfolio/(Loan and Equity)

(g) Share Capital

14. Book Value as a percentage of Par Value

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1/ Including guarantees
2/ All maturities of quasi-equity falling due prior to the estimated last maturity of any Bank loan should be excluded from quasi-equity and included in debt.
TO: Mr. Rosen

FROM: M.M. Mendel

DATE: March 29, 1968

SUBJECT: Salient Points Discussion in the Board - IFC Section

1. At the meeting of the Bank's Executive Directors on March 28, during the discussion of the paper on "Salient Points made by Governors at the 1967 Annual Meetings" (R67-158), Mr. Woods said that he would leave you to raise with Mr. McNamara the suggestion contained in Section XXIII(c); namely, "that IFC's Charter be amended to permit IFC to make loans or equity investments in government-owned enterprises or development banks". He indicated that he, himself, did not think IFC's policies would be improved by such a step.

2. At the same meeting, Mr. Tazi said that IFC should try to mobilize more partners and capital from Western Europe and Japan for projects in the developing countries, and not rely so heavily on US capital, technical partners, etc. Mr. Woods said that he was sure that the Directors of Investments of IFC were making a considerable effort in that direction.

M.M.
Comparative Ratios for DFCs

The following broad comparative ratios for DFC's are submitted for consideration after discussion with the Division Heads:

(a) Ratios of Profitability
   (i) Profit before Tax and Provisions \(^1\) as a percentage of Average total Assets
   (ii) Profit before Tax as a percentage of Average Net Worth
   (iii) Profit after Tax as a percentage of end-of-year Share Capital.

(b) Ratios of Structure
   (i) All debt/equity
   (ii) Term Conventional Debt/Equity plus quasi-equity.

(c) Growth (Last 3 years) \(^2\)

The Annual Rates of Growth of Total Assets and the Annual Rates of Growth of Profit before Tax and Provisions for the last 3 years.

(d) Financial Earnings and Margins
   (i) Financial Income (including net capital gains) less direct financial costs as a percentage of average total assets (i.e. "Gross Financial Margin").
   (ii) Term Loan Income as a percentage of average Term Loan Portfolio.
   (iii) Cost of Term Borrowings (including quasi-equity) as a percentage of Average Term Borrowings.
   (iv) Equity Income (including net capital gains) as a percentage of Average Equity Portfolio.

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\(^1\) The treatment of provisions varies widely between DFCs. The term is generally meant to include all provisions made for bad debts and investments which are normally made as an expense before income tax.

\(^2\) Mr. Raj has suggested that the annual rates of growth should be shown separately for each of the last three years (over or under the previous year) rather than showing average annual rates of growth.
(e) **Administrative Costs**

Administrative Costs as a percentage of Average Total Assets.

(f) **Reserves**

Reserves (including retained earnings) plus Provision 1/ as a percentage of Average Portfolio (Loan and Equity).

cc: Messrs. Mathew Garcia Jeffries Pollan Powell Sekse Shin Gustafson

bda
TO: Mr. George D. Woods  
FROM: William Diamond  
SUBJECT: Development Finance Companies  

March 25, 1968

You asked, on Friday, that I have for you to-day the revision of Operational Memorandum 5.11, taking account of the comments recently made by the Bank's senior staff. Here it is - in condition, I hope, for early issuance.

cc: Mr. Knapp  
Mr. Cope  
Mr. Nurick  
Mr. Mendels  
Mr. Ripman

Mr. Rosen  
Mr. Raj  
Mr. Richards
Eligibility for Assistance from the Bank

1. Objectives. The Bank is interested in promoting and strengthening development finance companies. Its principal objective in doing so is to help build strong and effective domestic investment institutions which can channel domestic savings and external capital into productive enterprises in the private sector, thereby contributing both to the growth of those enterprises and to the development of the capital market in its member countries. Another objective is to use development finance companies as devices through which to finance private enterprises which, for whatever reason, the Bank cannot finance directly. The Bank's relations with a development finance company reflect these two objectives; its focus is both on the enterprises the company finances and on the company itself, which it seeks to build into a strong, viable, independent institution.

2. In some cases, circumstances peculiar to the member country require the use of an intermediary to finance projects which the Bank would prefer to finance directly. Such has, for example, been the case of the Bank's loans to the Japan Development Bank and the Yugoslav Investment Bank for the benefit of particular industrial enterprises, or the Bank's loans to CORFO of Chile and Nacional Financiera of Mexico for various public projects. Here the intermediary is only an incidental object of the Bank's interest. This memorandum is not concerned with such intermediary institutions, which are simply conduits for Bank funds.

3. A variety of institutions are called development banks or development finance companies and have in common the objective of formulating, promoting and providing medium- and long-term finance and technical assistance for productive investments. However, the Bank's principal interest is in companies which are privately-owned and -controlled institutions, designed to promote private investment on business principles in the interest of the sound economic growth of a member country.

4. Conditions for Assistance to Development Finance Companies. In looking at a request to help establish, finance or otherwise assist a development finance company, the Bank is governed by the following considerations:

   (a) The development of a strong private sector must be among the member country's over-all aims, and there must exist a climate conducive to the growth of the private sector.
(b) There must be opportunities for a substantial volume of private investment, and hence good prospect for a continuing demand for medium- and long-term loans and for equity capital.

(c) There must be a clearly defined institutional gap in the capital market which a development finance company will be able to fill, partly or fully; or, if the request concerns an existing company, it must be serving a useful purpose, and be capable of using more capital effectively.

(d) The creation or expansion of a development finance company must be a matter of relatively high economic priority in the member country concerned.

5. Characteristics of companies to be supported by the Bank. The kind of development finance company which the Bank generally prefers to finance is characteristically one which is owned by a broad range of investors, both foreign and domestic, but with a clear domestic majority; having government support in a form which does not give control to the government; providing finance only to private controlled enterprises, principally but not exclusively in the manufacturing sector; empowered to make medium- and long-term loans, invest in share capital and underwrite securities; acting primarily as a financial institution rather than a holding or management company; making its investment decisions after careful appraisal, on the basis of sound investment criteria and giving due weight to the economic policies of the government; combining financial prudence with a promotional outlook and a willingness to take risks; having both the objective and the prospect of paying a reasonable dividend to its shareholders, after setting aside adequate reserves.

6. All these features cannot be found, or even sought, in all cases, for a company has to fit the needs and suit the conditions of the member country in which it operates. Hence, the capital structure, the distribution of ownership, the scope of operations, the policy orientation and other characteristics of development finance companies may differ widely, depending on the interests of their sponsors and the conditions and needs of the countries in which they are located. But several characteristics are essential for Bank assistance.

7. a. Private Control. Private control is essential because it helps assure the continuity of sound policy and experienced management and the conduct of operations on economic and financial rather than political criteria. The existence of a governmental interest (direct or indirect) in the company's voting share capital does not preclude Bank assistance if the requisite private capital is not available, if the government is prepared to dispose of its holdings to private investors as and when they become interested, and if the government's interest is not so large as to give it a controlling voice in the company's policies, personnel selection and investment decisions. Normally, the Bank expects a government participation not to exceed 25%, but it is
prepared to accept a larger participation. A government participation in excess of 50% is unacceptable, as are also any special rights or powers that give government an over-riding voice in the company's affairs, including the choice of management. (On the other hand, if the government is a major shareholder or provider of finance, management must obviously be acceptable to government).

8. **b. Domestic Control.** The Bank seeks to encourage foreign as well as domestic investors to participate in the ownership of a development finance company, so as to facilitate the introduction of experience in investment banking and contacts with foreign business, both technical and financial. However, domestic investors must hold a majority of the voting capital, in order to assure that the company is identified with the member country and to facilitate the governmental support which it is likely to need. The Bank has, in the past, accepted arrangements under which foreign shareholders might take responsibility for management and control for a specific, limited period of time.

9. In suitable cases, an investment by the International Finance Corporation in the share capital of a development finance company has helped give the company the requisite image of a national institution. In some countries (and by the Bank) the Corporation has been accepted, not as a foreign institution but as a domestic one, by virtue of the fact that the country is a member of the Corporation. In such cases, the Corporation's investment in the shares of the development finance company may provide the requisite "domestic" majority. When the Corporation's investment is needed to provide such a majority, the Corporation has sometimes been willing, when circumstances justify, to restrict its sales of shares of a development finance company to private investors within the country concerned. (See Part II for the role of the Corporation within the World Bank Group, in financing development finance companies.)

10. **c. Profitability.** The development finance company should have prospects of paying, in due course, a dividend reasonable in terms of investor expectations in the country concerned. Only if it pays adequate dividends, can the company look forward to increasing its share capital as needed and to borrowing in due course from conventional sources at home and abroad.

11. Adequate profitability is sometimes difficult to achieve, especially in the early years, because of the inability of the company to obtain sufficient leverage and a wide enough spread between its borrowing and lending rates. Governments are sometimes prepared to give interest-free or low-interest loans, thus providing the subsidy needed to widen the spread. In addition, they sometimes subordinate such loans to other loans from conventional lenders and even, in the event of liquidation, to share capital. Such funds, called "quasi-equity", increase the leverage of the company and the attraction of its shares to investors. There are, of course, other devices which may be used to achieve the goal of adequate profitability; and cheap
and subordinated loans have the disadvantage of exposing a company to government pressure and relieving it of the need to conform to market conditions. But, in general, if "quasi-equity" is lacking, the Bank may prefer to wait until a development finance company has achieved a record of satisfactory operation before participating in financing it.

Part II. Types of Assistance to Development Finance Companies

12. Financial. In the World Bank group, the Bank and the Corporation play different but complementary roles in the financing of a development finance company. The Bank itself provides loans to help meet the capital requirements of a development finance company. Normally the amount provided at any one time is the sum which (together with other available funds) the company needs, within the limits of prudent borrowing policy, to meet the expected demand for capital over a period of one to two years. Where the amount involved is large and where the company has a broad degree of freedom in using the Bank's loan, a shorter period is preferred. The amount of a loan or credit may also be limited by the country's creditworthiness or by the amount of funds that the Bank or the Association can make available to the country.

13. The Bank expects to be, not a one-time lender, but a continuing provider of a part of the capital requirements of the company. Hence it stresses the establishment of a close and continuing relationship, enabling it to keep its finger on the pulse of the company.

14. The Corporation, whose Articles of Association allow it to finance only private enterprises, provides finance to a development finance company in the form of subscriptions to share capital, either directly or through standby or underwriting arrangements for share offerings. Only in exceptional circumstances would the Corporation make a loan to a development finance company; such circumstances would normally include satisfaction that a government guarantee of a Bank loan is not, for acceptable reasons, available; absence of satisfactory alternative sources of loan capital; conviction that the loan is a one-shot affair, after which the company will be able to finance its capital requirements* the existence of a Corporation investment in the share capital of the company. In recognition of the fact that the Bank rather than the Corporation is the chosen instrument of the World Bank group for lending to development finance companies, the Corporation's loan terms will normally approximate those of the Bank, except for terms involving the cost of the loan and equity features.

15. The Corporation will not normally subscribe more than 25 percent of the share capital of a company; it prefers to subscribe less. In accordance with its usual policy, the Corporation will sell * without further recourse to IFC;
its holdings when it can do so on reasonable terms and when it considers that the purpose of its original investment has been achieved.

16. The Corporation is prepared to take a seat on the Board of Directors of a development finance company in which it holds a share interest, if circumstances justify such action. The Corporation will take a seat on a Board only if the principal shareholders of the company wish the Corporation to be represented, and the Corporation is satisfied that its presence on the Board will enable it to contribute significantly to the work of the company.

17. Technical. The Corporation provides technical assistance principally to development finance companies which are present or potential financial clients of the Bank and Corporation. It is normally available to other companies, including government-controlled companies, only when there are prospects that they are likely to become eligible for the Bank's financial assistance.

18. The Corporation advises on the organization or reorganization of a development finance company in a form suitable for Bank assistance, if the conditions referred to in Paragraph 4 prevail.

19. The Corporation is willing to assist a private development finance company in finding management, advisors and senior staff. Neither the Bank nor the Corporation will normally share the cost of managers, staff or advisors of development finance companies. However, the cost of expatriate staff may, in appropriate cases, be financed from the proceeds of a Bank loan.

20. The Bank and the Corporation arrange training for staff of development finance companies, in modest numbers, in the EDI, the Corporation and other development finance institutions.
Part III. Main Feature of Loans to Development Finance Companies

21. Management. The Bank relies fundamentally on the Board and management of a development finance company to act in accordance with sound investment banking practices within the framework of a body of policy agreed before the loan is made. A loan will not be made unless the Bank considers the management satisfactory or, if it needs strengthening, unless arrangements have been made to provide the management with an experienced advisor. The quality of management remains under continuing review.

22. Statement of Operational Policies. When making a first loan to a development finance company which has not had a long operational record, the Bank normally requires that the company's sponsors and directors draw up and formally approve a statement setting forth the company's general policies. (In other cases, the Bank may also require such a statement.) The object of this statement is to assure the Bank that the company's objectives are, and that its behavior will be, consistent with the Bank's own objectives and with the developmental objectives of the member country in which the company is located. The statement is expected to spell out, more precisely and clearly than its charter will, the scope of operations of the company, its investment policies, its general intentions regarding reserves and dividends, and its plans concerning development of a staff.

