This volume closed with effect from
October 31, 1962 See Vol. V
Mr. Richard H. Demuth, Director  
Technical Assistance and Liaison  
International Bank for Reconstruction and Development  
1818 H Street  
Washington, D. C.

Dear Mr. Demuth:

Would it be possible for us to obtain a copy of the most recent report, which I understand the IBRD prepares annually, entitled "Data on Development Banks." This would be of great assistance to the international comparative study which, as you know, we have been making on the financing of small and medium industry. A preliminary portion of this relating to Latin America should be available shortly.

Sincerely yours,

Robert W. Davenport  
Senior Economist

RWD:bm
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<thead>
<tr>
<th>Name</th>
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<tr>
<td>Mr. Apcar</td>
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<td>Mr. Bakker</td>
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<td>Mr. Lord (Eng.)</td>
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<td>Mr. Beede</td>
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<td>Mr. Lundberg</td>
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<td>Mr. Beevor</td>
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<td>Mr. Bell</td>
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<td>Mr. de Torcy</td>
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<td>Mr. Dupre</td>
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<td>Duviesart</td>
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<td>Mrs. Fleming</td>
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**Remarks**

*From: David A. Johnson*
Dear Jack,

I am now safely back in Lombard Street and I am writing to thank you for all the trouble you took to make my visit to Washington both interesting and enjoyable.

I think the talks I had were of great value and I hope we may be able to co-operate with your various development banks or corporations in those territories where we ourselves operate. I think your ideas are very sound and I shall be letting my colleagues have a memorandum on the whole subject.

I would be very grateful if you could keep Basford and myself informed of the formation of these development banks, indicating if possible whether we might participate and the extent of the participation that you would think appropriate.

I had some interesting talks with your colleagues and I very much hope that Mr. Rosen will come and see us here in the City when he is next in London. I have written to him to this effect.

Again many thanks and best regards to your wife.

Yours sincerely,

Mr. J.G. Beevor,
International Finance Corporation,
1818 H. Street, N.W.,
WASHINGTON 25, D.C.,
U.S.A.
Mr. William Diamond

Barend A. de Vries

Development Banks

October 18, 1962

I was away on a mission when you asked Mr. Schmidt to comment on your list of proposals for financing of development banks. I note that Colombia has been omitted from this list even though (a) IFC has a pending request from the financiera in Cali, Colombia and (b) the project for unifying the existing financieras into a single financiera should be kept under review and is by no means dead.

Cc: Mr. Schmidt

BAdVries:MARS
October 17, 1962

Mr. K. C. Mittra
Reserve Bank of India
Central Office
Industrial Finance Department
Bombay 1, INDIA

Dear Mr. Mittra:

Please note the following corrections in the list of principal officers of development banks, which we sent you on October 12.

Colombia (1) Corporacion Financiera Colombiana de Desarrollo Industrial
Apartado Aereo 11843
Bogota, Colombia

Dr. Herrera Carrizosa
President

Philippines
Development Bank of the Philippines
Manila, Philippines

Mr. Pablo Lorenzo
Chairman

Puerto Rico (1) Puerto Rico Industrial Development Company
San Juan, Puerto Rico

Mr. Caspar Roca Jr.
President

Mr. Hector E. Pinesio
General Manager

Sincerely yours,

William Diamond
Director
Development Bank Services

cc: Mr. H. T. Parekh
General Manager
ICICI
Bombay 1, INDIA

cc: Messrs. von Hoffmann, Lord (Eng.) Lundberg
GF&dhe
Mr. Escott Reid (Through: Mr. A. Stevenson)  
L. M. Svoboda  

Credit Approval Under Development Bank Loans

October 17, 1962

I refer to the discussion last week in the staff meeting concerning the subject.

The Bank, in its loans to development banks, has reserved itself broad controls over the operations including the right of prior approval of projects financed from its loans. The Bank's method of scrutiny of the credit applications received under these loans has been commented upon by some of the development banks as being too rigorous. Within the Bank, there has been some discussion as to whether the extra administrative effort and considerable workload involved were justified by the operation. The possibility of relaxation of the Bank's present requirements is being considered. The following are some observations on this matter.

The reexamination of projects as presently carried out by the Bank/IFC covers all technical, financial and economic aspects of the projects. Judged by past experience, the information received from most of the development banks with their credit applications has not been sufficient for a comprehensive review of the projects in a manner described above, and a considerable amount of supplementary data is often required to arrive at a conclusive opinion concerning the merits and bankability of the projects. Apparently, this shortcoming has been due in part to the inadequate presentation of projects, but often it also revealed major omissions or errors in the project studies or poor judgment. The Bank's comments have been very helpful in firming up the projects, filling gaps of information on some of their major economic and financial aspects and improving their technical and financial features. Only in a few cases has the Bank been unable after extensive scrutiny to approve the project in its final presentation. This reexamination by the Bank/IFC of the project appraisals of the development banks, in particular in the early stages of their operations, thus attains particular importance as a means of professional training quite apart from the security aspects of the loan. Equally important is a systematic and comprehensive follow-up on the overall activities of the development banks. It should provide a complete picture of the development banks' operations, policies and plans and should enable the Bank to advise or assist them effectively in dealing with the various problems related to their operations. To carry out this task effectively, more frequent visits to these banks would appear to be required for a full assessment of their operations as well as consultation with their management on major policy questions and problems.

The administrative agenda involved in these operations represents a considerable workload for the Bank's staff, which may be expected to further grow with the coming into operations of new development banks which may receive loans from the Bank. This will tend to further increase the pressures on the Bank staff although some economy in time and effort appears
to be possible by stream-lining present procedures. At present, all credit applications received under these loans are screened by the Working Party, the Area Departments being in charge of the operation and IFC responsible for reexamination of the projects and end-use follow-up. This system of divided responsibilities for the agenda on staff/line principles in general is well suited for the purpose. Its effectiveness depends on the composition of the Working Party, the professional experience of its members and their active participation and cooperation in the work. In this respect, considerable variations may be noted between and within the different working teams concerned with these operations. Availability of qualified professional staff for reviewing the projects and the preoccupation of the staff with major operational concerns is a problem which tends to affect the process of project approvals in the Bank. In some instances, this has resulted in delays in dealing with the credit applications received, giving cause to complaints on the part of the sub-borrowers. Proper coordination of and guidance in this work within the Bank and a smooth working relationship with the development banks are of particular importance in dealing with this situation. These and some other factors bearing on the efficiency and speed of the loan operations are discussed in a separate memorandum (dated September 25).

A major problem affecting the loan operations are the organizational shortcomings of many of the development banks and their lack of competent staff capable to prepare adequate project appraisals. The Bank has become increasingly aware of the need for helping these banks in their efforts for improvement. This technical assistance, depending on the individual case, may involve advice in the operations, training of the staff of the development banks, frequent visits by the Bank staff to the development bank and, if necessary, the services of an adviser. The reexamination by the Bank/IFC of project appraisals has proved an important and effective means of such assistance. As has been shown in the past, this educational process requires time and an organized effort, and only gradual progress may be expected in the build-up of the necessary know-how and experience required for an efficient operation.

Concurrently with the operational improvements of the development banks, the Bank has found it possible to partially relax its requirements by granting or extending to several of these banks authorization, within maximum limits (between $50,000 to $500,000), to extend credits under the Bank loans without prior reference to the Bank. It has now been suggested that once a development bank has reached full maturity, the Bank may consider granting it unrestricted authority of credit approvals under the Bank loans. Any such decision would have to be carefully weighed in the light of several years' experience in the particular loan operation. It would have to be based on a comprehensive appraisal of that bank's operations, financial position and prospects in the light of its past performance and of its credit policies and plans. A relaxation of the Bank's requirements in regard to prior project appraisal, of course, would not relieve the Bank of a continuous follow-up on the loan operation. In this respect a review of present procedures would appear to be indicated with a view to rounding out the present end-use system to provide a prompt, accurate and comprehensive follow-up which would cover the development banks' overall activities and general position as well as the credit operations under the Bank loan.
To sum up, I may say that the Bank's present system of prior approval of projects under loans to development banks is an important control device essential in these operations, considering the as yet inadequate experience of most of the development banks in the approval of projects and in development banking in general. It also offers an effective means of technical assistance to these banks, which in the past has proved most helpful in building up their professional know-how in this field of work. It is important that regardless of the administrative effort involved, these controls with some flexibility should be continued until such time when the development banks have built up sufficient experience in the operation to be able to stand on their own feet. A review of present operating procedures under the loans, a strengthening of the Working Parties, and above all, an extension and intensification of the Bank's technical assistance to these banks would help to accelerate this process. Once a development bank has reached full maturity, the Bank may consider granting it unrestricted authority of credit approvals under the loans. Henceforth the Bank would have to rely on an effective and comprehensive end-use system for following up on the credits extended under the loans and for keeping informed on all major developments affecting the development banks' overall operations.
October 12, 1962

Mr. K. C. Mittra
Reserve Bank of India
Central Office
Industrial Finance Department
Bombay 1, India

Dear Mr. Mittra:

Please forgive my very long delay in replying to your letters! I can only hope this reply is not too late.

I am pleased indeed to see that the Reserve Bank is studying the performance of the State Finance Corporations with a view to making them better instruments for industrial development, and wish you good luck in your task.

The questionnaire you have so carefully prepared is very comprehensive and will provide much useful information. I might suggest the inclusion in question #9 of a sentence asking what the practice has been with respect to the foreign exchange risk on external loans, and an additional question after #21 on the proportion of total loans and investments which have been made in new enterprises and in existing enterprises.

This is about all I can suggest regarding the questionnaire, but I hope you won't mind my making two general comments. Most development banks are very busy. (Ask ICICI or IFC!) I fear they will be frightened to receive so elaborate a questionnaire as you have prepared, and that they may not reply or will reply only after a very long delay. Secondly, I hope that in considering how to improve the State Finance Corporations you will question not only foreign development banks but also the "Indian market" and such people as Mr. Mehta and Mr. Parekh. I feel that you/learn as much at home as you will abroad.

I attach a list of development banks, public, mixed and private, to which it may be worth while to send your questionnaire. Unfortunately we were unable to give you the names of the General Managers of the three Nigerian corporations but we are still trying to track them down and will send them on if we are successful.
We are deeply interested in the result of the working group's studies, and shall appreciate it very much if you could pass on to us in due course the results.

With best personal regards,

Sincerely yours,

William Diamond
Director
Development Bank Services

cc: Mr. H. T. Parekh
General Manager
ICICI
163, Backbay Reclamation
Bombay 1, India

cc: Messrs. von Hoffmann
M. Lord
Lundberg

Circ: (2)

G.H.Fleming/W. Diamond:mbc
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<th>NAMES OF PRINCIPAL OFFICER</th>
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<td>Oesterreichische Investitionskredit Aktiengesellschaft Am Hof 4 Vienna</td>
<td>Dr. W. Teufenstein Director</td>
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<td>Ceylon</td>
<td>Development Finance Corporation of Ceylon Hemas Building York Street Colombo - 1</td>
<td>W.T. Yoxall General Manager</td>
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<td>China (Formosa)</td>
<td>China Development Corporation 181-2 Chung Shan Road N. 2nd Sec. Taipei, Taiwan</td>
<td>P.H. Ho President</td>
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<td></td>
<td>Republic of China</td>
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<td>Colombia</td>
<td>(1) Corporacion Financiera Colombiana de Desarrollo Industrial Apartado Aereo 11843 Bogota, Colombia, S.A.</td>
<td>Dr. Emilio Toro President</td>
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<td></td>
<td>(2) Corporacion Financiera Nacional Medellin, Colombia, S.A.</td>
<td>Dr. Jose Gutierrez Gomez President</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Development Bank of Ethiopia P.O. Box 1900 Addis Ababa</td>
<td>Dr. H.J. Buttkus Managing Director</td>
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<tr>
<td>Iran</td>
<td>Industrial and Mining Development Bank of Iran 20th Boulevard Karaj Teheran, Iran</td>
<td>Willem A. Van Ravesteijn Managing Director</td>
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<tr>
<td>Japan</td>
<td>Japan Development Bank 81-1, 1 Chome, Marunouchi Chiyoda-ku, Tokyo</td>
<td>Risaburo Chata Governor</td>
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<td>Contact Person</td>
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<td>(1) Northern Region Development Corporation</td>
<td>N.M. Uquaiili, General Manager</td>
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<td>(2) Eastern Region Development Corporation</td>
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<td>(3) Western Region Finance Corporation</td>
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<td>Peru</td>
<td>Banco Industrial del Peru</td>
<td>Julio de Andrea, General Manager</td>
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<td>386 Ucayali, Lima</td>
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<td>Philippines</td>
<td>Development Bank of the Philippines</td>
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<td>Manila, Philippines</td>
<td>G.S. Licaros, Chairman</td>
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<td>Puerto Rico</td>
<td>(1) Puerto Rico Industrial Development Company</td>
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<td>Uganda Development Corporation</td>
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<td>Raili House</td>
<td>J.T. Simpson, C.B.E., Chairman and General Manager</td>
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<td>Grant Street, Kampala</td>
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<td>Venezuela</td>
<td>Corporacion Venezolana de Fomento</td>
<td>Dr. Luis Vallenilla, President</td>
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<td>Caracas, Venezuela</td>
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DEVELOPMENT BANKS (Your memorandum of October 9)

1. Thanks.

2. Re ICICI. Yes and no. You are right, but I think we can wait until the "application" is in.

3. Re Jordan. Yes and no. I had one 15-minute and one 90-minute talk with Shair. The upshot was that I told him about "our principles" and he said he would write to us. I await his letter.

4. I hate to load my list. I'm torn between telling about every inquiry, which proves how much work we have, and telling about only the deadly serious ones, which minimizes the work burden.
Mr. Orvis A. Schmidt

F.C. Bochenski

Mr. Diamond's list of development bank proposals

1. A separate memo is attached with regard to the Dominican Republic on which Mr. Diamond some time ago had asked specific questions.

2. With regard to Central America at large (part C of Mr. Diamond's memo) it is correct that we have had, at one time or another but certainly during the last two years, approaches from every single one of the six countries. Most of these approaches were of an informal nature. The Central American Bank for Economic Integration has made 13 industrial development loans during the first year of its existence and is likely to continue to contribute towards satisfying the need for this type of credit, thereby limiting the volume of business to be expected by any (national or regional) new development bank in the area.

Attachment

F.C. Bochenski

cc: Mr. Seiksen
Mr. Orvis A. Schmidt

W. Kaupisch

Development Banks

The memorandum from Mr. Diamond reflects to the best of our knowledge the present state of affairs with regard to Development Banks in the countries of this Division.
October 10, 1962

Mr. Beevor

Harold Graves

Development Banks - Information for Member Governments

Thank you for your memo of September 28 about information for member governments on the subject of our concept of development banks. In fact, both the Boskey and the Diamond books do already exist in Spanish. I thought you might be interested to see these copies.

I will look forward to further discussions about this general topic.

Attachments

cc: Messrs. Diamond, Hall and Paterson

HNG: ap
Record Removal Notice

File Title
Operational - Development Banks - General - Volume 4

Document Date
10/10/1962

Document Type
Excerpt

Correspondents / Participants
Staff Investment Committee Secretary - IFC

Subject / Title
IFC Advisory Group: Summary of proceedings excerpt

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

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

Withdrawn by
A. Miller

Date
8/30/2011

Archives 1 (January 2016)
Mr. Wilson

Richard M. Damuth

Meeting of Development Institute Directors

I agree with Mr. Adler's proposal, as set forth in the attached memorandum, that the Bank should offer to play host to a meeting of directors of development institutes in 1962 or possibly in 1963 if present plans to have the meeting in Berlin are changed.

While I think it would be appropriate for the Bank to pay some expenses of the participants in Washington, I am doubtful of the suggestion that we should perhaps make a financial contribution to the cost of travel to attend the conference. In any event, I do not think we need cross that bridge until after Adler has had the proposed exploratory discussions with Benjenk.

cc: Messrs. Hoffman and Adler

RHD:tf
Mr. Diamond  
Alex. Stevenson  
Development Banks  

October 9, 1962

You asked for comments on the list of development bank proposals you sent to this Department with your memorandum of October 2, 1962. We have only the following additions:

1. **ICICI.** Should not a fifth ICICI loan be included under B on your list? I gather that von Hoffmann will discuss the timing of this with ICICI in November and that appraisal is most likely to be required early in 1963. In this connection Mr. Jha took the position when he was here recently that India in its present stringent foreign exchange position had to be careful not to build up its industrial apparatus faster than it could afford the necessary imported raw materials to keep the existing industries busy.

2. **Jordan.** Dr. Shair raised the question of an industrial development bank in Jordan with us and presumably with Mr. Rosen. Since Mr. Apcar was the only one present at all the meetings on this subject, we have suggested to him that he draft a suitable item for inclusion in your list.

cc: Mr. Reid
October 8, 1962

Dr. Walter Wodak
Der Arbeiterbank
Akiengesellschaft Wien
Vienna, Austria 1, Seitzergasse 2-4

Dear Dr. Wodak:

I have just received your letter of September 19, in which you ask for information concerning development banks in Africa already in operation or in the process of formation.

Some months ago, a Development Bank Services Department was established in the International Finance Corporation. The IFC, as you probably know, is an affiliate of the Bank and is located in the same building as the Bank. The new Department was given responsibility for development bank activities in behalf of IFC and the Bank. Since I am no longer directly concerned with development bank work, I have referred your letter to Mr. William Diamond, the Director of the Development Bank Services Department. I am sure that he or someone on his staff will be glad to provide you with whatever material is now available.

Sincerely yours,

(Sgd.) Shirley Boskey

Shirley Boskey
Development Services Department

cc: Mr. Diamond w/incoming
    Central Files

SEBoskey:ml
October 9, 1962

Mr. Orvis A. Schmidt

Roger A. Chaufournier

Development Banks; Mr. Diamond's request attached

The proposal for the establishment of a Development Bank in Chile does not appear in the lists attached. I think the proposal is also more than a "vague dream"; it could appear with the following caption which we have used in the Monthly Operational Summary: "Awaiting enabling legislation."

The project was first mentioned in the Operational Summary of April 4, 1961 (SecM-61-62).

RAChaufournier/sw
Attachment
6th October, 1962.

Mr. William Diamond
International Bank for Reconstruction
and Development,
1818 H Street
WASHINGTON 25 DC.
U.S.A.

Dear Mr. Diamond,

I am very much pleased to learn from Mr. Yazıcı that you have become in charge of Development Banks department. Please accept my congratulations and best wishes for your success.

As you may know I was in Pakistan for two years engaged by PICIC as their Chief Engineer. I completed my contract period and returned back to IDB four months ago and working again as the Manager of Engineering department.

Although the climatic condition in Pakistan was quite heavy but to build up and organize an institution was really a very interesting job. Besides my Chief Engineering I was also incharge of operation department where I had to deal with financial side of the project as well as establishment of letter of credits and "end use" investigation. As you will see from the enclosed copy of a resolution of the Executive Directors of PICIC, my work there was quite satisfactory for their organization.

In a separate envelope I am sending you a draft copy of a manual which I prepared for the trainee officers of Industrial Development organizations. I will be very much obliged if you can go through it and write me your remarks, criticism and your commands. If you consider this manual to be useful for Industrial Development Banks, I would like to publish it and send it to all the new development banks.

As you may remember, I am the oldest chief engineer in the Industrial Development Banks. I had the chance to start and organize the engineering department of IDB and also build up and organize PICIC, on the basis of the latest development on Industrial Banking. With my 20 years of experience in different line of industry as industrial engineer and 12 years experience in Industrial Development Banking, I think I can be more useful either in your organization or in the new development Banks where my experience is more valuable than my present work in IDB.
I'll be very much pleased to come and work in your or similar organization when ever such an opportunity arise.

Thanking you in advance, I remain,

Very truly yours,

Hayrullah Gürtan
May 3, 1962

Dear Mr. Gürtan,

I enclose with this letter, text of a resolution passed at the last Executive Committee Meeting appreciating the services rendered by you to the Corporation. I fully share the sentiments expressed in the resolution.

Please accept by best wishes for your new assignment.

With my kind regards,

Yours sincerely,

N.M. UQUAILI

Mr. H. Gürtan
Chief Engineer,
C/O P.I.C.I.C.
Karachi
Extract from Minutes of the 39th Meeting
of the Executive Committee held at Karachi
on the 25th April, 1962

RESOLVED:

1. That the Committee places on record its warm appreciation of the assistance given to PICIC by the Industrial Development Bank of Turkey in making available to PICIC for a period of 2 years the services of their Chief Engineer Mr. Hayrullah Gürtan.

2. Resolved further that the Committee in recognition of the very valuable services rendered by Mr. Gürtan, places on record its warm appreciation of the work done by him during the period of his contract with PICIC. While thanking him for his services the Committee wishes him success in his future assignments.

CERTIFIED TRUE COPY

For Pakistan Industrial Credit Investment Corporation Ltd.
April 9, 1962

Memo to Mr. Gurtan
From Mr. Engle.

You have drafted a very comprehensive statement of the subject of project appraisal for an industrial development bank. Your report reveals a keen and incisive as well as extensive knowledge of the subject based on experience.

Apart from a few points raised in pencil amotations on the manuscript I have very little to add. And what I have is more a matter of emphasis than of substantive change.

Based on my observations in Europe and America I would stress the need for priority emphasis in project analysis on market research. I would first ask the market researcher to determine the probable quantities which could reasonably, be expected to be sold for each year of a minimum of 3-5 years—preferably for the life of the loan.

These data would be given to the technical staff to serve as a guide as to ratio of output to capacity which the project might be expected to achieve. If negative they could save the costly technical analysis. The same data, where converted into sales by the market analyst by use of price estimates, would also be made available and serve as the foundation for the financial analyst.

I would also stress the necessity for as strong market management in the company as for any other department. Markets are becoming increasingly competitive and success depends heavily on marketing knowledge and aggressive advertising, promotion and selling.

Sales determine how much to produce and how much income will be available. This is why the New Marketing Concept has revolutionized business management in America over the past twenty years.

-N.H. ENGLE-
Economic Advisor.
Referring to your memorandum dated October 2 we have nothing to add to the list prepared by your Department.
Mr. Martin M. Rosen

William Diamond

IFC Representation on Devbank Boards

Attached is the draft of an oral statement to the Board - written, I think, in such a way as to permit its circulation afterwards.

Attachment

cc: Mr. Richards
    Mr. Wishart

WDiamond/dea
Gentlemen:

1. During the past 8 or 10 months, the volume of development bank business before the Bank and IFC has increased with great rapidity. To some extent this increase reflects the President's announcements at the turn of the year of his efforts systematically to promote, finance and provide technical assistance to industrial development banks - which, he said in his first statement to you as President of IFC, he expected to become of major importance to IFC. But it also reflects, I believe, the increasing realization of the governments of our member countries of the benefits to be derived from the establishment of such financial institutions and, more particularly, of the need to promote the private sectors of their economies.

2. You have recently received a list of the development bank projects or proposals with which we are now trying to cope.* It does not include the large number of inquiries that come our way every day, and does not reflect, therefore, the work that needs to be done in connection with those inquiries. But it does indicate, I think, the proposals that are at least a little beyond the stage of vague dreams; a good number are projects in which the Bank, IDA and IFC are now deeply involved and which will result in loans, credits and investments in the next few months.

3. One of the issues that has increasingly confronted us, as the burden of development bank business has grown, is whether IFC should seek representation on the boards of directors of the development banks in which it invests. In some cases this question has been raised by development banks themselves, or by their sponsors, who have asked us to join their boards. In other cases, we have ourselves raised the question because of the benefits which representation could bring, not

* Assumes we will circulate new list.
only to the development bank itself, but also to the IFC.

4. This matter has now become a fairly urgent one. Within the next few weeks we shall present proposals for loans and investments in development banks in Pakistan, the Philippines and Morocco, in which the question of representation is involved. And within a few months thereafter, we will no doubt come to you with proposals for Nigeria and Liberia and perhaps others, in which the same question will be involved. In some of these cases, the arrangements under discussion are predicated on IFC representation on boards, without which there may be no deal.

5. Last October, in his first statement to you, the President said he had an open mind on board representation and intended to do what seemed best in each particular case. Since then we have given particular thought to the question of IFC representation on development bank boards. I should like to review our considered judgment with you, as a basis for your consideration.

Legal Aspects

6. I have discussed the legal aspects of the matter with General Counsel. May I recall to you that Article III, Section 3 of IFC's Articles of Agreement provides that "the Corporation shall not assume responsibility for managing any enterprise in which it has invested and shall not exercise voting rights for such purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control." Of course Section 4 of the same Article empowers the Corporation to take any action at all, and to exercise any rights, in a jeopardy situation.

7. We feel it is reasonable to assume, on the basis of ordinary corporate principles, that the statutory provision in Section 3, concerning the assumption of responsibility for management, does not refer to the appointment of a director of a board, which has a collective responsibility for policy and for the appointment of executive management; we believe that it refers to the executive management itself, which is responsible for the day-to-day business of an enterprise.
This we consider is a proper distinction, although no doubt exceptional cases arise in which a board member does in fact exercise managerial responsibility. We conclude therefore that the Articles do not prohibit IFC's appointment of a director to a board of a company it invests in.

8. We further consider that there is no legal reason, internal to IFC, why an IFC staff member (or a Bank staff member) should not be appointed to the board of an enterprise in which IFC has invested. However, a decision to appoint a director would have to take account of the fact that directors are sometimes required by law to have certain qualifications, such as being nationals or residents of the country concerned. The legal liabilities attaching to a director must be considered in each case, particularly in the light of his ability to discharge his responsibilities when he lives thousands of miles from the site of the board of which he is a member.

9. We have given some thought to whether IFC's appointment of a director to "represent" IFC (for instance, by taking IFC's instructions on how to vote, or by passing on to IFC information not available to other shareholders) could raise a problem of conflict of interest. A director might conceivably have some difficulty in reconciling "representation" of IFC with the general principle that he is to act in the interest of the enterprise as a whole and not in the special interest of one or some of its members. This, however, is a problem which occurs in all cases of "appointed" directors, and ordinarily does not cause difficulty in practice.

10. May I now turn to the special case of development banks.

The Special Case of Development Banks

11. As I said at the beginning, we are concerned here with development bank investments in particular, and not with investments in general. It is fair to consider whether there is anything inherent in IFC's development bank operations
which distinguishes it from financing of other types of enterprise, and whether that difference has any bearing on the question of board appointments.

12. The Articles of Agreement do not distinguish between an investment in a manufacturing enterprise (which was no doubt the primary, if not the sole concern of IFC's founding fathers) and an investment in a development bank. However, a distinction can certainly be made on policy grounds. In the case of a development bank, IFC is not investing in productive facilities in the normal sense, in the sense originally intended; on the contrary, IFC is assisting in the establishment of another institution to do so. An investment in a development bank involves assisting another institution to do the kind of job IFC was set up to do - but on a national, rather than an international level. In this circumstance we feel it may be wise for IFC to put itself in a position to make its voice heard more frequently and directly in a development bank, than might be necessary or desirable in the case of other types of enterprise. We therefore consider that IFC should always ask the right to appoint a director, when it invests in a development bank.

Objectives of a Directorship

13. The appointment of a director could achieve several important objectives both for the IFC and for the development bank itself. In listing them, I have in mind specific benefits that have been suggested to us by various development banks that have proposed that we appoint a director, and other benefits that we feel are important from IFC's own point of view:

a. protection of IFC's equity interest by participation in policy and investment decisions;

b. inside line to knowledge of the development bank's policies and procedures, in order to give advice on them;
c. channel for making available IFC's experience with financial institutions elsewhere;

d. better access, for general IFC purposes, to information on investment opportunities in the countries concerned;

e. increasing confidence of other investors or potential investors, both foreign and domestic, and thereby encouraging investment in the development bank;

f. increasing its own good will in the international financial community as a result of the foregoing;

g. giving extra quality to the Board in cases where the Board is not considered highly or where it needs broader representation;

h. acting as a buffer, or balance, among conflicting interests, and vis-à-vis the Government.

lh. Not all of these objectives may be relevant in any given case; not all of them may be obtainable; and there may be other or better ways of achieving some of them. Moreover, other things need to be taken into account. Whatever the legal position, board representation carries with it a moral responsibility which mere participation does not - a moral responsibility which may sometimes be difficult to live up to. Obviously a Bank or IFC staff member would be better than any outsider, no matter how competent, in providing the two-way channel of information and advice on which depends the achievement of many of the objectives I have mentioned. But there are few countries in which IFC or the Bank has residents. Nevertheless, and despite the difficulties imposed by considerations of time and space, we think that board membership would be a very useful tool in the interest both of our clients and of ourselves.
Summary

15. Let me sum up this statement. Firstly, IFC can, under its Articles, appoint directors of enterprises in which it makes an investment. Secondly, there are special reasons for asking for the right to appoint directors in the case of development banks. Thirdly, important benefits, both for IFC and for development banks, may be obtained by our asking for, and exercising that right. Finally, we would propose to appoint as directors Bank or IFC staff members, whenever that is possible, for the benefits to be obtained will be best obtained - and perhaps only obtained - when we can use staff members in that capacity.
DEVELOPMENT BANKS

Attached is a list of development bank proposals which, I think, are more than vague dreams. It covers proposals for both financial and for technical assistance, and for both Bank loans and IFC investments.