23. The company's behavior will be continuously judged against the background of this statement of policies. However, it is intended to provide, not inflexible regulations, but general guidelines, from which departures may be made in exceptional circumstances, after due deliberation. Additions to, or changes in, the statement may be required from time to time, in the light of the development of the company and the changing conditions of the country. Arrangements should be made for adequate and timely discussion of any intention to change policies. Amendment of the agreed policy statement requires the approval of the Bank.

24. Terms of Loans to Development Finance Companies. In general the terms of loans to development finance companies are similar to those of loans to other borrowers. However, such loans have some features requiring special mention.

25. a. Project Description. The description of the project for which the loan is made reflects the double focus of the Bank's interest: the financing of private enterprises, and provision of capital to enable the company to carry on its business.

26. b. Commitment Fee. The Bank applies to development finance companies its standard policy with respect to commitment charges. However, the Bank is prepared to consider concessional treatment in special circumstances, such as the case of a new company or one which has not
had an opportunity to build up its business to an adequate level. Conces-
sional treatment would mean applying the commitment fee only when a credit
is made to the loan account for a specific investment project, and only to
the amount credited for that investment project.

27. c. Crediting the Loan Account. The commitment and disburse-
ment of the proceeds of the loan are related to the specific investment
projects for which they are to be used.

28. The Bank expects a development finance company to apply high
standards in the appraisal of its investment projects. Nevertheless, the
Bank reserves the right to approve all investment projects before portions
of the proceeds of the loan are committed for them. The degree to which
the Bank exercises this right depends on its experience with the company;
it normally allows a certain degree of freedom. In general, the Bank
starts with a new development finance company by allowing it to request
commitment of funds for an individual project up to a specified limit, of
say, $50,000, without prior approval by the Bank. As the company's staff
and experience develop, and as the Bank's confidence in the company grows,
the degree of freedom is increased until, in practice, very few projects
need to be submitted for prior approval (a few are always desirable).
The Bank may change this limit at its discretion.

29. Upon request of the company, the Bank credits the loan account
with the amount required for the investment project. In the case of an
investment project which does not require prior approval, the loan
account is credited immediately upon request of the company. In the
case of an investment project requiring prior approval, the credit is
not made until the Bank's approval has been given. Approval and crediting
in such cases, are normally simultaneous. However, in certain circum-
stances, where simultaneous action would create a hardship on a company,
the Bank is prepared to consider postponing crediting the account for a
reasonable time after approval has been given, pending a request for a
credit.

30. In the case of an Association credit, the entire amount of the
credit is credited to the credit account on the effective date and no
commitment fee is charged by the Association to the government-borrower.
However, the government-borrower is required to apply to the development
finance company substantially the terms which the Bank would have applied
in the case of a Bank loan. In such a case of an Association credit, the
company does not request a credit to the credit account; it asks for
permission to withdraw from the credit account.

31. d. Approval of Investment Projects. The requirement of
approval is largely a device for introducing development finance companies
to the methods and practices of investment banking, raising their appraisal
standards and familiarizing the Bank and the company with each other.
It is not primarily designed to assure that particular projects and
investment decisions are sound and that the Bank's funds are being prop-
erly used in particular projects, or to remove decision-making on
particular investment projects from the company to the Bank. In a sense, therefore, the Bank's review constitutes an appraisal of the appraisal rather than an appraisal of the investment project, a check to see that the company is considering all factors relevant to a sound decision, in deciding on its loans and investments. The responsibility for the investment decision remains with the company.

32. The larger the investment project, the greater the care with which the company should have appraised it, and the greater the care with which the appraisal will be reviewed by the Bank, for prior approval of the project. In the case of an unusually large and complex project, the Bank may go more deeply into the substance of the project and may even undertake a field appraisal of the project. However, the Bank expects the company, in most such cases, to seek partners, including the Corporation, to share the risk of financing the project.

33. Generally the Bank reviews only projects which are to be financed from the proceeds of a Bank loan. Since, however, the risk to the company is the same whether Bank funds or other funds are used, there may be a case for review by the Bank of all large or complex projects, without regard to the source of their financing. The Bank has, on several occasions, required prior approval of projects other than those using Bank funds.

34. To review an investment project, the Bank requires that an adequate amount of information be submitted about it. In order to minimize extra work required of the company, the Bank ordinarily asks for the same documentation that is submitted to the company's Board of Directors, if that is adequate. As regards investment projects which do not require prior Bank approval, the Bank asks only for the basic data required to permit the commitment of funds and their disbursement, and to keep itself informed of the end-use of its funds.

35. e. Amortization. A Bank loan to a development finance company is repaid in approximate conformity with the repayments received by the company from its own borrowers. The amortization schedule of the Bank's loan is the composite of the amortization schedules agreed with the company for all the investment projects it has financed with the proceeds of the loan. In order to simplify the administration of this policy, a single amortization schedule is agreed during negotiations, on the basis of reasonable estimations regarding the commitment of the proceeds of the loan. This pro forma schedule, which approximates the composite of repayment schedule of loans to be made with the proceeds of the loan, is modified from time to time as needed, to bring it into approximate conformity with the amortization schedules of the loans actually made by the company. If the company receives a prepayment from one of the enterprises it has financed from the proceeds of a Bank loan (or if it sells an equity investment it has made with those proceeds), it must repay the Bank correspondingly. On the other hand, if the amortization of a loan to an enterprise is rescheduled by the development finance company, its repayment schedule to the Bank is correspondingly modified if adequate notice is given (within the maximum period noted below).
36. The repayment of each individual project should be scheduled to reflect the circumstances of the project itself. However, the loan agreement between the Bank and a development finance company specifies that the repayment period of any individual investment financed with its proceeds shall not exceed a certain maximum period, usually 15 years.

37. f. Interest Rate. A loan to a development finance company does not carry a fixed interest rate. When a part of the loan is credited to the loan account for a specific investment project, the rate applicable to that part of the loan is the Bank's standard lending rate at the time the credit is made.

38. g. Scope of Operations. The fields of enterprise for which the proceeds of the loan may be used are all those in which the development finance company is allowed by its charter and its policy to operate. If the law under which the company operates, or its charter, allows operations considered inappropriate for a company which the Bank is financing, the policy statement will require withdrawal from such activity; or, if these activities are such that the use of the Bank loan would not be appropriate, the fact will be dealt with in some suitable way.

39. h. Use of Loan for Investment in the Form of Share Capital. The loan may be used to finance the company's investments in share capital as well as its loans. However, this is permitted only within the framework of a prudent policy agreed with the Bank, with respect to the aggregate of the company's exposure in equity investments and every such project requires prior Bank approval no matter what its size. When the loan is used to finance an investment in share capital, an arbitrary amortization schedule is agreed with the company for the part of the loan used in this fashion, spread over a period of years not more than the maximum allowed in the loan agreement.

40. i. Use of Loan to Finance Working Capital. The loan may be used to finance not only fixed assets, but also the initial stock of raw materials and supplies needed for the commencement of operations, or the increase in such stock needed for the expansion of operations, of an investment project.

41. j. Use of Loan to Finance Imports. The proceeds of a loan to a development finance company may be used only for imported goods (whether paid for abroad or purchased from the shelf at home) or for domestic goods to the extent they incorporate imported material and components.

42. k. Use of Loan to Refinance Previously Incurred Expenditure. Ordinarily the loan may not be used to cover expenditures incurred more than 90 days before the submission of the investment project to the Bank for approval (or, where approval is not required, before the request to credit the loan account). This is designed to encourage a company to enter into the planning and financing of a project at an early stage. However, in the circumstances in which many development finance companies operate, this is very difficult to achieve. Where there are good reasons,
therefore, the Bank will consider providing for a longer period in dealing with some companies or waiving the restriction in the case of certain specific investment projects.

43. Although the Bank does not encourage a development finance company to engage in refinancing operations, which may often be required because of poor financial planning or poor management, the Bank does not object to a development finance company's using some of the proceeds of the Bank loan for refinancing if the investment projects have been carefully appraised and merit finance. For example, the refinancing of permanent working capital, in order to achieve a properly balanced financial structure, is often particularly important. Such cases, when considered suitable, are dealt with as an exception to the normal restriction on financing expenditures already incurred.

44. 1. Disbursement. Disbursement ordinarily takes place on the basis of a list of goods for each individual project financed with the proceeds of the loan. The development finance company is responsible for assuring the suitability of the list of goods and the reasonableness of their prices. The list is received at the time a credit to the loan account is requested, in the case where no prior approval is required; where prior approval of the Bank is required, the list is submitted together with the project.

45. m. Foreign Exchange Risk. The Bank will assure itself that the development finance company can and will adequately protect itself against exchange risk. There are various methods by which this can be done.

46. n. Period of Commitment and Disbursement of Loan. The Bank sets a time limit for the submission of investment projects for crediting to the loan account. The time limit is set by reference to the one to two-year period referred to in Paragraph 12; it is subject to extension by mutual agreement. In fixing the Closing Date, an additional one to two years is allowed for completion of disbursements.

47. o. Supervision. The Bank obtains the rights to receive information it requests concerning the operations and financial condition of the development finance company, and to visit the company. The information and regular visits are used to maintain a continuing reappraisal of the performance, position and prospects of the company. All the operations of the company are scrutinized, and not simply those financed with the proceeds of the Bank loan.

48. The Bank also requires that the company obtain from its clients who receive finance from the proceeds of a Bank loan, certain contractual rights on behalf of the Bank, including the right of independent access to the individual investment projects. In practice, the Bank carries out its inspections of investment projects with the company's representatives.
49. Debt/Equity Ratio. The loan agreement carries a limit on the debt which the company may incur. The limit used is an agreed multiple of the equity of the company. The Bank may, at its discretion, include in the equity (and exclude from debt) borrowings of the company which are adequately subordinated to the Bank's loan. The Bank normally fixes the ratio at three, at the beginning of its experience with a development finance company. It is prepared to review and revise that ratio in the light of (a) the company's loss record, the quality of its portfolio and its prospects, (b) the economic outlook of the country, and (c) other relevant factors.

50. Audit. The development finance company must retain a firm of independent public accountants acceptable to the Bank, to audit the company's accounts annually, and to do so in accordance with generally accepted accounting principles and in a form satisfactory to the Bank. The company is required to transmit those reports to the Bank, together with any related letters from the auditor. When a loan is made to an existing company, the Bank requires a satisfactory audit before the loan is made.

51. Procurement. It is not practicable to require the clients of a development finance company to procure goods under international competitive bidding arrangements. The Bank does expect, however, that the company, in appraising investment projects, will satisfy itself that the goods and services to be purchased are suitable to the investment projects and are reasonably priced. In the case of unusually large investment projects, the company is expected to go further and ensure that its clients have canvassed the main sources of supply and are purchasing from the most advantageous source or, if the expense is not prohibitive, are basing procurement on international bidding.

Part IV. Organization and Responsibility

52. Responsibility for the formulation, study and promotion of arrangements for the establishment of new, or the reorganization and expansion of existing development finance companies rests with the Development Finance Companies Department of the Corporation.

53. That Department is also responsible for the appraisal of, and negotiations with, development finance companies in connection with proposed investments by the Corporation in them; for the appraisal of such companies in connection with proposed Bank loans; for the recommendation of operational policies, managerial services, technical assistance, and terms and conditions of Corporation investments and Bank loans; for the review of individual investment projects when required; and for the continuing review and reappraisal of the companies in which investments,
or to which loans, have been made. For the purpose of making and administering Bank loans, the Department acts as technical advisor to the Area Departments of the Bank.

54. Development finance companies are dealt with by joint working parties. The Corporation's Investment and Development Finance Companies Departments are represented on Bank working parties dealing with development finance companies, even if there is no existing or prospective investment by the Corporation. The appropriate Area Department of the Bank is represented on a Corporation working party involving a development finance company, even if no loan is involved. In cases involving only a loan or a loan and investment, the chairman of the working party is the representative of the Bank Area Department concerned. In the case of an investment alone, the chairman is the representative of the Development Finance Companies Department.

55. A loan for a development finance company will be arranged and negotiated in accordance with the regular procedure. If a Corporation investment is being made jointly with a loan or credit, arrangements should be made for simultaneous negotiations; and, subsequently, a joint meeting of the Boards of the Bank and of the Corporation will consider the loan and investment proposals.

56. In approving projects requiring prior Bank approval, the Bank Area Department Director acts on the advice of the Development Finance Companies Department. The working party is not consulted unless, in the opinion of either Director, a policy issue is involved.

Development Finance Companies Department
March 25, 1968
March 20, 1966

J. G. Boyd

Comparative Ratios for IFCs

Mr. Diamond has asked that we have another look at the comparative ratios for IFCs, bearing in mind the experience you have had of questions asked at SIG meetings on comparisons between IFCs. The number of ratios need not be limited to 5 or 6 as previously thought, but should be a limited number of simple, broad comparisons which would be useful to make between IFCs on one page in the reports submitted to the SIG.

I gave you an extensive (but not exclusive) list of possible ratios attached to my memorandum, and to focus discussion this time, I attach my own selection of a few of the most useful ratios. Mr. Sekse, Mr. Pollan, Mr. Powell and Mr. Gustafson were not able to attend the first meeting, and I will arrange a further meeting in the next day or two to consider this.

Mr. Diamond suggests that we consider whether such comparisons should be made in relation to the latest data available, even if not for a full year or audited, provided that a reasonable annualized figure can be established. It will probably be necessary to establish an across-the-board minimum period for making such annual estimates (e.g. six months or a quarter?).
1. **Profitability**
   Profit before tax and provisions as a percentage of average total assets.
   Profit before tax as a percentage of net worth.
   Profit after tax as a percentage of share capital.

2. **Structure**
   Average equity as a percentage of average total assets.
   Average all debt/average equity.
   Non-current debt/equity plus quasi-equity.

3. **Growth (Last 3 Years)**
   Average annual rate of growth of total assets.
   Average annual rate of growth of profit before tax and provisions.
   Average annual rate of growth of net worth.

4. **Financial Earnings and Margins**
   Financial income (including net capital gain) less financial costs as a percentage of average total assets.
   L. T. Loan income as a percentage of average L. T. Loan portfolio.
   Cost of L. T. Borrowings as a percentage of average L.T. Borrowings.
   Equity income (including net capital gains) as a percentage of average equity portfolio.

5. **Administrative Costs**
   Administrative Costs as a percentage of average total assets.

6. **Reserves**
   Reserves (including retained earnings) plus provisions as a percentage of average portfolio (loan and equity)
   Average annual rate of growth of reserves (including retained earnings plus provisions) in the last three years.
Dividends

Last dividend paid or proposed.

Related pay-out ratio.
Y. L. Chang

P. M. Mathew

Source of Financing - Development Finance Companies

March 20, 1968

I refer to your memorandum of March 8 on the above subject, and the table attached to it. I assume that the purpose of the tabulation is to present, in comparable form, the amount of complementary financing generated by IFC's investments in various development finance companies.

The concept of the complementary finance created by IFC's investments can be applied somewhat easily to industrial investments where a project can be readily identified, but not so easily to investments in development finance companies. In the case of the former, the complementary financing is part of a package related to a project, while it is not necessarily so in the case of the latter. One has therefore to ask what is complementary financing with reference to development finance companies:

a. financing canvassed by IFC?

b. financing not canvassed by IFC but provided (for example, by Government) as part of a package when creating a development finance company?

c. pre-existing finance in the case of an institution re-organised under IFC auspices and with IFC financing?

d. financing which is not part of original package but is attracted sooner or later by a development finance company through improvement of its standing resulting from IFC's financial association with it?

Because of the difficulty of definition, I suggest that we do not attempt a tabulation in the manner suggested in your table.

This is not to say that on development finance companies IFC has very little to take credit for by way of catalytic effect. This effect can best be presented through descriptive statements. I shall be happy to provide such statements in case you think the information can be usefully presented.

cc: Mr. O'Brien

PMMathew/jm
March 20, 1968

Dear Mr. Svoboda:

Thank you very much for your letter of February 29'enclosing "Note on Small Loan Program".

I am going to study the note with great interest. I am sure it will provide us with valuable information.

I appreciate greatly the efforts made in preparing the note in the face of more pressing matters. I am grateful, indeed, for your cooperation.

Yours sincerely,

B.M. Shin
Development Finance Companies

Mr. L.M. Svoboda
General Manager
Malaysian Industrial Development
Finance Berhad
Hwa-ld Building
63-65 Jalan Ampang
Kuala Lumpur
Malaysia

cc: Mr. Jeffries
(with incoming letter and attachment)

BHShin:ts
Mr. William Diamond

J. G. Boyd

Comparative Ratios for DFCs

On the assumption that what was required was a few simple broad-brush ratios for comparing DFC operations and structure, the following ratios were suggested at the meeting yesterday as probably the most useful:-

Net profit after tax as a percentage of share capital.

Gross income (including net capital gain) less direct financial expenses as a percentage of average total assets.

Net profit before tax and before provisions as a percentage of average total assets.

Administrative expenses as a percentage of long-term loan and equity portfolio.

Non-current debt/net worth.

Reserves, retained earnings and provisions as a percentage of long-term loan and equity portfolio.

I attach a fuller list of possible ratios applicable to DFCs.

lgs

cc: Mr. Mathew (with copy of list)
    Messrs. Garcia
    Jeffries
    Pollan
    Powell
    Sekse
    Shin
    Gustafson
Mr. P. M. Mathew (through Mr. Pollap)  
March 12, 1968

Frank Vibart

Notes on OECD Additional List of Development Finance Corporations

The following notes on development banks mentioned in the OECD additional list were compiled on the basis of information available in the files and from the relevant country desks in Africa and Middle East area departments of the Bank.

GHANA.

Agricultural Development Bank.  
(Formerly Agricultural and Cooperative Credit Bank.)

Date of establishment

April 1965.  
Original law amended by decree of June 1967.  
Name changed.

Ownership


June 1967 decree enabled Board of Directors to acquire capital from any source and abolished government 51% holding rule. Authorized capital June 1967, 30 million new cedis. (1 N$ equivalent to US$ 0.98.)

Assets

<table>
<thead>
<tr>
<th>Cedis*</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31st December 1966.</td>
<td></td>
</tr>
<tr>
<td>Total, (excluding customers' liability on guarantees)</td>
<td>6.1</td>
</tr>
<tr>
<td>of which: loans and advances.</td>
<td>4.1</td>
</tr>
<tr>
<td>: medium and long term investment</td>
<td>1.4</td>
</tr>
</tbody>
</table>

* On predevaluation basis 1 N$ was equivalent to US$ 1.40.

UGANDA.

Uganda Development Corporation.

Date of establishment

1952.

Ownership

Wholly government owned.  
Authorized capital end 1966 £ 8 million.  
Paid-up capital end 1966 £ 6.4 million.  
All subscribed by government.
Size of Assets

<table>
<thead>
<tr>
<th>December 31, 1966</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets.</td>
<td>11.6</td>
</tr>
<tr>
<td>Of which</td>
<td></td>
</tr>
<tr>
<td>investment in subsidiaries</td>
<td>9.7</td>
</tr>
<tr>
<td>associated companies</td>
<td>1.6</td>
</tr>
<tr>
<td>other investment</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Of the total investment of £ 11.6 million the majority (£ 9.8 million) was in the form of share capital and approximately £ 2.8 million in loan capital.

MALAWI.

Malawi Development Corporation.

Date of establishment

April 1964.

Ownership

Public: Initial capital of £ 550,000 was provided by the government of Malawi. The corporation is directly responsible to the President of Malawi.

Assets

Actual investment as at December 31, 1966 was £ 1.1 million. Commitments were for £ 2.2 million. The most recent audited accounts available are for the period ending December 1965.

NIGERIA.

Northern Nigeria Development Corporation.

Date of establishment

1955.

Ownership

Public: Total capital of £ 10 million (March 1965). Subscribed by public authorities such as Marketing Boards, etc.

Assets

Total loans and investments in companies, local authorities and cooperatives were £ 7.6 million (March 1965). The NNDC has a special fund against which it is able to give personal loans.
JORDAN.

Industrial Development Board Fund.

The development board is a promotional agency of the government. The assets of the fund were taken over by the Jordan Industrial Development Bank at the time of its formation.

ZAMBIA.

Land and Agricultural Bank of Zambia.

There is no information available on this institution. It is believed that it may have been absorbed or re-organized.

FVibert: dll
March 8, 1968

Mr. W. Diamond

Y. L. Chang

Source of Financing - Development Finance Companies

Please refer to my memorandum dated February 21, 1968 concerning the source of financing provided to the various industrial projects in which IFC has invested. A similar report has now been prepared for development finance companies. As in the case of the report for industrial projects we have attempted to relate the amount of IFC's gross commitments (without deduction of amounts acquired by others or sales) to the total funds provided for the individual projects or investments in which IFC was investing.

The data was compiled from information available in our files. This data is incomplete and some items may have been subsequently altered without our knowledge. Please verify the accuracy of the amounts and sources shown on the attached draft statement and insert the missing information where possible. In the last column we have listed the amounts which we have been unable to allocate to the participating country.

We should appreciate receiving your comments by the end of the month, if possible.

A number of copies of the report are attached for your use.

Attachments

cc: Messrs.Y.L. Chang
Rutland
V.Chang
Gray
Perch
O'Brien (Information Department)


DwGray/WTMatthews:12
**Capital Costs and Source of Financing of Development Banks Financed by IFC**  
(Set of Cancellations and Unadjustments for Sales and Acquisitions by Others)  
As of January 31, 1968  
(Expressed in Millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Equity</th>
<th>Loans</th>
<th>Other</th>
<th>Total</th>
<th>Public</th>
<th>Private</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLOMBIA</td>
<td>CFP Bogota</td>
<td>2.02</td>
<td>-</td>
<td>-</td>
<td>2.02</td>
<td>2.02</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>CFP Medellin</td>
<td>2.04</td>
<td>-</td>
<td>-</td>
<td>2.04</td>
<td>2.04</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>CFP Caldas</td>
<td>0.70</td>
<td>-</td>
<td>-</td>
<td>0.70</td>
<td>0.70</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FINLAND</td>
<td>IFF</td>
<td>4.50</td>
<td>11.10</td>
<td>-</td>
<td>15.60</td>
<td>6.29</td>
<td>7.00</td>
<td>.90</td>
</tr>
<tr>
<td>GREECE</td>
<td>NIBID</td>
<td>1.00</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>0.72</td>
<td>2.20</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOGO COAST</td>
<td>BID</td>
<td>2.84</td>
<td>9.00</td>
<td>-</td>
<td>12.84</td>
<td>2.20</td>
<td>5.76</td>
<td>5.00</td>
</tr>
<tr>
<td>KOREA</td>
<td>EBC</td>
<td>8.50</td>
<td>9.00</td>
<td>-</td>
<td>17.50</td>
<td>4.50</td>
<td>4.00</td>
<td>2.05</td>
</tr>
<tr>
<td>LEBANON</td>
<td>LCBD</td>
<td>1.00</td>
<td>1.50</td>
<td>-</td>
<td>4.50</td>
<td>0.25</td>
<td>1.25</td>
<td>0.94</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>NIBM</td>
<td>1.12</td>
<td>8.00</td>
<td>-</td>
<td>9.12</td>
<td>1.32</td>
<td>8.00</td>
<td>-</td>
</tr>
<tr>
<td>NIGERIA</td>
<td>IFR</td>
<td>2.00</td>
<td>15.00</td>
<td>-</td>
<td>17.00</td>
<td>1.50</td>
<td>4.00</td>
<td>15.00</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>FIDE</td>
<td>11.90</td>
<td>-</td>
<td>-</td>
<td>11.90</td>
<td>1.40</td>
<td>1.40</td>
<td>0.06</td>
</tr>
<tr>
<td>PHILIPPINES</td>
<td>PIB</td>
<td>2.40</td>
<td>-</td>
<td>-</td>
<td>2.40</td>
<td>0.20</td>
<td>2.20</td>
<td>-</td>
</tr>
<tr>
<td>SPAIN</td>
<td>BANCO (52 SP)</td>
<td>3.00</td>
<td>-</td>
<td>-</td>
<td>3.00</td>
<td>1.00</td>
<td>2.00</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BANCO (51 SP)</td>
<td>3.00</td>
<td>-</td>
<td>-</td>
<td>3.00</td>
<td>1.00</td>
<td>2.00</td>
<td>-</td>
</tr>
<tr>
<td>THAILAND</td>
<td>NEST</td>
<td>1.50</td>
<td>7.86</td>
<td>-</td>
<td>9.36</td>
<td>1.90</td>
<td>2.60</td>
<td>2.60</td>
</tr>
<tr>
<td>TUNISIA</td>
<td>TIB</td>
<td>0.50</td>
<td>5.00</td>
<td>-</td>
<td>5.50</td>
<td>0.50</td>
<td>5.00</td>
<td>-</td>
</tr>
<tr>
<td>TURKEY</td>
<td>TEB (64 TU)</td>
<td>1.32</td>
<td>-</td>
<td>-</td>
<td>1.32</td>
<td>0.92</td>
<td>0.40</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>TEBE (128 TU)</td>
<td>0.46</td>
<td>-</td>
<td>-</td>
<td>0.46</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>URUGUAY</td>
<td>CAYENAS (65VE)</td>
<td>8.10</td>
<td>-</td>
<td>-</td>
<td>8.10</td>
<td>1.11</td>
<td>1.11</td>
<td>1.11</td>
</tr>
<tr>
<td></td>
<td>CAYENAS (128VE)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7.50</td>
<td>7.50</td>
<td>-</td>
</tr>
<tr>
<td>TOTALS</td>
<td></td>
<td>68.15</td>
<td>98.98</td>
<td>-</td>
<td>167.11</td>
<td>27.11</td>
<td>104.11</td>
<td>-</td>
</tr>
</tbody>
</table>

Treasurer's Department  
Finance Division  
March 6, 1968
COMMUNICATION: SENIOR STAFF MEETING SSM/M/68-10

DATED: March 8, 1968

TO:

FROM:

FILED UNDER: SENIOR STAFF MEETING

SUMMARY:

REGIONAL DEVELOPMENT BANKS

4. Mr. Rist reported that the study of regional development banks which had been circulated in October was being revised to take account of comments from Bank staff and the institutions concerned, and it was hoped to circulate it to the Executive Directors by the end of the month.
March 6, 1968

Mr. William Diamond  
International Finance Corporation  
1818 H Street, N.W.  
Washington, D.C.

My dear Diamond,

I am sending herewith text of a speech I made inaugurating a series of talks on recession organised by the Indian Institute of Management, Ahmedabad, which I thought you might like to see.