As I am not sure that the list is complete and entirely correct, I should be grateful if you would check the references to countries in your area and let me have any additions, amendments or suggestions that may seem appropriate to you.

CC: Circulation - 2

W. Diamond/mg
A. Proposals involving possible IFC investments, with or without Bank loans:

Dominican Republic - U.S. private sponsors have inquired about assistance in setting up new institution. Sponsors will return with more precise plans.

Greece - Discussions held with Government, Government financial institutions and private banks about proposals for new private development banks. Bank of Greece to give views in due course.

Ivory Coast - CIIC has informed U.S. Government (with approval of Minister Saller) that CIIC, Lazard and IFC would be prepared to help organize development bank on basis other than that originally proposed by U.S. consultants.

Lebanon - Several inquiries received about help in setting up new development bank. Expect further details from one sponsor, who proposes to discuss plans with others.

Liberia - Government has been given IFC proposal for converting new development bank into one IFC can support. Views of Government and its German and American partners awaited.

Malaya - Bank/IFC mission in field to review industrial financing needs of Malaya, assess suitability of existing development bank, and recommendations for its reconstruction or for creation of new one.

Morocco - Appraisal of BNDE for loan and participation under way. Decision scheduled for October 20 and negotiation for early November.

Mexico (Intercontinental S.A.) - IFC draft statement on policy orientation of this existing financiera under discussion with company.
Nigeria

Draft received for new private development corporation Articles of Association. Memorandum on other matters being sent, including agenda for discussions in Washington in November.

Northern Rhodesia

Government and existing government development bank are being informed IFC doubts feasibility of a viable private institution.

Pakistan

PICIC expects decision in principle on new loan and IFC participation by early November. Appraisal under way.

Peru

IFC expressed interest in principle in participation in new private financier to be established from merger of 2 existing ones with additional capital from 2 foreign banks.

Thailand

Government has agreed in principle to proposed broadening of capital structure and strengthening of management and staff. Details to be discussed shortly.

Turkey

Negotiation of $5 million IDA credit completed. Audit commenced August 31; consideration of IFC participation to follow.

Venezuela

Venezuelan outline of plan for new bank, to be used with oil and mining companies, being revised by IFC.

B. Proposals involving Bank loans without IFC investments:

Ethiopia

Application received for third Bank loan. IFC staff member to visit Addis in October.

Peru

Appraisal of Industrial Bank, following its reorganization on basis of Bank recommendation, being prepared.

Philippines

Negotiation of $15 million Bank loan to proposed new development bank virtually completed.
C. Proposals involving promotional work and technical assistance only:

Bolivia
- No clarification received from Government on status of (a) request for technical assistance for AID-sponsored new private bank, (b) similar request for Central Bank-sponsored new government development bank, and (c) operations of existing government development corporation. Visit from General Manager-designate of new private bank to request technical assistance.

Central America
- Sporadic inquiries received from individuals and governments about national or regional development banks.

Cyprus
- IFC comments have been sent to Finance Minister about plans for new private development bank.
Development Banks - Free limit arrangements

1. Ethiopia (Development Bank of Ethiopia)
   - First loan Sept. 1950: 2,000,000
   - Second loan Nov. 1961: 2,000,000
   - No free limit has been granted.

2. Turkey (Industrial Development Bank)
   - First loan Oct. 1950: 9,000,000
   - Second loan Sept. 1953: 9,000,000
   - Free limit of 50,000 granted in April 1955.

3. India (I.C.I.C.I.)
   - First loan March 1955: 10,000,000
   - Second loan July 1959: 10,000,000
   - Third loan Oct. 1960: 20,000,000
   - Fourth loan Feb. 1962: 20,000,000
   - Free limit of 100,000 granted in July 1959 at the time of the second loan. The limit was raised to 300,000 (up to a total of $3 million) on the occasion of the third loan and to 500,000 (up to a total of $5,000,000) on April 24, 1961. This arrangement was continued for the fourth loan.

4. Pakistan (F.I.C.I.C.)
   - First loan Dec. 1957: 4,200,000
   - Second loan Sept. 1959: 10,000,000
   - Third loan June 1961: 15,000,000
   - No free limit has yet been granted. However, PICIC does not make any loans below $100,000 as there are other institutions doing this in Pakistan.

5. Austria (Investitionskredit)
   - First loan April 1958: 10,765,000
   - Second loan Sept. 1959: 9,000,000
   - Third loan: June 1962: 5,000,000
   - Free limit of $500,000 (cumulative with any other loan or investment by IVK in the same borrower) granted on occasion of third loan.
6. Iran (I.M.D.B.I.)

First loan Nov. 1959: $5,200,000
No free limit has been granted.

7. China (China Development Corporation)

First loan Dec. 1961: $5,000,000
Free limit of $100,000.
September 28, 1962

Mr. H. N. Graves, Jr.

J. G. Beevor

Development Banks - Information for Member Governments

When I am back from the visit to Tanganyika over the next two weeks, I would like to discuss with you some ideas which have emerged as the result of discussions during the Annual Meeting week and a staff meeting held today.

26 Sept. 1962

As one illustration, I attach copy of my letter to Postel-Vinay of the Caisse Centrale de Cooperation Economique, Paris. I also attach copy of a draft paper which I have prepared for Mr. Diamond to consider, with a view to getting across more clearly to member governments and development institutions the Bank/IFC pattern for privately-owned development banks, and the modified semi-government institutions which we are considering and working on in certain countries, especially in Africa.

Two thoughts on this subject have emerged in my mind over the last two weeks:

1. Few of the Finance Ministers or Development Bank officials really understand the classic pattern of a private development bank, of which ICICI is a leading example. We talk to them and they may appear to understand, but it is not a simple subject, and I am sure we ought to do more to get the idea across effectively. Development banks have become fashionable, but few people outside this building really understand the principles and their applications.

2. One of the reasons for this may be the difficulty of the language medium. The Diamond and Boskey text books on development banks have been in circulation for some years in English, and I have only just heard that they will soon be obtainable in French as part of the project for making available economic development libraries in French. That will be helpful, and I think we ought to get a supply of the French translation of these books to these ministers and officials in French-speaking countries who, to our knowledge, are interested in the subject.

Mr. Diamond has remarked on the relatively few Latin American countries that have expressed an interest in this subject. This may be partly due to the existence of government-owned fomentos in several of these countries, but I believe it may also be due to lack of literature in Spanish. What roughly would be the cost of preparing and printing Spanish versions of the two text books? Further, I suppose you have a supply of press releases in Spanish relating to past Bank loans to development banks. What about a Spanish set of all press releases relating to ICICI, its original formation and subsequent Bank loans to ICICI?

Could we have a talk about these ideas and any others you may have in the third week of October?

cc: Messrs. Diamond, Hall, Paterson
Introduction

1. Institutions for financing the establishment and growth of private industry are now widely recognised as an important factor in economic development. More and more countries, in which industrial development appears practicable, have established such institutions or are considering the justification and the best methods. Some countries have formed such institutions, often referred to as "development banks", with public funds and government control.

2. Government controlled institutions are obviously exposed to the risk that sooner or later there is a government in power which influences the management of the institution to make unsound investments in industry for political reasons. The result in many cases has been that sound economic judgments take a second place and public funds are applied to unprofitable enterprises; this leads to waste of public resources and retards rather than promotes economic development.

3. There are no doubt some special cases, where a government may decide for reasons of national policy to create an industry which is likely to be unprofitable for a long period but has a national importance which may ultimately justify it. There are also some cases where a government-controlled development bank is given a charter to operate on economic and profitable lines and an autonomous management, which is allowed to carry out that policy without political pressures. But both these classes of institution are considered to be exceptions to a general rule, which is that sound financing of private industry is usually best achieved by a development bank operated on private business lines.
The Pattern favored by World Bank and IFC

1. The experience of the World Bank and its affiliate, the International Finance Corporation, has caused them to favor the establishment of institutions, sometimes called "development banks", with a national character and with government approval and cooperation but with private management and private investment, operating on sound business lines. In numerous cases over the past ten years (1) the World Bank, in cooperation with the government concerned and with the private sector, has helped in the establishment of a development bank on the following pattern:

(a) The first feature is a voting capital ("equity") subscribed (1) as to the majority by local private investors, and (2) as to the minority by foreign private investors. The association of foreign private investors can be a great help to the institution, not only for the capital which they provide but also for their investment experience and by providing useful contacts with foreign countries.

(b) The second feature is a special government financial contribution in the form of a long-term subordinated loan in its national currency, either free of interest or at a nominal rate of interest. This is commonly referred to as "quasi-equity". There are three main reasons for obtaining this "quasi-equity" capital:

(i) The most important reason is to increase the borrow-

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(1) Especially in India (1955), Iran (1959), Pakistan (1957) and Turkey (1961).
ing powers of the development bank, as explained below.

(ii) Another reason is to provide the institution with cheap funds, whose investment will ensure a minimum income to make it possible to build up the necessary organization and staff in the early years.

(iii) A third reason is to encourage private investors to invest in the equity capital. Without some such special governmental assistance, private investment in the equity of the development bank is difficult or impossible to secure; investors are well aware of the risks involved in the financing of private enterprises, which usually take a long time to show a return on the investment. The amount of this "quasi-equity" should be at least as great as and preferably greater than the amount of the true equity capital.

(c) If the government contribution takes a form which can be regarded as "quasi-equity", then it can be considered as an addition to the true equity capital for the purpose of calculating a reasonable loan-equity ratio for the borrowing powers of the institution. An appropriate ratio for the borrowing powers of a financial institution (unlike an industrial enterprise) is generally considered to be 3 : 1, and may in some cases be even higher. If an institution has an equity capital of $X$ and quasi-equity of $3X$, it has a base of $4X$ for borrowing purposes; and with a loan-equity ratio of 3 : 1 it can then borrow up to a total of 3 times $4X = 12X$. If it can borrow long-term money and lend this borrowed money with a reasonable margin on interest rates, it has a fair prospect of operating profitably. It can then hope to sustain its own growth by the issue of
additional equity capital in subsequent years.

(d) The institution will need sources of foreign exchange as well as local currency. If the government of the country is prepared to give its guarantee, one source of foreign exchange borrowings may be the World Bank. If it is satisfied with the management and performance of the institution in the course of the first loan, the World Bank can be a continuing source of further lending. In two cases it has already made four successive loans to such an institution over a period of five or six years. The institution must of course operate to the satisfaction of the World Bank as lender and of the government as guarantor, if it is to be eligible to continue to obtain World Bank loans.

(e) Additional sources of loan funds in foreign exchange may be available from other foreign institutions, usually in connection with some foreign aid programs. It is however seldom possible to raise conventional loan capital for development banks from private foreign investors.

5. The foregoing points are the main elements of a pattern which has been followed with satisfactory results in several countries over a period of years. This pattern is designed to create a dynamic institution, capable of growth and expansion, so as to raise new funds for new investments.

6. The International Finance Corporation, an affiliate of the World Bank, may also be prepared to make equity investments, whether or not the World Bank is making a loan to the institution. The IFC can also help in suitable cases to find foreign private investors, as well as local private investors, in contributing to the equity capital.
7. Experienced and competent management is essential to success. IFC, on behalf of itself and the World Bank, will be willing to help the institution to find experienced managers and staff, and within the limits of possibility, will provide training facilities for senior personnel.

8. However, the pattern described in paragraph 4 needs some modification in countries where little or no local private capital can be found for a development bank. In such cases the World Bank and IFC have been considering modifications to meet the circumstances without departing from the main principles. If some foreign private capital can be found, but little or no local private capital is initially available, the remaining equity subscription could be provided by IFC and the government, each having not more than 25% of the equity capital. IFC and the government would each agree to reduce their holdings progressively by sales pro rata to local private investors, as and when they can be found.

9. This modified formula can sometimes be applied in a re-organization of an existing government-controlled institution, as well as in the establishment of a new institution. Each case has to be considered in the light of circumstances, but it is not considered sound to depart from the fundamental principles that the board of directors, which appoint and control the management of the institution, must be predominantly private in composition.

10. A government contribution in national currency to a privately managed institution is an essential feature for the reasons mentioned above. The government thus has a continuing financial interest in the
development bank and is entitled to be kept in close touch with its progress and policies. The responsibility for management and operations is in private hands, but the government loan, together with any World Bank loan or IFC investment, should normally ensure that the private management will function in accordance with sound long-term economic policies and in the broad national interests of the country.
Mr. William Diamond

L. M. Svoboda

**Appraisal of Projects and Operating Procedures**

Under IBRD/IDA Loans to Development Banks

September 25, 1962

In reference to our conversation concerning the subject, attached draft paper gives some observations on the operation in the light of my experience at the Bank and in the field. While the present arrangements in general appear to work satisfactorily, there still seems to be considerable room for improvement in operating performance under most of the loans. A review of the operating practices and experience of the Working Parties concerned with these loans would help further streamline the present system for greater efficiency and speed in the operation.

Continued Bank/IFC advice and technical assistance to the development banks in particular in the initial operating stage is essential to accelerate the progress in operational improvement to standards of performance which would permit a gradual relaxation of the Bank's follow-up on the loans.

Attachment

L.M. Svoboda:ke
APPRAISAL OF PROJECTS AND OPERATING PROCEDURES
UNDER IDB/IDA LOANS TO DEVELOPMENT BANKS

The following is a preliminary appraisal of the methods of the approval of projects and of operating procedures under the Bank's loans to development banks, based on past experience in the operation at the Bank and in the field. A review of the operating performance under each of the Bank loans is recommended with a view to further streamlining the present system for maximum efficiency and speed in the operation.

Contractual Arrangements

The Bank's loans to development banks include contractual arrangements which provide for a great measure of control over the loan operations, designed to assure their financial soundness and to protect the Bank's investment. Normally, each credit extended under these loans is subject to prior Bank approval, although some loan contracts include provisions for authorizing the development banks to extend credits without prior reference to the Bank within a maximum limit for individual projects and in the aggregate to be agreed from time to time by the Bank. This authority has been granted in some variations under several Bank loans. ICICI originally was given a maximum limit of $100,000 which later was raised to $500,000 in the aggregate of $5 million. IVK, under its third loan from the Bank, has unrestricted authority to extend credits from the loan if the total of all IVK's loans and investments, irrespective of whether they are made from Bank funds or from IVK's other resources, to the borrower concerned, does not exceed $500,000. The recent loan to IDB Turkey provides for a maximum limit of $50,000 in the aggregate of $500,000 and for a general limitation on IDB's total investment in any one project to 10 per cent of IDB's assets.

Under a different arrangement, a minimum figure has been agreed with some
development banks, up to which projects normally would not be submitted for financing under the IBRD/IDA loans. Such a floor has been established for PICIC, IMDBI Iran, and CDC Taiwan, in the amount of $100,000 and for DB Ethiopia, in the amount of $50,000.

**Appraisal of Projects**

No specific arrangement exist between the Bank and the development banks concerning the form and presentation of the project appraisal reports. Most banks follow an established pattern of presentation which covers the technical, economic and financial aspects of the projects in more or less detail. As regards the quality of these reports, a cursory review of the seven development banks financed from IBRD and IDA loans* show considerable variations in standards of performances. Some of the more advanced institutions under the Bank’s guidance have acquired the necessary know-how and experience to prepare project appraisals in a reasonable complete form; other institutions which have not yet reached that stage require the Bank’s continued close follow-up and assistance in this matter.

One of the more important aspects presently neglected by most of the development banks is the market appraisal. These appraisals very often are based on superficial surveys of the market prepared from inadequate and inaccurate statistical data or from official reports with little, if any, supporting field work. Some banks have been using consultants services for feasibility studies and market appraisals, sometimes with good results, although in many cases these reports in the absence of adequate terms of

*This includes IDB Turkey, DB Ethiopia, IGIC India, PICIC Pakistan, IVK Austria, IMDBI Iran, and CDC Taiwan. Not included in this review are the IFC loans to CFC and CFN of Colombia, because of the entirely different concept of these operations.
reference have not proved very useful. The development banks are becoming increasingly aware of the shortcomings in their economic appraisal of projects and some of them have started developing the necessary specialized knowledge among their staff to fill the existing gap in their project presentation. For example, PICIC, for more than a year, has been training with good results a group of young economists in the methods and techniques of modern market research under the direction of its economic adviser, who is a specialist in this field. ICICI is also picking up on this aspect which is one of the few where their presentations are still lacking. Most of the other development banks need continued encouragement and help of the Bank to reach reasonable standards in this field of study.

The quality of the technical studies of the projects varies, depending on the competence of the engineering staff and of technical consultants available to the particular bank. One of the frequent shortcomings in this respect is the lack of an adequate assessment of the basic design, capacity, specifications and layout of the plant and equipment in reference to the requirements of the project and in their relation to other constructions underway or planned. This often requires subsequent changes and major adjustments in the project which can have important implications on its viability and economic justification. Another weakness of many technical appraisals is an inadequate or superficial assessment of important factors bearing on the construction and operation of the project, e.g., understimation of the construction period, disregard of seasonal factors affecting construction or operation of the project, questions of competent technical management, availability or need for training of skilled labor, adequacy of raw materials and supplies, etc. Careful analysis of these
technical aspects is essential for a considered judgment concerning the technical soundness of the project. It is also required for firming up the project and formulating it in a clear and comprehensive Project Description and List of Goods to form the basis for the loan, and to serve for future identification of the project.

The financial studies of the development banks reviewed, in general, follow a more or less standard pattern of presentation similar to that used by the Bank, although there are considerable variations in regard to substance and quality of presentation. Many of these studies lack a systematic approach and they show major loopholes, inaccuracies and inconsistencies in presentation which raise questions of basic nature. In this respect, the financial forecasts call for particular attention because of their significance for the overall assessment of the projects. Here, most presentations leave still considerable room for improvement. The main problem is the often unrealistic underlying assumptions of these forecasts which are based on inadequate or superficial study of the technical and economic aspects of the projects. In particular, this concerns the estimated cost of the project, its construction period, the production and sales program, operating costs and selling prices and, last but not least, its working capital requirements. Inadequate assessment of these factors can result in gross miscalculation of profitability and financial soundness of the project. This may require major adjustments in the technical design of the project and a revision of its financial plan which may raise difficult financial problems. Apparently, these shortcomings in the financial studies are due mainly to lack of experience on the part of some of the development banks in this field of work. They also sometimes reveal undue haste in the preparation of the project reports, lack of appreciation of its major
economic and financial aspects and poor judgment in regard to policy
issues involved.

Operating Procedures

The loan operations with development banks involve a considerable
administrative agenda which has been continuously growing concurrently with
the increased number of these loans.

Responsibility in the Bank for the operation rests with the Area
Departments. The credit applications received under the loans are screened
by the Working Party concerned with the operations. In the light of the
recommendations of the Working Party the Area Department approves credit
proposals and takes any other actions required under the loan. The Working
Party convenes as and when required under the direction of the Area officer
in charge, who is responsible for coordination of its work. It includes
representatives of the Legal and Treasurer's Departments. IFC Area Department,
which has the major responsibility of reexamination of the projects, partici-
pate in the meetings with one or more representatives as required. IFC, apart
from the reexamination of project appraisals, is also responsible for end-use
supervision of the projects and for the periodical overall appraisal of the
operations of the development banks. The representatives of the other
departments contribute to the work within their functional assignments and
in any other way they feel fit.

Progress in the loan operation to a large extent depends on the
efficiency and speed in which projects are assessed and credits approved under
the loan. This in turn depends on an appropriate organization and coordination
of the work involved.
A major problem encountered by most of the development banks is the time required for the processing of the individual credit applications under the loans and the frequent considerable delays in obtaining their final Bank approval. Most of these delays are due to the inadequate or incomplete presentation of the projects which involves an extensive exchange of correspondence between the Bank and the development bank concerning the additional information required. These questions sometimes are of basic nature bearing on the technical soundness and economic viability of the project; they also frequently arise from lack of adequate presentation requiring further explanation of some of the aspects discussed in the appraisal. A more concise and comprehensive presentation of the appraisal reports would help to eliminate much of this latter problem. While it would be difficult, if at all possible, to establish a standard form of the appraisal reports for all the development banks in question, it may be useful to prepare a general outline of these reports and a comprehensive questionnaire for the use of some of these institutions which, being of a more recent origin, still lack the necessary experience in the preparation of projects. Attached (to original only) is a sample of Outline prepared for PICIC along the lines of relative TMD instructions and a Guide in the appraisal of projects, including a detailed check-list of questions for ready reference of the PICIC staff in the study of projects.

As regards the timing of submission of the project appraisals to the Bank, most development banks furnish these reports together with the credit application after the project has been sanctioned by their board. PICIC frequently signs the loan contract with the borrower prior to the Bank's approval on the strength of an escape clause, generally used in
these loan agreements, which provides for the cancellation of the loan in the case of disapproval by the Bank of the loan credit. Some banks have found it useful in the course of the study of the projects to seek the Bank’s advance opinion on special technical aspects or major market or financial problems. In a few case, the Bank has agreed to review the projects on the basis of preliminary appraisals, by the development bank, prior to submission of the bank’s official credit application. The exchange of views between the Bank and the development banks on major aspects or problems of the project at an early stage of the appraisal has proved very helpful and time-saving in the operation and, therefore, should be generally encouraged.

Progress in the Bank’s approval of credit applications under the development bank loans is determined by the time required for clearing the projects through the Working Parties. The present system of divided responsibility for the operational and technical aspects of the loan operation in general has been working satisfactorily, although there is still room for improvement. A review of the operating methods and procedures of the Working Party’s concerned with these loans may help to further perfect and streamline the present system. As regards the project appraisals, in the course of their reexamination frequently many questions arise which call for further clarification. Any supplementary information required by the Bank on the project should be prepared in clear and comprehensive form with proper emphasis on all questions of basic importance. It is desirable that once the Bank has been satisfied on all these questions, it should not withhold its approval of the project and that any further questions of more or less informative nature should be left for subsequent clarification.
Technical Assistance

The operations of the industrial development banks cover a wide field of financial activity which requires specialized expert knowledge often not readily available in these banks. The unique experience which the Bank and IFC possess in this field enables them in many ways to assist these banks in building up the requisite know-how required for carrying out their task effectively. This assistance during the operational stage has attained particular importance with the increasing number of new development banks coming into operation. In working out appropriate operational arrangements under the Bank's loans, some technical assistance on the part of the Bank is invariably required, in particular, in the break-in period of the new institutions and continuous guidance during the loan operation. Depending on the individual case, this may involve advice and assistance in the recruitment of the professional staff, advice on methods and techniques of project appraisals and on specific aspects of loan operations. To facilitate this assistance, frequent visits of IBRD/IFC staff members to the bank may be required and, if necessary, the posting of an experienced adviser at the bank. Past experience has shown that appropriate and prompt Bank action in this respect can help to accelerate the educational process and prevent costly mistakes at the early stage of a development bank's operation. The institution of the IFC Development Services Department now makes it possible to serve the growing needs in this important field of technical assistance more effectively and with dispatch.

Action Required

The operational process of the loans to development banks calls for close cooperation between the Bank and the individual institutions to meet the objectives of these loans. This requires adequate arrangements
with the development banks in regard to operating procedures and close cooperation in their implementation. Of equal importance is a proper coordination and synchronization of work in the Bank's internal procedures which are based on a system of divided responsibilities along line/staff principles.

In the light of the above requirement, a review of the present arrangements under the various development bank loans appears to be indicated, in particular with reference to the following points:

1. Procedures followed by the development banks in the submission of credit applications to the Bank; substance and form of presentation of the project appraisals, loan contracts with sub-borrowers, and related documents (project description, list of goods, etc.).

2. IBRD/IFC procedures in the processing of the credit applications, time required for Bank approval of projects, frequency of delays in the approval and main reasons therefor.

3. Organization and methods of IFC reexamination of the technical, economic and financial aspects of the project appraisals, and adequacy of end-use supervision on the projects.

4. Degree of uniformity in present operating procedures under the loans and possibility of further standardization in regard to form, presentation and processing of the credit applications and project appraisal reports.

Appraisal of the development bank loan operations along the lines indicated above would help to decide on possible improvements, and streamlining of the present system in the light of the requirement of maximum efficiency and speed in the operation. The development of standard
procedures in the loan operations is a desirable objective, although the system should leave sufficient flexibility to meet the requirement of any particular case.
**File Title**
Operational - Development Banks - General - Volume 4

**Document Date**
09/26/1962

**Document Type**
Memorandum

**Correspondents / Participants**
From Richard Demuth to Files

**Subject / Title**
Development Advisory Service Recruitment Status

**Exception(s)**
Personal Information

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

**Withdrawn by**
A. Miller

**Date**
8/30/2011
Dear Mr. Diamond,

Mr. Mathew wrote to me on the 22nd August that my letter to you of the 18th August and the draft questionnaire that we propose to issue to some foreign development banks would be brought to your attention on your return from leave on the 4th instant. I hope you are now back, and I am looking forward to your reactions.

Early this week I had a letter from Mr. Mikesell of the Institute of International Studies, University of Oregon. The Ford Foundation has extended a grant to this University for a study of the financial operations and policies of 120 development banks in the less developed countries. In this connection Mr. Mikesell has sent to me a questionnaire for information about the Refinance Corporation for Industry. I took this opportunity of comparing his questionnaire with the draft questionnaire I have sent to you. It seems we can profitably incorporate in the latter the following additional points from Mr. Mikesell's questionnaire -

1. What is the total value of equity capital subscribed by the bank since 1955? (Please specify)

2. **Rotation of Capital**
   a) What is the value of debentures (Please specify, at cost or face value) held by the bank that possess the option of convertibility to equity shares?
b) What is the book value of equity shares which the bank has acquired in the last five years by exercising both stock options and convertibility features on debentures? (If the bank is not permitted to purchase convertible stocks and debentures, please specify).

c) Does the bank generally favour granting loans of short maturity in preference to those of long maturity? Comment:

d) Does the bank prefer to take equity participation in enterprise to whom finance is extended rather than loan participation?

The above points may please be considered when you examine the draft sent to you with my letter of the 18th ultimo.

With kind regards,

Yours sincerely,

(K.C. Mittra)

Mr. Williams Diamond,
Director,
Development Banks Advisory Department,
International Finance Corporation,
19th and H Streets,
Washington 25 D.C. (U.S.A.)
Appointment of Directors to Development Bank Boards

I have no serious comments on the draft note concerning appointment of directors to development banks other than to say that it admirably outlines the views of the committee.

A point may, however, be made of the clashing in the senses of the conclusions in paragraph 11 and paragraph 13.
September 10, 1962

Dear Mr. Powelson:

Please forgive my delay in replying to your letter of August 15. It arrived while I was on holiday.

I appreciate your invitation very much, for both the lecture and the luncheon - and will take you up on both, if you will be good enough to accommodate me on the timing. The chances are that I will leave Washington on or around October 10, the date you set. Could you shift the date either to the first days of October or to early December? I would prefer the latter, but either would do.

With best regards,

Sincerely yours,

William Diamond
Director
Development Bank Services

Mr. John P. Powelson
Professor of Economic Development
School of Advanced International Studies
The Johns Hopkins University
1906 Florida Avenue, N. W.
Washington 9, D. C.

cc: Mr. Graves

WDiamond/dea
Mr. William Diamond

Mr. E. P. MacKenna

Training in Development Bank Work

During my recent visit to Nigeria Mr. J. O. Udoji, Chief Secretary to the Premier of the Eastern Region, expressed an interest in sending a man for training at the IFC. I believe it is planned that the Premier of the Region in company with Mr. Udoji and other Eastern Region officials will be visiting the U. S. early in September. At the time of my visit they had not planned their itinerary, but it is expected that they will include visits to Washington. Mr. Udoji expressed his intention of making a formal request at that time.

The visit of the Eastern Region team has no connection with other Nigerian visits planned.

EP/MacKenna/mm:

cc: Mr. Hall
OFFICE MEMORANDUM

TO: Files
FROM: Gloria H. Fleming
SUBJECT: Meeting of August 22, 1962 with Mr. Wyeth (AID)

DATE: August 29, 1962

A meeting was held on August 22, 1962 in Mr. Diamond's office with Mr. Wyeth of AID (Office of Development Finance). Present were Mr. Mathew, Mr. Huehne, Mrs. Fleming, Mr. Kapur (IBRD) and Mr. Stein (Harvard summer intern at AID). Mr. Wyeth had requested the meeting to establish contact with the Development Bank Services Department and to discuss the rationale of certain differences of policy between AID and IBRD/IFC in rendering assistance to development banks. The discussion touched on the following topics: requests for local currency lendings; terms and conditions of loans; appraisal of sub-loans; legal aspects of loans.

CC: Mr. Kapur (IBRD)
Circulation - 2

G.H. Fleming/mg &
August 22, 1962

Dear Mr. Mittra:

This is to acknowledge the receipt of your letter of August 18 in the absence of Mr. Diamond who is at present on vacation. Mr. Diamond will return to Washington on September 4 at which time your letter and questionnaire will be brought to his attention.

Sincerely yours,

P. M. Mathew

Mr. L. C. Mittra
Central Office
Industrial Finance Department
Reserve Bank of India
Bombay 1, India

Cleared with Mrs. Fleming

CC: Circulation - 2
Mr. Hoffman

P. M. Mathew

Titles for Development Banks

August 22, 1962

After considering various alternatives, I feel that it would be expedient
(a) to restore the original French titles of institutions which have an
official French title and (b) to translate the rest from English to French,
irrespective of the language in which they have their original titles.

I attach a list of the original French titles referred to above.

P. M. Mathew/mg

Circulation - 2
Belgian Congo - Société de Crédit au Colonat et à l'Industrie

Haïti - Institut Haïtien de Crédit Agricole et Industriel

Lebanon - Banque de Crédit Agricole, Industriel et Foncier

Morocco - Banque Nationale pour le Développement Économique

Tunisia - Société Nationale d'Investissements

Vietnam - Société Financière pour le Développement de l'Industrie de Vietnam.
Dear Mr. Diamond,

Please allow me at the outset to congratulate you on your new assignment with the International Finance Corporation.

2. The Reserve Bank of India has recently set up a Working Group on State Financial Corporations with the twin objectives of reviewing the performance of these Corporations set up in the different States under a Central legislation: the State Financial Corporations Act, 1951, and of suggesting suitable measures to make these institutions fit instruments in the industrial development of the country. The current functions and operations of these Corporations among others have been briefly indicated in the enclosed note on industrial financing agencies in India. In this connection we feel that the Group should take into account the experience of development banks in other countries, particularly the manner in which they have solved the problems relating to personnel, resources, appraisal of applications, follow-up etc.

3. I was wondering, therefore, if we could not address a questionnaire to some of these foreign banks requesting them to give us their views both on the items included in the questionnaire and on any other related items so that the Working Group could draw on their experience in formulating its own proposals. I am enclosing herewith the draft of such a questionnaire (together with a covering letter) for your comments. After I hear from you, we shall finalise the questionnaire and send it to perhaps 2 dozen banks which you may suggest. The material on development banks that is available with us and with the Industrial Credit & Investment Corporation of India Ltd., does not contain the full postal addresses of many of these banks. I shall be grateful if,
while suggesting the banks which may be approached by us, you can kindly also let us have their full mailing address and, if possible, the names of their chief executives. I would also be happy to get any further material from your Advisory Department on the working of development banks which you consider would be useful to us.

4. I do hope I am not asking for too much; with your interest in the welfare of these banks I felt I could make this demand. I hope I shall soon get your reactions to the draft questionnaire.

With kind regards,

Yours sincerely,

( K.C. Mittra )

Mr. William Diamond,
Director,
Development Banks Advisory Department,
International Finance Corporation,
19th and H Streets,
Washington 25, D.C. (U.S.A.)
Dear Sir,

The Reserve Bank of India has recently appointed a Working Group to review the performance of the State Financial Corporations set up in the different States of India under a Central legislation: the State Financial Corporations Act, 1951. A note on the industrial financing agencies in India, in which the functions and operations of these Corporations among others have been indicated is enclosed for your information. This review, the first of its kind since these Corporations started functioning, has been undertaken with a view to determining the reasons for the relatively slow growth of these institutions and the measures which may be necessary to ensure that they make a fuller contribution to industrial growth in the different States which our Plans demand. We feel that, both in assessing our own shortcomings and devising necessary remedies to overcome them, a knowledge of the manner in which development banks are functioning in other countries, including the steps that have been taken there to deal with the multifarious problems which development banking poses - in the matter of setting up the right kind of organisation staffed by the right kind of men, of getting adequate and timely resources, of spotting the right entrepreneur and nursing his project at the technical and financial levels - are likely to be of very considerable value to us. It is thus that we seek your cooperation. We are enclosing a questionnaire covering certain major aspects of the policies and procedures of your bank as regards (a) constitution and management, (b) resources, (c) investments, (d) loans and advances and (e) profit utilisation and dividend policy. At first sight the questionnaire might appear somewhat lengthy. But if we get from you also copies of (1) the Charter by which your bank has been set up, (2) the balance sheet, profit and loss account and other detailed statements about your operations
which you may have submitted to your shareholders in the last 3 years, and any other readymade material that you may have, perhaps most of the issues raised in the questionnaire would be answered therefrom, except those where the policy and procedures have to be narrated. Only such questions need, therefore, be answered which are not covered by your Charter, annual reports etc. We shall also greatly welcome your sending us any other material bearing on the working of your institution, the place it occupies in your country's banking and financial structure, and its contribution to the economic development of your country.

We shall be extremely grateful if these reports supplemented by answers to the enclosed questionnaire can be mailed to us at your early convenience. In case your reports etc. are not in English we request that they may be accompanied by English translations. If, however, this is not possible, we shall ourselves try to get them translated. The material collected from your answers will be used by the Working Group primarily for framing suitable policy recommendations for our own development banks; if, however, you desire that your answers to some particular questions may be treated as confidential, these may please be indicated to us in your reply.

Thanking you again, and hoping that you will find it possible to accede to our request and help us in putting our development banks on a basis better suited to meet the demands that are being made increasingly for their services.

Yours faithfully,
Development Banks in foreign countries -
Questionnaire

(Please mention the date for which figures are
given ____________ )

A. Constitution and Management

1. When did your bank commence business? Was it established
   under (a) statute or (b) the general corporation laws of
   the country?

2. Is your bank (a) State-owned, or (b) privately owned, or
   (c) a mixed venture?

3. What is the size and constitution of the Board of
   Directors? Please indicate the interests represented, the
   selecting and appointing authorities, period of appoint­
   ment etc. for directors.

4. (a) What is the size of your Secretariat? How many are
    full time employees? (If possible please enclose a staff
    chart - departmentwise, excluding clerical staff).
   (b) Do you employ any special technical staff for appraisal
      of loan applications? Are they employed on full or part-­
      time basis? Are there arrangements for sharing technical
      staff with other organizations?
   (c) What type of credit or economic intelligence unit do you
       have?
   (d) Do you employ the services of consultants?

5. What is your relationship with (a) the Government and (b) the
   Central Bank of your country in broad policy matters?

B. Resources

6. (a) What are the (i) authorised, (ii) subscribed,
      and (iii) paid-up capital of your bank?
      
      (b) Please give details of the present ownership of
equity capital -

(i) Government
   (a) Central
   (b) State
   (c) Local

(ii) The Central Bank

(iii) Commercial banks

(iv) Other institutions
     (please specify)

(v) Individuals

(vi) Foreign participation
     (a) Institutions
         (please specify)
     (b) Individuals

    Total

---

7. What is the maximum upto which you can borrow from various sources? Are there also limits to borrowings from individual sources?

8. (a) Can you float bonds and debentures? If so, under what conditions? Does the Government guarantee repayment of principal and payment of interest on these bonds etc?
     (b) Please give details of the floatations in the last 2 years -

<table>
<thead>
<tr>
<th>Year of issue</th>
<th>Date of redemption</th>
<th>Bonds or debentures</th>
<th>Amount</th>
<th>Issue price</th>
<th>Interest rate</th>
</tr>
</thead>
</table>
| (c) Please give details of the present ownership of your bonds and debentures
     (Date -------- )
     | Government
     (a) Central
     (b) State
     (c) Local
     (ii) The Central Bank
     (iii) Commercial banks
     (iv) Other institutions
     (please specify)

..... (v) - p.3
9. Has your bank received financial assistance from any foreign government or institution, including IBRD? Please give details:

<table>
<thead>
<tr>
<th>Source</th>
<th>Whether loan or grant</th>
<th>Date</th>
<th>Amount</th>
<th>Period of loan</th>
<th>Purpose (if specified)</th>
<th>Whether repayable in local currency or foreign exchange</th>
<th>Remarks</th>
</tr>
</thead>
</table>

10. (a) In addition to the above, can your bank borrow from any other internal sources, such as the Government and the Central Bank? If so, under what conditions (period, rate of interest) and on what security can it borrow? (b) Please give the total amount now outstanding and details of loans taken from such sources in the last 2 years as below:

<table>
<thead>
<tr>
<th>Source</th>
<th>Date</th>
<th>Duration</th>
<th>Rate of Interest</th>
<th>Security</th>
<th>Amount Borrowed</th>
<th>Amount Outstanding</th>
<th>Remarks</th>
</tr>
</thead>
</table>

11. Is any restriction placed on the type of security against which the bank may borrow?

12. Do you accept deposits from the public? If so, please indicate period(s), rate of interest, and conditions for withdrawal.
How do these conditions, especially the rates of interest paid by you, compare with those offered by other borrowers in the money market? What is the amount of such deposits currently outstanding? What are the main categories of depositors (individuals, private institutions, business concerns etc.)?

13. Is there any arrangement by which your Government places certain funds at your disposal to be lent to certain preferred sectors (e.g. small industries, export industries etc.)? Please give details regarding amounts so received in the last 2/3 years, rates of interest payable and chargeable by you, and other conditions.

14. Have you any facilities to get refinance for some of your loans and advances? What are the terms and conditions? How far have you used them and found them adequate?

C. Investment

15. (a) What conditions are laid down in your charter to govern the investment of surplus funds?
   (b) Are you prohibited from making certain specific types of investments? Must certain sums be invested in Government or any other approved securities? Are limits, upper and lower, fixed for any individual investments?

16. Please give particulars of your present investment portfolio

<table>
<thead>
<tr>
<th>Type of investment</th>
<th>Amount invested</th>
<th>Remarks</th>
</tr>
</thead>
</table>

D. Loans and Advances

17. What regulations, in terms of the Charter, govern your loan policy?
   (a) Is there any maximum or minimum limit placed on the size of any loan?
   (b) Are all industrial units eligible for loans?
Or are there any restrictions, e.g. on the size of capital structure, employment, types of industry, purpose for which loan is sought etc?

(c) Are there any restrictions on the term of loan? What is the average, maximum and minimum term for which loans are given?

18. Please give details of the loan operation of your bank in the last 2 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Applications received</th>
<th>Applications granted</th>
<th>Amount disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount</td>
<td>No.</td>
</tr>
</tbody>
</table>

19. How many applications were rejected in last 2 years? What are the principal reasons?

20. What is the average time-lag, say, in the last 2 years, between (a) receipt of loan application and the granting of the loan and (b) the granting of the loan and its disbursement? What are the principal reasons for these two kinds of time lag?

21. In sanctioning loans do you give preference to particular industries? If so, why? In this connection, please also indicate if, in your loans and advances policy, the bank is expected by Government to follow any particular pattern — say, assisting certain special groups of industries etc. — in conformity with the policy of industrialization adopted by your country. Do you get any such advice from Government from time to time?

22. (a) Please give an industry-wise breakdown of the loans currently outstanding (or total of loans granted)

<table>
<thead>
<tr>
<th>Industry</th>
<th>No. of loans</th>
<th>Amount</th>
</tr>
</thead>
</table>

... 6
(b) Please classify also your present loans according to the size of loans sanctioned - classified into 4/5 slabs of size as per proforma below -

<table>
<thead>
<tr>
<th>Size of loans sanctioned</th>
<th>No.</th>
<th>Amount</th>
</tr>
</thead>
</table>

23. What broad criteria must an applicant unit satisfy for obtaining a loan? Please enclose an application form. If a unit is not able to supply the full data, what other steps would you take?

24. Please describe briefly the method of appraisal of applications. Have you prescribed any written instructions for the guidance of your appraisal staff? If so please enclose a copy.

25. Is the borrowing unit inspected either before the grant of a loan or after? Please enclose a copy of any inspection report form.

26. (a) Do you undertake any loan supervision or follow-up surveys? Please give details and enclose a copy of form which may have been prescribed for this purpose.
   (b) Does the borrowing unit furnish any periodical returns? If so, please give forms prescribed for this.
   (c) Can you always appoint a Director on the Board of the borrowing concern? If so, is this usually done? What is your experience where this has been done?

27. (a) What securities do you accept for loans? What is the usual margin maintained? Are there any statutory provisions relating to security?
   (b) Do you give loans on the guarantee of third parties, like the Government? If so, are security requirements relaxed for such loans? Have you given such loans recently?

28. In drawing up loan agreements, does your bank introduce any restrictive convenants? What types of such convenants are generally introduced?
29. How is repayment scheduled? Is it uniform for all loans, or does it vary with each loan?

30. What is the interest policy of your bank? Is the same rate charged on all loans or does it vary? If latter, what considerations determine it? What are the maximum, minimum and average rates charged during last 2 years?

31. Do the functions of your bank include the underwriting of shares? To what extent have you undertaken this activity? Please give details, including the terms and conditions. Is there any need for further developing this function? Does it require any modification of your present procedure?

32. Do you stand guarantee for your borrowers' commitments to third parties? Please give details.

33. What, according to your experience, is the minimum economic size of a loan the income from which can cover your costs of administration and prior study etc.

34. How far and in what manner has your bank helped in securing foreign collaboration for your borrowers? Please give details.

35. Do you enjoy any special tax-concessions or privileges as a development institution? Are these temporary or in perpetuity? Please give full details.

36. Have you given any loans in participation with other institutions like banks - domestic or foreign? If so, please give details of such loans in last 3 years, and the terms of your participation.

37. What in your view, has been the role of your bank in the recent economic development of your country? Have you undertaken any special promotional campaigns to acquaint banks and potential borrowers with your services? How far do you think they have borne fruit?

38. Have you, in recent years, undertaken a comprehensive assessment of the working of your bank? As a result, are any measures contemplated to expand the scope and size of your operations, by strengthening your human and material resources, covering new sectors of the economy etc.?
What are your suggestions to this end?

39. Are there also other institutions in your country offering term finance to industry? In what manner are their functions coordinated with yours?

E. Profit utilization and Dividend Policy

40. Please give the profit and loss position of your bank since its inception

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit earned</th>
<th>Loss sustained</th>
<th>Remarks</th>
</tr>
</thead>
</table>

41. Does your charter or any Government ruling limit, or prescribe the disposal of, your profits?

42. Please give details, with the amounts outstanding, of any funds created out of profits.

43. (a) Do you guarantee a minimum rate of dividend on your shares?

(b) Has it been paid out of profits, out of a special loan from Government?

44. Please give particulars of dividends declared since the inception of the bank -

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of dividend</th>
<th>Amount paid</th>
<th>Source</th>
<th>Remarks</th>
</tr>
</thead>
</table>

Does the Government or other major shareholder(s) forego, under certain conditions, the dividend and permit its transfer to a special reserve fund?
August 15, 1962

Mr. William Diamond, Director
Department of Development Banks Services
International Finance Corporation
1818 H Street, N.W.
Washington 25, D.C.

Dear Mr. Diamond:

As I am sure you know, both the World Bank and International Finance Corporation have been very cooperative, in each of our past sessions, in providing the Institute for International Development with a lecture on development banks. You yourself delivered this lecture in an earlier session, as also did Mrs. Boskey. In the past five sessions of the Institute, Mr. Wishart has been our guest lecturer. I understand, however, that Mr. Wishart has relinquished his duties in this field, and that you are now the director of the department at I.F.C.

I should like to invite you to deliver a lecture on development banks at the Institute on the morning of October 10, at 9:30 a.m. If this date is not convenient for you, we can arrange another, since our schedule is flexible. The lecture would last for about an hour or so, followed by a coffee break and discussion which would continue until about noon. If you are free to do so, we would then like to invite you to join us for luncheon.

The participants in the Institute are all senior officers of the Agency for International Development, who have had several years of experience in the field. Some of them are already acquainted with the operations of some development banks, and prior to your lecture all of them will have read your book and Mrs. Boskey's. Their principal interest will therefore be in a discussion of current problems of development banking and its role in promoting economic development.

I look forward to hearing from you and hope that you will be able to accept.

Sincerely yours,

John P. Powelson
Professor of Economic Development
August 15, 1962

Mr. William Diamond

C. H. Davies

SIC - Development Bank Papers

1. With reference to your memorandum of August 6, the following are the reference numbers and dates of papers on development banks considered by SIC this year:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Date of Meeting</th>
<th>Paper or Report for Consideration</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSTRIA: Proposed 3rd IBRD Loan to Investitionskredit, A.G.</td>
<td>(a) 17 January</td>
<td>none (oral report)</td>
<td>SIC/M/62-3</td>
</tr>
<tr>
<td></td>
<td>(b) 16 February</td>
<td>Draft Appraisal Report dated January 26</td>
<td>SIC/M/62-8</td>
</tr>
<tr>
<td></td>
<td>(c) 26 February</td>
<td>Draft Appraisal Report dated February 21</td>
<td>SIC/M/62-9</td>
</tr>
<tr>
<td>COLOMBIA: Bogota and Medellin Financieras</td>
<td>26 February</td>
<td>SIC/O/62-16</td>
<td>SIC/M/62-9</td>
</tr>
<tr>
<td>Assistance for government-owned Development banks</td>
<td>12 March</td>
<td>SIC/O/62-19</td>
<td>SIC/M/62-13</td>
</tr>
<tr>
<td>Technical Assistance for government-owned development banks</td>
<td>22 March</td>
<td>SIC/O/62-22</td>
<td>SIC/M/62-15</td>
</tr>
<tr>
<td>MEXICO: Impulsora Comercial e Industrial, S.A.</td>
<td>25 April</td>
<td>SIC/O/62-26</td>
<td>SIC/M/62-19</td>
</tr>
<tr>
<td>MEXICO: Intercontinental, S.A.</td>
<td>13 June</td>
<td>SIC/O/62-36</td>
<td>SIC/M/62-24</td>
</tr>
<tr>
<td>PAKISTAN: Proposed IFC Investment in PICIC</td>
<td>13 June</td>
<td>SIC/O/62-39</td>
<td>SIC/M/62-24</td>
</tr>
<tr>
<td>TURKEY: Industrial Development Bank</td>
<td>19 July</td>
<td>SIC/O/62-44</td>
<td>SIC/M/62-29</td>
</tr>
<tr>
<td>NORTHERN RHODESIA: Development Corporation, Ltd.</td>
<td>8 August</td>
<td>SIC/O/62-51</td>
<td>to be issued</td>
</tr>
</tbody>
</table>

2. There have been no joint SIC/SIC meetings. However, the Austrian and Turkish proposals referred to above were later considered by the SLC as follows:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Date of Meeting</th>
<th>Paper or Report</th>
<th>Minutes</th>
</tr>
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<tbody>
<tr>
<td>AUSTRIA:</td>
<td>3 April</td>
<td>SLC/O/62-10</td>
<td>SLC/M/62-9</td>
</tr>
<tr>
<td>TURKEY:</td>
<td>9 August</td>
<td>SLC/O/62-30</td>
<td>SLC/M/62-20</td>
</tr>
</tbody>
</table>
August 13, 1962

My dear Medhora,

Soon after you left, someone told me (I can't remember who) that you were working on a study of the cost of making loans and investments. I wish I had known this, for I should have liked to discuss the matter with you. In any event, I should be grateful indeed if you would let us have the opportunity to see the result of your work, whenever it is ready - and, indeed, the result of any other study of general interest you undertake.

I hope you had a good trip home.

With best wishes,

Sincerely yours,

W. D.

William Diamond
Director
Development Bank Services

Dr. P. B. Medhora
The Industrial Credit and Investment Corporation of India Limited
163, Backbay Reclamation
Bombay 1, India

WDiamond/dea
August 10, 1962

Mr. Robert W. Norris
School of Industrial Management
Massachusetts Institute of Technology
50 Memorial Drive
Cambridge 39, Massachusetts

Dear Mr. Norris:

I am replying to your letter of August 8, in which you inquire what information might be available to you here on the history and financial data of varying types of development banks.

Early this year, a new Development Bank Services Department was established in the International Finance Corporation (which, as you probably know, is an affiliate of the Bank) to be responsible for development bank activity on behalf of IFC and the Bank. Mr. William Diamond, with whose book on development banks you are familiar, is now the Director of that Department. I have referred your letter to him, with the request that he reply to you directly.

Sincerely yours,

Shirley Boskey
Development Services Department

cc: Mr. Diamond w/incoming
    Central Files

SEBoskey:ml
Mr. Cyril H. Davies

William Diamond

August 6, 1962

Would you be good enough to give me a list (including identification numbers and dates) of:

1. All papers submitted to SIC,
2. All minutes of SIC meetings,
3. All papers presented to joint SLC/SIC meetings, and
4. All minutes of such joint meetings related to devbanks, since January 1, 1962.

Many thanks.
August 6, 1962

INTERNATIONAL FINANCE CORPORATION

TO: All IFC Professional Staff
FROM: Martin M. Rosen
SUBJECT: IFC Travel on Development Bank Work

When preparing a travel request (TR) for official travel on development bank work, the following procedure has been agreed with the World Bank:

(a) Development Bank Services Department Staff

Unless otherwise indicated, it will be assumed that the travel is charged 50% to the Bank and 50% to IFC. If the travel is solely on account of one of these organizations, the TR should so indicate.

(b) Other IFC Staff

When traveling on development bank work, the TR should indicate what percentage of the travel is to be charged to the Bank and what percentage to IFC.

(c) Consultants

In each case where a consultant is hired and travels on development bank work, the Director of the Development Bank Services Department will indicate the appropriate apportionment of charges between the Bank and IFC.
OFFICE MEMORANDUM

TO: FILES
FROM: William Diamond
DATE: August 6, 1962
SUBJECT: DEVELOPMENT BANKS: Advisors and Training

1. I asked Mr. Fowler last week whether I could get a list of all persons in his files who could appropriately be considered for posts as managers of, or advisors to devbanks, including all who had ever worked in a devbank. He said his office was in the process of categorizing the personnel files and one category was the one that concerned me. He will give priority to preparing the list we need; and after its completion we will start a review of the files themselves.

2. I also asked about the "training program" for devbank staff. He told me (as Mr. Wishart had before) of the meeting on this subject in June, and promised to send me the memo which had been prepared at that time, after which Mr. Ahmad will see me about the matter.

cc: Messrs. Rosen
    Wishart
    Mathew
    Ahmad
    Circulation - 2

WDiamond/dea
OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen
FROM: William Diamond

DATE: August 6, 1962

SUBJECT: DBS

1. Attached is a list of general subjects which DBS proposes to look into, and prepare notes on in the months to come. I shall no doubt add to these later. In the meantime, however, I should appreciate any comments you might have on the items in the list, and any additions you might want to suggest.

2. I understand committees were once set up to deal with one or two of these questions, i.e., policy towards government development banks and IFC representation on boards. Perhaps there were others. In any event, I suspect we shall have to start over on all these matters.

cc: Messrs. Wishart
    Hamilton
    Mathew
    Apcar
    Huehne
    Mrs. Fleming
<p>| | |</p>
<table>
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<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Preparation of model questionnaires for devbanks, and general form of appraisal.</td>
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<td>2.</td>
<td>Preparation of standard progress report forms for devbanks, and reexamination of internal Bank/IFC progress reporting.</td>
</tr>
<tr>
<td>3.</td>
<td>Debt-equity ratios and debt coverage.</td>
</tr>
<tr>
<td>4.</td>
<td>IFC membership on devbank boards.</td>
</tr>
<tr>
<td>5.</td>
<td>Prior project approval (object, minimum size, discretionary power, etc.).</td>
</tr>
<tr>
<td>6.</td>
<td>Assistance to government devbanks.</td>
</tr>
<tr>
<td>7.</td>
<td>Cost of making investments: minimum size required to break even.</td>
</tr>
<tr>
<td>8.</td>
<td>Training program for devbank staff.</td>
</tr>
<tr>
<td>9.</td>
<td>List of potential managers and advisors.</td>
</tr>
<tr>
<td>11.</td>
<td>Updating of devbank Data Book.</td>
</tr>
<tr>
<td>12.</td>
<td>Maturity of devbank loans: flexible vs. fixed.</td>
</tr>
<tr>
<td>13.</td>
<td>List of potential participants in devbank investments.</td>
</tr>
</tbody>
</table>
Weekly Project Report for Department Heads' Meeting

Department of Development Bank Services

Following the suggestions made by Mr. Diamond at the Departmental Staff Meeting on July 31, the following development banks should be transferred to the non-active list.

1. Burma Development Bank
2. Central American Development Bank
3. Costa Rica
4. Guatemala
5. Lebanon
6. Nicaragua
7. Panama

The following development banks should continue to be included in the weekly list.

1. Pakistan (PICIC)
2. Philippines
3. Thailand
4. Vietnam

For your information there should be no change from the comments of the previous week.
Following your instructions I attach herewith a brief report as to where we stand in respect to Development Banks in Central America and Asia.

My information has been obtained from Bank/IFC personnel who have been handling these projects and from Bank/IFC Operational Files.
3. **Pakistan**

The Bank (Mr. Goodman) reported two months ago that PICIC is planning to request a $20 million IBRD loan at the end of 1962. It had been planned that Hamilton would visit Pakistan in August-September, when he would pursue the question of PICIC's needs for additional equity in the light of its planned rate of commitment, and explore with PICIC's management the possibilities for IFC investment. In this connection PICIC's chairman has suggested that IFC make an investment of Rs. 5 million ($1.1 million equiv.) in convertible notes bearing interest equal to dividends on ordinary shares and carrying to maturity date. It was further suggested that this proposed investment would be made at the time of PICIC's planned rights issue, now slated for March 1963.

As a result of an SIC meeting IFC Management is on record as favoring a more direct investment than that proposed by PICIC, even to the extent of limiting IFC's right to dispose of 60% of the shares so acquired.

4. **Philippines**

A steering committee was set up by Mr. George Woods when he and George Wishart visited the Philippines in May. The committee, which had been working on the setting up of the various aspects of the proposed development bank, came to a stop some three weeks ago as a result of the requirement that the proposed Bank credit line ($15 million) would require a government guarantee. There is a need for special legislation to enable the Republic of the Philippines to guarantee a loan to a private corporation.
Philippines (Cont'd.)

A possible solution put forward was to channel the proposed credit line through the Development Bank of the Philippines, but the automatic guarantee which the DBP would get from the government

(a) would not seem to be adequate;

(b) at present is not applicable since the DBP has reached the limit of its borrowing capacity and, therefore, new legislation would be required to enable it to increase its loans; and,

(c) under the provisions of Republic Act 529, it is impossible for a Philippine Government Agency to enter into financing contracts expressed in any currencies other than pesos. This prevents the ultimate borrower from assuming the foreign exchange risk.

In order to try and find a solution to these problems, Michael Wichan was sent to Manila some ten days ago. According to the latest information, we are informed

1. that the Government is preparing a draft bill for presentation to Congress at its special session in September to enable a direct loan from the Bank to the Private Industrial Development Corporation; and,

2. as regards the foreign exchange risk, efforts are being made to work out a satisfactory solution.

A final point of interest is that instead of a bank credit line, the Bank Area Department hopes that it will be able to make an IDA loan. The Staff Economic Committee agreed, last
week that the Philippines might be entitled to obtain an IDA credit. I understand that an appraisal report has already been prepared by George Wishart for presentation to the Staff Loan Committee, and as soon as Wiehen has returned to the Bank and submitted his findings, it is proposed to go to Management to obtain permission to invite the Steering Committee to Washington for negotiations.

5. Vietnam

At the request of the Government of Vietnam, Mr. Melmoth, Bank staff member, and Mr. Karasz, IBRD Representative, Bangkok, will be visiting Saigon this month to investigate the possibility of a private industrial development bank in that country. We await Melmoth's report of his findings. He is scheduled to return to Washington on July 26th.

CENTRAL AMERICA

1. Central American Development Bank

During the past two years several Central American countries have made inquiries about the possibility of IFC and/or Bank/IDA assistance in the establishment of a Central American development bank. In 1960 Messrs. Wishart and Franco visited the countries of Central America, held discussions with businessmen and government officials and recommended consideration for such a bank. However, as a result of the creation of the Central American Bank for Economic Integration, the idea of establishing a private bank was not pursued.
Central American Development Bank (Cont'd.)