With kindest regards,

Yours sincerely,

(G.L. Mehta)
Would you please update the descriptive memoranda on the DFC's under your responsibility on the basis of the latest closing date of business of the companies (December 31, 1967 for all, except September 30, 1967 for BIDI, March 20, 1968 for INDBI and March 31, 1968 for DFCC and MIDF).

The draft memoranda should be in Mr. Shin's hands by the end of April.
COMMUNICATION: SENIOR STAFF MEETING SSM/M/68-9

DATED: March 1, 1968

TO:

FROM:

FILED UNDER: SENIOR STAFF MEETING

SUMMARY:

DRAFT O.M. ON DEVELOPMENT FINANCE COMPANIES

7. Mr. Cope asked that any further comments on the draft Operational Memorandum on Development Finance Companies (SSM/A/67-21) which had been discussed at the February 7 meeting (SSM/M/68-6) be given to Mr. Diamond as soon as possible.
February 29, 1968

Dear Mr. Shin,

Further to my reply of November 14, 1967 to your letters of September 8 and October 17 about small loans, enclosed herewith is a note updating our previous comprehensive review, a copy of which has been sent to IFC in August 1966, of our experience in this field of industrial financing.

We have tried to cover all the points raised in your letter of September 8, 1967 and would be happy to provide any further information that may be wanted.

I very much regret the delay in providing you with this information. Unfortunately there have been many demands on our staff in the last few months.

Yours sincerely,

L.M. SVOBODA
General Manager

enc.
Malaysia Industrial Development Finance Limited
INCORPORATED IN THE STATES OF MALAYA

Your ref:

DATE: February 20, 1969

Mr. B.N. Shin
Development Finance Companies
International Finance Corp.
18th N Street
Washington D.C. 20433
U.S.A.

Dear Mr. Shin,

Further to my reply of November 14, 1969, to your letters of September 8 and October 24, 1969, I'm glad to inform you that a copy of our report, which has been sent to IFD in August 1969, is now ready for your perusal.

We have tried to cover all the points raised in your letter of December 8, 1969, and would be happy to provide any further information that may be wanted.

I very much regret the delay in providing you with this information. Unfortunately there have been many delays on our part in the last few months.

Yours sincerely,

L.M. Sivabalan
General Manager
With the Compliments
of
G. L. Mehta

The Industrial Credit and Investment Corporation of India Ltd.
163, Backbay Reclamation, Bombay 1

[Handwritten notes: Mr. Pothen - Mr. Diamond O/R acknowledged 5/29/02]
INTRODUCTION

1. Although it has been the practice since the Company's inception in 1961 to extend hire purchase facilities to small industries in the absence of alternative sources of finance, small loan operations by MIDF date officially from 1963 when the Malaysian Govt. contributed a long term interest free loan of $37.5 million on condition that a substantial portion would be released to small businesses.

2. The formal resolution adopted by MIDF's Board of Directors in August 1963 which defines the objectives of the Company's special programme in small scale industries is quoted in full in Annex A.

3. Up to 1963, when it was reorganised, MIDF had granted 17 small loans which included 16 hire purchase investments and 1 factory mortgage loan for a total amount of over $421,000.

4. Since 1963, the Company's financing activities in the small industries sector have been considerably expanded and diversified and by the end of December 1967, 104 loans at a total amount of $4.7 million have been approved for small industries representing 7.2% of total loan operations. Of the 104 loans, 74 were in respect of hire purchase investments, 17 factory mortgage and 13 medium term loans. In 1964, a wholly owned subsidiary, the MIEL, was incorporated to develop and construct standard factory buildings in approved government industrial areas for sale to small industries on long term credit. Up to December 1967, MIEL had granted 28 loans for a total amount of about $1,371,000 which, when added to the other small loans, will raise the % of small loans to overall MIDF lending to more than 9.2% as against 3.1% in 1963. MIEL has so far completed 32 terrace-type factory units in the Penang/Province Wellesley area which have largely been sold to small industries needing space for expansion and new industries which would cater to the needs of the big industrial complex under development in the area. Another 21 factory units of a single type with larger-covered areas were completed in early 1967 in Petaling Jaya, Selangor, all of which have since been sold to a variety of
industries including printing presses, shoe makers, joinery and engineering workshops, school chalks, tyre retreading, etc. The first phase of another industrial estate in Batu Tiga is under construction and will have 17 factories, 16 of which will be of the duplex type. Under the small loans programme, MIDF have given assistance to a wide range of industrial undertakings including food and beverage processing, rubber and rubber products, textile and garments, plastic products, metal printing, cosmetics and pharmaceutical etc.

5. The average loan size under the hire purchase scheme is around $27,000 repayable over 3 years. For factory mortgage loans it is $86,000 over 7 years and for medium term loans $89,000 over 5 years respectively.

DEFINITION OF SMALL LOANS

6. There is considerable difficulty in arriving at a suitable quantitative definition of small scale business in terms of employment size, capital investment and use of motive power in the Malaysian context although the official Dept. of Statistic has defined establishments employing less than 20 full time workers as "small". MIDF generally regard small scale industry as that sector of manufacturing industry carrying on business in relatively small establishments with little or no specialised management, serving a relatively localised or minor part of the market and lacking access to the organised capital market. Owing to the difficulty in defining small scale industry in practical terms, MIDF have approached the problem by identifying the specific functional requirements of small scale industry and tailoring its facilities to satisfy these specific needs subject to ceiling limitations on the loan size per project. For instance, the hire purchase scheme was devised to assist small industrialist to expand, balance, modernise and diversify their existing operations by acquiring individual item of industrial equipment on rental terms. Alongside this, a factory mortgage and industrial estate development scheme was developed to meet the needs of the majority of small light industries for additional modern factory space. From experience, the total fixed assets value of projects financed

* See also Appendix A
under the small loans programme has averaged between $300,000 to $350,000 after the project for which MIDF assistance is required has been implemented.

TYPES OF SMALL-SCALE LOANS

7. Small-scale loans are distinguished from regular loans not only by size but also by type, taking the form of Medium Term, Factory Mortgage, or Hire Purchase Loans as shown in Annex B attached.

8. Loans by way of Hire Purchase at 10% interest per annum have made up about 40% of the total number of all lending operations and 75% of the total number of small-scale loans. The Hire Purchase scheme is intended to finance the procurement of capital equipment either for expansion purposes or to complement the production process or for upgrading the quality of industrial equipment. Repayment is in monthly instalments over a maximum period of 3 years at a rate of interest very favourable in comparison with the existing capital market. The borrower is required to deposit 25% of the c.i.f. price of plant and machinery, the remaining 75% being financed by the Company. By this means, it has been possible to offer financial assistance to a large number of industrialists with relatively small capital resources, thus making an immediate impact on employment and productivity in small-scale industry. As long as other domestic financing agencies do not undertake hire purchase financing for industrial machinery, MIDF must continue to make available badly needed finance to this sector in keeping with the objective of a development financing institution.

9. Factory Mortgage Loans have been made available to small industries for the purchase of factory buildings, including building sites, or alternatively for the purchase of ready-made standard factory units designed and developed by the Company's subsidiary, Malaysian Industrial Estates Ltd. Up to 80% of the total cost is made available on a medium/long term basis over 7-12 years at an interest rate of 8% to 9% repayment being in monthly or quarterly instalments as mutually agreed. Small sector business is enable to expand its production and consolidate it in more spacious
accommodation. Living quarters are provided in some of the standard MIEL factories in view of the need for proper proprietor supervision and convenience.

10. The value invested in loans on medium term has been $1,160,000 up to December 1967. The average period of these loans is 5 years. The loans are meant to finance the purchase of fixed assets i.e. land, building, plant and machinery. The Company normally provides up to half the fixed capital required for the project. The appraisal procedure is largely the same for the appraisal and follow-up of projects financed by longer term loans, but the amount of time spent on the appraisal is less than for larger projects.

11. The appraisal procedure for small or medium term loans is largely the same as that for larger loans although considerable less detailed information is required from the client and the time spent in appraisal is less. Since the applications for small loans have generally been from enterprises which have been in operation for some time, considerable emphasis is placed on their past performance while the assessment of future prospects is normally made by the MIDF staff in conjunction with the applicants who usually would not be able to provide the necessary answers on his own. In the main, the majority of these investments are in the nature of character loans. Consequently, particular attention is paid to the personal integrity, credit standing and business acumen of the entrepreneurs who usually represent the entire management. In view of the less cumbersome procedure and more liberal appraisal approach, all hire purchase applications, if approved, have to be guaranteed by a third party acceptable to MIDF. Legal documents for small loans are largely more simplified versions of those governing larger loans. Standard hire purchase contracts are used while recourse or guarantee arrangements with suitable suppliers of industrial equipment whereby MIDF will finance their acquisition on hire purchase terms subject to the guarantee of the supplier are also under consideration.

12. The appraisal report on a hire purchase and a factory mortgage loan is also less elaborate in form and substance. Similarly, although small
industries which have been granted loans on factory mortgage terms are also required to submit regular progress reports on their operations to MIDF, this requirement is carried out with considerable flexibility. Normal follow up visits are less frequent but are made when there are other reasons for an officer to be in the area.

**MAJOR PROBLEMS**

1. Apart from the costs involved, the principle problem of the small loan programme is the difficulty of appraising the viability of an operation for which, for instance, proper books of accounts are seldom kept. Investment decisions are to a large extent have to be based on assessment of the personal qualities, integrity and business acumen of the borrower and his past general performance rather than through analytical research involving elaborate feasibility studies. It may not be economical in every case to send a member of the staff a few hundred miles to look over an enterprise which has applied for a small loan. Again although MIDF attempts in every case to advise the small industrialist in the choice of equipment, factory layout and marketing knowledge, this has necessary been kept to a rather superficial level because of shortage of staff as well as by the common practice among small industrialists to look for finance only after an order has been placed. Post-sanction supervision of small loans, moreover, is difficult partly because of the inability of the client to maintain proper books of accounts and other necessary information mentioned earlier and partly because of cost.

**OTHER ANCILLARY SERVICES**

1. Small scale industries have, in many instances, derived considerable non-financial aid in the form of technical and managerial advice, selection of machinery, organisation and planning of production facilities, not only at the time of appraisal of the project for the purpose of making the loan, but also during the subsequent follow up on the projects after the loans have been disbursed. It is because of the problems which make it difficult for MIDF to provide this assistance within the present framework of its organisation, MIDF considers it a matter of some urgency that a small industry services centre which can be made responsible for this function be established. Already MIDF has initiated action to bring about the establishment of this centre.
PROFITABILITY OF SMALL LOANS

15. It is extremely difficult to cost the small loans operations because of the overlapping functions of the staff and problems in prorating administrative overheads. However, an attempt in 1966 to establish the cost and profitability of the various types of small loans by a time established that small loans have not proved to be a financial burden and their profitability is no more risky than that of the larger loans. So far they appear to have proved worthwhile financial propositions. The repayment performance on all these small loans has been good. The most significant performance on all these small loans has been good. The most significant contribution of the small loan program lies in the fact that it enables MIDF to grow with a large number of industrial undertakings than it would have if it were to grant only larger loans. To some extent the small loans program has enabled MIDF to infuse the thinking of a large number of small industrialists with new management and decision making techniques as well as various aspects of technical and financial management, which otherwise it would not have been able to do.

ECONOMIC IMPACT

16. Apart from the 74 hire purchase loans made to date for the acquisition of supplementary machinery or capital equipment for existing industrial enterprises, 8 out of the 30 factory mortgage and secured loans have been for the purpose of establishing new projects the remainder going towards the expansion or re-location of existing enterprises.

17. The gross output of 30 projects covering the factory mortgage and medium term loans increased from $8.8 million before the loans were made available to a potential of $17 million after completion of the projects for which the loans were approved. Similarly the total employment is likely to increase to 1,300 from the present figure of 800.

18. About half of the small firms financed are based on the use of indigenous raw materials for the manufacture of sawn timber, rubber goods, bricks, fabricated metallic products, tyres, food processing and fish preservation. The rest depend heavily on imported raw materials.
REPAYMENTS

19. Experience to date indicates that small loans are as equally secure as loans to the larger industries and in fact show a small incidence of default of repayment.

20. All small-scale loans, in accordance with a resolution of the Board of Directors, are referred to the Executive Committee of MIDF for approval.

CONCLUSIONS

21. The success of MIDF loan operations in the small-scale enterprise has exceeded expectations. Though small in comparison with the total value of loans approved (8%) small loans easily exceed 50% of the total in number. Total annual lendings are well within 20% of annual commitments as laid down by the Board, and the incidence of arrears in loan repayments has been favourably low, and there has been no single instance of default so far.

22. The continuing absence of a separate organisation specialised in the financing of the small industrial sector and the lack of an indigenous institution to provide finance for small industry in the non-Malay and non-rural field requires the continuation and extension of the Company's small loan program.

23. Some difficulty has arisen in determining which industries should qualify for hire purchase facilities. In the past some non-manufacturing industries were granted small loans in some instances, for example, fishermen, building construction projects and stone quarries, all seasonal in nature and depending on external variables difficult to forecast or control. This experience has helped to relate the hire purchase scheme strictly to "manufacturing industries" in fixed industrial locations where investment in the form of fixed assets can easily be identified.

24. In the case of factory mortgage and hire purchase loans, there is scope for further simplification and standardisation of procedure.
25. A review of the existing rates of interest to bring the Company's rates as close as possible to the domestic financial agencies operating in comparative fields may be necessary and a longer grace period for deserving cases may be considered in future.

March 8, 1968.
WPV/ARS/pool
RESOLUTION ADOPTED BY BOARD OF DIRECTORS
ON MIDF'S SMALL-SCALE INDUSTRIES PROGRAM

MIDF policy, after taking into consideration the recommendations of the IFC regarding the small-scale industry was outlined in the Minute of the 30th Board Meeting on 14th August 1963 as follows:—

"MIDF will initiate a special program designed to assist small-scale industrial enterprises which require loans in amounts between $50,000 and $150,000. Pursuant to its operations of this program:—

(i) Not more than 20% of the total amount of MIDF's annual commitments will be lent to such borrowers.

(ii) Separate accounts will be kept for such loans, so that from time to time the economies and experience of small-loan operations can be ascertained.

At the end of two years from the inception of this program, MIDF and IFC will study MIDF's experience with such loans, and, if it is concluded that the small-loan program has jeopardised MIDF's objectives of building itself into a financially sound institution, the program will be abandoned."
In the Departmental Staff Meeting on February 16, Mr. Diamond referred to a study, currently being undertaken by Mr. Avramovic, and solicited from each Division a note indicating briefly, and qualitatively, whether the shortages of resources were hampering the operations of our different clients. The position regarding this Division is as follows.

ICICI in India and CDC in Taiwan are well endowed with resources, both in local and foreign currencies, to conduct a substantial business volume over the next year or so. They have, therefore, no resource problem.

NIDB in Nigeria, though for understandable reason showing a sluggish business volume last year, and little prospect for a change in the immediate future, may sometime later next year run out of substantial resources which it could commit. The most acute case of a potential resource shortage, both foreign and local, is IMDBI in Iran; the proposed loan of US$25 million and arrangements for fresh rial resources to be made within the next few months should help this situation however.

c.c. Mr. Avramovic

HPollan/bj
February 26, 1968

Resource Position and Forecast of Funds Requirements of Development Finance Companies

MOROCCO: Banque Nationale pour le Developpement Economique (BNDE)
DH 5.06 = US$ 1


   Local Funds - Totally committed
   Foreign Exchange -
   Total Available for Credit $1,748,000
   (From Loan 447-MOR)
   Less: Total Projects with us for approval 1,072,000
   Total Funds Uncommitted $676,000


   Minimum         Maximum
   Local          DH 9          DH 21 million
                 ($1.8)         ($4.2 million)
   Foreign Exchange DH 36         DH 85 million
                 ($7.2)         ($17 million)

Source of Funds:

BNDE has applied for a Bank loan and current discussions on the structure of BNDE will eventually determine the amount of this loan, and the replenishment of local currency funds.

TUNISIA: Societe Nationale d'Investissement (SNI)
DI = US $1.905


   Local: No free resources (although 2/3 of SIDA loan is utilizable in local currency).
   Foreign Exchange -
   a) $10 million IBRD (Loan 512-TUN) not yet effective
   b) $3 million SIDA (2/3 utilizable in local currency)


   Local: SNI should get the equivalent of $2 million per year from advances recovery and portfolio sales.
   Foreign Exchange: Present resources are totally uncommitted.

SNI is not expected to encounter problems of scarcity of funds (local and foreign exchange) over the next 2-2 1/2 years.
IVORY COAST: Banque Ivorienne de Developpement Industriel (BIDI)
CFA Franc 246.85 = US $1.00

1. Resource Position (as of September 30, 1967)

<table>
<thead>
<tr>
<th>Resource Description</th>
<th>CFA</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Share Capital</td>
<td>CFAF</td>
<td>700</td>
</tr>
<tr>
<td>Quasi Equity</td>
<td>CFAF</td>
<td>1,250</td>
</tr>
<tr>
<td>Foreign KFW (20-year loan)</td>
<td>CFAF</td>
<td>625</td>
</tr>
<tr>
<td>AID</td>
<td>CFAF</td>
<td>1,250</td>
</tr>
<tr>
<td>Local Rediscountable</td>
<td>CFAF</td>
<td>231</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>CFAF</td>
<td>1,780</td>
</tr>
</tbody>
</table>

Total commitments as of 9/30/67: CFAF 1,780 million

Total Available Funds: CFAF 2,276 million


Total requirements in 1966/67 were CFAF 600 million. At that rate requirements for 1968-1969 would be CFAF 1,200 million.

BIDI will experience no problems of scarcity of funds over the next 2-2 1/2 years.

The KFW loan is reusable. Local funds are readily usable for the financing of imports as the CFAF is freely convertible in French Francs.

PAKISTAN: Pakistan Industrial Credit and Investment Corporation, Ltd. (PICIC)
Rs. 1.76 = US $1.0

1. Resource Position (as of September 30, 1967)

<table>
<thead>
<tr>
<th>Resource Description</th>
<th>Rs.</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>AID rupee loan uncommitted</td>
<td></td>
<td>4.6</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD 509 uncommitted</td>
<td></td>
<td>18.985</td>
</tr>
<tr>
<td>Other foreign lines of credit</td>
<td></td>
<td>10.727</td>
</tr>
<tr>
<td>Total: uncommitted</td>
<td></td>
<td>29.727</td>
</tr>
<tr>
<td>Approvals Pending Allocation</td>
<td></td>
<td>38.841</td>
</tr>
<tr>
<td>Shortfall</td>
<td></td>
<td>9.114</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Year</th>
<th>1967 (4th Quarter)</th>
<th>1968 (est.)</th>
<th>1969 (est.)</th>
<th>Total (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.7</td>
<td>12.0</td>
<td>12.0</td>
<td>29.7</td>
</tr>
<tr>
<td>Local</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Rs. million)</td>
<td>101.9</td>
<td>238.0</td>
<td>268.0</td>
<td>607.9</td>
</tr>
<tr>
<td>($ million)</td>
<td>21.4</td>
<td>50.0</td>
<td>56.3</td>
<td>127.7</td>
</tr>
<tr>
<td>Net Local Requirements: (Rs. million)</td>
<td>25.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Foreign Exchange Requirements: ($ million)</td>
<td>136.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Assuming that the approvals for which allocations to a specific line of credit remain pending at the end of 1969 amount to ($ million) $ 50.0

PTCIC's net requirements of Foreign Exchange $ 86.8 million

Sources of Funds:

Local - PTCIC has applied for a Government loan of Rs. 30 million. In addition PTCIC plans a Rs. 10 million share capital increase in early 1969.

Foreign Exchange -
- New German line of credit (approved in Oct. 1967) $ 2.0 million

Allocations from Government Foreign Exchange lines of credit for 1968 and 1969 should run at a $20 million per year level.
(In 1967 - PTCIC received: $ 21.0 million and in 1966 $ 16.4 million)

Thus, total amount from this source $ 40.0 million

For the rest ($45 million) the following will be applicable:

a) Mr. Ahmed told Mr. Melmoth in November that PTCIC might apply for a new Bank loan in mid-1968.

b) In December 1967 a two-member team from the Asian Development Bank was in Karachi and discussed possible assistance from the ADB to PTCIC.

The last two sources could fetch as much as $45 million for PTCIC. Any shortfall could be made up by the Government.

E. Venkateswaran, FIAE

Shared with Mr. Pasco
Yield on Equity Investment of Development Finance Companies for 1966

1. Attached is a table under the subject heading which I have prepared at your request. The following describes some observations I have made from the table.

Equity Investment Relative to Investment Portfolio

2. As at December 31, 1966 the aggregate volume of equity investments by twenty-four development finance companies reached almost $81 million, which represents 9.26% of the aggregate investment portfolio of those 24 companies. Obviously, the volume of equity investments has still been small for most of the finance companies. Only four companies have more than one-fifth of their investment portfolios in equity, namely SNI - 50%, NIDB - 28%, OF Nacional - 25% and CF Caldas - 21%, see Column E.

Equity Investment Relative to Net Worth

3. Column F indicates the ratio of equity investment to net worth. There are 7 companies with equity investments whose value is equal to 60% or more of their own net worth, namely ICICI - 107%, TSKB - 98%, CF Colombiana - 65%, CF Caldas - 61% and PICIC - 60%.

4. Since equity investment is risky, slow in fund-recovery and low or non-yielding for some time, it is in general prudent to limit equity investment to net worth. Nineteen of the 27 companies associated with us have incorporated such a limitation in their statements of policies. The remaining 8 companies, except for TSKB and CDC, have either had no formal written statement of policies (ICICI, DBE, IDBI) or their policy statements do not specify such a limitation (IVK, BNDE, NIDB and PDCP). TSKB's case will be described below. In the case of CDC, maximum equity investment is limited by its policy statement to 75% of the net worth.

1/ Three companies left out are IVK, KDFC and LBIDI. No accurate figures are available on the first and no equity investments have been made by the latter two.
5. In two cases, the 100% limitation has been modified. At the end of 1966, ICICI made equity investments slightly in excess of its own net worth. It has long been ICICI’s practice to relate its total equity investment to its own net worth and an allowance, determined by ICICI’s judgement of capital market conditions and the quality of its equity portfolio, for the cushion provided for by its first Government loan which is subordinated to ICICI’s equity. TSKB which has equity investments close to its own net worth, is permitted to make equity investments up to LT 170 million which is equal to 208% of the net worth at the end of 1966. The unusually large exposure permitted is accounted for by the fact that the Government loan to TSKB, a little over six times TSKB’s own share capital, is subordinated to the share capital, that as a result of the conversion of the former capital participation fund into the subordinated Government loan, TSKB’s aggregate equity investments exceeded its net worth at that time, and that TSKB needed some leeway to engage in additional participation in share capital.

6. Column D(1) indicates dividends received during 1966, and Column G shows the ratio of dividends received to total equity investments—the dividend yield on equity investment. The dividend yields in general were low; only five companies show yield of more than 5% p.a., namely TSKB - 9.37%, PICIC - 6.30%, NIDB - 6.16%, DFCC - 5.72% and CF Nacional - 5.69%.

7. Column D (2) indicates capital gains realized from sales of equity investments and Column H shows the ratio of capital gains to total equity investments. Column I is the sum of dividends received and capital gains as related to the total equity portfolio. Except for TSKB, the capital gains are too small a factor to improve average yield on total equity investments.

8. It is evident from Column I that, with the exception of TSKB, aggregate yields on equity investments in 1966 were considerably lower than lending rates. TSKB's capital gains were equivalent to 12% of the total equity investments, while the dividends were equivalent to 9% yield. Both combined amount to a 21% yield, which is more than double the average yield on its loan portfolio. However, the gains earned in 1966 by TSKB were at an unusually high level.

1/ The sum of ICICI's net worth and the first Government Advance amounts to Rs 183,750 million at the end of 1966. The equity investments were equal to 63.49% of this sum.

2/ Of which 96% represents net profits from NIDB's subsidiaries.

9. Column J indicates the cost and proceeds of shares sold and the capital gains as related to the original cost of shares sold. Except for TSKB, the gains are small in terms of value, but they represent quite a favorable return on the shares sold. Four companies, CF Colombiana, TSKB, ICICI and PICIC, indicate profits of 17% or more on such sales. The highest return is seen in CF Colombiana - 51.74%, followed by TSKB - 50.59%.

10. Finally, it should be added that a one-year sample does not tell much as to the overall performance of equity investment operations. What is important is the yield over a period of time. The yield over, say, a 10-year period, can give us a much better picture of how valuable the equity investment operations are for a company.
Treatment of Capital Gains in Computing Average Yield on Equity Investments

1. A question to be considered is how one should treat capital gains in computing the average yield on the equity investment operations of dfc's. Should one treat capital gains as return on equity investments for the particular year during which they are realized, or should we allocate the capital gains realized over the years in which the equity investments have been held. While the capital gain on any single investment can be measured in terms of its discounted yield over the years in which it has been held, it does not give any indication of the aggregate yield of the portfolio, because it does not take into account losses incurred or losses or gains on those investments which are not realized. The alternative measure is simply to compute, year by year, the gains (net of losses) realized as % of portfolio.

2. After preparing the attached table I am inclined to think that in evaluating overall performance the alternative measure is the best. However, it should be recognized that for a young finance company this measure may understate the potential earnings. Also the ratio of capital gains to portfolio for any single year is not too meaningful; perhaps sometimes misleading. Unlike dividends, capital gains are subject to arbitrary decisions by the company as to which shares, how much, and at what prices for the sale of shares and to market forces.