In April 1962 Mr. Machado revived the above mentioned proposal and suggested that Panama would be a good neutral location for a central office of CAPDB with small offices in Guatemala, El Salvador, Costa Rica, Nicaragua and Honduras. It was suggested that equity capital would be subscribed by commercial banks, insurance and industrial companies. The capital structure mentioned was about $5 million equivalent. During April 1962 several meetings were held in which Messrs. Rosen, El Emary, Paterson, Franco, Wishart, Grayson, Duvieusart and Mathew were present. Dr. El Emary suggested the advisability of sending a survey mission.

Mr. Bochenski thought that it was still premature to do so. At a meeting held in Mr. Rosen's office of April 17, it was mentioned that there was no evidence of serious interest in the Central American countries for a regional bank, and that IFC need not take any initiative at this stage, but that we might study the scope in the interested countries for private development banks which would be free to operate beyond national boundaries.

2. Costa Rica

In January 1962 a letter was received by the Bank from Robert G. Fullmer of USOM, Costa Rica, soliciting IFC's assistance in the establishment of a private industrial development bank in Costa Rica. A reply was dispatched on February 6 under Mr. Rosen's signature in which USOM was informed that the Bank and IFC would appreciate further details regarding the
Costa Rica (Cont'd.)

Proposal and information as to the type of assistance required.

Mr. Fullmer was further advised that Mr. Bochenski of the Bank staff would be visiting Costa Rica early in February, and the latter would call upon Fullmer to discuss the matter with him more fully, that after we had received Mr. Bochenski's report, we would be in a better position to indicate how we might be of further assistance. It is suggested that this matter be pursued with Mr. Bochenski when he returns from vacation on July 25th.

3. Guatemala

At the invitation of the Minister of Finance, Messrs. Rosen, Machado and Duvieusart visited Guatemala City on February 18 and 19. The purpose of Mr. Rosen's visit was to establish contact, to discuss the possibility of IFC's activities in Guatemala and to discuss a preliminary proposal for the creation of a private development bank. Mr. Rosen outlined IFC activities and policies regarding development banks and emphasized the necessity for a thorough preparatory study including the investigation of the real need for such a bank, of the size and financial structure etc. No further action is suggested until the Guatemalans come up with a project.

4. Nicaragua

In reply to a letter from Mr. Alfredo J. Sacasa, General Manager of the Instituto de Fomento Nacional, Managua, in connection with the establishment of an industrial investment and loan corporation in Nicaragua, reference is made to Mr. Beevor's reply of April 4, 1962 wherein he requested further information.
Nicaragua (Cont'd.)

to enable the Bank/IFC to take a positive view as to the need for, and feasibility of, establishing such an institution, after which IFC would indicate the manner in which it might be of assistance. No further communication has been received on this matter.

5. Panama

A study was made by George Fry Associates (Consultants) in the spring of 1961 to determine steps required to stimulate industry. It was recommended that a private industrial development bank be considered. Subsequently AID financed another consultant (Mr. Tennenbaum) who came up with concrete proposals on the setting up of a development bank. Mathew studied Tennenbaum's report (which was submitted to IFC by Mr. Habib, Bank Representative for Panama) and came up with the view that the report was inadequate and vague. A copy of Mathew's memorandum (June 20, 1962) was sent to Mr. Habib. No further action is required by IFC until we receive additional information.
Mr. Lyman C. Hamilton

David Castle

Sub-Project Reviews by IFC

The following is suggested as a suitable layout for these reviews, subject to modification in the light of availability of data and the relative thoroughness and lucidity of the local development bank appraisal.

Principal Features of Loan

- Amount
- Term
- Maturities
- Prepayments
- Interest
- Commitment Fee
- Fringe Benefits

Borrower

A. Legal Status, History, Ownership.
B. Products and Capacity.
C. Past Earnings Record.
D. Present Financial Position.

Project

A. Objectives
B. Proposed Cost and Financing
   1. Cost
   2. Financing
C. Timetable for Realization

Comments on Project

A. Market
B. Capital Cost
C. Financing
D. Profitability and Financial Projections

E. Technical

F. Sponsors and Management

G. Economic Justification

Comments on Project Appraisal by Local Development Bank

A. Market

B. Financial
   1. Capital Cost and Financing
   2. Profitability and Financial Projections

C. Technical

D. Sponsors and Management

E. Economic

Conclusions and Recommendations
While I was in New York early this week, I called on some members of the staff of the Industry Division as suggested by Dr. El Emery. The persons I met were: Messrs. N. L. MacPherson (in the absence of Dr. Lurie, Chief of the Division of Industrial Development) John P.B. Jones and Abuelhaj. I also met separately Mr. Sanghri of the same division. The purpose of the visit was to establish contacts and to ascertain discreetly to what extent, if any, the U.N. had given or had plans to give technical assistance to development banks.

Mr. MacPherson explained the structure of the Department of Economic and Social Affairs as in the attached chart.

He also referred to the proposed Industrial Development Centre which he expected would emerge as a study and research centre for bringing out for the use of industry the mass of technical material available with the U.N. from holders of fellowship grants and from other sources.

He also mentioned a proposal currently before the ESOSOC for attaching consultants and technical staff to the Division of Industrial Development. While the consultants would be available on call to formulate or evaluate industrial programmes for member countries, the technical staff would be available to the Division on a continuing basis for despatch to member countries for ad hoc work. They would not be lent to member countries for technical assignments. Their availability to the Division would enable speedy evaluation and disposal, after field study wherever necessary, of requests for technical assistance and/or pre-investment studies from member countries.

Mr. MacPherson also referred to a proposal of the U.S. Government, which was coming up before the forthcoming ESOSOC meeting in Geneva, regarding the setting up of a corps of retiring personnel (around 60 years of age) for assisting underdeveloped countries in solving their shortage of technicians.

The Industry Division had not yet lent experts for development bank work. Depending on the passage of the U.S. proposal through ESOSOC the U.N. would have the machinery to deal with such requests emanating from member governments in the future.

CC: Mr. Demuth
UNited Nations
DePartment of Economic and Social Affairs

Under Secretary: P. de Seynes

Deputy
Executive Office

Regional Economic Commission

Commissioner for Technical Assistance: V. Boc

Bureau of Technical Assistance Operations (BTAO)
Director: M. Bloch

Commissioner for Industrial Development: J.A. Mayobre

Division of Industrial Dev.
Director: R. Leon

Division of General Economic Research and Policies
Director: J.L. Meun

Division of Public Administration
Acting Director: P.J. Vich

Division of Resources and Transport
Director: R.G. de Brey

Division of Statistics
Director: E.M. Leonard

Viral and Finance Division
Director: R. Bloch

Division of Social Affairs
Director: Anne Julia Henderson

Technical Assistance Board (TAN)
Chairman: P. Donn

Special Fund
Hon. Director: P. Mathes
June 19, 1962

Debt-Equity Ratio in Development Banks.

It is customary to speak of paid-up equity capital and not of issued capital when we are calculating debt-equity ratio. There is definitely a good reason for following that rule. It is true that the unpaid part of the issued capital is a liability of the shareholder and he must pay it when asked to do so, but in an emergency it is not safe to assume that the shareholders will pay up and, if they are forced to pay through court, it will need some time to collect, and the time element is of paramount importance under the circumstances.

The example by Dr. H. Haschek, though of extreme character, illustrates how the creditors of the development bank would be liable to lose a part of their money if some crisis involved the bank in a reasonably big loss, say, 10% of its loans to the outside borrowers while, if the calculation was made on the basis of paid-up capital, and not on the issued capital, it would require a loss of more than 20% of its loans before the creditors are in danger. The issued capital basis will tend to inflate the borrowing capacity beyond the safety point.

Also the issued capital basis will result in an unequal treatment amongst different banks. The paid-up part may vary from 10% to 100% of the issued capital. If the issued capital was to be taken as the basis for the calculation of debt-equity ratio, have we to treat the two banks equally whether 10% or 100% of the issued capital was paid up? I do not think that it is fair for the creditors or for the development banks. The paid-up capital is by far the best basis for calculations.

A.G. El Emary

cc: Messrs. Paterson
Cope - IBRD
Collier
Lejeune
Wiehen
DATE OF WIRE: JUNE 11, 1962
LOG NO.: WU 1
TO: CORINTFIN
FROM: FRANKFURTMAIN

ACTION COPY: MR. EL EMARY
INFORMATION COPY:
DECODED BY:

TEXT:

4 FOR EL EMARY
ARRIVED FRANKFURT FRANKFURTERHOF CONTACTED BACHEM. FURTHER SCHEDULE AS CABLE 3

HUEHNE

NO FAMILY NOTIFICATION NECESSARY

DUPLICATE
AB
DATE OF WIRE: JUNE 9, 1962
LOG NO.: RG 1
TO: CORINTPIN
FROM: ISTANBUL

TEXT:

3 FOR EL EMARY
REUR 2 ARRIVE FRANKFURT MONDAY HOTEL FRANKFURTER HOF. HAD ARRANGED FOR MEETINGS FOR KREDITANSTALT ON MONDAY AND FOR BONN ON TUESDAY. BACHEM CABLED HOWEVER MONDAY AND TUESDAY ARE BANK HOLIDAYS. FOLLOWING HIS SUGGESTION MEETINGS WILL BE HELD KREDITANSTALT WEDNESDAY MORNING AND BONN WEDNESDAY AFTERNOON. CABLED TO FRANKFURT AND BONN CORRESPONDINGLY. RECEIVED 2 LETTERS FROM MATHEW AND WILL INQUIRE DISCREETLY KREDITANSTALTS INTEREST IN MR. BACK OFFICE JUNE 18

NO FAMILY NOTIFICATION NECESSARY

HUEHNE

DUPLICATE

AB
### Record Removal Notice

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<td>06/04/1962</td>
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**Correspondents / Participants**
From IFC Executive Secretary

**Subject / Title**
Statement made by Mr. Haus-Solis on development banks, and summary of subsequent discussion at meeting of Board of Directors, May 29, 1962

**Exception(s)**
Information Provided by Member Countries or Third Parties in Confidence

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

**Withdrawn by**
A. Miller
**Date**
8/30/2011
Mr. Joseph C. Beany

A. F. Johnston

IFC Travel on Development Bank Work

June 1, 1962

At the budget review with Mr. El Emery he suggested that all travel of his staff in connection with projects with which the Bank (IDA) and IFC are both concerned, or work of a general nature on development banks, should be charged Bank 50% and IFC 50%.

We have discussed this matter with Mr. Wishart, as well as the procedure to be followed for other IFC staff who travel on development bank work and consultants who may be employed for this work. He will talk to Mr. Rosen and presumably a directive will be circulated to the IFC staff instructing that:

(a) For Development Bank Services Department staff if travel is solely for one organization the TR will so indicate. If such an indication is not made it will be assumed that the travel is joint and will be charged Bank 50% IFC 50%.

(b) Other IFC staff should indicate the appropriate charge on the TR.

(c) For consultants who may be hired for development bank work, the appropriate charge should be determined in each case by inquiry to Mr. El Emery’s office.

The Bank share of these costs should be recorded in the accounts as follows:

Staff Travel - Routine Travel - Appropriate Area Department
Consultants - Consultants - BO - Country

cc: Mr. El Emery
Mr. Poore
Mr. Wishart

TKM:bmr
May 28th, 1962

International Bank for Reconstruction and Development
International Development Association
Att: Mrs. Shirley Boskey
Development Services Department

Dear Mrs. Boskey:

Thank you for your letter of May 22nd and for the attached list of development banks.

Mr. El Emery's letter arrived just after we wrote to Mr. Demuth and we are sorry that you were bothered a second time. We very much appreciate the cooperation which you have shown us and your list will be very helpful to us.

Sincerely yours,

John Morris Ryan, Editor
May 21, 1962

International Finance Corporation
Att: A. G. El Emery, Director
Development Bank Services
Washington 25, D.C.

Dear Mr. El Emery:

Thank you very much for your letter of May 4th and for the attached list of development banks.

The list will be very helpful to us and we appreciate your kind cooperation.

Very sincerely yours,

[Signature]

John Morris Ryan, Editor
May 24, 1962

International Finance Corporation
Attn: A. E. Smar, Deputy Director Development Bank Services
Washington, D.C.

Dear Mr. Smar:

Thank you very much for your letter of May 17th and for the attached list of Development Banks.

The facts will be very helpful to me and we appreciate your kind cooperation.

Very sincerely yours,

John Morris Ryan, Editor

1962 May 24 AM 8:20

[Receipt stamp: Correspondence General Fees]
May 18, 1962

Mr. William F. Ryan
Irving Trust Company
One Wall Street
New York 15, N.Y.

Dear Mr. Ryan:

In accordance with your letter of May 17, I have pleasure in forwarding herewith a list of development banks located in countries throughout the world.

Yours sincerely,

A.G. El Emary
Director
Development Bank Services
Dr. Abdel G. El Emary  
Director  
Industrial Development Bank  
Services Department  
International Finance Corporation  
1818 H Street N.W.  
Washington, D.C.

Dear Doctor El Emary:

Would you be good enough to send me a list with addresses of the country development banks throughout the world, as I requested in my telephone call to you today.

Thank you for your attention in this matter.

Sincerely yours

William F. Ryan

Please prepare a reply with the list.
DEVELOPMENT BANKS

At a luncheon meeting of the Federal Bar Association and the Bureau of National Affairs in the Shoreham Hotel, Washington, on 5 May 1962, Martin M. Rosen, Executive Vice President of the International Finance Corporation, spoke substantially as follows:

My subject is development financing corporations or development banks as they are frequently called. A few of the institutions which have come to be known as development banks began to appear in less developed countries before World War II but it is since that war that they have grown rapidly in number and in importance as instruments of industrial financing.

Let me begin by telling the story of the World Bank's first experience in assisting the design and establishment of a development bank. In the late 1940's the World Bank was approached by the Turkish Government and by private business interests in Turkey for assistance in meeting that country's pressing economic problems. The Bank was approached in this period, in fact, by two Turkish administrations representing the major political parties of the Republic. The Bank felt, therefore, that it had non-partisan support when it decided in 1949 to accept the invitation to send a mission to Turkey to analyze its economic problems and to suggest a program of industrial development based upon private capital investment.

You will recall that until well into the 20th century, Turkey had not emerged from the Ottoman Era. It was not until Ataturk became president that some of the reforms were achieved necessary, as a prelude, to creating a powerful state in the modern sense. He abolished church
law and adopted civil, criminal and commercial codes based upon Western principles. He adjusted time reckoning to the international clock and the Gregorian calendar. He outlawed the fez and adopted western dress.

 Atatürk had to make changes equally as profound in the country's economic structure and customs. At first he relied upon private enterprise in Turkey to promote its industrial development. But for many reasons private enterprise was unable to produce the wanted results. As a result, a system of state enterprise called "etatism" was begun in the 1920's. This was neither socialist nor communistic, but nationalist. Its purpose was to promote industrialization as rapidly as possible.

This system also did not for many reasons produce desired results although under it Turkey made sufficient progress to carry through World War II. After the war Turkey found itself with a variety of problems: it was inhibited by the lack of long-term money at moderate rates of interest; by the lack of experience in mobilizing capital; by the lack of technical and managerial knowledge; and by the lack of foreign exchange. Considerable private capital existed in Turkey; but its owners preferred to invest in real estate, inventory, or gold, or to engage in short-term but highly lucrative commercial business rather than to invest in industry.

It came to be rather generally believed in Turkey that the World Bank might help as a catalyst for the combination of the local capital, foreign exchange, and experience required for the financing of many worthwhile industrial projects in particular and for the stimulation of private enterprise in general, which was considered essential to the development of the Turkish economy.
The Bank therefore sent a consultant to Turkey in the Fall of 1949 to discuss the issue with all interested groups. As a result of his visit, a plan was evolved for the establishment of an institution which would be privately owned; would be directed by competent management; and advised by a technical staff qualified to analyze investment applications and to assist the institution's clients in carrying out projects. It was also contemplated that such an institution would receive additional capital in the form of loans from the Central Bank of Turkey and the World Bank.

A second visit by World Bank representatives, early in 1950, resulted in the working out of details and was followed by the formal establishment of the Industrial Development Bank of Turkey. The new bank became a legal entity in June of that year. Its authorized capital of 12.5 million Turkish liras (about $4.5 million) was subscribed by a group of 18 private institutions including 13 Turkish and foreign banks, three associations of merchants and industrialists, and two textile firms.

The purposes for which the Turkish development bank was created were to assist in the establishment of new industries and in the modernization or expansion of existing industries; to encourage private capital investment, both foreign and domestic, in industry in the country; and to promote the development of a securities market in Turkey. To attain these ends, the development bank was empowered to grant medium and long-term loans at moderate rates of interest, to take equity participations and, in exceptional cases, to establish new enterprises of its own.
Another and equally important function -- which may prove to be lasting in its influence on the growth of the Turkish economy -- was to provide technical and managerial assistance to private enterprises in Turkey. The Bank's operational staff aided prospective clients to prepare their plans and screened their application. The staff became available also to enterprises financed by the Bank for services in such fields as engineering, management and accounting. Thus the Industrial Development Bank made an important contribution to Turkish enterprise. Its role in relation to clients has not been unlike that of the World Bank to its borrowers.

Since its inception the Turkish Development Bank has assisted foreign capital seeking to invest in Turkey, by placing at the disposal of potential foreign investors its information on local conditions and regulations and by suggesting local opportunities appropriate for foreign investment.

In the summer of 1950 the World Bank dispatched its mission to Turkey to assist the new development bank in undertaking its work. Its report was not completed until May, 1951. In the meantime the World Bank moved to support the new Turkish Bank by authorizing in October, 1950, a loan for $9 million. This loan, for 15 years, is guaranteed by the Republic of Turkey.

At the same time the Central Bank of Turkey agreed to lend the Development Bank an additional 12.5 Turkish liras to meet the local currency needs of the Bank. The loan from the World Bank, in an amount equal to the local currency resources available to the Turkish Bank, was intended to supply the foreign exchange requirements of the projects.
which the new Bank would finance in its initial stages. Thereafter, its foreign exchange resources were supplemented by the Government through a special arrangement.

In recent years, under the Menderes Government, the Turkish development bank has experienced difficulties along with most other institutions in Turkey. However, the Bank has been one of the very few institutions in Turkey to maintain its relative independence of government and its support of private enterprise during this difficult period has been commendable. The Turkish Bank is now in need of funds for further investment and we are holding talks with them to see what can be worked out at IFC and the World Bank.

Let me now turn to another case -- the establishment of an industrial development bank in India. One of the historical impediments to the growth of industry in India has been the lack of risk capital. From the time that the jute and cotton textile industries were established in the middle of the 19th century to the period after World War I, new industrial enterprises in India relied on capital raised abroad, chiefly in London. Such enterprises invariably were started by firms of managing agents who, experienced in Indian conditions and retaining control over their enterprises, were able to provide the assurance of sound management needed to attract investors.

It was largely as a result of these types of operations that stock markets were developed in India and that Indian capital began to flow toward industry. After World War I a large number of new industries producing both capital and consumer goods were started, financed substantially by capital raised in India. However, the supply of Indian
capital never equalled the demand. During World War II and for a few years after Indian capital continued to provide new funds for industry. By 1946, however, the stimulus was largely spent and for several years thereafter it was difficult even for the largest and best established Indian concerns to raise new capital locally. The Government of India became disturbed by this situation and an inquiry committee was set up by the Indian Reserve Bank.

Towards the end of 1953 discussions were held in Washington between the World Bank, the U.S. Government, and the Government of India to consider the establishment in India of a privately-owned corporation to provide investment necessary to the growth of private industry. It was proposed that the equity capital be raised by an issue of shares in India and also that efforts should be made to obtain subscribers from abroad. It was further proposed that the Indian Government make an advance to the proposed corporation from U.S. counterpart funds and that the World Bank consider making a loan to the new institution.

As a result of these discussions, a mission was organized by the World Bank, the First Boston Corporation, and the American Securities Corporation. The mission's work in India lead to the formation of a committee of five prominent Indian businessmen to prepare detailed proposals for the new development bank. The World Bank, meanwhile, explored with leading financial institutions in the United Kingdom and the United States the possibility of private British and American participation in the equity capital of the proposed bank.
Progress was made and in October 1954 all interested groups assembled in Washington where agreement was reached on major points and the drafts of essential documents were agreed upon. In December 1954 the Bank announced that it would make a loan of $10 million as soon as the new institution had come into being. It was established under Indian law on January 5, 1955, and was given authority to commence business on March 2 of that year. Thus came about "The Industrial Credit and Investment Corporation of India", known from that day to this as ICICI.

India's development bank was formed by private investors of India, the United Kingdom and the United States with initial share capital of 50 million rupees which is equivalent to $10.5 million. Indian investors took about two thirds of the shares and today hold 72%. Of the Indian subscription, more than half or about 20 million rupees was privately placed and the remainder sold through a public offering that was oversubscribed.

British investors -- some of the Eastern Exchange Banks, the Commonwealth Development Finance Company, Ltd., several insurance companies and industrial firms -- subscribed 10 million rupees ($2.1 million). American investors -- the Bank of America, the Rockefeller brothers, Olin Mathieson Chemical Corp. and Westinghouse Electric International Corporation -- subscribed 5 million rupees ($1,050,000). Subsequently private German investors participated. The Government of India made a long-term, interest-free advance of 75 million rupees ($15,750,000) to the Corporation.
In March 1955 the World Bank loan of $10 million to ICICI was completed. As in the case of the Turkish bank, it was for a term of 15 years to provide foreign exchange for the purchase of equipment, materials and services to be imported into India to carry out projects financed by the Corporation. The loan was guaranteed by the Indian Government.

The World Bank has since assisted ICICI to get on its feet in several ways. It found, after a considerable search, ICICI's first general manager; it sent one of its staff to New Delhi as a resident manager for more than a year. And it has made three additional loans to ICICI, its total loans today being $40 million.

In the past seven years ICICI has been a busy institution making long and medium-term loans to industrial enterprises; purchasing shares of industrial enterprises; underwriting new issues of securities; guaranteeing loans by other investors; and helping industry to obtain managerial, technical and administrative advice and assistance.

How well has ICICI succeeded in fulfilling the purposes for which it was created? Since 1955 it has done one fifth of all the underwriting in India. It has made investments in or loans to 133 companies, 70 of which were new undertakings. Its earnings per share for 1961 were $1.95 and its net income for 1961 was $980,000.

ICICI's portfolio of loans and investments is well diversified among industrial categories. The amount of ICICI assistance to a single company has ranged from about $3 million down to $60,000 with the average size of projects remaining constant at about $500,000. Probably no more than 25%
of ICICI's projects yet are in commercial production. A few of these are proving troublesome, and a few others in the construction stages are incurring cost overrungs and delays, but neither the number nor seriousness of the difficulties is greater than might be expected in a development finance operation of this size.

ICICI's management and staff have acquired a high degree of experience. The senior management works as an efficient team, the professional staff, numbering less than 100, displays competence. The management's relationships with the rest of the financial community appear to be solid and ICICI today is generally accepted as "setting the standard" for the appraisal and medium and long-term financing of industrial projects.

From these case histories of the Indian and Turkish development banks you can readily understand why these types of institutions are necessary to countries in the throes of economic development. While the Turkish bank was our first attempt, the World Bank has spent much time in the ensuing 12 years in helping groups in its member countries to organize similar banks, privately-owned and operated on business enterprise lines, with approval and support of their governments. The Bank has provided technical as well as financial assistance to these new institutions, sending resident advisers for substantial periods of service and training members of their staffs here in Washington.

While ICICI was the first development bank to have foreign shareholders, a number of banks which the IBRD subsequently helped to establish have followed its path of foreign and local ownership. PICIC (Pakistan) has German, Japanese, U.K. and U.S. shareholders and IMDBI
(Iran) is owned by Belgian, Dutch, French, German, Italian, U.K. and U.S. investors.

Those of you who have had the first-hand, and sometimes frustrating, experience in the work of business development for your companies overseas know that a principal obstacle to getting projects started in most underdeveloped countries -- just as in Turkey and India -- is the drastic shortage of medium and long-term capital. You probably have seen for yourselves situations similar to what I have reported: that in many countries those who have savings are generally reluctant to withdraw them from the traditional investment fields of land and commerce; or that those who extend credit are unwilling to lend for more than short periods, except at a very high rate; or that lenders in most cases prefer investment opportunities which promise a quick and sure return to new industrial enterprises which offer a prospect of risk and gradual growth.

Some of you may have had an opportunity to observe the lack of adequate institutional machinery to mobilize, and then transfer, savings out of the agricultural or commercial sectors in which they were earned. And you may have discerned that the shortage of capital is often associated with other obstacles to industrialization, such as a disinclination on the part of the business community to seek out, or to enter, new fields of activity and a dearth of people trained adequately to plan, manage and operate a new enterprise. These are the difficulties which many countries are striving to overcome by creating development banks.
As those institutions which the World Bank helped to establish have grown over the years they not only have needed more loans, obtained from the World Bank or from other sources, but they have needed also more share capital to broaden their equity as a basis for these loans. There is a limit to the amount of loans which can properly be raised on a given share capital yet for development institutions it is not easy to raise share capital. This is due to the fact that development banks invest for the most part in new enterprises which will not show much of a return on the money invested for several years to come. It is this lack of share capital that IFC is equipped to help provide.

In the World Bank family -- there are now three institutions, the Bank itself, the IFC which was established six years ago, and IDA (the International Development Association) -- IFC now is assigned the primary responsibility for directing whatever assistance is to be provided from now on to development banks, both those which are established and expanding and others being created. This came about largely because of the change which was effected in IFC's charter last September enabling IFC, for the first time, to buy and sell capital shares. As the President of IFC, Eugene R. Black remarked not long ago, IFC is itself carrying on an industrial development banking business on an international scale. IFC seemed, consequently, the logical institution in the World Bank family to take the lead in the consideration of all industrial development banking problems.
We at IFC believe this is going to have twofold benefits. As you now have seen, development banks are becoming important economic instruments for their countries which alone justifies their existence. But, with IFC acting in the same capacity on an international scale, the interests of development banks and of IFC can be joined together, supporting and strengthening their mutual purposes.

So far IFC itself has made loans to two development banks in Colombia. These were organized by a number of Colombian commercial banks and businessmen and insurance companies to provide capital chiefly for industrial development. Presently they are providing financial support for a new electric power company, a gas pipeline company, two cattle breeding and export companies, and a feasibility study for a phosphate plant. IFC loaned $2 million to each of these two institutions in such a way as to give them long-term money without having to pay any fixed rate of interest; this insures that the Colombian banks can provide long-term capital for the industrial enterprises which they are financing. Since IFC made these loans it has converted part of each into shares of the corporations in the amounts of approximately $800,000 each.

In addition to the two Colombian investments, we are having serious discussions with about a dozen development banks concerning possible loans and/or IFC investments and reviewing problems of staffing and technical direction. Some of these discussions are with existing institutions to which the World Bank already has made loans. Others are with groups in countries such as Nigeria, the Philippines, and Venezuela. We will see in the relatively near future IFC equity investment, Bank loans and IDA credits in several new development institutions.
Of course, a development bank is only one of a number of instruments for economic development. The simple fact of one's establishment will not assure a faster growth of a country's economy in general, or even of the industrial sector in particular. A development bank's effectiveness depends upon coordinated action of related institutions and policies. Nevertheless, as we have seen today, the potential of a development bank, given the resources of local and foreign funds and personnel trained to its task, warrants describing this institution as versatile instrument of economic development, justifying support of international institutions.

* * * * * * * *
At the World Bank and the International Finance Corporation, or IFC, when the term "development bank" is used it invariably refers to an institution created and designed to stimulate private industrial enterprise. There are, also, development banks in the agricultural sector but these are outside the scope of Bank-IFC operations.

Some development banks are privately-owned and managed; some are government-owned and controlled. Whatever its ownership and control, a development bank must have support from its government which invariably means financial support. The interest at IFC and the World Bank is in favor of privately-owned and managed development banks. While it is recognized that most development banks will have government behind them, a minority interest on the part of government is encouraged. For experience teaches that if the management and control of banks designed to assist private industrial growth remain in private hands, then the banks will have the freedom of decision necessary to make sound investments.

For some 12 years the World Bank has spent much time in helping groups in its member countries to organize development banks which will be privately-owned and operated on business enterprise lines, with approval and support of their governments. The Bank has been providing technical as well as financial assistance to these institutions by sending out resident advisers for substantial periods of service and by training members of their staffs here in Washington.

Those who have had the first-hand, and sometimes frustrating, experience in the work of business development know that a principal obstacle to getting projects started in most underdeveloped countries,
is the drastic shortage of medium and long-term capital. In many countries those who have savings are generally reluctant to withdraw them from the traditional investment fields of land and commerce: those who extend credit are unwilling to lend for more than short periods, except at a very high rate; and lenders in most cases prefer investment opportunities which promise a quick and sure return to new industrial enterprises which offer a prospect of risk and gradual growth.

In the less developed countries there is a lack of adequate institutional machinery to mobilize, and then transfer, savings out of the agricultural or commercial sectors in which they were earned. The shortage of capital is often associated with other obstacles to industrialization, such as a disinclination on the part of the business community to seek out, or to enter, new fields of activity and a dearth of people trained adequately to plan, manage and operate a new enterprise. It is due to such circumstances that many countries have created, or are now planning, development banks with authority and resources necessary to provide these ingredients of economic development.

Before these or any development banks can meet demands for investment capital, they must have funds. Depending upon the circumstances of the country and in part upon the kind of role envisaged for a particular bank, a bank's equity may come in whole or in part from private sources or may be provided from public sources. In no country has it yet proved easy to raise private equity capital for a development bank. If private investors are not prepared to invest directly in industry, they are not likely to be eager to invest indirectly, by buying development bank shares. They have been influenced to do so by some form of inducement offered by the government: for example, a guaranteed dividend, preferential tax
treatment for the bank's income or dividends paid or a loan to the bank on favorable terms. Even so, initial subscribers have been predominantly banks and insurance companies. But as development banks are successful in demonstrating the profitability of industrial investment, the situation may change.

Some of the private capital which flows into industry through the development bank may be foreign in origin. Foreign equity not only adds to a country's supply of foreign exchange and provides a point of contact with capital markets in the industrialized countries but, perhaps most important, brings with it or provides access to the managerial, professional and technical skills which a developing country so greatly needs. In addition to ICICI, other development banks which the IBRD has helped to establish have foreign as well as domestic shareholders. For example, PICIC (Pakistan) has German, Japanese, U.K. and U.S. shareholders and IMDBI (Iran) is owned by Belgian, Dutch, French, German, Italian, U.K. and U.S. investors.

A development bank supplies capital on terms which are not available elsewhere, to the extent consistent with its obligations to its shareholders and with an eye to making investments which may be marketed later. This means, for example, that it can lend for as long as 10 to 15 years with a substantial grace period to allow for construction and start-up. It means that in making investment decisions a development bank places more emphasis on an enterprise's earnings prospects and the quality of its management than upon current worth and conventional security. And it means that it is prepared to make equity investments. Often a development bank is one of the few sources of foreign exchange within a country for private industrial enterprise. PICIC in Pakistan is one example.
Development banks serve also as a channel through which financial assistance can be made available to new industries whose number and relatively small scale make direct World Bank or IFC financing administratively impracticable and uneconomic.

In its financial operations, a development bank plays a catalytic role. In part through the generally accepted policy of providing no more than 50% of the capital required for a project, a development bank helps to bring into being a volume of investment much larger than the amount of its own contribution. One development bank has estimated that the total investment in new projects of the companies it assisted in 1960 would be almost five times the amount of its assistance.

Of great importance to economic development is the building of capital markets. To this end development banks also provide a means. When a development bank makes an equity investment in a new enterprise, it does so not only with the purpose of starting a new industry -- which is the applicant's interest -- or for considerations related to its own earnings potential. But the bank also emphasizes equity because its holdings of capital shares contribute significantly to its ability to help to create and to maintain a market for private securities. One way for a bank to do this is to sell investments out of its portfolio. This increases the supply of marketable securities. And if the purchaser has never bought industrial securities before but might do so again if his confidence proves justified, the transaction broadens the base for future sales. Finally, portfolio sales serve to free the bank's funds for new investments.

A development bank may engage in underwriting. This too can be a service of special value to the new enterprise which, even in industrialized
countries, does not find it easy to raise new capital by share issues or public borrowings. ICICI, for example, is now the single most important underwriting institution in India.

Participations are still another device, with the private investor invited to purchase a portion of a particular investment about to be made, relying on the bank's appraisal. The Government Development Bank of Puerto Rico and the Industrial Development Corporation of South Africa have employed this technique with success. Finally, the development bank may offer its own shares or debentures to the public. While this is essentially a means of adding to the bank's own resources, it has the consequence of increasing familiarity with investment techniques and contributing to changes in attitude towards direct investment in industrial securities. A number of banks have issued their own bonds: Nacional Financiera (Mexico), the Industrial Investment Institution of Israel and the Industrial Development Corporation of South Africa are among those which have done so successfully.

There are, also, other services by development banks of great value to their countries: promotional activities; research; surveys to uncover fields which offer export possibilities or would produce import substitutes. In the field of project analysis a bank can perform a most useful service in identifying and explaining the financial, engineering, managerial, production and marketing problems inherent in a proposal and advising how these may be anticipated or overcome. Many businessmen have told us voluntarily that they learn more about their project or business as a result of an appraisal by a development bank. Some report, for example, that they had never heard of the "break-even" point in determining their company's profitability.

Anyone who has been active in the work of economic development has
soon discovered that complete and accurate record keeping, at least for public disclosure, is not customary in many countries. This is a serious problem in which we may expect help from development banks. They are in a position to bring about the acceptance of this practice, sometimes by conditioning financing on satisfactory performance in these respects. Notwithstanding the difficulties, often augmented by a lack of qualified public accountants, some banks -- notably the IDB of Turkey -- already have been responsible for a market change in the business mores and they count the reforms to which they have contributed as among the principal of their achievements. For the functioning of a capital market, it is essential that there be full, reliable and, above all, accessible information based on accurate accounts concerning enterprises whose shares are publicly offered.
May 4, 1962

Mr. George Wishart
International Finance Corporation
1818 H Street, N.W.
Washington 25, D.C.

Dear Mr. Wishart:

Many thanks, again, for the outstanding session you led for us on May 2nd on the topic of "Development Banks." I have had many expressions of appreciation for the fine contribution you made to our work at this meeting.

Best regards from all of us at the Institute.

Sincerely yours,

Richard H. Wood
Director, Institute for International Development
Mr. John Morris Ryan  
Editor  
Enciclopedia de las Fuentes de Financiamiento Internacional  
Apdo. Postal 838h  
Mexico 12, D.F.

Dear Sir:

Your letter of April 16, addressed to Mrs. Boskey's attention, has been passed to this department's attention.

We are attaching hereto a list of development banks (compiled in 1959) and trust that it will be of use to you. Complete addresses of banks have been supplied in most cases but, in the instances where they have not been available, we feel sure that the name of the city in which a bank is located should be sufficient address.

Yours sincerely,

A.G. El Emamy  
Director  
Development Bank Services

Attachment
<table>
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<tr>
<th>Country</th>
<th>Bank Name</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>Banco Industrial de la Republic Argentina</td>
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<tr>
<td></td>
<td>25 de Mayo 1h5, Buenos Aires.</td>
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<tr>
<td>Belgian Congo</td>
<td>Societe de Credit au Colonat et a l'Industrie</td>
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<td>Leopoldville.</td>
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<td>Bolivia</td>
<td>Corporacion Boliviana de Fomento</td>
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<td>La Paz.</td>
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<tr>
<td>Brazil</td>
<td>Banco do Nordeste do Brasil</td>
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<td></td>
<td>Rua Senador Pompeu, Fortaleza, Ceara.</td>
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<tr>
<td></td>
<td>Banco Nacional do Desenvolvimento Economico</td>
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<td></td>
<td>Rua 7 Setembro, Rio de Janeiro.</td>
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<tr>
<td>British Guiana</td>
<td>British Guiana Credit Corporation</td>
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<td></td>
<td>Georgetown.</td>
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<td>Burma</td>
<td>Industrial Development Corporation</td>
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<td>Rangoon.</td>
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<tr>
<td>Ceylon</td>
<td>Ceylon State Mortgage Bank</td>
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<td></td>
<td>91 Horton Place, Colombo 7.</td>
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<td></td>
<td>Development Finance Corporation of Ceylon</td>
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<tr>
<td></td>
<td>Hemas Building, York Street, Colombo 1.</td>
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<tr>
<td></td>
<td>Agricultural &amp; Industrial Credit Corporation of Ceylon</td>
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<tr>
<td></td>
<td>51 Iceland Building, Galle Face, Colombo.</td>
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<tr>
<td>Chile</td>
<td>Corporacion de Fomento de la Produccion</td>
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<td></td>
<td>Santiago.</td>
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<tr>
<td>China</td>
<td>China Development Corporation</td>
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<tr>
<td></td>
<td>181-5 Chung Shan Road N, 2nd Sec., Taipei, Taiwan.</td>
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<tr>
<td>Colombia</td>
<td>Corporacion Financiera de Fomento Industrial y Agropecuario</td>
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<tr>
<td></td>
<td>Apartado Aereo No. h902, De Cali.</td>
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<td></td>
<td>Corporacion Financiera Colombiana de Desarrollo Industrial</td>
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<td>Bogota.</td>
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<td>Corporacion Financiera Nacional</td>
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<td>Medellin, Colombia.</td>
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<td>Ecuador</td>
<td>Banco Nacional de Fomento</td>
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<td>Quito.</td>
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<td>El Salvador</td>
<td>Instituto Salvadoreno de Fomento de la Produccion</td>
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<td>San Salvador</td>
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<tr>
<td>Ethiopia</td>
<td>Development Bank of Ethiopia</td>
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<tr>
<td></td>
<td>P.O. Box 1900, Addis Ababa.</td>
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<tr>
<td>Country</td>
<td>Organization</td>
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<tr>
<td>Federation of Rhodesia and Nyasaland</td>
<td>Northern Rhodesia Industrial Loans Board Lusaka.</td>
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<tr>
<td>Ghana</td>
<td>Industrial Development Corporation P.O. Box 1116, Accra.</td>
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<tr>
<td>Greece</td>
<td>Economic Development Financing Organization 4 Dragatsaniou Street, Athens.</td>
</tr>
<tr>
<td></td>
<td>The National Mortgage Bank of Greece 40 Venizelou Street, Athens.</td>
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<tr>
<td>Guatemala</td>
<td>Instituto de Fomento de la Produccion Guatemala City.</td>
</tr>
<tr>
<td>Haiti</td>
<td>Institut Haitien de Credit Agricole et Industriel Port-au-Prince</td>
</tr>
<tr>
<td>Honduras</td>
<td>Banco Nacional de Fomento Tegucigalpa D.C.</td>
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<tr>
<td>Iceland</td>
<td>Iceland Bank of Development (Framkvaemdbanki Islands) Hverfisgata, Reykjavik.</td>
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<tr>
<td>India</td>
<td>Industrial Credit &amp; Investment Corporation of India Ltd. 163 Backbay Reclamation, Bombay 1.</td>
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<tr>
<td></td>
<td>Industrial Finance Corporation Reserve Bank Building, Parliament Street, New Delhi.</td>
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<td></td>
<td>National Industrial Development Corporation New Delhi.</td>
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<td></td>
<td>Refinance Corporation for Industry Limited Bombay.</td>
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<td>National Small Industries Corporation Bombay.</td>
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<td>Indonesia</td>
<td>Bank Negara Indonesia Djakarta</td>
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<td>Bank Industre Negara Djakarta</td>
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<td>Bank Rakjat Indonesia Djakarta</td>
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<td>Country</td>
<td>Bank/Company</td>
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<tr>
<td>Iran</td>
<td><strong>Industrial and Mining Development Bank of Iran</strong> 204, Karaj Boulevard, Tehran.</td>
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<tr>
<td></td>
<td><strong>Industrial Credit Bank (Bank Etebarat Sanaati)</strong> Khatib Estakhr, Tehran.</td>
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<td></td>
<td><strong>The Agricultural Bank</strong> Tehran.</td>
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<td>Iraq</td>
<td><strong>Industrial Bank</strong> Baghdad.</td>
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<td><strong>Agricultural Bank</strong> Baghdad.</td>
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<tr>
<td>Ireland</td>
<td><strong>Industrial Credit Company, Limited</strong> 26 Merrion Square, Dublin.</td>
</tr>
<tr>
<td>Israel</td>
<td><strong>Industrial Development Bank of Israel Limited</strong> Tel Aviv.</td>
</tr>
<tr>
<td></td>
<td><strong>Israel Industrial Institution Ltd.</strong> 22 Rothschild Boulevard (Zim House), Tel Aviv.</td>
</tr>
<tr>
<td>Jamaica</td>
<td><strong>Small Business Loans Board</strong> Kingston.</td>
</tr>
<tr>
<td></td>
<td><strong>Industrial Development Corporation</strong> Kingston.</td>
</tr>
<tr>
<td>Japan</td>
<td><strong>Japan Development Bank</strong> 8, 1-Chome, Marunouchi, Chiyoda-Ku, Tokyo.</td>
</tr>
<tr>
<td>Jordan</td>
<td><strong>Development Bank of Jordan</strong> Amman.</td>
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<tr>
<td>Korea</td>
<td><strong>Korean Reconstruction Bank</strong> 1h0-1 Second Street, Namdaimun Street, Chungku, Seoul.</td>
</tr>
<tr>
<td>Lebanon</td>
<td><strong>Banque de Credit Agricole, Industriel et Foncier</strong> Banque Libanaise Building, Rue Riad Solh, Beirut.</td>
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<tr>
<td>Malaya</td>
<td><strong>Malayan Industrial Development Finance Limited</strong> P.O. Box 2110, Kuala Lumpur.</td>
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<tr>
<td>Mexico</td>
<td><strong>Nacional Financiera, S.A.</strong> Venustiano Carranza No.25, Mexico 1, D.F.</td>
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<tr>
<td>Morocco</td>
<td><strong>Moroccan Banque Nationale pour le Developpement Economique</strong> Rabat.</td>
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Nicaragua

Instituto de Fomento Nacional
Managua D.N.

Nigeria

Federal Loans Board
Lagos.

Northern Regional Development Corporation
Kaduna.

Eastern Region Development Corporation
Emugu.

Southern Cameroons Production Development Board
Victoria, Cameroons.

Western Region Finance Corporation
Ibadan.

Western Region Production Development Board
Ibadan.

Cameroons Development Corporation
Bota, Victoria.

Pakistan

Pakistan Industrial Credit and Investment Corporation
Jubilee Insurance House, McLeod Road, Karachi.

Industrial Development Bank of Pakistan
Karachi.

Panama

Instituto de Fomento Economico
Panama, Republic of Panama.

Peru

Banco Industrial del Peru
388 Ucayali, Lima.

Banco de Fomento Agropecuario del Peru
Jiron Carabaya 456, Lima.

Banco Minero del Peru
450 Lampa, Lima.

Pakistan

Pakistan Industrial Development Corporation
PIDC House, Kutchery Road, Karachi.

Pakistan Industrial Finance Corporation
New Habib Bank Building, Karachi.

Agricultural Development Finance Corporation
Ainai House, Victoria Road, Karachi.
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<tr>
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<tr>
<td>Philippines</td>
<td>Industrial Development Center</td>
<td>Guizon Building, 522 Isaac Peral, Manila.</td>
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<td></td>
<td>Development Bank of the Philippines</td>
<td>Manila.</td>
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<td></td>
<td>National Development Company</td>
<td>Manila.</td>
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<td>Puerto Rico</td>
<td>Government Development Bank for Puerto Rico</td>
<td>San Juan.</td>
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<td>Puerto Rico Industrial Development Company</td>
<td>San Juan.</td>
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<td>Singapore</td>
<td>Industrial Promotion Board</td>
<td>Singapore.</td>
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<td>Sudan</td>
<td>Agricultural Credit Bank</td>
<td>Khartoum.</td>
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<tr>
<td>Thailand</td>
<td>Industrial Finance Corporation of Thailand</td>
<td>Mansion 4, Rajadamnern Avenue, Bangkok.</td>
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<tr>
<td>Trinidad &amp;</td>
<td>Industrial Development Corporation</td>
<td>Port of Spain.</td>
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<td>Anadolu Sigorta Han, Galata, Istanbul.</td>
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<tr>
<td>Uganda</td>
<td>Uganda Development Corporation</td>
<td>Ralli House, Grant Street, Kampala.</td>
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<tr>
<td>Union of</td>
<td>Industrial Development Corporation of South Africa, Ltd.</td>
<td>Corporation Building</td>
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<tr>
<td>South Africa</td>
<td></td>
<td>Commissioner and Rissik Streets, Johannesburg.</td>
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<tr>
<td></td>
<td>Industrial Finance Corporation of South Africa</td>
<td>Corporation Building (7th Floor) 105, Commissioner Street, Johannesburg.</td>
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<tr>
<td>United Arab</td>
<td>Agricultural Credit and Co-operation Bank</td>
<td>Cairo.</td>
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<td>Republic -</td>
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<td>Egypt</td>
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Venezuela: Corporacion Venezolana de Fomento Caracas.

Viet-Nam: Centre de Developpement Industrial Saigon, Credit Commercial du Viet-Nam Saigon.

Yugoslavia: Yugoslav Investment Bank Belgrade.
**Record Removal Notice**

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<td>1503945</td>
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<tr>
<td>From IFC Executive Secretary</td>
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**Additional Comments**

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

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<td>A. Miller</td>
<td>8/30/2011</td>
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Mr. Francis R. Poore

April 19, 1962

G. C. Wishart

Development Bank Work -- Amount to be Charged to World Bank

Mr. Rosen is out of town today, but asked me to reply to your memorandum to him of April 17. He is quite satisfied with the arrangement you suggest, and will be grateful if you will now discuss it with the management of the Bank.

cc: Mr. Rosen

G. C. Wishart
April 16, 1962

Dear Mr. Mehta:

Thank you for your letter of April 2nd and for the clippings and speeches regarding the recent Regional Conference of Development Banks. I had heard favorable reports on the Conference and congratulate you on the success of this meeting.

Best personal regards.

Very sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

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

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<td>From Francis Poore to Martin Rosen</td>
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<td>Amounts charged to bank development bank work</td>
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During your absence in India, a member of the AID staff called to ask me to write a short article on development banks for the AID Digest, which he wanted to receive by April 16. The article was to appear in an issue devoted to development financing, and what was wanted was essentially a description of the role which the development bank could play in economic development. I explained that IFC now had responsibility for development banks, but said that one way or another the article would be prepared for him. I then spoke to Mr. Rosen, and we agreed that in view of your absence and the deadline for the article, I should write it.

The article has just been sent off to AID, and it occurs to me that you might wish to see it. A copy is therefore attached. You will note that very little space is devoted to the activities of the IBRD, IDA and IFC in the development bank field. This was in accordance with the AID request that the article concentrate on the functions of the banks themselves.
Mr. Adolph E. Grunewald  
US AID/PA  
APO 676  
New York

Dear Mr. Grunewald:

I refer to the last paragraph of your letter of March 7 to Mr. Ross of the Western Hemisphere Department of IBRD, in which you ask for information regarding the new Development Bank Services Department.

This is a new department created in the International Finance Corporation, with which has been entrusted the responsibility for promoting the establishment of new private development banks and the re-organization of existing ones. Where the prima facie need for a new development bank or the re-organization of an existing bank is established, the IFC through the Development Bank Services Department, renders technical assistance in such establishment or re-organization. At the appropriate stage, it organizes a combined IBRD-IFC survey mission to appraise the need for and the nature and functions of the proposed bank, to advise on its capital structure, legal form and method of constitution, and to explore sources of capital. It also assists in drafting the charter and by-laws of the proposed bank, and, to the extent possible, in locating initial staff from outside. In appropriate cases, the IFC may make an equity participation in the new bank, and the IBRD may extend a line of credit.

I hope this information will be of use to you.

Yours sincerely,

P. M. Mathew

April 17, 1962
April 16th, 1962

International Bank for Reconstruction and Development

Att: Miss Shirley Boskey
Technical Assistance and Liaison Staff
Washington 25, D.C.

Dear Miss Boskey:

We have in our possession your very valuable book "Problems
and Practices of Development Banks" in English and in Spanish
translation.

There is an Appendix A which gives data on development banks
including name and city of location. We are very anxious to obtain if
possible the complete address of these banks and their actual names rather
than translations so that we may write to them in order to obtain informa-
tion for inclusion in the ENCYCLOPEDIA OF INTERNATIONAL FINANCING.

We would be deeply grateful if you could send us a list with
the names and addresses of these development banks.

Sincerely yours,

[Signature]

John Morris Ryan, Editor

Enciclopedia de las Fuentes de Financiamiento Internacional

ENCYCLOPEDIA OF INTERNATIONAL FINANCING

John Morris Ryan, Editor

TORRES ADALID 7 - MEXICO 12, D. F.

April 16th, 1962

APO

POSTAL 8384 - TEL. 23-97-96

International Bank for Reconstruction and Development

Att: Miss Shirley Boskey

Technical Assistance and Liaison Staff

Washington 25, D.C.

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tion for inclusion in the ENCYCLOPEDIA OF INTERNATIONAL FINANCING.

We would be deeply grateful if you could send us a list with
the names and addresses of these development banks.

Sincerely yours,

[Signature]

John Morris Ryan, Editor
Dear Messrs. Banks:

We have in our possession your very valuable book "Programs and Practices of Development Banks" in English and in Spanish, and we shall be pleased to have it translated into our national language. If you could send us a list with the names and addresses of these development banks, we would be greatly pleased if you could send us a list with

Sincerely yours,

[Signature]

John Morris Ryan, Editor
April 3, 1962

2/Lt. Robert F. Johnston
119th Tactical Fighter Sq.
NAFEC
Atlantic City, New Jersey.

Dear Lt. Johnston:

Your letter of March 10 to Mr. Diamond has been passed on to me. We are happy to note your interest in the subject of development banks.

Regarding your enquiry about a suitable country in which to make a detailed study, may I suggest that you drop in and discuss this?

Yours sincerely,

P.M. Mathew

PMM/rty

cc: Mr. Diamond
ASSISTANCE FOR GOVERNMENT-OWNED DEVELOPMENT BANKS

3. The Committee, after some discussion of SIC/0/62-22, agreed:

To defer further consideration until a later meeting.
Technical Assistance for Government-owned Development Banks

The IBRD/IDA and IFC have been receiving requests for technical assistance. There were cases where technical assistance was given to some of the government owned or controlled banks, but a defined policy was not established as to whether our institutions would give that technical assistance requested to the government owned or controlled banks. This note will be confined to the discussion of this side of the question.

The development banks in general can be grouped into the four following categories:

1. Banks owned and controlled by private investors.
2. Banks, though the majority of shares is owned by private investors, there is a sizeable participation by the government with a proportionate representation on the board.
3. Banks with a majority shareholding by the government but private investors participate. The board is mostly nominated by the government, overtly or discreetly.
4. Banks wholly owned by the government, either directly or indirectly.

There is no question concerning the first category. The policy is to give our full technical assistance as and when it is required.

But for the three other categories, where government participation is sizeable, there were three schools of thought. The first was wholly opposed to giving our technical assistance with the idea that as long as the government is in the bank in a sizeable way, party politics and government intervention are bound to have their undesirable influences on the management of the bank. The second school of thought is more favorable. Its idea is based on the fact that we, being international institutions, must help, at least technically, the member countries to organize their financial institutions. If the member government chooses to own its development bank, that is its decision. But this does not preclude us from giving them the technical assistances as and when they require them. When it comes to financial assistance, the issue would be different. There are more risks involved; the Bank or IFC would think twice before going into such a venture.
The third school of thought, being also favorable, says that in the majority of cases where technical assistance is required, financial assistance will also be requested, whether to solidify the development bank or to help finance the foreign currency part of their industrial projects. They say that it would be better to limit our activities in the field of technical assistance only to those banks that would be the recipients of our financial assistance or those that we may use as a channel for financing small projects. The criterion here is not whether the government participates in a big way or a small way in the ownership and management of the bank, but is one of deciding first whether such an institution would be eligible for consideration of its request for financial assistance, or that it could be used as a medium to channel financial assistance to small industrial projects in the country concerned. If this criterion is accepted and knowing that the policy on financial assistance for industries necessitates that the industries would be privately controlled, the conclusion would be that all development banks, whether privately owned or with a government participation, would be eligible for the technical assistance we can give providing that they are financing industries privately controlled.
Appointment of Directors by IFC

In considering the possibility of IFC appointing a director to the board of an enterprise in which it has invested, certain legal aspects are presented under the Articles of Agreement and under general law.

The Operational Principles contained in the Articles provide (Article III, Section 3 (iv)) that "The Corporation shall not assume responsibility for managing any enterprise in which it has invested . . . ." No statement or interpretation has been made as to what is meant by this but, on the basis of ordinary corporate principles, it may be assumed that a distinction is to be drawn between (a) the functions of stockholders who have ultimate control of corporations through powers which they may exercise in general meeting, (b) directors who, acting as a board, are responsible for the appointment of executive management and for policy direction and (c) the executive management who are responsible for the conduct of the day to day business of the company.

It is reasonable to suppose that the proper interpretation of the provision of the Article referred to above is that IFC should not assume responsibility for the executive management of any enterprise in which it has invested. The mere appointment of a director to the board of a company in which it has invested would not result in the Corporation assuming responsibility for management. Directors act as a board and no single member can be said to be assuming responsibility, even for policy direction. However, the matter is one of fact and of judgment in particular cases. There may be instances where it is unrealistic to draw a distinction between the board and executive management and there may be cases where a single member of the board could, de facto, assume responsibilities for management. However, these would be exceptional circumstances and it is sufficient to conclude that the Articles do not preclude the appointment by IFC of a director to the board of a company in which it has invested. For the sake of completeness only it may be noted that Article III, Section 4 empowers the Corporation to take any action and exercise any rights in a jeopardy situation.

It should be noted that the Memorandum dated February 10, 1961 from the President of IFC, which was circulated to members in connection with the amendment of IFC's Articles of Agreement, stated (para. 10) that "IFC Management feels strongly that it should not exercise control
over, nor participate in management of, private business. It has not participated in management or even named a director on the board of any enterprise in which it has invested. The statement that IFC has not named a director to the board of any company is not to be taken as an undertaking that it would not do so in the future, but, having regard to the spirit in which the Articles were amended, the appointment of any director by IFC is a prerogative to be exercised with care. No doubt each case would be referred to the Board. From a policy viewpoint a distinction could well be made between representation upon the board of a development bank or other intermediary institution and representation on the board of an industrial enterprise.

If IFC determines to appoint a director to a board, it must take into account that, in some jurisdictions, directors must possess certain qualifications; e.g. they may have to be nationals or residents of the country concerned.

Further, if IFC plans to appoint a director to "represent" IFC (that is to say to receive instructions as to voting at board meetings for IFC and pass on information to IFC that would not be available to an ordinary stockholder) then there may arise a problem of conflict of interest. The general principle is that directors must act bona fide in what they consider is in the interests of the company (that is to say of the present and future members of the company), and not only in the sectional interest of some, even the majority, of the existing members. This, of course, is not a problem which is peculiar to IFC; it arises in the case of all "appointed directors", of whom there are many. It is unlikely to cause difficulty in practice.

cc: Messrs. Paterson, Hall, Herrmeyer, Bell
Circulation
Dear Marty:

Somewhat belatedly I would like to thank you very much for your letter of February 26th with the interesting attachment on lending rates of development banks. This information has been very valuable to us in determining an appropriate interest rate margin for our development bank loans.

We were also very much interested in what you had to say about the possibility to activate the Industrial Finance Corporation of Thailand. It is good to know that you are giving so much attention to this bank and we do hope that you will soon get an answer from the Thai Government on your proposals for reorganization. I will leave for Thailand on March 21st and so I will learn soon what the Thai reaction is. Under the circumstances, I think, we from the German side here should await the recommendations of the proposed mission before taking any steps apart from renewing our offer to support a reorganized bank with long-term DM-loans at reasonable rates.

Laslo von Hoffman came through here last week on his way to India and confirmed what James Raj told me that we will meet in Bombay on the 29th. I am very much looking forward to the opportunity to see you again and discuss various pending matters.

Please convey my thanks also to George Wishart for sending me his prompt interim note of February 12th.

With best personal regards,

Yours sincerely,

H. E. Bachem
ASSISTANCE FOR GOVERNMENT-OWNED DEVELOPMENT BANKS

2. The Committee considered SIC/O/62-19, and recommended that:

(a) IFC be prepared to furnish technical assistance to any development bank which qualified for, or appeared likely in time to qualify for, Bank and/or IFC financial assistance, either simply as a "conduit" which was given little or no discretion over re-lending, or on its merits as an institution.

(b) SIC/O/62-19 be redrafted, separating the questions of financial and technical assistance and, as regards the latter, reflecting recommendation (a) above, as a paper to be discussed at a joint SIC/SLC meeting.
Mr. X-Emery
1) I'd like to meet you.
2) Your own plan must do reply to this letter.