February 23, 1968

BHS:n:ts
<table>
<thead>
<tr>
<th>Company</th>
<th>Equity Investments (in thousands of US$)</th>
<th>Net Worth</th>
<th>Dividend as % of Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC (Congo)</td>
<td>931</td>
<td>5,116</td>
<td>18.20</td>
</tr>
<tr>
<td>CDC (China)</td>
<td>2,147</td>
<td>32,652</td>
<td>16.07</td>
</tr>
<tr>
<td>CF Caldas (Colombia)</td>
<td>3,021</td>
<td>14,148</td>
<td>13.64</td>
</tr>
<tr>
<td>CF Colombians</td>
<td>7,168</td>
<td>44,609</td>
<td>12.16</td>
</tr>
<tr>
<td>CF Nacional (II)</td>
<td>4,568</td>
<td>17,993</td>
<td>12.16</td>
</tr>
<tr>
<td>CF Norte (II)</td>
<td>343</td>
<td>5,071</td>
<td>12.16</td>
</tr>
<tr>
<td>CF Valle (II)</td>
<td>1,502</td>
<td>11,094</td>
<td>12.16</td>
</tr>
<tr>
<td>DBE (Ethiopia)</td>
<td>680</td>
<td>7,399</td>
<td>12.16</td>
</tr>
<tr>
<td>TR (Finland)</td>
<td>62</td>
<td>20,005</td>
<td>12.16</td>
</tr>
<tr>
<td>NIBID (Greece)</td>
<td>1,100</td>
<td>11,256</td>
<td>12.16</td>
</tr>
<tr>
<td>ICICI (India)</td>
<td>15,555</td>
<td>125,963</td>
<td>12.16</td>
</tr>
<tr>
<td>IMBDI (Iran)</td>
<td>4,106</td>
<td>41,709</td>
<td>12.16</td>
</tr>
<tr>
<td>IDBI (Israel)</td>
<td>11,240</td>
<td>199,743</td>
<td>12.16</td>
</tr>
<tr>
<td>BID/Boulevard</td>
<td>10/</td>
<td>2,439</td>
<td>12.16</td>
</tr>
<tr>
<td>MIDF (Malaysia)</td>
<td>551</td>
<td>14,453</td>
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<tr>
<td>BNDE (Morocco)</td>
<td>3,019</td>
<td>31,099</td>
<td>12.16</td>
</tr>
<tr>
<td>KBID (Nigeria)</td>
<td>7,310/</td>
<td>8,455</td>
<td>12.16</td>
</tr>
<tr>
<td>PBIC (Pakistan)</td>
<td>5,546/</td>
<td>11,878</td>
<td>12.16</td>
</tr>
<tr>
<td>RANOCBICO (Spain)</td>
<td>4,951</td>
<td>14,675</td>
<td>12.16</td>
</tr>
<tr>
<td>IFCT (Thailand)</td>
<td>32</td>
<td>6,433</td>
<td>12.16</td>
</tr>
<tr>
<td>TMB (Turkey)</td>
<td>5,784</td>
<td>77,660</td>
<td>12.16</td>
</tr>
<tr>
<td>CARNERO (Venezuela)</td>
<td>73</td>
<td>14,825</td>
<td>12.16</td>
</tr>
</tbody>
</table>

Total: 80,734

Yield on Equity Investments of Development Finance Companies for 1966:

<table>
<thead>
<tr>
<th>Company</th>
<th>Equity Investments</th>
<th>Net Worth</th>
<th>Dividend as % of Total Investment</th>
</tr>
</thead>
</table>
| IFC/DFC | February 23, 1968

Note: Three companies, IVE, KIDC and LAMID, are excluded. No accurate figures on equity investments are available for the first and no equity investments have been made by the latter two.

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</table>
| IFC/DFC | February 23, 1968

Note: Three companies, IVE, KIDC and LAMID, are excluded. No accurate figures on equity investments are available for the first and no equity investments have been made by the latter two.

<table>
<thead>
<tr>
<th>Company</th>
<th>Equity Investments</th>
<th>Net Worth</th>
<th>Dividend as % of Total Investment</th>
</tr>
</thead>
</table>
| IFC/DFC | February 23, 1968

Note: Three companies, IVE, KIDC and LAMID, are excluded. No accurate figures on equity investments are available for the first and no equity investments have been made by the latter two.
February 20, 1968

Sugar Projects

Of the development finance companies with which this Division is concerned, only PDCP has financed sugar projects. The required information is given below:

<table>
<thead>
<tr>
<th></th>
<th>Name of project</th>
<th>Central Asucarera de Tarlac</th>
<th>Paniqui Sugar Mills</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Name of project</td>
<td>Central Asucarera de Tarlac</td>
<td>Paniqui Sugar Mills</td>
</tr>
<tr>
<td>2.</td>
<td>Total capital</td>
<td>P 17,730,000</td>
<td>P 3,500,000</td>
</tr>
<tr>
<td>3.</td>
<td>Capacity</td>
<td>78,000 tons per annum (refining)</td>
<td>23,500 tons annually (milling)</td>
</tr>
<tr>
<td>4.</td>
<td>Financing by DFC</td>
<td>P 7,900,000</td>
<td>P 2,764,000</td>
</tr>
<tr>
<td>5.</td>
<td>Of which from Bank loans</td>
<td>P 4,400,000 ($1.2 million)</td>
<td>P 1,654,000 ($13,500)</td>
</tr>
<tr>
<td>6.</td>
<td>Remarks</td>
<td>Refining facilities were added to existing milling capacity. Subsequently an additional loan of $300,000 was also approved.</td>
<td>Milling capacity was increased from 15,700 tons to 23,500 tons annually. Subsequently an additional loan of 23,400 was also approved.</td>
</tr>
</tbody>
</table>

ZHanan: dll
February 20, 1968

Mr. Robert Fitzsimons
Manager Foreign Currency and Exchange
Trans World Airlines
605 Third Avenue
New York, N.Y. 10017

Dear Mr. Fitzsimons:

With reference to our telephone conversation on February 15, 1968, I am enclosing the following items of information directly relating to the questions you posed:

1. Development Finance Companies - Investments in Hotels;
2. Press Release on IFC Investment in Kenya Hotel Properties Limited, Kenya;
3. Full names and addresses of the Development Finance Companies;
4. IFC information brochures on policies, activities, and industrial development.

I trust this information will prove satisfactory.

Yours sincerely,

P. M. Mathew
Deputy Director
Development Finance Companies

Enclosures (8)

RVenkataseswaran:med
cc. Messrs. von Hoffmann, Patterson
February 19, 1968

Mr. Neville U. Jayawardena
Chairman and Managing Director
Mercantile Credit Limited
51-53 Queen Street
Colombo 1, Ceylon

Dear Mr. Jayawardena:

Further to Mr. Mathew's letter of February 16, 1968, I am sending under separate cover the following literature on development banking:


Yours sincerely,

Zamir Hasan
Development Finance Companies

ZHasan:img
February 16, 1968

P. M. Mathew

Sugar Projects

Please prepare and let me have, in about a week's time, information as follows on sugar projects financed by our development finance companies.

1. Name of project.
2. Total capital.
3. Capacity
4. Financing by dfe
5. Of which from Bank loans
6. Remarks
COMMUNICATION: SENIOR STAFF MEETING SSM/N/68-6

DATED: February 9, 1968

TO:

FROM:

FILED UNDER: SENIOR STAFF MEETING

SUMMARY:

DRAFT O.M. ON DEVELOPMENT FINANCE COMPANIES

8. The meeting considered the draft Operational Memorandum on Development Finance Companies prepared by Mr. Diamond (SSM/A/67-21).

9. The Chairman said that the draft O.M. was a codification of established policy, and asked that comments be confined to its merits as such, and not directed to possible improvements in policy.

10. In reply to a question, Messrs. Cope and Diamond said that many questions had been raised, by Executive Directors and by members of the staff, about existing policies which needed consideration with a view to possible revision. Among these questions were the following:

   (a) The appropriate debt-equity ratio for a dfc.

   (b) Whether dfc's should use Bank funds to finance local currency expenditure.
(c) The freedom which the Bank should permit dfc's in the approval of sub-projects.

(d) How closely repayments by a dfc to the Bank should be tied to repayments by sub-borrowers to the dfc.

(e) Whether the Bank should lend to a government-owned dfc.

(f) Whether a dfc should lend to a government-owned enterprise.

(g) Whether the Bank should have direct rights vis-a-vis the ultimate borrower.

(h) Whether the Bank should continue to insist that dfc's have quasi-equity.

These matters would be considered at a future date. The objective at the moment was to provide a clear statement of current policy to guide staff members.

11. Mr. Diamond said that he had found that the last sentence of paragraph 52, which said that, "Arrangements must be made for adequate and timely discussion of any intention to change the management", did not accurately describe current policy, and should be deleted.

12. In the course of discussion, the following points were made:

(a) The possibility of a conflict of interest between IFC's position as adviser to the Bank on loans to dfc's and its position as an investor in dfc's should be faced.

(b) With reference to paragraph 9, the Bank did not treat the subsidiary of a foreign company as domestically owned. In some cases there had been agreement with the governments and sponsors concerned that an IFC investment should be regarded as domestic from the point of view of deciding whether a majority ownership was foreign or domestic. In such cases IFC usually undertook to dispose of its shares to domestic investors only.

(c) With reference to the statement in paragraph 5 that dfc's financed by the Bank gave due weight, when making investments, inter alia, to "the economic benefits to be obtained", it was pointed out that an investment of, say, $200,000, in a small industrial enterprise could have no appreciable effect on a country's general development, and it would be inappropriate to scrutinize such investments too rigorously from this point of view. Nevertheless, when a dfc proposed to invest a large amount in a project of doubtful economic, as distinct from financial, benefits, the dfc was expected to examine the economic viewpoint. A reference to the need to consider the economic interests of the country was sometimes included in a dfc's general policy statement. The Bank and IFC kept the general level of protection enjoyed by the industries financed under review. However, a dfc had to accept the protective system as given.
(d) With reference to paragraph 4, it was stated that when, in 1962, the responsibility for appraising dfc's had been transferred to IFC, the President had specified that IFC would not consider a proposal for the establishment of a dfc until the Bank area department concerned had stated that:

(i) A dfc was important to the country in question.

(ii) The Bank would be prepared to lend to, or otherwise to support, the dfc.

(e) With reference to the statement in paragraph 5 that Bank-financed dfc's provided finance "principally, but not exclusively, in the manufacturing sector", it was stated that tourism was admissible, but that small-scale agriculture, very small-scale industry, housing and the kind of investment typified by casinos were excluded.

(f) With reference to paragraph 21, it was stated that only in three cases had the salaries of advisers or managers to dfc's been financed out of the Bank loan to the dfc. It was suggested that the paragraph should lay more stress on the usefulness of advisers in strengthening management in appropriate cases.

(g) The subject of IFC representation on the boards of dfc's should be covered.

13. The Chairman asked that any further comments should be given directly to Mr. Diamond.

ADJOURNMENT

14. The meeting adjourned at 11:00 a.m.

C. H. Davies
Secretary
Mr. William Diamond

Raymond J. Goodman

Draft OM on Development Finance Companies

February 8, 1968

I attach some comments by members of the Asia Department on the draft Operational Memorandum on Development Finance Companies. The paper is dated February 6, 1968, but the comments were actually collected last November, when the draft was first circulated.

I do not necessarily agree with all the comments contained in the paper but I thought it might be helpful to you to note the reactions of certain operations officers to the draft.

cc: Mr. Cope

RJGoodman:ypg
Paragraphs 1 and 2 - (Kraske): Paragraph 1 says that one of the objectives of a development finance company is to serve as a channel for Bank financing to private enterprises. Paragraph 2 says that the operational memorandum is not concerned with institutions which serve only as channels for Bank funds. Although the meaning of this distinction becomes clear from the examples given, the wording may be changed so as to avoid confusion.

Paragraph 4(c) - (Humphrey): This implies that a pre-requisite of helping a D.F.C. is that there must be a clearly defined institutional gap in the capital market which a development finance company will be able to fill, partly or fully. One can envisage circumstances where there is no institutional gap, but merely a shortage of funds available from existing institutions. Under these circumstances, the Bank may either lend to an existing institution, or, if existing institutions are judged to be unsuitable channels for Bank funds, help establish a DFC.

Paragraph 7 - (Jentgen): I understand from reading the paragraph that at no time a Government participation in a Development Finance Corporation in excess of 50% would be acceptable. I wonder whether in cases where responsible private local shareholders are just not available and the participation of foreign shareholders being acceptable only to a point, it would not be preferable to accept a majority position of the Government for a clearly defined initial period rather than postpone creation of the Development Finance Corporation or to bring in for appearance only private local shareholders who otherwise may be a dead weight.

7(a) - (Humphrey): This paragraph lays down a pretty hard line on Bank involvement in DFCs where the Government has a substantial interest. There is an absolute prohibition on lending to institutions where the Government holding is greater than 50%. This would mean that the more flexible attitude the Bank is now taking towards lending to government-controlled manufacturing industry, with the emphasis on management and efficiency, rather than ownership, would not apply to DFCs - even though DFCs are intermediaries, rather than ultimate, borrowers. In addition, the policy laid down in this paragraph does not distinguish between direct government holdings of shares in the DFC and holdings of DFC shares by autonomous or semi-autonomous public authorities and the pension funds etc. of such institutions. Presumably, all such holdings would be classified as "Government holdings." In an economy where the public sector is large, this may deprive the DFC of a valuable source of funds. In addition, it seems a little unrealistic to expect the Government to provide "quasi-equity" (para 11), but not to have any influence whatever over the institution.

(Kraske): The first sentence of paragraph 7 seems to be an unqualified credo in the beneficiary effects of private enterprise and initiative. Even though this would be an internal document, I wonder whether we should not make this kind of statement in less absolute terms. While private investors are assumed to be very much opposed to any kind of Government
influence on the policy of the development bank, they do seem nevertheless appreciative of Government support in the form of quasi equity participation (paragraph 11).

Paragraph 9 - (Kraske): In paragraph 9 it is not clear how IFC has helped to give development banks the requisite image of a national institution.

Paragraph 16 - (Kirk): Para. 16 refers to joint working parties including a representative of the IFC Investment Department. So far as ICICI is concerned an IFC Investment Department representative has never participated in any working party discussions nor would I have thought it necessary for there to be such representation. There is no reference to the legal representation on such working parties; it might be worthwhile to specify that the Bank legal staff are responsible when Bank loans are concerned and IFC legal staff only when an IFC investment is involved.