H. Diamond

talked to Diamond Apr. 2
Dear Mr. Diamond,

I am writing my Master's Thesis on the Role of Development Banks in stimulating investment in the private sector of the economy of underdeveloped countries. I have read your book and Shirley Boskey's; and would appreciate any additional references (i.e., you refer in your preface to a study to be conducted by the ICA and specific studies by the IBRD; p116). I am presently searching for a country to use as an example (preferably a smaller one where I could observe the wider scope of activity). A visitation to the country, conversation with the people in the bank and an observation of its operations are part of my plans. Any suggestions on a country would be greatly appreciated. My present address is:

2/Lt. Robert F. Johnston  
119th Tactical Fighter Sq.  
NAFEC  
Atlantic City, New Jersey

Sincerely,

/s/ Bob J.
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I am writing my master's thesis on the Role of Development Banks in stimulating investment in the private sector of the economy of underdeveloped countries. I have read your book and Shiky Bosey's, and would appreciate any additional references (e.g., your references in your preface to a study to be conducted by the I.C.A. and specific studies by the I.B.R.D. pix). I am presently searching for a country to use as an example (preferably a smaller one where I could observe the wider scope of activity). A visitation to the country, conversation with the people in the bank, and an observation of its operations are part of my plan. Any suggestions on a country would be greatly appreciated. My present address is:

2/F, Robert J. Johnston
119 4th Tactical Fighter Sq.-
NAFEC.
Atlantic City, NJ.
Nessrs. Paterson, Hall, Herrmeyer, Richards, Bell. March 9, 1962

A.G. El Emary

Representation of IFC on the boards of finance institutions.

The note on representation of IFC on the boards of the finance institutions is herewith attached for your consideration, and I am proposing to have a meeting on Wednesday, 14th at 3.00 p.m. to discuss the note and the comments. Please confirm attendance or otherwise.

cc: Mr. Rosen

Mr. Beevor
March 9, 1962

Representation of IFC on the boards of the finance institutions.

In some of the existing finance institutions the IFC has participated in the equity capital, and is being called upon to participate in some others of the existing ones and in the institutions under formation. The question now arises whether it is in the interest of IFC to be represented on the boards of these institutions and whether by so doing will be serving a good purpose. Once this is settled, the question of how IFC would be represented arises.

The legal aspect with reference to the charter of IFC is left out of this note, and will be dealt with separately by the legal counsel.

The IFC, being a shareholder of some importance, has certainly an interest in being represented in order to insure the good running of the institution. But what is more important is that the IFC, being on the board, will serve a good purpose by achieving a close working relationship and by giving these institutions the benefit of the experience and the technical knowledge that the IFC has acquired. Also, IFC will be able to get a lot more information on how the institution is run and the way the projects are studied and analyzed and, in general, IFC will get a better idea of the economic situation of the country where the institution is located.

But in some of these institutions, the board meets three or four times a year and the business transacted in the meetings is not of any importance in so far as IFC is concerned. In such institutions it is the executive committee that does the work and to the members of this committee that all the important information is given. It is doubtful, however, that IFC would be in a position to assume that much responsibility that the members of such a committee are supposed to shoulder. This is management in the real sense.

What is actually needed is to be on the board but with more rights than the ordinary member would have, at least, in so far as the information is concerned. There are other sides to IFC. electing/that would necessitate special alterations in the charter of the institution and may be the laws of the country. IFC, in order to achieve the results she sets herself to do by being on the board, will nominate a staff member or someone who is closely connected with IFC. But, as all the IFC principal nonness will not be able to attend the board meetings regularly, IFC will have to nominate a local alternate director. This will certainly need amendments in the charter of the institution and very likely the laws of the country. A thing that may look objectionable to the authorities and the institutions.

As a result, it may be advisable that IFC will nominate a representative and also an alternate, if she wishes, that can, either or both, assist at the meetings but do not have a vote. This does not need anything but an agreement with the institution and there is no doubt that the boards would have no objection that our representatives would receive all the information put at the disposal of the board members and the executive committee members. Our representative will have the right to give our views to the board.
It has been pointed out also that in some countries, board members of the banks, including development banks, must be citizens of the country where the bank is located. But there is nothing to prevent the board requesting anybody to assist at its meetings and giving them advice.

In view of the above, it may be advisable that IFC would only start with presence rather than a full board membership.
Dear Mr. Ross:

Many thanks for the opportunity to visit with you last spring prior to my coming to Brazil as point IV professor on the Michigan State University administered business administration program. At that time I had never been to Latin America and your comments and insight were very helpful in preparing myself for my present assignment.

Since coming to Brazil I have had an opportunity to work with many students and businessmen. Thus I have been able to become quite well acquainted with the situation in this part of Brazil. I find that there are many opportunities to help the Brazilians, and also there are here many good opportunities for study and research. Many of the people in the area, particularly the industrial leaders and bankers speak German, so that even upon my arrival, with my good knowledge of German, there was little of a language barrier, but now my Portuguese has progressed to the point where I can carry on a rather fair conversation.

Just recently the Dean of our Faculty of Economic Sciences at the University of Rio Grande do Sul has been appointed as the first president of the newly established regional economic development bank of the south for Brazil. I have also just seen that the "World Bank" has just recently established a department to provide assistance to regional economic development banks.

Though I am writing to you in an informal manner regarding this matter I would appreciate hearing from you regarding this new department in the "World Bank." I am very much interested in banks and banking and would like to learn of this new service being provided to the regional economic development banks of other countries. Perhaps you have had an opportunity to read my article in the July 27th issue of the Commercial and Financial Chronicle, on the West German Banking System entitled "From Decartelization to Revival of West Germany's Branch Banking."

Very sincerely yours,

Adolph S. Brunswald
US AID/PA
APO 676
NY NY
DEPARTMENT DEVELOPMENT BANK SERVICES

March 7, 1962

Assistance for government-owned development banks

The IBRD and IFC have been receiving, from government-owned or controlled development banks, requests for loans or technical assistance. There were cases where technical assistance was given to the government owned or controlled banks; but, for financial assistance, the policy of the Bank/IDA and of IFC, with one exception only, has been to refuse such assistance.

This note will deal with policy matters in general whether it be for technical or for financial assistance.

The principal aim of IBRD/IDA and IFC is to see that the member countries are developing economically and in all fields. It is true that we believe that private ownership and private control of enterprises is a good safeguard against the sort of abuses that usually takes place as a result of governments owning or controlling economic institutions, but we must distinguish here between development banks and the enterprises they finance and, also, we must distinguish between technical assistance and financial assistance.

In the field of technical assistance, we propose that we give all possible assistance to any development bank whether it is government owned, government controlled or privately owned or controlled. If the member country chooses or is forced to own or control its development bank, we cannot withhold our assistance to that country. In fact, a close collaboration with them in this field will, very likely, result in that the authorities in that country will see the advantages of having private control of such institutions and, in any case, will result in better administration of the bank. The mere fact that the authorities are requesting our technical assistance is an evidence that they feel we can help them to improve their methods of doing business.

Financial assistance
Here we would distinguish between government owned or controlled development banks that finance privately owned or controlled industries and those that finance government owned or controlled industries. For the latter category of banks we, on principle, ought not to give loans or invest. Here it would be very difficult to get the true picture of the bank or the project financed. This is a typical case where the state is
owning or controlling production or a good part of it and, therefore, it would be a very difficult job for the Bank/IDA or IFC to give their financial assistance. The criterion on which we base our calculation is different from that used by the boards setting up the policies for production for the state controlled industries. The profitability is not always the measure they use.

However, where the state owns or controls the development bank, either directly or through the central bank or some other financial institution, but, at the same time, their policy towards private enterprises is favorable and the state does not, as a general rule, own or control industries, in such circumstances, there is a case, and a strong one, for us to consider giving to the bank our financial assistance in any form - either in loans or equity investment. We do not see how we could, with justification, refuse loans or equity investment to the Industrial Development Bank of Canada, for example, if it ever needed our financial assistance. In fact, equity investment in such a bank would get us nearer to them and that our collaboration with them would be closer.
Dr. Abdel El Emary

G. C. Wishart

Development Banks

February 28, 1962

The following up-to-date position on some of the items on our development bank list may be helpful for you:

Costa Rica

I spoke to Mr. Bochenski (who, incidentally, would like to call on you) and he states that the initiative on this proposal did not come from Costa Rican sources but from USOM. He describes the proposal as premature and says that there is only a remote possibility for a private development bank. Mr. Bochenski will be writing a note on his talks and will send you a copy. I suggest this one can be deleted from our list.

Guatemala

I suggest we include Guatemala on the list. I am revising the note we prepared on our talk with Dr. Machado and you will be taking the follow-up action.

Cyprus

Mr. Cope informs me that the Checchi report has now been received in the Bank. It is being studied by Mr. Collier, who will be getting in touch with IFC.

Kuwait

I suggest we delete the words "development bank" from this item.

Philippines

I am arranging for you to meet with the Bank staff to go over the current status of this proposal. I am also doing a note to Files on recent developments.

Greece

I have prepared a draft letter for Mr. Rosen to send to Mr. Helmis. This draft should be cleared with yourself, Mr. Paterson, Mr. Cope of the Bank and submitted to Mr. Rosen.

cc: Messrs. Rosen

Beevor

G. C. Wishart/vch
Mr. Francis R. Poore

J. G. Beevor

Development Bank Activities
Apportionment of Costs Between Bank/IDA and IFC

February 28, 1962

1. I understand that George Wishart has been having talks with Mr. Johnston of your Department on what would be a practical method for apportioning costs of development bank work performed by IFC between Bank/IDA and IFC. It was agreed that, in the first instance, each of the Departments of IFC would estimate the percentage of its total time which will be spent on development bank work on behalf of the Bank/IDA. The first estimate would be for the remainder of the fiscal year ending June 30, 1962, and we would re-estimate, in due course, for the next fiscal year.

2. We have consulted the various IFC Department Heads, and here are the estimates:

<table>
<thead>
<tr>
<th>Department</th>
<th>Estimated Time Spent on Development Bank Work for Bank/IDA</th>
</tr>
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<tbody>
<tr>
<td>Management</td>
<td>10%</td>
</tr>
<tr>
<td>Legal Department</td>
<td>10%</td>
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<tr>
<td>Financial and Accounting Adviser</td>
<td>5%</td>
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<tr>
<td>Area Department for Africa, Asia and Middle East</td>
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</tr>
<tr>
<td>Area Department for Latin America, Europe and Australasia</td>
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<tr>
<td>Engineering Department</td>
<td>15%</td>
</tr>
<tr>
<td>Department of Development Bank Services</td>
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</tr>
</tbody>
</table>

3. These tentative estimates may seem high, but the enclosed list of Development Bank projects shows that there is a big volume of work in hand. The list does not include the work on appraisals of such projects.

cc: Messrs. Rosen
    Johnston

G.C. Wishart/vch
**File Title**  
Operational - Development Banks - General - Volume 4  

**Barcode No.**  
1503945  

**Document Date**  
02/26/1962  

**Document Type**  
Memorandum  

**Correspondents / Participants**  
Martin Rosen to Hans Erich Bachem  

**Subject / Title**  
Lending interest rates and discussion on the Industrial Finance Corporation of Thailand  

**Exception(s)**  
Information Provided by Member Countries or Third Parties in Confidence  

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

**Withdrawn by**  
A. Miller  
**Date**  
8/30/2011
It is true that our duty is to help establish privately owned and run development banks. To these we may extend credit facilities and/or participate in their capital. But observing the trend, especially in the underdeveloped countries, towards big participations of governments in such institutions as the development banks, I feel that we owe it to our members to help the state owned banks as much as the privately owned ones to be run properly, whether that help be in the form of recruiting key staff members, or of training their staff with us or through us.

In the case of a request to us being made by one member to assist in the establishment of a development bank, I suggest that we give our advice as to the role of public and private capital and the composition of the board of directors. But in case the government concerned does not act on our advice, we should, all the same, give them the technical help in setting up their bank. With our technical help, they will have a better bank than otherwise. Our principal aim is to see development taking place, economically and successfully.

Giving credit facilities and/or participating in the capital of a development bank is another matter. There we have our financial interest at stake. We believe that privately owned and run banks are better in handling the business and they are, therefore, worthy of our credits and participations. Even here, we may have to revise our stand under certain circumstances.

AGEE/nty

cc: Mr. Wishart
Mr. John G. Beevor

G. C. Wishart

IFC Representative on Boards of Development Banks

February 23, 1962

Reference attached draft memorandum, I would make the following points:

(a) On the over-all position, I suggest we can draw a distinction between development banks and straightforward industrial projects. As a development bank is an intermediary, there is a good case for us participating actively in the consideration of sub-projects which the board of the development bank may wish to finance out of Bank/IFC funds.

(b) My previous experience, both in CDC and before I joined CDC, inclines me against the appointment of local businessmen as our representatives on boards. Generally, these men do not take the same conscientious interest in their jobs, when they represent an institution, as they would if they had their own money at stake in the venture. The "professional director" may occasionally contribute some experience and local knowledge, but very often the relationship between him and his principal becomes unsatisfactory.

(c) There are advantages to IFC in having our own staff members nominated as the directors of the various development banks in which we have invested. The conflict of interest, which may occasionally present itself, can be resolved in the normal manner as when a man is a director of two different companies.

(d) I entirely agree that the qualifications for a director are good corporate and business experience and some seniority. The suggestion that we might have one or two staff members specializing in this work is interesting, but would it not lead to conflict with the Investment Officers charged with country responsibilities?

G. C. Wishart/vch
February 21, 1962

Mr. George C. Wishart

Leonard Hall

Development Bank Activities - Apportionment of Costs

1. I am in agreement with the proposed suggestion of forward intelligent guessing about the apportionment of Bank, IDA and IFC costs for time spent on development bank activities, as a basis of discussions between the Managements of the respective institutions.

2. General

Overall departmental time is assessed at 40%, including secretarial services.

3. In Detail

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
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<td>80</td>
</tr>
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<td>Bakker</td>
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<tr>
<td>Hall</td>
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</table>

LHall: amg
Dr. A.G. El Emary  

February 14, 1962

G.C. Wishart

Development Bank Activities

1. The purpose of this memorandum is to give a brief explanation of the Department of Development Bank Services (DBS) and also to list the current status of the work which falls under that department. I also attach a couple of books and some important administrative circulars which may be helpful to you.

2. World Bank's Interest in Industrial Development Banks

The World Bank's interest in industrial development banks started off around 1950 when a World Bank mission visited Turkey. The mission found that there would be opportunities for industrial financing but there were various difficulties for the World Bank in selecting the appropriate industries which should be financed, especially the medium and smaller sized industrial projects. In addition, as you will know, any World Bank loan requires a government guarantee. This raised the question whether the Turkish Government would be prepared to guarantee a World Bank loan to specific private projects, and if so to which, and also whether the private company would be prepared to accept a government guarantee with a possibility of government interference. The solution which evolved was the creation of the Industrial Development Bank of Turkey, which would serve as an intermediary through which World Bank financing could be made available to the private industrial sector in Turkey. Following on the creation of the Turkish development bank, the World Bank has been active in sponsoring the formation of a number of other industrial development banks, all under private control and management, but, of course, with government support and assistance. The most important of these banks which the World Bank has helped to establish are:

ICICI - the Indian development bank
PICIC - the Pakistani development bank
DPCC - the Ceylon development bank
IVK - an Austrian investment bank
IMDBI - the Iranian development bank
CDC - the Chinese development corporation

To all of these development banks, except Ceylon, the World Bank (or IDA) has extended credit lines; in the case of ICICI, the World Bank has just negotiated a fourth loan. PICIC has received three loans; IMDBI one loan; CDC has recently been the recipient of an IDA credit; two loans so far to IVK, and a third one pending.

3. In addition to the above, which are privately controlled and managed development banks, the World Bank also helped to establish the Development Bank of Ethiopia, the share capital of which is wholly owned
by the Ethiopian Government. The World Bank has made two loans to DBE. As a matter of policy, the World Bank and IDA (and, of course, IFC) are only prepared to consider financial assistance to development banks which are under private control and management. The question of how much technical assistance we can give to government owned development banks is under consideration at the moment.

4. Books on Development Banks

You have probably read these but, if not, I would refer you to two text books on development banks which were prepared under the auspices of the World Bank. I attach copies of these books. The first is Mr. W. Diamond's book on "Development Banks". Mr. Diamond had a good deal to do with the setting up of the Turkish development bank and he then wrote his text book which gives the history of development banks, and describes the capital structure and organization of the Turkish bank in some detail.

5. In 1958, the World Bank held a conference in Washington of development bank managers. These included the managers, or chief executives, of all the development banks with which the Bank was then closely associated, as well as the managers of development banks in other countries. The conference discussed the various problems which had arisen in the organization of the development banks represented, and also discussed the operational procedures adopted by their banks. Mrs. Shirley Boskey acted as secretary to that conference and, in 1959, produced a further text book entitled "Problems and Practices of Development Banks". I also attach a copy of that book. It is a useful handbook in that it sets out a good deal of information on the capital structure of the banks which the World Bank sponsored, and it explains the reasons why various forms of capital structure were chosen and adopted.


In the World Bank, the development bank responsibilities were allocated in the following manner prior to January 1962:

(a) The responsibility for a development bank, which had already been set up and was in operation, is vested in the area department of the World Bank, which, of course, refers to the Bank Management on all important policy questions. A Bank working party is in existence for each of these development banks, the chairman of which is the Bank loan officer responsible for the area concerned.

(b) Technical appraisal work on development bank matters, which included appraisals of the operations of the development banks and appraisals of the projects which the development banks intend to finance out of World Bank funds, were made by the World Bank's Technical Operations Department (Industry Division). This technical appraisal work comprises both the financial analysis of projects and also the engineering and other technical aspects.
The work of promotion of new development banks was also a responsibility of the area department of the World Bank concerned. In carrying out that responsibility, the Bank area department was assisted by another department of the World Bank which was then called the Technical Assistance and Planning Staff (TAPS). The responsibilities of TAPS included suggesting the promotion of new development banks, following through on approved suggestions and mounting missions to survey the possibilities in the field and to put together a tentative plan for the formation. In addition, TAPS held a watching brief on all development bank matters, with a view to advising Bank Management and Bank area departments of policies which should be followed on development bank matters to ensure consistency in dealing with all the different development banks.

7. Responsibilities after January 1962

In January 1962, Mr. Black decided that the responsibility for the analysis and appraisal of development bank projects should be concentrated in one place, within the family of the Bank and its affiliated institutions, and that IFC was the logical place for this work to be done. I attach a copy of Mr. Black's circular dated December 28, 1961, which sets out this decision. As you will see from reading that circular, IFC has taken over two main responsibilities from the World Bank. These are:

(a) IFC now fills the role previously held by the TOD Industry Division, and is responsible for the technical analysis and appraisal of all projects.

(b) IFC has also taken over the role previously held by the Bank former TAPS, and is responsible for formulating and promoting the arrangements for establishment of new industrial development banks; IFC also has TAPS's former role of advising generally on development bank policies and procedures.

8. Allocation of work within IFC

I attach a copy of Mr. Rosen's administrative circular dated February 2 which spells out, in more detail, how these responsibilities will be carried out within IFC. In brief, IFC area departments, assisted by other departments of IFC, will have the responsibility for the financial and technical appraisal of existing development banks and their operations. The Department of Development Bank Services will have the responsibility for the promotion of new development banks and for general guidance on policies and procedures.

9. The above is just a very short sketch, illustrating how the responsibilities for new development banks have evolved and where the responsibilities now lie. I shall be glad to explain this matter further to you and give you the background on any particular parts on which you may not be clear.
II. STATUS OF WORK ON DEVELOPMENT BANKS
AS AT FEBRUARY 11, 1962

10. The following is a brief summary of the work at present in hand on development banks, indicating with which department of IFC, or the World Bank, the action lies.

Austria
The Austrian development bank, which is known as IVK, was set up with the assistance of the World Bank. The World Bank has already made two loans to the Austrian bank and a third loan is about to be negotiated. IFC’s responsibility was to conduct the technical appraisal necessary before the third loan can be negotiated. The IFC appraisal report has now been prepared; this was the responsibility of the IFC area department concerned. When the negotiation starts, DBS should watch it from a general point of view, with a view to ensuring that all arrangements made are consistent with Bank/IFC policies.

Bolivia
We have recently heard that it is proposed to set up a private industrial development bank in Bolivia. A technical consultant, employed by the United States AID, is visiting Bolivia at the moment and he will be reporting more fully on whether there is a need for such a development bank, etc. We have been asked if we can help provide some training for the prospective general manager for this bank. We have indicated that we would be very willing to consider this once we know more about the proposed bank.

Burma
This is a government owned development bank which was set up by the Burmese without prior consultation with the World Bank or IFC. We had had talks with the Burmese some time before and had tried to get them to consider a private development bank. The Burmese Government have asked for our help in finding a loan manager for the new bank and we have a name which we are going to suggest to them. Recently, a director of the new Burmese bank called on Mr. Rosen. He explained that it had been hoped to obtain some private subscriptions to the equity of the new bank, but the response had been very disappointing so far. A Bank mission is visiting Burma at the moment, and will have further discussions with the authorities there. Thereafter, Mr. Rosen hopes to meet with the Burmese representative who will be at the Asian Banks Conference in Bombay at the end of March and decide then whether there is any help we can usefully give.

Caribbean
This is a proposal communicated to us by a Mr. Edward Miller, to set up a regional development bank which would cover the whole of the Caribbean area. The proposal, in its present form, does not make too much sense, although it has been worked out by Warburgs and is said to
have attracted the interest of Kuhn, Loeb and Co. We shall be sending off views to the sponsors pointing out the difficulties which probably have not been considered adequately.

Chile
This is a proposal by some local Chilean businessmen to establish a private development bank. We believe that this one may have a good chance of coming into being. The status at the moment is that some permissive legislation has to be passed in Chile before a new development bank can be set up. As soon as the legislation has been passed, the main sponsor (a Mr. Luis Marty) intends to visit Washington to discuss his plans further with us and to ask for our assistance in putting together the type of capital structure, etc., which will be necessary. We can expect this visit towards the end of April or the beginning of May.

China
The China Development Corporation is an existing bank which was established after a visit by a World Bank mission. It is privately owned as to about 70% of its share capital. The CDC has been in receipt of a loan from the old DLF and recently IDA has extended a $5 million credit. IFC's role is in the technical appraisal of projects, etc. This is a responsibility of the IFC area department. In addition, CDC has asked if we will accept a staff member (Dr. Chu) for training here and we have agreed to do so. Dr. Chu should arrive around May.

Colombia
IFC has made investments in two financieras in Colombia. The IFC investments were loans of $2 million to each financiera, with a right to convert these loans into shares. These are existing investments and are the responsibility of the IFC area department.

Costa Rica
We have had an inquiry from the American mission to Costa Rica as to whether we will give some technical assistance in promoting a private development bank in Costa Rica. We have written asking for further information on the proposals, and the Bank loan officer concerned is having talks in Costa Rica. There is some history on this proposal as the World Bank tried, in 1960, to promote a regional development bank would embrace the five Central American republics and possibly Panama. It was our view then that no one of the five Central American republics was sufficiently big to carry a private industrial development bank of its own.

Cyprus
Following on various reports by U.N. authorities and by a World Bank economic mission, we believe that there may be an opening for an industrial development bank in Cyprus. A firm of consultants, Checchi & Co., were employed by the United States ICA and the Checchi people are about to submit a report recommending the formation of a development
bank. We have had a preliminary talk with the Checchi people, and there are various aspects of their proposals with which we are in some disagreement.

**Ecuador**

Again, the United States ICA employed Checchi & Co. to report on a proposed development bank in Ecuador. We have heard a preliminary account of what the report will contain and, again, we have doubts on the type of proposals they are putting forward. We have not heard anything further on this from the Checchi people.

**Ethiopia**

This is a government development bank which the World Bank helped to establish. The World Bank has made two loans to DBE, one of which is not yet effective. As soon as the second loan is effective, we believe it will be fully utilized in a short space of time, and it may be necessary to consider a third Bank loan. The responsibility for the DBE rests with the IFC area department, as DBE is an existing development bank. In addition, DBE has asked for our help in finding a chief for its industrial division; we have checked on a man who may be satisfactory. There is also a suggestion from the Bank area department that the Bank or IFC might send an adviser out to Ethiopia to assist the development bank for, say, a year.

**India**

ICICI is the largest of the development banks with which we are closely associated. A fourth Bank loan is now under consideration which would bring Bank lending to ICICI up to $60 million or $70 million. We get numerous sub-projects to appraise and this is the responsibility of the IFC area department. There is also a suggestion that IFC might take an equity investment in ICICI, probably in the shape of convertible income notes to begin with. This matter is being discussed between IFC and ICICI.

**Iran**

The IINDBI was established with the help of the World Bank and has a World Bank loan. We are responsible for the appraisal of sub-projects submitted by IINDBI and this work falls to be done by the IFC area department. There is some thought that an IFC equity investment may be required later on, but certainly not until 1963.

**Kuwait**

The World Bank has recently been advised of a new development fund, and a development bank which are being set up in Kuwait. The development fund would not be of particular interest to IFC and the Bank area department is responsible for considering various policy issues involved. We do not know much about the development bank but this project may come further to our attention in the near future.
Lebanon
There is a proposal by a Mr. Shoucair to set up the Eastern Development Bank which will be based on the Lebanon. Mr. Shoucair has also approached the Bankers' Trust of New York, which has indicated that it might well have an interest in the proposal. We are allowing the Bankers' Trust to take the lead in this matter, but will keep in touch with them and perhaps be able to assist.

Malaya
Malaya has a private development bank which has not been functioning satisfactorily. The share capital is mainly owned by expatriate investors. The Malayan Government and the development bank (MIDFL) have suggested that IFC might mount a mission to Malaya to consider what can be done to organize the development bank and make it more acceptable to all concerned. We are awaiting a final view from the Malayan Government in this respect. If the government, and MIDFL, ask us to assist we should probably mount a mission there some time in April.

Morocco
Morocco has a development bank which, at the present time, is 59% government owned. Under the Bank's policies, the Bank would not consider lending to a government controlled development bank. Various ideas are being considered, however, on the possibility of the government reducing its stake and perhaps IFC taking part of the equity.

Nigeria
There has been in existence in Nigeria an industrial investment corporation which is 94% British owned. The Nigerian authorities are dissatisfied with this position and are anxious to have a truly Nigerian development bank. The great difficulty is, of course, to find any Nigerian private investors who would be prepared to take up the shares in a Nigerian development bank. After considerable discussion here with a Nigerian delegation, certain proposals were framed which would provide for the Nigerian Government and IFC taking up a substantial part of the equity, for resale at a later date to the Nigerian investing public. We are now awaiting the government's reactions to these proposals. If the Government is prepared to accept them, then further discussions will take place either in Washington or Nigeria.

Pakistan
PICIC is the second largest of the development banks sponsored by the World Bank. The World Bank has already made three loans to PICIC. Sub-projects come in from PICIC for appraisal here and this is the responsibility of the IFC area department. In addition, a suggestion has been made that IFC should take an equity investment in PICIC of $1 million, which would be expressed in convertible income notes to start with. This is under consideration at the moment, and the IFC area department has prepared a paper.
Peru
The Bank has been in touch with the Peruvian Government and the Banco Industrial del Peru for some time in regard to a reorganization of the Banco to bring it under private control and management. It is understood that agreement has now been reached on the necessary measures. It will now be necessary to send an appraisal mission to Peru to appraise the Banco as a recipient for Bank lending. This is a responsibility of the area department which will be mounting the mission.

Philippines
There is a proposal to set up in the Philippines a private industrial development bank. Mr. George D. Woods, Chairman of The First Boston Corporation, has been acting as a special Bank/IFC consultant in this matter. There are two matters which require action. The first is to obtain from the U.S. authorities some counterpart monies which can be used as leverage in the capital structure of the proposed bank. This is under active discussion, at a high level, with the U.S. Government. The next action is to set up a local steering committee in the Philippines to push forward the organization of the new bank. Mr. Woods has undertaken to make another visit to the Philippines, probably in April, to nominate a steering committee and get this matter going.

Thailand
There is in existence a Thailand industrial finance corporation, which has not been operating satisfactorily. We believe it has been set up with too small a capitalization and that it requires good foreign management for a few years. These issues have been discussed with the Thai Government. If the Thai Government is agreeable to putting in more money, on a subsidy basis, and to accepting foreign management, we may have to mount a mission to Bangkok to make a survey on the spot and to recommend what should be done to reconstruct this bank and make it a more satisfactory organization.