Paragraphs 14 to 18 - (Martin): It is stated that DFC's are dealt with by joint working parties and that the Corporation's Investment Department and Development Finance Companies Department (DFCD) are represented on Bank working parties. To date the PICIC Bank working party has included DFCD but not the IFC Investment Department. The working party can become somewhat cumbersome and since so many routine matters have to be cleared with the working party considerable delay can occur with an increase in members. Is there any advantage in increasing the size of the W.P. when so much routine work has to be cleared?

Paragraph 18 - (Martin): Para. 18 states that in approving projects requiring prior Bank approval, the working party is not consulted unless a policy issue is involved. If this system is to be adopted for projects requiring prior Bank approval and DFCD is to be the technical advisor to Area for administration of loans, might it not be better to give the routine responsibility for crediting all sub-loans to DFCD? Letters and telegrams of confirmation could be sent by DFCD to Area for signature, as at present for those above the free limit. The present division of responsibilities can cause some confusion.

(Kirk): Para. 18 states that the working party is not consulted (except on "policy issues") on the approval of projects which require prior Bank approval and that the Bank area department director acts on the advice of the DFC department. I question that this "policy" is desirable and doubt if in fact it has been the practice to bypass the working party in this manner.

(Kraske): Para. 18 spells out the procedure for the approval of projects above the free limit and says that the Working Party will not normally be consulted but that the Area Department Director will act on the advice of IFC. This has been the subject of an earlier memorandum and neither there nor here was explained what is actually meant by this procedure and why this kind of decision, which seems to be a crucial one regardless of the circumstances, should be removed from the Working Party.
Paragraph 23 - (Martin): At the Board presentation on PICIC (August 8, 1967), Mr. Knapp emphasized that the Bank would be prepared to consider lending to a DFC before existing funds from an earlier loan had been entirely committed. Might not this possibility be mentioned since the present draft merely refers to the expected demand for capital for a period of one to two years.

(Humphrey): There is no mention of administrative costs in foreign exchange which in certain past cases have been financed out of Bank loans. Is the omission deliberate?

(Kraske): Para. 23 says that the amount of IDA credits for development finance companies would largely depend on the amount of IDA funds that can be made available to the country. I would think the same is true for Bank loans and should be spelled out.

Paras. 23 and 25 - (Kirk): Paras. 23 and 25 confuse me somewhat in that there seems to be an implication that the Bank provides loans to DFC's for other than the financing of sub-projects, which I understand is not the case.

Paragraph 24 - (Kraske): Para. 24 says that only in special circumstances will IFC consider making loans to development banks. Why is this so and what are the circumstances?

Paragraph 25 - (Kraske): Re-wording of paragraph 25 might make it clearer that what is intended is a section of the Project Description dealing with the impact of a Bank loan on the private economy of a country as distinct from a section dealing with the financial aspects of the development bank itself.

Paragraph 36 - (Martin): It states that the loan contract specifies a maximum period (usually 15 years) for repayment of any individual investment financed with its proceeds. DFCD has held that, in spite of this maximum period, amortization schedules for individual investment should be tailored to each project, being in most cases of shorter duration. Some mention could be made to this effect.

Paragraph 41 - (Humphrey): This raises the whole question of local currency financing. In certain countries, on general economic grounds, we agree to finance a portion of the local costs of projects, without linking this portion to the foreign exchange component of locally manufactured items. This paragraph implies that when we lend through a DFC in such countries, the proceeds can only be used for imported goods or for the foreign exchange component of domestically manufactured goods. A further practical reason for avoiding tying the proceeds of the Bank loan to the foreign exchange element of locally manufactured goods is that the DFC will have to get its sub-borrowers to find out from their suppliers what the foreign exchange component is. This may be difficult, time-consuming and not very meaningful, particularly if the local manufacturer has bought his components from other local firms and these components also have an import component.

Paragraph 42 - (Kraske): It is not quite clear to me why a time limit on the reimbursement of expenditures incurred for sub-projects will encourage development banks to enter into the planning and financing of a project at an early stage.
Paragraph 50 - (Kraske): Para. 50 dealing with the question of auditors must have evolved quite recently and led IFC to require a number of changes in our KDFC documents after the completion of negotiations. It is still not quite clear what is meant by the last sentence of paragraph 50 requiring the transmission of auditors reports to the Bank together with related letters from the auditor. In a memorandum dated November 8, Mr. Powell recommended that we should have a supplemental letter on auditors which would require that (i) auditors should submit to the Bank certified copies of financial statements and a signed copy of the accounting firm's report in a form satisfactory to the Bank together with a copy of any communication sent by the auditors to the company or to its management in relation to the company's accounting system or accounts; (ii) the company shall authorise the auditors to communicate directly with IFC at any time regarding the company's accounts and operations. Apart from the fact that we would need to be more specific with respect to the kind of communications that we or IFC would want to be informed about if this is to become part of our legal documents, I wonder whether we do not infringe on the stipulated independence of the auditors and on the contractual relationship between a company and its auditors, which I understand to be somewhat in the nature of the relationship between a doctor and his patients.
February 5, 1968

Dear Mr. Mathari:

Thank you for your letter of January 30 about Mr. Ben Yedder's plans to visit development finance companies in Pakistan, Iran and Turkey. I am sure they will welcome him and that Mr. Ben Yedder will benefit from the experience. I have already written to the Managing Directors of the three development finance companies with which we are associated in those countries, and am enclosing copies of my letters. I will also send copies to Mr. Ben Yedder as soon as I hear of his address in New Delhi.

Messrs. Nougaim and Pesce have told me of their very pleasant visit in Tunisia. They have spoken in high terms of SNI and its management. They are now at work on their report and we shall, I hope before long, be writing to you about our observations regarding it.

With best personal regards,

Sincerely yours,

William Diamond
Director
Development Finance Companies

Mr. Abdelaziz Mathari
President
Société Nationale d'Investissement
68 Avenue Habib Bourguiba
Tunis, Tunisia

Enclosures

WDiamond/ESekse:fmc
February 5, 1968

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

Dear Mr. Ahmed:

I am writing to introduce to you our good friend Mr. Rachid Ben Yedder, the General Manager (Administrateur Delegue) of the Societe Nationale d'Investissement of Tunisia. You will recall that the IFC is a shareholder in, and the World Bank has made two loans to, that development finance company which we helped to reorganize a few years ago. I might add that the SNI has been progressing beyond our expectations, since the reorganization and since new management took its helm. I am enclosing, for your general information, a memorandum describing that institution.

Mr. Ben Yedder will be attending the UNCTAD meeting in New Delhi as a member of the Tunisian Delegation, for a few weeks. He has expressed the wish to visit several of the development finance companies associated with us, for a few days each, after he leaves New Delhi. We have written to encourage him to do so, for it is, as you know, our strong conviction that such visits as those he contemplates are of great value in transmitting experience from the older and more effective institutions to the younger ones.

Mr. Ben Yedder has chosen PICIC, and the development finance companies in Iran and Turkey, as the ones he would like to visit. His plan is to spend about five days in each, beginning with Karachi, if that is convenient to you. He has in mind to start the visits during the last week in February. I hope very much that you will find it convenient to receive him at that time, and will give him an opportunity of learning something about the problems and successes of PICIC.

Mr. Ben Yedder plans to let you know directly, when he is sure of the date when he will expect to arrive in Karachi.

With best personal regards,

Sincerely yours,

William Diamond
Director
Development Finance Companies

Enclosure
cc: Mr. Abdelaziz Mathari, President, SNI, Tunisia
February 5, 1968

Mr. A. Gasem Kheradjou  
Managing Director  
Industrial and Mining  
Development Bank of Iran  
133 Khieban Shirez  
Teheran, Iran  

Dear Gasem:

I am writing to introduce to you our good friend Mr. Rachid Ben Yedder, the General Manager (Administrateur Delegue) of the Societe Nationale d'Investissement of Tunisia. You will recall that the IFC is a shareholder in, and the World Bank has made two loans to, that development finance company which we helped to reorganize a few years ago. I might add that the SNI has been progressing beyond our expectations, since the reorganization and since new management took its helm. I am enclosing, for your general information, a memorandum describing that institution.

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Mr. Ben Yedder has chosen IMDHI, and the development finance companies in Pakistan and Turkey, as the ones he would like to visit. His plan is to spend about five days in each, beginning with Karachi, and proceeding to Teheran, if that is convenient to you. He has in mind to start the visits during the last week in February, and is therefore likely to arrive in Teheran at the end of February or the very beginning of March. I hope very much that you will find it convenient to receive him at that time, and will give him an opportunity of learning something about the problems and successes of IMDHI.

Mr. Ben Yedder plans to let you know directly, when he is sure of the date when he will expect to arrive in Karachi.

With best personal regards,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies

Enclosure

cc: Mr. Abdelaziz Mathari, President, SNI, Tunisia

William Diamond/SEkse:amm
February 5, 1968

Mr. Resid Egeli  
General Manager  
Türkiye Sinai Kalkınma  
Bankası, A.S.  
P.O. Box 17  
Karaköy  
İstanbul, Turkey

Dear Resid Bey:

I am writing to introduce to you our good friend Mr. Rachid Ben Yedder, the General Manager (Administrateur Delegué) of the Société Nationale d'Investissement de Tunisie. You will recall that the IFC is a shareholder in, and the World Bank has made two loans to, that development finance company which we helped to reorganize a few years ago. I might add that the SNI has been progressing beyond our expectations, since the reorganization and since new management took its helm. I am enclosing, for your general information, a memorandum describing that institution.

Mr. Ben Yedder will be attending the UNCTAD meeting in New Delhi as a member of the Tunisian Delegation, for a few weeks. He has expressed the wish to visit several of the development finance companies associated with us, for a few days each, after he leaves New Delhi. We have written to encourage him to do so, for it is, as you know, our strong conviction that such visits as those he contemplates are of great value in transmitting experience from the older and more effective institutions to the younger ones.

Mr. Ben Yedder has chosen TSKB, and the development finance companies in Iran and Pakistan, as the ones he would like to visit. His plan is to spend about five days in each, beginning with Karachi, then Tehran, and proceeding to Istanbul, if that is convenient to you. He has in mind to start the visits during the last week in February, and is likely to arrive in Istanbul sometime in early March. I hope very much that you will find it convenient to receive him at that time, and will give him an opportunity of learning something about the problems and successes of TSKB.

Mr. Ben Yedder plans to let you know directly, when he is sure of the date when he will expect to arrive in Karachi.

With best personal regards,

Sincerely yours,

William Diamond  
Director  
Development Finance Companies

Enclosure

cc: Mr. Abdelaziz Mathari, President, SNI, Tunisia

WDiamond/ESekse:amm
COMMUNICATION: Letter
DATED: February 2, 1968
TO: Various DFC

FROM: Mr. William Diamond

FILED UNDER: IFC - Investment Incentives

SUMMARY: Re: Asking them for their cooperation for the study now underway in the IFC on investment incentives.
January 26, 1968

Mr. H. H. Shin
Development Finance Companies
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433
U.S. of America

Dear Mr. Shin:

This is in reference to your letter of January 22, 1968.

we wish to thank you for the copy of the paper on "Administered Funds" you have kindly sent us.

Yours sincerely,

TÜRKİYE SINAI KALKINMA BANKASI A.Ş.
Mr. Hans Fuchs

H. Pollan

Min.ing Projects Financed by EFCs with Bank/IFC Funds

The information you requested is set forth below in respect of whose my Division is looking after:

<table>
<thead>
<tr>
<th>Loan or Investment</th>
<th>Project</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>China - CDC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethiopia - IBGE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India - ICICI</td>
<td>Loan 41h - IN</td>
<td>9/1/65</td>
<td>1.5</td>
</tr>
<tr>
<td>Iran - IMDBI</td>
<td>Loan 459 - IRN</td>
<td>12/30/66</td>
<td>0.53</td>
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<tr>
<td>Nigeria - NIDB</td>
<td>Investment 68 - UNI</td>
<td>1964</td>
<td>20.1</td>
</tr>
</tbody>
</table>

1/ This Nigerian case is an equity investment by NIDB. IFC has 25% of NIDB's shares. This case may be on the boarder line because NIDB also obtained loans (not from the IBRD) and there is no segregation within NIDB as to whether loans it obtained, of its equity, are to be devoted to the same purposes.

jb
January 12, 1968

Dear Dr. Amin:

Thank you for your cable of January 11, clearing with that portion of my draft paper, Administered Funds, concerning Industrial and Mining Development Bank of Iran.

As I wrote you on April 24, 1967, I will circulate copies of it among the development finance companies with which the World Bank Group is associated.

Yours sincerely,

B.H. Shin
Development Finance Companies

Dr. Reza Amin
Deputy Managing Director
Industrial and Mining Development Bank of Iran
20th Boulevard Karaj
Tehran, Iran

cc: Mr. Pollan

BHShin:ts
Telegram Confirmation

To: U.S.A.

CORINTFIN
WASHINGTON DC

FOR SHIN

URLET DECEMBER 28 REGRET VERY MUCH
DELAY BUT HAVE CHECKED DRAFT PAPER
ENTITLED ADMINISTERED FUNDS AND AGREE
FULLY REGARDS

AMIN
CROSS REFERENCE SHEET

COMMUNICATION: Memo

DATED: January 11, 1968

TO: Messrs Delaume, Eschenberg and Goor

FROM: Mr. A. Stevenson

FILED UNDER: INBESTEDNESS - Gen.

SUMMARY: Re: External Debt Arrangements with Regional Banks
**INCOMING CABLE**

<table>
<thead>
<tr>
<th>DATE AND TIME OF CABLE:</th>
<th>JANUARY 11, 1968</th>
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<tbody>
<tr>
<td>LOG NO.:</td>
<td>RC 5 / 11</td>
</tr>
<tr>
<td>TO:</td>
<td>CORINTFIN</td>
</tr>
<tr>
<td>FROM:</td>
<td>TEHERAN</td>
</tr>
</tbody>
</table>

**TEXT:**

FOR / SHIN
URLET DECEMBER 28 REGRET VERY MUCH DELAY BUT HAVE CHECKED DRAFT PAPER ENTITLED ADMINISTERED FUNDS AND AGREE FULLY
REGARDS

AMIN
Mr. P.M. Mathew

D. W. Jeffries

Development Banks not Associated with the World Bank Group

The following lists our contacts with and the materials received from the government development banks in various countries:

**CYPRUS**

Cyprus Development Corporation Ltd.

**Contacts**

Mr. G.C. Wishart visited Cyprus in early August 1962 and held talks with the Ministry of Finance officials and U.S. Aid mission about the Cheocchi proposal to set up a development bank in Cyprus. His comments were made available to the Finance Minister in late August. The development bank (CDC) was incorporated in June 1963. The authorized share capital of the company is £3 million divided into 2.4 million Class A shares and 600,000 Class B shares of £1 each. Class B shares are reserved for the Government. IFC did not participate. In 1964, the Finance Minister asked the Bank to find a senior advisor for CDC. We recommended Mr. Peperkorn of the National Investment Bank of the Netherlands for the position but subsequent negotiations between CDC and Mr. Peperkorn did not result in any agreement. In February 1966, the Finance Minister wrote to the Bank exploring the possibility of obtaining a Bank loan for CDC. The Bank asked for additional information on CDC in April, 1966 and further discussions took place with the Cyprus delegation at the 1966 Annual Meeting. In January, 1967 the Bank notified the Finance Ministry that CDC would not qualify for assistance by the Bank because the expected volume of business of CDC would hardly provide an adequate basis for profitable operations.

**Available Materials**

- Annual Reports 1963, 1965
- Articles of Association,
- Financial statements, and
- Operations report 1964-1965
ICELAND

Frakfraemabanki Islands

(Iceland Bank of Development)

Contacts

IBD was established by the Government in February 1953 by an Act of the Althing following recommendations contained in the Bank mission report dated June 11, 1951 entitled "An Investment Program for Iceland". Since its inception, IBD has acted as a general investment institution, with the main emphasis on public projects, industry, fisheries and agriculture.

Miss Zafiriou of the Bank visited IBD in March 1966.

In May 1966, Dr. Nordal, Governor of the Central Bank of Iceland, during his visit to Washington said that IBD had not fulfilled its hopes and was in the process of being liquidated and its activities divided up among other institutions, including a new development lending section of the Central Bank. He felt that in the course of time the need might be felt in Iceland for a more specialized institution and he inquired about our policies with respect to DFC's. He said in due course IFC might be requested to consider whether it could help establish a private development finance company in Iceland.

In September 1966, IBD informed the Bank that in accordance with a law passed by the Parliament, IBD was to be reorganized as a development fund under the name of the Development Fund of Iceland, which would be attached to the Central Bank. The law was scheduled to enter into force on January 1, 1967.

Available Materials

Annual Report 1966 (Mr. Shin)

IRELAND

The Industrial Credit Company Limited.

Contacts

The Industrial Credit Company, Limited, (ICC) was established in 1933. It was originally intended to be a private company but the public issue, underwritten by the Government, was not successful and as a result Government took up all the shares.
Mr. Richards held discussions, during his visit to Dublin in March 1963, with Mr. Whitaker, Secretary of the Ministry of Finance, and Dr. J.P. Beddy, Chairman of ICC, about the proposal submitted by Mr. Whitaker earlier, that IFC invest in ICC. The conclusion was that IFC would not be able to invest in ICC as the latter was then constituted. Moreover, ICC could get all the money it wanted from the government.

During the annual meetings in September 1963, Mr. Paterson met with Mr. Whitaker. Mr. Whitaker said active consideration was being given to the reorganisation of the Industrial Credit Company with a view to the Government divesting itself of control. It was thought that some commercial banks might acquire an interest in the company and he hoped that in due course IFC might consider investing in it once the reorganisation had been completed.

In September 1966, Messrs. Miller, Richards and Paterson met with Messrs. Whitaker and Murray of the Irish delegation. There was discussion of the possible privatization of ICC, but Mr. Whitaker considered that it was unlikely that anything would be done in this direction at least for some time because the bank was considered to be operating successfully as a public entity.

In September 1966, Mr. Whitaker presented a tentative proposal for reorganizing ICC aimed at making it eligible for IFC investment and Bank assistance. In December 1966, Mr. Diamond wrote Whitaker raising a few questions concerning the justification for setting up a new institution in Ireland and the need for IFF. This latter was never answered, however, during the annual meetings in September 1967, Mr. Diamond met with Mr. Whitaker. Mr. Whitaker emphasized that there still remains a shortage of medium- and long-term capital which existing institutions are not providing and IFC's participation would provide the stimulation needed. He added that Arthur D. Little had recently made a study for the Government of industrial investment prospects and problems and had recommended the need for a new financial institution. Mr. Diamond pointed out that there was no prospect of World Bank assistance to Ireland and IFC would not be interested in participating in a dFC in Ireland unless its participation made an important and critical contribution. He added however, we would be prepared to think about the matter seriously again if he wanted us to. (Arthur D. Little's report was received in October 1967.)

Available Materials

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<th>Annual Reports 1957-1965</th>
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<td>Arthur D. Little Report, 1967</td>
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INDONESIA

Bank Pembangunan Indonesia

(Development Bank of Indonesia)

Contacts

In the wake of the introduction of "guided economy", a government development bank called Bank Pembangunan Indonesia (BPI) was established in August 1960 for assisting the Government in financing development projects under the national development plan. The Bank Industrial Negara was merged into BPI immediately after the latter's establishment. During the period from 1961 to 1966, the financing of development projects by BPI was done with funds made available directly from the annual state budget for development.

Mr. Tazi, Executive Director for Indonesia, during his visit to Indonesia, in June 1967, held discussions with the Board of Directors of BPI and other government officials and the suggestion was made that BPI might be merged with the private development bank (Bank Pembangunan Swasta) and IFG be asked for help in establishing an institution suitable for World Bank assistance. Mr. Tazi discussed the proposal with Mr. Raj and Mr. Diamond. It was decided first to obtain additional information about the existing development banks in Indonesia and their operations. Mr. Tazi wrote to BPI and received some materials in August 1967. During the annual meeting, Mr. Diamond met with the Deputy Governor of the Central Bank of Indonesia. The Government was anxious to promote activity in the private sector and was wondering whether it should strengthen the existing private development bank or merge the two institutions (BPI and BPS), along the lines as suggested by Mr. Tazi. Mr. Diamond reviewed with him the pros and cons of various proposals and asked him to send us some details about origin, structure and operations of the two companies. It was also agreed that the Bank mission (in November 1967) to Indonesia would include persons to look into Indonesian industry.

Available Materials

- Annual Report 1960 (Division File)
- Annual Reports 1960-1961 (Mr. Shin)

JAMAICA

Development Finance Corporation

Contacts

Mr. Sangster, Minister of Finance, visited the Bank in June 1963 asking for technical assistance from the Bank in the transformation of the existing Government-owned development finance corporation
into a privately owned company. In late January, 1965, a mission consisting of Mr. A.N.H. James, General Manager of IDB, Canada, and Mr. Henry Thomas visited Jamaica. The mission's favorable conclusions were adopted by the Cabinet in June 1965. Mr. James visited Jamaica August 5-14, 1965, to help set up a steering committee for the proposed development finance company. Mr. Mathew visited Jamaica September 5-11, 1965. In early 1966, the project was at a standstill since the Government was unwilling to take positions like tax concessions and guarantee of the development finance company's portfolio which the company was to acquire.

The Minister of Finance and Planning, Mr. Seager, visited Mr. Raj in July 1967 and discussed the possibility again of Bank assistance to a government dfe, but not ruling out the possibility of a private dfe.

During the annual meetings in September 1967, the Jamaican delegation officially informed the Bank that the Government had considered carefully the private development finance company proposal and had concluded that it was definitely out in its present form. The Government could not contribute to a private finance company without requiring the kind of representation and control that IFC is not prepared to consider. In early October 1967, the Government announced its decision to establish a government owned development bank with a capital of $5 million, which will incorporate the Development Finance Corporation.

**Available Materials**

- Annual Reports 1965, 1966 (Division File)
- Statute establishing DFC (Division File)

**Jamaica Industrial Development Corporation**

**Contacts**

Established in 1952, to promote and finance industry. It mainly runs industrial promotion offices abroad. It was visited by the James Mission also.

**Available Materials**

- Annual Reports 1954-1955 (Operational File)

**MALAYSIA**

**Majlis Amanah Ra'ayat (MARA)**

**Contacts**

The July 1966 mission to appraise MIDPL also visited MARA and received some information on its operations. It is mentioned in its appraisal report.
PORTUGAL

Banco de Fomento Nacional (National Development Bank)

Contacts

The National Development Bank was established in November 13, 1958 with a share capital of 1,000 million escudos of which 65% has been subscribed by the government.

In March 1964, Mr. Passos, Financial Counsellor of the Portuguese Embassy, visited Mr. Baum enquiring informally as to what would be involved in a World Bank loan to the National Development Bank. The Bank’s economic mission visited IMDB in April 1964 and its conclusion was as follows:

"The operations of the National Development Bank (Banco de Fomento) have so far been limited by a lack of funds. It is desirable that this bank should play a major role in covering the financial needs of the larger government-sponsored projects included in the investment plans and, should become more active in providing medium- and long-term funds for smaller investments in the private sector, partly in cooperation with the commercial banks. To these ends, it should be enabled to issue its own bonds so as to attract the necessary funds at home and abroad. In addition, funds provided by the Government should be made available on a long-term basis."

Available Materials

| Annual Reports 1960-1965 | (Joint Library) |
| " " 1960-1963 | (Mr. Shin) |
| " " 1965 | (Division File) |
| " " 1966 | (Research File) |

GREECE

Hellenic Industrial Development Bank

Contacts

Mr. Gustafson paid brief visits to HIDB during August 1966 and September 1967.

Available Materials

| Pamphlet including financial data for 1965 and 1966 | (Division File) |
| Balance Sheets 1964, 1965, 1966 | (Research Files) |
| Annual Report 1966 | (Division File) |
(1) State Investment Bank

Contacts

The Bank's economic mission visited the State Investment Bank in November 1966. The following observations on the State Investment Bank were included in the mission report dated May 26, 1967:

"Efforts to reorganize the State Economic Enterprises (SEEs) culminated in the passage of two laws in 1966: Law 411 on the establishment of a State Investment Bank (SIB); and Law 470 which aims to redefine the status of the SEEs so that they would be able to concentrate on efficiency and on improving their competitive and financial position. The SIB was designed to finance the investment of the SEEs and began operating in 1966, but it is still too early to say whether it will be successful. It is already clear, however, that despite large defaults on its loans the SIB constitutes an improvement over previous arrangements for financing the investments of SEEs. Such financing is being lifted out of the general government accounts and is being put on a stricter and sounder economic basis. The SIB intends to institute appropriate financial discipline and is considering measures to avoid further defaults. Within a very short time, the SIB has been able to develop considerable expertise in project appraisal and follow-up."

Available Materials

Statutes (Mr. Gallo)
Annual Reports 1965-1966 (Mr. Gallo)
Annual Report 1966 (Division File)

(2) Sumerbank

Contacts

The Bank's economic mission visited the Sumerbank in November 1966.

Available Materials

None.

(3) Etibank

Contacts

The Bank's missions visited the Etibank in November 1966 and June 1967 in connection with financing of the Keban transmission lines project.
Available Materials

Organisation Chart (Operational Files)
Annual Reports, 1964-1966 (Mr. Raisen, Projects)

SINGAPORE

Economic Development Board (EDB)

Contacts

The Bank's economic missions normally meet with EDB. During the annual meetings in September 1965, Mr. Hon Sui Sen, Chairman of the Economic Development Board (EDB), explored with us the possibility of establishing a private development finance company in Singapore which would take over EDB long-term financing operations. In late June-July 1966, a mission consisting of Mr. Jeffries, Mr. Muramatsu and Dr. Hinricks (consultant) visited Singapore to determine whether the prospects for industrial investment warrant the establishment of a new development finance company. The mission gathered considerable information on EDB itself including data on its portfolio and on the Jurong Industrial Estates operated by EDB. (Report attached to SIG/A/66-78, October 5, 1966)

Available Materials

Reports and Accounts, August-December 1961 (Division File)
Annual Reports 1962-1965 (Division File)

TRINIDAD & TOBAGO

Industrial Development Corporation

Contacts

The Berkoff-Gustafson mission which visited Trinidad and Tobago in May 1966 on a proposed private development finance company obtained some information on the IDC which is mentioned in the mission's report, C-h6a, July 11, 1966. IDC is a part of the Ministry of Industries which has extended a few loans but is not strictly speaking a development finance company.

cc: Circ. (2)
ECHSu/D/Jeffries/bda