Togo
We have received a request for help in organizing and staffing a proposed government-owned development bank. This request is under consideration at the moment but, as you will appreciate, there are many policy issues involved. From the papers submitted, we are not sure that Togo can really support a development bank of its own, especially as there is already one such institution. The other policy issue is how far we can give technical assistance to a wholly owned government bank. A Bank economic mission will be visiting Togo in the next few months and we are suggesting it should look into the over-all needs for industrial financing.

Turkey
I have already mentioned IDB of Turkey which is the first development bank with which the World Bank became closely associated. The World Bank made two loans, but then suspended lending to IDB around
1954. It is now proposed that IDA will extend a credit of $5 million to IDB and that IFC will take an equity investment. The point of IFC taking an equity investment is to help bring in other than Turkish nationals as shareholders in the bank. An appraisal mission, mounted by IFC, is at present in Turkey, but should be back by the end of February with its conclusions. This is a responsibility of the IFC area department.

Venezuela

There has also been a proposal that a private development bank be established in Venezuela. An IFC mission has made a survey on the spot and is preparing a report. This has been carried out by the IFC area department but the IFC development banks' department should be involved in this project.

11. Logs

I have been maintaining logs for the DBS portion of the development bank work, which you should see. These logs deal with the promotional aspects, general policies, and training and recruitment of staff. The area departments have been maintaining their own logs on sub-project analyses, etc.

12. Status Reports

We are asking the area investment officers to complete each week a status report showing the position in regard to outstanding work for each of the existing development banks. Copies of these status reports will be coming to the DBS and it is suggested that the DBS should act as the central department to keep a record of where we stand in regard to the work outstanding for each of these development banks.

13. Files

Miss Tung Yep has my working files for each of the development banks which you may care to take over.

14. Conferences

There are two conferences of development banks scheduled for the near future. The first of these is a Conference of Asian Development Banks which is being sponsored by ICICI. It will be held in Bombay at the end of March 1962. As Mr. Rosen has already informed you, Mr. Black has put your name forward as the Bank/IFC delegate.

CENTO is also contemplating a conference of development banks for CENTO members which will be held in Turkey in June 1962. We have not yet had full details of this conference, but understand that the U.S. AID will be approaching us on this matter. We were represented at the last CENTO conference which was held in Karachi in 1961.

Attachments

GCW/rty

cc: Mr. Rosen
<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
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The existing Burma Development Bank has an authorized capital of kyats 30 million ($6.3 million). Kyats 20 million ($4 million) were paid in by the Government, private interests are holding kyats 3 million ($600,000). The Burmese wish to obtain IBRD and IFC assistance to get the bank operations going. They hope that IBRD/IFC would help them in finding a qualified person as loan officer. They also consider to apply for IBRD/IFC financing.

Mr. U Sen Myng met with the loan officer candidate proposed by IBRD, Mr. Robert Harvey. IFC explained that the Government's influence would have to be substantially reduced to make BDB eligible for IFC financial assistance.

It was agreed that Mr. Tolley will look into the matter of the Development Bank in Burma during his forthcoming visit. On his way back in the middle of March, he should meet with Mr. Rosen and Mr. von Hoffmann in New Delhi to report his findings. Further discussions with the Burmese will then take place during the development banks' meeting in Bombay end of March.
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<td>India</td>
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<td>Assam Sillimanite Ltd.</td>
<td>Plant for the manufacture of a wide range of refractory materials</td>
<td>The principal stockholder and chairman of the board is Mr. S.M. Wahi. The United Provinces Commercial Corporation of Calcutta in which Mr. Wahi has a controlling interest acts as managing agent to the Company. A technical assistance agreement has been entered into with Vereinigte Grossalmeroder Thonwerke AG (VGT), a manufacturer of refractory bricks in Germany.</td>
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<td>Total</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Share issue $ 1,491,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>IFC investment $ 1,365,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retained earnings $ 399,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total $ 3,255,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IFC Investment - June 1960</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>US $ 1,365,000 in Notes.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fixed interest 6-1/2% per annum in dollars.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Profit sharing equal to 30% of net profits in excess of 10% on share capital for fiscal years 1963, 1964 and 1965; such percentage to decrease thereafter by 3% annually.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The investment agreement was signed.

The Company has to fulfill a number of conditions, including completion of underwriting arrangements for the issue of the share capital, before disbursement can be made. An IFC lawyer is visiting Calcutta to assist the Company in completing the legal formalities required as conditions of disbursement.
<table>
<thead>
<tr>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>It has been reported that the Company hopes to arrange the financing of its project in Germany, in which case there would be no need for an IFC investment.</td>
<td>December 1961</td>
</tr>
<tr>
<td>In any event, the sponsors wish to obtain the Indian Government’s approval in principle to the terms agreed tentatively with IFC before resuming negotiations with IFC.</td>
<td>December 1961</td>
</tr>
<tr>
<td>Member</td>
<td>Tentative Amount of Proposed Investment $ million</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>45.0</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Equity**

- Hoechst 6.65
- Mafatlal 6.65
- Public 6.65
- IFC 1.05 21.00

**Retained earnings**

3.70

**Foreign exchange loans**

- IFC/ICICI 5.00
- Suppliers 2.30 7.30

**Rupee loans**

14.70

**Total**

66.70
Following tentative terms have been negotiated with the sponsors:

Either

1. IFC to invest $4 million in notes of the company, denominated in dollars bearing interest of 7% per annum payable in dollars and carrying the right to convert 40% of the amount of the notes into common stock of the company at par. Repayment of the notes to be made after a grace period of 5 years over a period of 10 years in equal annual or semi-annual instalments.

or alternatively

2. IFC’s total investment of $4 million to be made in 2 parts:
   a) $800,000 to be invested in common stock of the company at terms identical to those offered to the other shareholders
   b) $3,200,000 to be invested in notes of the company, denominated in US-dollars, bearing 7% interest p.a. payable in dollars and carrying the right to convert 37.5% of the amount of the notes into common stock of the company at par. Repayment to be made as under "1".

The conversion rights in both cases should be exerciseable at any time before maturity of the notes.

However, the Company still has been unable to finalize its agreement with the refinery in Bombay which still supply the principal raw materials.
### Completed Investments

<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td>I.F.C.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>0.631</td>
<td>0.210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **K.S.B Pumps**  
  Plant to manufacture a variety of irrigation and industrial pumps

Klein, Schanzlin & Becker AG of Frankenthal, Germany owns 58% of the company capital. The Industrial and Prudential Investment Company of Bombay is also a substantial shareholder. Approach to IFC.  

#### Financial Plan:

- **Share capital** $421,000
- **IFC loan** $210,000

**Total** $631,000

**IFC Investment**  
$210,000 in unsecured dollar notes. Repayable in equal semi-annual installments 1966-1971. Fixed interest 7% per annum payable in dollars. Profit participation equal to 20% of the amount by which annual net profits exceed 10% of the average nominal amount of fully-paid common shares outstanding; payable annually in rupees through December 31, 1970.

- **February 1958**
- **November 1960**
<table>
<thead>
<tr>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Agreement was signed</td>
<td>January 1962</td>
</tr>
<tr>
<td>The Company has fulfilled most of the conditions of disburse-</td>
<td></td>
</tr>
<tr>
<td>ment and has applied for the still outstanding permits from</td>
<td></td>
</tr>
<tr>
<td>the Reserve Bank of India.</td>
<td>March 1962</td>
</tr>
<tr>
<td>First disbursement is expected</td>
<td></td>
</tr>
<tr>
<td>Member</td>
<td>Tentative Amount of Proposes Investment $ million</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Total</td>
<td>I.F.C.</td>
</tr>
<tr>
<td>India</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial Plan:

Common stock

- Ugine 0.5
- Mahindra 0.5
- Public 3.0

Preferred stock 1.0

Total Equity 5.0

Foreign exchange loans IFC/ICICI 3.8

Rupee loans 3.2

Total 12.0
Project presentation received and being studied.

The sponsors expect IFC to indicate tentative terms soon.

Date
February, 1962
### APPLICATIONS UNDER STUDY

<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>I.F.C.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>81.0</td>
<td>Not decided</td>
<td>Integrated Aluminium production including the mining of bauxite, smelting, and fabricating.</td>
<td>The Indian sponsors, Mr. J. Vaidya and Mr. S.M. Dahanukar, and representatives of the U.S. sponsor Reynolds Metals Company, Mr. M.H. Temple and Mr. W.G. Moore, visited IFC</td>
</tr>
</tbody>
</table>

**Financial Plan:**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reynolds</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Vaidya and</td>
<td>2.97</td>
<td></td>
</tr>
<tr>
<td>associates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mysore State</td>
<td>2.70</td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>10.53</td>
<td>27.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooley funds</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Other rupee loans</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>81.0</td>
<td></td>
</tr>
</tbody>
</table>
The sponsors are about to complete their economic feasibility study. Expected March, 1962

No definite amount has been discussed with sponsors for an IFC investment, but it is evident that the major part of the foreign exchange financing must come from other sources. January 17, 1962

The sponsors are exploring the possibility for obtaining AID financing.
<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>21.0</td>
<td>2.0</td>
<td>West Coast Paper Mills, Mysore</td>
<td>Expansion of an existing paper mill</td>
</tr>
</tbody>
</table>

West Coast Paper Mills is a public company in which the Bangur group holds a 50% interest. The Company is one of the six largest paper producers in India with a total production of about 26,000 tons in 1960/61. The project would increase the Company's paper production capacity by 12,000 tons and include the production of 18,000 tons rayon pulp and of caustic soda and chlorine.

Mr. B.D. Somani and Mr. A.D. Chaudhuri discussed the project with IFC.

**Financial Plan:**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>5.0</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4.0</td>
</tr>
<tr>
<td>Foreign exchange loans</td>
<td>12.0</td>
</tr>
<tr>
<td></td>
<td>21.0</td>
</tr>
</tbody>
</table>
The Company requested IFC to indicate terms for its investment. The Company is negotiating with AID for a loan included in the financial plan. IFC is studying the information submitted.
### APPLICATIONS UNDER STUDY

<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of</th>
<th>Proposed Investment</th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td></td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>I.F.C.</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Asian Cables Corporation**

Asian Cables Corporation is a publicly held company.

Expansion of this Company's operation to produce power cables

The capital of the Company will be increased for the purpose of this project, and Phelps Dodge Corporation of the U.S. and Enfield Cable Corporation of U.K. will participate in the increased equity and act as technical partners.

Phelps Dodge approached IFC with the project.

ICICI approached IFC with a proposal for a joint financing.

We have no details of the financial plan yet. $1.9 million of the project cost is in foreign exchange. $1.3 million are being sought from ICICI and IFC.

October 1961

December 1961
Awaiting project presentation
<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>I.F.C.</td>
<td>Indian Precision Bearings Corporation</td>
<td>ICICI approached IFc with a proposal for a joint financing</td>
<td>November, 1961</td>
</tr>
<tr>
<td>India</td>
<td>3.5</td>
<td>Plant to produce a variety of ball bearings for the automobile and engineering industries</td>
<td>Sponsors: K.P. Joshi, Bombay East Asiatic Company (India) Norma Hoffman Bearings Corp., Stamford, Connecticut</td>
<td></td>
</tr>
</tbody>
</table>

**Financial Plan**

<table>
<thead>
<tr>
<th>Equity</th>
<th>2.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange</td>
<td>1.1</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>Rupee loan</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>3.5</td>
</tr>
</tbody>
</table>
IFC received project presentation which is being studied.

February, 1962
### APPLICATIONS UNDER STUDY

<table>
<thead>
<tr>
<th>Member</th>
<th>Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>6.85</td>
<td>3</td>
<td></td>
<td>January 12, 1962</td>
</tr>
</tbody>
</table>

**International Tires Ltd.**

Plant for the production of 300,000 tires, 300,000 tubes and 2 million lbs. of camel back per year

The Indian sponsors (Mr. B.F. Varughese and associates of Kerala) approached the IBRD office in New Delhi who forwarded the application to IFC.

U.S. sponsor: Mohawk Rubber Company of Akron, Ohio

**Financial Plan:**

- **Equity**: 3.7
- **Loan**: 3.15
- **Total**: 6.85

IFC investment to be partly in equity, partly in loan
Representatives of Mohawk Rubber Company visited IFC
detailed project information is being prepared by the sponsors and is to be submitted to IFC shortly.

Date
February 2, 1962
<table>
<thead>
<tr>
<th>Member</th>
<th>Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>20.0</td>
<td>Modern Mills Ltd.</td>
<td>The Indian sponsor, Mr. Sirur, approached IFC.</td>
<td>November, 1961</td>
</tr>
</tbody>
</table>

Establishment of a cellulose acetate flake plant and of an acetate filament yarn plant to convert part of the acetate flakes into spun yarn.

Modern Mills Ltd. is a textile producing company which will undertake the project as an expansion. The Sirur group is the principal shareholders of Modern Mills, and they control the Company as managing agents. Technical assistance is to be provided by Didier-Weizke AG and Farbenfabriken Bayer, Germany.

**Financial Plan:**

<table>
<thead>
<tr>
<th>Equity</th>
<th>7.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange loan (Suppliers)</td>
<td>8.2</td>
</tr>
<tr>
<td>Rupee loan</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.0</strong></td>
</tr>
</tbody>
</table>

About 60% of the equity is to be raised by public issue.
IFC indicated that it would not be willing to make financing available to replace the suppliers' credits, but would be willing to participate in the underwriting of the equity.
<table>
<thead>
<tr>
<th>Member</th>
<th>Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>4.5</td>
<td>I.F.C.</td>
<td></td>
<td>January, 1959</td>
</tr>
</tbody>
</table>

Mr. Kothandaraman, the Indian sponsor, approached IFC.

Plant to produce plastic and paper insulated power cables. Mr. Kothandaraman has been in the cable business for many years. Hacekthal Draht- und Kabelwerke of Hannover, Germany, will act as technical partners and participate with a small amount in the equity.

**Financial Plan:**

- **Share capital**
  - Kothandaraman & Associates: 0.40
  - HDK: 0.12
  - Public issue: 1.48

- **Preferred stock**: 0.4

- **Total equity**: 2.4

- **Foreign exchange loan (IFC)**: 1.4

- **Rupee loan**: 0.7

- **Total**: 4.5
The Indian sponsor visited IFC, and the project was reviewed.

Progress on the project is pending an appraisal of the Indian group's managerial abilities. ICICI is considering the Company's request for underwriting part of the share issue. The Company is considering various matters raised by IFC.

January, 1962
IFC was approached by Interconsulting Ltd., Zuerich, December, 1961, a consulting company, in which Mannesmann and Rollsche Eisenwerke have controlling interest, with a proposal to consider financing of an alloy steel project in India. The project is being promoted by Messrs. Gangadhar Baijnath, a firm connected with the Bagla Group of Industries (mainly textiles).

It is proposed to produce various types of alloy steels except those for which high frequency electric furnaces are required - mainly silicomanganese alloy steels, suitable for making springs, will be manufactured. Estimated cost of the project excluding working capital: Rs. 26 million ($5.5 million).

Mr. Parekh, ICICI, said that the Baglas have not been successful in their textile business, and they have great difficulty in raising the equity for a project of this size. Matter to be reviewed in India.
### Applications Under Study

<table>
<thead>
<tr>
<th>Member</th>
<th>Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td></td>
<td>Industrial explosives</td>
<td>Wasag-Chemie of Essen, Germany has informed us of the plans of Dharamsi Morarji Chemicals to expand and produce industrial explosives. Wasag's principal interest is to build the plant and sell know-how. No financial information is available. The matter is being handled in India by T.T. Krishnamachari and Company of Madras who are Wasag's agents in India. We do not know whether Dharamsi Morarji has obtained an industrial license or not. The third Five Year Plan provides for an expansion of the industrial explosives capacity from the present 5,000 tons per year to 20,000 tons by 1965.</td>
<td>December, 1962</td>
</tr>
</tbody>
</table>

Total I.F.C.
### APPLICATIONS UNDER STUDY

<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>I.F.C.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>0.9</td>
<td>0.3</td>
<td>U.S. sponsors, Firth Sterling Company of Pittsburgh, approached IFC.</td>
<td>September 28, 1961</td>
</tr>
<tr>
<td></td>
<td>Firth Sterling Steel Company of India</td>
<td></td>
<td>Other sponsors: Mr. J.M. Pai, Bombay and others.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plant to produce 300 tons of high speed tool steels per year and 300 tons of constructional steels per year.</td>
<td></td>
<td>Financial Plan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Firth Sterling 26% Indian directors 27% Public 27%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange loan</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>change loan</td>
<td></td>
<td></td>
<td>0.9</td>
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<tr>
<td>Notes</td>
<td>Date</td>
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<tr>
<td>-------</td>
<td>--------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check on U.S. sponsor satisfactory</td>
<td>October 23, 1962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian sponsor informed that IFC willing to consider application for IFC investment Detailed project description requested.</td>
<td>October 27, 1962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information on Indian sponsors from Mr. Mafatlal</td>
<td>December 27, 1961</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. Mafatlal's views on the project requested</td>
<td>January 9, 1962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsors' project presentation awaited.</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
### APPLICATIONS UNDER STUDY

<table>
<thead>
<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>I.F.C.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaya</td>
<td>-</td>
<td>Malayan Flour Mills, Lumut Flour Mill</td>
<td>MIDFL (Mr. O'Regan) approached IFC with a request for joint financing; No financial plan has been received; Malayan Government's views on an IFC participation sought; Reply from Malayan Minister of Finance. Several matters of importance to be negotiated with the Company before the Government can indicate whether an IFC participation is welcome. Will write IFC again after a decision on the Tariff Advisory Committee's report has been taken.</td>
<td>November 1961</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>November 24, 1961</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>January 19, 1962</td>
</tr>
<tr>
<td>Member</td>
<td>Tentative Amount of Proposed Investment $ million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaya</td>
<td>Malayan Industrial Development Finance Limited</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Development bank sponsored mainly by British banks, insurance companies, and business groups. Authorized and subscribed capital £1,750,000, paid up 35%. No loan financing.

The general manager, Dermot O'Regan, discussed with IFC and IBRD, possible IFC assistance.

Mr. Khabajou of IBRD reported after his return from the Far East about the Government's criticism of MIDFL, mainly due to the view that MIDFL did not act as a development bank, but was investing its funds in ventures of its major shareholders (first loan to Dunlop).

The Minister of Finance suggested that IBRD and IFC may assist in reconstructing MIDFL. IBRD/IFC are considering to send a mission to study industrial financing in Malaya, a survey to be taken up when Mr. K1 Emery arrives. The Government and the Board of MIDFL to consult the matter of IBRD/IFC assistance.

<table>
<thead>
<tr>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>September, 1961</td>
</tr>
<tr>
<td>December, 1961</td>
</tr>
<tr>
<td>Member</td>
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<tr>
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<td>Total</td>
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<td>Philippines</td>
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### Applications under Study

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<tr>
<th>Member</th>
<th>Tentative Amount of Proposed Investment $ million</th>
<th>Project</th>
<th>Notes</th>
<th>Date</th>
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<tbody>
<tr>
<td>Philippines</td>
<td>10</td>
<td>Philippines Viscose Corp. Plant in Manila to produce rayon staple fiber</td>
<td>The principal sponsor on the Philippine side is P.L. Lim, at present</td>
<td>January, 1960</td>
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<td></td>
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<td>and cellophane with a daily capacity of 6 tons each.</td>
<td>general manager of the Universal Textile Comp. in Manila (50,000</td>
<td>August, 1960</td>
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<td></td>
<td></td>
<td></td>
<td>spindles and 108,000 looms). Mr. Lim approached IFC and</td>
<td>November, 1961)</td>
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<td></td>
<td></td>
<td></td>
<td>since then has visited Washington</td>
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<tr>
<td>Total</td>
<td>I.F.C.</td>
<td></td>
<td>IFC staff members met with Lim in the Philippines</td>
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<td></td>
<td>3.3</td>
<td></td>
<td>(Mr. Lund)</td>
<td>December, 1960</td>
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<td></td>
<td></td>
<td></td>
<td>(Mr. Hilton)</td>
<td>March, 1961</td>
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<td></td>
<td>(Mr. Wishart)</td>
<td>June, 1961.</td>
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<td></td>
<td>Von Kohorn International (firm specializing in viscose technology)</td>
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<td></td>
<td>proposed to build the plant, provide technical assistance and</td>
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<td></td>
<td></td>
<td>participate with $ 1.2 million in the financing. Project</td>
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<td></td>
<td></td>
<td>cost as of August 1961: Pesos 30 million ($ 10 million equivalent).</td>
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<td></td>
<td>IFC estimates 20% higher cost.</td>
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<td></td>
<td></td>
<td>Financing:</td>
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<td></td>
<td></td>
<td></td>
<td>Equity:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Philippine interest $ 16.5</td>
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<td></td>
<td></td>
<td></td>
<td>Von Kohorn</td>
<td>$ 3.5</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Total equity</td>
<td>$ 20.0</td>
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<td></td>
<td>IFC requested to provide Pesos 10 million ($ 3.3 million) in foreign</td>
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<td></td>
<td></td>
<td>exchange.</td>
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<td>The project cost and financing need to be reviewed in view of the</td>
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<td></td>
<td>recent changes in the exchange rate.</td>
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During Lim's visit the project was reviewed and IFC took the following position:

a. IFC has reservations on the market for staple.

b. IFC would not consider more than $2.5 million of which $500,000 in equity, balance 8% loan.

c. IFC insists on Von Kohorn and Philippine sponsoring group having substantial stakes in equity.

In January 1962, IFC requested Von Kohorn to disclose its financial position. Von Kohorn having refused, IFC told Lim that IFC would not be willing to participate in project unless the main supplier of equipment, the technical advisors and the substantial investors were to provide financial information on themselves.

Von Kohorn reported that Lim did not intend to pursue his application with IFC.
**APPLICATIONS UNDER STUDY**

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<tbody>
<tr>
<td>Philippines</td>
<td>-</td>
<td>Proposed Development Bank, Philippines</td>
<td>Mr. George Woods, Chairman, First Boston Corporation, and Mr. Wishart visited the Philippines to explore the possibility of setting up a private industrial development financing institution.</td>
<td>July 1962</td>
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<td>U.S. Government assistance asked in the form of counterpart funds to be lent to the proposed private development financing company. Negotiations still going on with State Department/AID and a reply is expected soon whether or not U.S. authorities can assist.</td>
<td>August 21, 1961</td>
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<td>Philippine delegation (Acting Secretary of Finance Sison, Ambassador designate Abello, Governor of the Central Bank Andres Castillo and others) called on Messrs. Rosen and Cargill. IFC and IBRD expressed their willingness to support a private development bank in the Philippines. IFC and IBRD are pursuing the matter of U.S. counterpart funds for such a bank.</td>
<td>January 16, 1962</td>
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<td></td>
<td>Mr. George Woods held a meeting with members of the Philippine delegation.</td>
<td>January 27, 1962</td>
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<td>If the negotiations with the U.S. government regarding counterpart funds can be resolved, Mr. Woods will visit the Philippines some time in March to initiate the organization of a local steering committee.</td>
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**APPLICATIONS UNDER STUDY**

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<tr>
<td>Thailand</td>
<td></td>
<td><strong>Industrial Finance Corporation of Thailand</strong></td>
<td>Suggestion that IFC send a small technical assistance mission to Thailand. To be discussed with Dr. El Emery upon his arrival.</td>
<td>January, 1962</td>
</tr>
<tr>
<td>Member</td>
<td>Tentative Amount of Proposed Investment $ million</td>
<td>Project</td>
<td>Notes</td>
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<tr>
<td>Thailand</td>
<td>-</td>
<td>Thai Tires and Rubber Company</td>
<td>Mr. Bostwick (Lockheed Aircraft) approached IFC on behalf of Kearns International Ltd. in Los Angeles. Firestone to participate with 49% in the equity, 51% being considered by a Thai group IFC awaiting project presentation.</td>
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<tr>
<td><strong>Total</strong> I.F.C.</td>
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**Date** January 2, 1962
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<td>Comment</td>
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**Remarks**

1. Suggested procedure appears appropriate.

2. Estimated time of my office involved this work = Less than 5%. 

From

[Signature]
Development Bank Activities --
Apportionment of Costs Between Bank/IDA and IFC

1. The Administration Department has been discussing with me what would be a practical method for apportioning the costs of development bank work, performed by IFC, between Bank/IDA and IFC. We have discussed various methods of working out this apportionment with a view to making it as accurate as possible, but without involving Department Heads and staff members in an undue amount of record keeping. One method of approach would be for staff members to fill out a form recording all the hours they spend on development bank work for either of the institutions other than IFC; this would mean a lot of work, and would require the application of arbitrary factors to provide for appropriate distribution of charges for "dead time".

2. A suggestion we have come up with is as follows:

(a) Each of the departments of IFC will estimate the percentage of its total time which it will be spending on development bank work on behalf of the Bank/IDA. In the first instance, the estimate will be for the remainder of the fiscal year ending June 30, 1962.

(b) Around May, we shall ask Department Heads to re-estimate for the next fiscal year. A further review and re-estimate can take place in November 1962 for the second half of the fiscal year, 1962/63.

(c) When we get all the estimates in for the first period, these can be discussed between the Managements of Bank/IDA and IFC to arrive at over-all figures for the necessary apportionment.

(d) Travel costs and consultants' fees, if any, will be handled on an ad hoc basis. Staff members have already been asked to indicate on their travel request forms, when traveling on development bank business, whether Bank/IDA is involved. We shall go through these as they come in and agree an appropriate sharing of costs.

3. I shall be grateful for any comments you may have on the above suggested procedure and also for your estimate of the percentage of time of your department which will be involved on Bank/IDA development bank matters during the period from January 1 to June 30, 1962. Could I ask you to let me have this by early next week?

cc: Messrs. Rosen, Beevor, Johnson (IBRD) & El Emamy (on arrival)
Mrs. Russell
**Routing Slip**

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**Remarks**

Difficult & Estimate but my guess is about 15%.

From

J. J. 3/88
February 12, 1962

Dear Erich:

Marty Rosen has just left for a brief trip to Mexico and I am acknowledging, on his behalf, your letter to him of February 8.

In Marty's absence, I shall try and get out some of the facts and figures you are asking for on development bank lending rates, and he will be writing to you on his return here around February 20.

I trust all goes well with you and that you are enjoying your new job. I shall look forward to seeing you sometime in Frankfurt or over here. If in Frankfurt, I shall expect a guided tour of all the best restaurants and night spots!

All the best.

Yours sincerely,

G. C. Wishart

G.C.Wishart/vch

Mr. Hans Erich Bachem
Stellv. Vorstandsmitglied der
Kreditanstalt fur Wiederaufbau
27, Linden St.
Frankfurt (Main)
GERMANY
IFC Files

February 12, 1962

G. G. Wishart

Development Banks -- Possible German Participation

1. Dr. Donner called on Mr. Rosen on February 8 to discuss some inquiries he had had from Bonn regarding possible interest in German finance for existing development banks. Messrs. Khouradjou and Wishart were present, and Mr. Dodd joined the meeting for discussion of the first item.

2. Jamaica

Bonn had expressed an interest in the Jamaican Industrial Development Corporation (JIDC) and in the Jamaican Development Finance Corporation. It was explained that JIDC was a government financing agency, financed out of appropriations from the Territory's budget, which had been in existence for about ten years; JIDC maintains offices in Europe and the U.S. and does a good deal of promotional work to attract new industries to Jamaica. Mr. Dodd said that he had seen a good deal of JIDC, while investigating an IFC investment, and had formed a good opinion of its efficiency. The British Colonial Development Corporation had also dealt with JIDC and collaborated with it in a recent investment. The Jamaican Development Finance Corporation had only been established in 1959; Mr. Dodd's impression was that it was mainly financing housing projects with some industrial investments.

3. Mr. Rosen mentioned that an IFC staff member would probably be visiting Jamaica within the next couple of months. He would ask him to inquire more closely into the work done by these two institutions and to try and appraise the progress they are making. Naturally, no indication would be given of a possible German interest. Dr. Donner said that he would suggest to Bonn that it also try to get a cross-check on the institutions with the British CDC. The name of the London representative of JIDC, Mr. Casserley, was given to Dr. Donner.

4. Ceylon

Dr. Donner referred to the Development Finance Corporation of Ceylon. Mr. Khouradjou gave it as his opinion that DFCC is a competent outfit which is well managed. DFCC had now almost committed its total resources of around rupees 23 million, made up of equity of rupees 7 million and a Government advance, on favorable terms, of rupees 16 million. Mr. Rosen assessed the management as conservative and cautious and one which knew the area very well. The equity of this bank was subscribed from private sources, but one of the shareholders, the Bank of Ceylon, which holds about 39% of the equity, had now become a Government-owned institution.

5. Mr. Rosen drew attention to the political difficulties which a private bank such as DFCC experienced in operating in Ceylon. He also pointed out that the Ceylon Government might not consider a German investment in DFCC as fulfilling the German commitment to assist Ceylon financially.
6. **Thailand**

The Thailand Industrial Finance Corporation was then considered. Messrs. Rosen and Kheradjou gave their opinion that there was certainly need for an adequately capitalised and well managed financing institution in Thailand. Mr. Rosen referred to the history of this bank which had been founded under the personal initiative of the late Prince Vivat. It had started off with inadequate capital and had not been able to arrange for proper management. It would be necessary for the Thai Government to assist by putting up substantial new resources for the bank and for the Government to agree to accept foreign management for a period. These points had already been made to the appropriate Minister and, if a favorable answer is received, the Bank and IFC would hope to mount a mission to recommend the next step. It appeared as if the best thing to do would be to set up a new development bank, which would avoid the mistake of the former bank, and into which the TIFC could be merged. The Bank/IFC mission was expected to visit Thailand within the next couple of months. It was agreed that the Bank and IFC would keep Dr. Denner informed about these arrangements.

7. Dr. Denner stated that he would advise Bonn of the mission and the proposals likely to emerge, and suggest that Bonn should await the findings of the mission.

**Cc:** Messrs. Cargill
Kheradjou
Cope
Hall
Patterson
Richards
El Emaray (on arrival)

G.C. Wishart/veh
Mr. Martin M. Roseph
Executive Vice President
International Finance Corp.
1818 H St. N.W.
Washington 25, D.C.

February 8th, 1962.

Dear Marty:

Recently I learned that you have just taken over the whole development bank business and concentrated it in a special department of IFC. As you may know, the Kreditanstalt is also rather active in this field. Support of small and medium industries in the developing countries is a particular concern of our government and loans to or through development banks are the only practical means to that end. Today I have two questions regarding development banks on which I would like to consult you:

1) Industrial Finance Corporation of Thailand - We would like to use some (perhaps DM 10-15 millions) of the DM 100 millions German Development Aid for Thailand for a first loan to IFC/T. The German delegation had some preliminary talks with IFC/T last November but it appears that they have still sufficient resources and would not need additional foreign exchange or local currency for their operations in the near future. The principal reason seems to be that the bank is very cautious, conservative and not too active. Our mission was told that business is expected to expand in the near future but I remember having heard repeatedly of such expectations over the last few years. I also remember of some ideas in IBRD to activate the management. Here we also thought of the possibility that the Thai Government would extend guarantees for loans of IFC/T in cases where the projects are of high merits and priority but the commercial risks too great for IFC/T to take. We intend to take up discussions with IFC/T in Bangkok during the latter part of March but before deciding what to propose we would very much appreciate your giving us your views on what you think could be done to activate the bank to make it a usable channel for foreign loans to promote small- and medium-size industries in Thailand.
2) Margin for Development Banks -

In about two weeks' time the Steering Committee in Bonn intends to have a general discussion on the question of interest rates for loans to development banks and the margin to be allowed for the development banks in making loans to the end-borrowers. The Kreditanstalt has been asked to prepare a paper as a basis for this discussion. I think this paper should show the rates charged by other foreign lending institutions, the margins which development banks retain in making foreign-exchange and local currency loans and finally it should deal with operating (or administration) cost of development banks as one of the most important factors for determining what margin should be left between borrowing and lending rates. It is on this last point where I would particularly appreciate your help.

In her last book Shirley Boskey described rates and margins of quite a number of development banks but she did not say much about operating cost. If I remember correctly, on IBRD's initiative some calculations of administration cost for project loans of certain sizes have been made - I think in ICICI or PICIC.

It would be very useful for our discussion here to know the conclusion of these calculations. If for instance a calculation would show that project loans of about 50,000 US$ each would cause administration cost requiring an interest rate margin of more than 2%, we would have to do some rethinking here. The loans under consideration here for about 10 development banks in Asia and Africa would be extended at interest rate varying between 5 and 5 1/2% and limit the margin for the development bank to 2%.

The exact date for the forthcoming discussion in Bonn has not yet been determined but I assume we cannot delay the discussion for more than about two weeks. So, I would appreciate an early reply.

With best personal regards,

Yours sincerely,

H. E. Bachem

HEB/ek
Messrs. Hamilton, Apoor, von Hoffmann & Mackenna

Martin N. Rosen

Appraisals of Development Bank Sub-Projects

January 30, 1962

Before IFC staff submit their appraisal reports on development bank sub-projects to Joint Working Parties, I should like these to be reviewed by the Director of the Area Department concerned. As the appraisal reports give IFC’s considered judgment on a project, it is advisable that the reports are fully cleared within IFC, before submission, and that the Director of the Area Department concerned indicates his agreement with the recommendation made.

Until Mr. Hall arrives here and takes over his responsibilities for Area Department B, such reports should be submitted to Mr. Beevor, who is in temporary charge of the Department. In Mr. Beevor’s absence this week, the reports should be sent direct to me for clearance.

cc: Mr. Paterson

G.C. Wishart/wch
Mr. Martin M. Rosen

J. Burke Knapp

Development Bank Activities

Thanks for sending me your draft administrative circular on development bank activities. I think it looks fine.
1. Thank you for sending me a draft of the Administrative Circular on the above subject.

2. A circular of this kind obviously cannot cover all the points which will arise and it is probably undesirable for it to be too precise. I think, however, there would be merit in qualifying the phrase "privately-owned and managed" to indicate (if such is the case) that some element of government interest does not automatically exclude a bank from IFC assistance. Perhaps the phrase might be "substantially privately-owned and managed". Furthermore, the phrase "give technical assistance in appropriate cases" gives no clue as to whether IFC would be prepared in principle to give advice to a completely government-owned bank, even though it would not invest in one.

3. The arrangements for joint working parties should, I think, solve the problem of coordination. Could we assume that the person within the IFC who would be responsible for relaying information and getting whatever clearances were necessary within IFC would be the IFC area man?
DEVELOPMENT BANK ACTIVITIES

1. General

As a result of the President's memorandum of January 8, 1962, IFC will -

(a) have primary responsibility in the field of assistance for the creation and expansion of privately owned and managed industrial development banks;

(b) carry out on behalf of and in close consultation with the Bank and IDA technical appraisals for Bank loans or IDA credits to development banks and for the approval of relending by development banks for sub-projects;

(c) make on behalf of the Bank and IDA end-use inspections of development bank operations;

(d) study the record of development banks and corporations in member countries generally and give technical assistance in appropriate cases.

These responsibilities are additional to the investment of IFC's own funds in development banks. This circular sets forth procedures for IFC staff in discharging these responsibilities.

2. Department of Development Bank Services

The Department of Development Bank Services (DBS) will have the following responsibilities -

(a) when it has been determined that there is a prima facie case for establishing a new privately owned and managed industrial development bank (see paragraph 3 below), DBS will formulate and promote arrangements for the further investigation of and for carrying out the project. DBS will have a similar responsibility in connection with the reorganization or reconstruction or expansion of existing private development banks. The detailed application of this responsibility will be as set out in paragraph 3 below.

(b) DBS will keep informed on all matters concerning the policies, procedures and problems of development banks and will provide advice.
and guidance to IFC management, Bank area departments and IFC area departments on these matters. Advice and guidance will be given ad hoc as requested, and will include an annual review summarizing and commenting on important policy and procedural matters arising during the course of the fiscal year.

(c) DBS will handle, in consultation with the appropriate departments of the Bank and IFC, requests from development banks for recruitment of foreign personnel. The Training Officer or the Director of the Economic Development Institute as appropriate will continue to have responsibility for arranging and supervising internal training programs for development bank staff members visiting the headquarters of the Bank and IFC for training periods; DBS will review the arrangements and programs proposed and will participate in these programs.

In carrying out its above responsibilities, DBS will cooperate and consult with IFC area departments, the IFC Legal Department, the IFC Engineering Department, the Treasurer's Department and the IFC Financial and Accounting Adviser; these other IFC departments will make available the services of appropriate staff members as required and by arrangement between the Director of DBS and the Directors of the Departments concerned.

3. Promotion and Organization of New Development Banks

(a) The promotion of new development banks will include the reorganization, reconstruction and expansion of existing banks where the reorganization or expansion envisaged goes further than a mere increase in the resources of the bank concerned.

(b) In all cases, whether the proposals emanate from member governments or private investors or Bank or IFC staff members, no action will be taken until the Bank/IDA area department concerned has reviewed the proposal and has agreed that the Bank would support the establishment of such a development bank and considers it to have an economic priority for the country concerned; in particular, the Bank/IDA area department will indicate whether a development bank, if established on a satisfactory basis, would be considered for a Bank loan or IDA credit or whether a development bank would be desirable even without the prospect of Bank or IDA lending.

(c) When the Bank area department has determined that there is a prima facie case for the establishment of such an institution, DBS will -

(i) consider whether a survey is required, in the country concerned, of the need for and the nature and functions of the proposed development bank, and make recommendations for the composition of the survey mission, possibly including the use of an outside consultant in addition to Bank and IFC staff;

(ii) study and make recommendations for a suitable capital structure for the institution, its legal form and method of constitution, the composition of the Board of Directors
and the provision of experienced management;

(iii) prepare a program for exploring sources of capital from private investors or governments or other agencies, and supervise the carrying out of the program including discussions with potential private investors, local and foreign;

(iv) make such other recommendations on proposed operational policies, and plans for managerial and technical services as may appear appropriate.


(a) A Joint Working Party will be established for each new or existing development bank in which the Bank, IDA or IFC is interested. In the case of existing development banks, and for new development banks in which it is proposed that there will be Bank or IDA financing, the joint working party will consist of the Bank working party with the addition of an IFC area staff member and any other IFC staff member(s) designated by IFC. In the case of new development banks, or in other appropriate cases, a representative of DBS, as designated by the Director of DBS, will also be a member of the joint working party. It will be the responsibility of the IFC area staff member on the joint working party to present to the working party all technical appraisals and other reports prepared by IFC.

(b) In the case of a development bank which is not financed by the Bank or IDA, but in which IFC has an investment, the joint working party will consist of the IFC working party and the Bank/IDA will be invited to be represented thereon.

5. Financing Operations

(a) Financing by Bank/IDA

The Bank/IDA loan or credit will be processed in accordance with regular Bank/IDA procedures. IFC area department, through its representative on the joint working party, will be responsible for the technical appraisal of the development bank concerned, including advice as to the terms and conditions of the proposed loan or credit, appropriate covenants, etc. The IFC area staff member, in his capacity as a member of the joint working party, will participate in the negotiation of the loan or credit and will assist in the presentation of the final report to the Board of the Bank/IDA.

(b) Financing by Bank/IDA and IFC

A parallel procedure to that set out in paragraph 5(a) above will be followed. If feasible, the Bank loan or IDA credit and the IFC investment should be negotiated at one and the same time by the joint working party. Thereafter, a joint meeting of the Boards of Bank/IDA and IFC will be held at which the loan (credit) and investment
documents will be submitted for simultaneous consideration.

(c) Financing exclusively by IFC

The IFC investment will be processed in accordance with regular IFC procedures. The Bank/IDA area department will be invited to be represented on the IFC working party.

6. Technical Appraisals of Relendings by Development Banks

The preparation of technical appraisals on proposed relendings by development banks, out of Bank/IDA loans or credits, or out of IFC investment funds, will be the responsibility of the IFC area departments. The technical appraisals will be submitted by the IFC area departments: (a) if a Bank/IDA loan or credit is involved, through the IFC area staff member on the joint working party to the joint working party for the formulation of a recommendation to the Director of the Bank area department for presentation to Bank/IDA management; (b) if only an IFC investment is involved, through the joint working party to IFC management.

7. End-Use Inspections

The IFC area departments will be responsible, in consultation with the Bank area department involved, for maintaining regular end-use inspections of development banks financed by Bank/IDA or IFC, and for reporting on the results of these inspections.

8. Assistance by IFC DBS, Legal, Engineering and Treasurer's Departments and by IFC Financial Adviser

In carrying out the responsibilities listed in paragraphs 4 to 7 above, the IFC area departments will make use of the services of the appropriate IFC DBS, legal and engineering staffs and of the advice of the Financial Adviser. Arrangements for the use of these services will be handled direct between the IFC area department heads and the directors of the other IFC staffs involved.

Martin M. Rosen
Executive Vice President
International Finance Corporation
Mr. Eugene R. Black, President of the World Bank and President of the International Finance Corporation (IFC), announced today the establishment of a new Industrial Development Bank Services Department in the IFC and the appointment of Mr. A. G. El Emary to serve as its Director.

Mr. El Emary has had a long and distinguished career in banking and finance. He was Governor of the Central Bank of Egypt from 1957 until 1960. Since then he has been President and General Manager of the Alexandria Commercial Company. Prior to joining the Central Bank, he served for many years in the Egyptian Ministries of Finance and Commerce and was Minister of Finance from 1952 to 1954. Mr. El Emary will join IFC in February.

The new department of IFC will be responsible for planning financial and technical assistance to help in establishing or expanding privately owned and managed industrial development banks. In this field, IFC will now act not only on its own behalf, but will also act on behalf of its parent institution, the World Bank, as well as for the Bank's other affiliate, the International Development Association (IDA). IFC's initiatives may lead to an IFC investment in a development bank, to World Bank loans or IDA credits for a development bank, or to a combination of these.

Under a recent change in its charter which enables IFC to invest in capital stock or shares, IFC has commenced investing in the equity of development banks. In December 1961, IFC converted part of two loans to two Colombian development
banks into capital stock. The conversions were in the amount of 7 million pesos each in Corporacion Financiera Colombiana de Desarrollo Industrial of Bogota and Corporacion Financiera Nacional of Medellin. These transactions marked the first time that IFC has acquired equity investments.

In the development bank field, IFC will be pursuing an interest of long standing in the World Bank itself. The Bank has attached great importance to the role development banks can play in assisting the industrial development process. These intermediary institutions provide a means of reaching many medium-sized industrial enterprises which neither the Bank nor IFC could assist directly.

The Bank has so far lent $116 million to private development banks in six countries. The Bank has given advice in the establishing of new development banks in Austria, Ceylon, Republic of China, India, Iran, Malaya, Pakistan, Thailand and Turkey, and in the reorganization of existing banks in several other countries.
I am attaching a draft administrative circular regarding the above. The draft circular amplifies the information given in the President's memorandum of January 8, 1962, and sets forth procedures for IFC staff in dealing with development bank responsibilities.

Before the draft circular is finalized, I should much appreciate any comments you may have. I would ask that these be sent to me by Friday, January 26.

I shall be sending a separate memorandum to Bank Area Department Heads, listing IFC representatives whom I have appointed to existing Joint Working Parties.
We have been working on a draft administrative circular to spell out more clearly how the various development bank activities should be handled and I have sent a copy of the draft circular to most of the Bank Department Heads with a request for any comments they may have.

I attach a copy of the draft which you may like to see. If you have suggestions, I should be very grateful for them.
DEVELOPMENT BANK ACTIVITIES

1. General

As a result of the President's memorandum of January 8, 1962, IFC will -

(a) have primary responsibility in the field of assistance for the creation and expansion of privately owned and managed industrial development banks;
(b) carry out on behalf of and in close consultation with the Bank and IDA technical appraisals for Bank loans or IDA credits and for the approval of relending by development banks for sub-projects;
(c) make on behalf of the Bank and IDA technical end-use inspections of development bank operations;
(d) study the record of development banks and corporations in member countries generally and give technical assistance in appropriate cases.

These responsibilities are additional to the investment of IFC's own funds in development banks. This Circular sets forth procedures for IFC staff in discharging these responsibilities.

2. Department of Development Bank Services

The Department of Development Bank Services (DBS) will have the following responsibilities -

(a) when it has been determined that there is a prima facie case for establishing a new privately owned and managed industrial
development bank (see paragraph 3 below), DBS will formulate and promote arrangements for the further investigation of and for carrying out the project. DBS will have a similar responsibility in connection with the reorganization or reconstruction or expansion of existing private development banks. The detailed application of this responsibility will be as set out in paragraph 3 below.

(b) DBS will keep informed on all matters concerning the policies, procedures and problems of development banks and will provide advice and guidance to IFC Management, Bank area departments and IFC area departments on these matters. Advice and guidance will be given ad hoc as required, and will include an annual review summarizing and commenting on important policy and procedural matters arising during the course of the financial year.

(c) DBS will handle, in consultation with the appropriate departments of the Bank and IFC, requests from development banks for recruitment of foreign personnel. DBS will also arrange for and supervise internal training programs for development bank staff members visiting the headquarters of the Bank and IFC for training periods.

In carrying out its above responsibilities, DBS will cooperate and consult with IFC Area Department Heads and their staffs, the IFC General Counsel and his staff, the IFC Senior Engineer and his staff, and the IFC Financial Adviser; these other IFC departments will make available the services of appropriate staff members as required and by arrangement between the Director of DBS and the director of the department concerned.
3. Promotion and Organization of New Development Banks

(a) The promotion of new development banks will include the reorganization, reconstruction and expansion of existing banks where the reorganization or expansion envisaged goes further than a mere increase in the resources of the bank concerned.

(b) In all cases, whether the proposals emanate from member governments or private investors or Bank or IFC staff members, no action will be taken until the Bank Area department concerned has reviewed the proposal and has agreed that the Bank would support the establishment of such a development bank and considers it to have an economic priority for the country concerned; in particular, the Bank/IDA area department will indicate whether a development bank, if established on a satisfactory basis, would be considered for a Bank loan or IDA credit or whether a development bank would be desirable even without the prospect of Bank or IDA lending.

(c) When the Bank Area Department has determined that there is a prima facie case for the establishment of such an institution, DBS will -

(i) consider whether a survey is required, in the country concerned, of the need for and the nature and functions of the proposed development bank, and make recommendations for the composition of the survey mission, possibly including the use of an outside consultant in addition to Bank and IFC staff;

(ii) study and make recommendations for a suitable capital
structure for the institution, its legal form and method of
constitution, the composition of the Board of Directors and
the provision of experienced management;

(iii) prepare a program for exploring sources of capital from
private investors or governments or other agencies, and
supervise the carrying out of the program including discus-
sions with potential private investors, local and foreign;

(iv) make such other recommendations on proposed operational
policies, and plans for managerial and technical services
as may appear appropriate.


(a) A Joint Working Party will be established for each new or existing
development bank in which the Bank, IDA or IFC is interested. In
the case of existing development banks, and for new development
banks in which it is proposed that there will be Bank or IDA financ-
ing, the joint working party will consist of the Bank working party
with the addition of an IFC area staff member and any other IFC
staff member(s) designated by IFC. In the case of new development
banks, or in other appropriate cases, a representative of DBS, as
designated by the Director of DBS, will also be a member of the
joint working party. It will be the responsibility of the IFC area
staff member on the joint working party to present to the working
party all technical appraisals and other reports prepared by IFC.

(b) In the case of a development bank which is not financed by the
Bank or IDA, but in which IFC has an investment, the joint
working party will consist of the IFC working party and the Bank/IDA will be invited to be represented thereon.

5. Financing Operations

(a) Financing by Bank/IDA

The Bank/IDA loan or credit will be processed in accordance with regular Bank/IDA procedures. IFC area department, through its representative on the joint working party, will be responsible for the technical appraisal of the development bank concerned, including advice as to the terms and conditions of the proposed loan or credit, appropriate covenants, etc. The IFC area staff member, in his capacity as a member of the joint working party, will participate in the negotiation of the loan or credit and will assist in the presentation of the final report to the Board of the Bank/IDA.

(b) Financing by Bank/IDA and IFC

A parallel procedure to that set out in paragraph 5(a) above will be followed. If feasible, the Bank loan or IDA credit and the IFC investment should be negotiated at one and the same time by the joint working party. Thereafter, a joint meeting of the Boards of Bank/IDA and IFC will be held at which the loan (credit) and investment documents will be submitted for simultaneous consideration.

(c) Financing exclusively by IFC

The IFC investment will be processed in accordance with regular IFC procedures. The Bank/IDA area department will be invited to be represented on the IFC working party.
6. Technical Appraisals of Relendings by Development Banks

The preparation of technical appraisals on proposed relendings by development banks, out of Bank/IDA loans or credits, or out of IFC investment funds, will be the responsibility of the IFC area departments. The technical appraisals will be submitted by the IFC area departments: (a) if a Bank/IDA loan or credit is involved, through the IFC area staff member on the joint working party to the joint working party for the formulation of a recommendation to Bank/IDA Management; (b) if only an IFC investment is involved, through the joint working party to IFC Management.

7. End-Use Inspections

The IFC area departments will be responsible, in consultation with the Bank area department involved, for maintaining regular end-use inspections of development banks financed by Bank/IDA or IFC, and for reporting on the results of these inspections.

8. Assistance by IFC DBS, Legal, and Engineering Departments and by IFC Financial Adviser

In carrying out the responsibilities listed in paragraphs 4 to 7 above, the IFC area departments will make use of the services of the appropriate IFC DBS, legal and engineering staffs and of the advice of the Financial Adviser. Arrangements for the use of these services will be handled direct between the IFC area department heads and the directors of the other IFC staffs involved.
Development Banks - Missions

For your information, I am listing various development bank missions which IFC has to consider mounting in the near future.

1. Already Arranged
   b. Turkey - IDB
      One staff member planned to leave mid-January and remainder of mission early February.

2. In Near Future
   c. Peru - Banco Industrial del Peru
      An appraisal mission will probably have to be mounted sometime in March 1962.
   d. Malaya and Thailand
      Area Department has requested a mission to advise on reconstruction of MIDFL. Mission should leave, say, by end-February or early March, for Malaya and then on to Thailand.
   e. Austria - IVK
      IVK has asked for consideration of a third Bank loan and an appraisal mission will be required at a fairly early date.

3. For Later Date
   f. Ethiopia - DBE
      It is understood that DBE may be asking for consideration of a third Bank loan. If so, an appraisal mission will be necessary. Perhaps this can be left for the second half of the year.
   g. Chile - Proposed new development bank
      If Mr. Luis Marty gets his legislation by end-March 1962, a technical assistance mission may be required in, say, May or June 1962.

GCW/rty

cc: Messrs. Beevor, Richards, Dodd, Herrmeyer.
Circ. Folder
January 8, 1962

ALLOCATED OF RESPONSIBILITY FOR DEVELOPMENT BANKS

1. One of the important pioneer efforts of the Bank in promoting economic development in our member countries has been the provision of technical and financial assistance for the creation and expansion of privately-owned and managed industrial development banks. More recently the IFC has commenced making investments in banks of this character. By a combination of Bank loans to and IFC investments in these intermediary institutions, much more can be done to promote the development of small to medium-sized industrial enterprises in the less-developed parts of the world.

2. I consider that if this work is to be carried on economically and efficiently, the responsibility for the analysis and appraisal of projects in this field should be concentrated in one place, within the family of the Bank and its affiliated institutions. I believe that the logical place for this work is the IFC, which is itself carrying on an industrial development banking business on an international scale.

3. Accordingly, I intend that in the future, as part of the current program for achieving closer integration of the IFC with the Bank and IDA, the IFC staff take the lead in the consideration of all industrial development banking problems and provide supporting advice and guidance to the Bank and IDA with respect to their operations in this field.

4. In order to implement this proposal, the following procedures will apply:

(a) The IFC staff will be responsible for formulating and promoting the arrangements for the establishment of new industrial development banks;

(b) The IFC staff will continue to process proposals for IFC investments in these institutions, consulting with the Area Departments in the Bank/IDA as appropriate. In addition the IFC staff will provide advice and guidance on the technical, financial and managerial merits of proposed Bank loans or IDA credits to these institutions, and in general, will discharge the same functions in the processing and negotiation of such loans or credits as have hitherto been provided by the Industry Division of the Department of Technical Operations;

(c) In the case of joint Bank/IDA/IFC financing of industrial development banks, special arrangements will be made for a joint presentation of the proposal.
to a combined meeting of the Executive Directors of the institutions concerned;

(d) In making decisions regarding the priority to be accorded to proposals for the establishment of new industrial development banks, and in the processing of Bank/IDA loans to such banks, the normal Working Party and Staff Loan Committee procedures will apply, with IFC instead of Department of Technical Operations representation on the Working Party and with IFC representation at the Staff Loan Committee. In the case of joint operations by the Bank/IDA and the IFC, the same procedure will be followed, modified as may be necessary as decided by Bank/IDA and IFC managements. The IFC staff will also discharge on behalf of the Bank/IDA the present functions of the Industry Division of the Department of Technical Operations in processing applications for the approval of sub-projects under Bank/IDA development bank loans and in making end-use inspections of development bank operations.

Eugene R. Black
President
**ROUTING SLIP**

<table>
<thead>
<tr>
<th>NAME</th>
<th>ROOM NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Hudson</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
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<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

**Remarks**

- Development Banks.
- Ref. your note attached.
- Everyone in IFC is advised and all business under control. I am trying to keep a watch myself and to attend all working Bank Meetings.

**From**

[Signature]
OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen
FROM: G.C. Wishart
DATE: January 8, 1962

SUBJECT: Development Banks - Procedure for Appraising Sub-Projects and Present Status under Bank Credit Lines.

SECTION I. APPRAISAL PROCEDURE

1. I have now discussed with the TOD Industry Division the procedure used by that division for the Bank review of sub-projects submitted by development banks for approval under the various Bank credit lines. I have also discussed with the loan officers in the different Area Departments the present status of these credit lines.

2. Except in the case of ICICI, all sub-projects, for which development banks wish to use Bank credit lines, have to be submitted to the Bank for prior approval. In certain of these cases, the development banks have a theoretical "free limit" but that ceiling is under the minimum amounts they have agreed to submit to the Bank; so, in practice, all projects come to the Bank for approval. In the case of the ICICI second and third loans, ICICI is given a certain amount of discretion. For loan 269-IN, the Bank agreed that ICICI might commit up to $500,000 for any one sub-project, without prior Bank approval, up to an aggregate amount of $4 million. However, even for these sub-projects, ICICI still submits full information to keep the Bank advised, although the Bank merely notes the information unless it feels there is some important point of policy involved on which comment is necessary.

3. Bank appraisal procedure is as follows:

   (a) The development bank sends in its application direct to the appropriate loan officer of the Bank, enclosing the sub-project appraisal as submitted to the development bank's own Board of Directors together with such additional information as it considers the Bank will require. The area loan officer, who is chairman of the working party for that development bank, has copies prepared of all this material and circulates the copies to the other members of the working party. The main copy, with all the supporting documents, goes to TOD Industry Division.

   (b) In the case of ICICI and PICIC, Heads of Agreement for the sub-project loan may accompany the project presentation or may follow at a later date; this is also true for IVK.
2.

(c) TOD Industry Division then starts its review of the documents submitted. A financial analyst is in charge of this review, who is empowered to ask an engineer for advice if necessary.

(d) TOP Industry Division prepares its appraisal which covers the following major headings:

(i) The borrower, and any information available regarding the borrower's credit standing, etc.

(ii) A brief description of the project.

(iii) A note on the engineering aspects, if this is considered necessary.

(iv) The total cost of the project is analyzed and the financing plan is set out.

(v) The financial data submitted is carefully examined. These should consist of balance sheets and profit and loss accounts for the last five years, in the case of existing projects, and cash flow sheets, balance sheet projections, profit and loss projections for a further period, say, until the sub-project is considered to be in full production.

(vi) A section is included on the market prospects. If necessary, TOD economists (Mrs. Rhysphan and Mr. Walstedt) are consulted. In certain cases, the development bank concerned has been asked to initiate a full market survey for a particular industrial sector of the country's economy (e.g., PICIC was recently asked to prepare a full market survey for the textile industry).

(vii) The analyst adds a paragraph on the economic justification of the project.

(viii) The analyst draws his conclusions on the suitability of the project for financing under the credit line and gives his recommendation.

(ix) The TOD Industry Division's appraisal is then sent to the area loan officer, with copies to all other members of the working party.

4. On receipt of the TOD appraisal, members of the working party may raise queries on the sub-project, either by raising these with the chair-
man of the working party or, perhaps, by telephoning the financial analyst direct. If there are no substantial queries, the chairman of the working party may be prepared to recommend approval of the sub-project there and then. If there is a difference of opinion among the members of the working party, it may be necessary to convene a working party meeting to discuss the sub-project in detail and to agree on a recommendation.

5. Obviously, in the course of the appraisal, the financial analyst may have queries either on financial matters or on technical matters. These have to be referred back to the development bank concerned. This is done by drafting a letter to the development bank for signature by the area loan officer, or sometimes the area loan officer may agree that TOD should correspond direct with the development bank.

6. When the working party has agreed that the project may be approved, the area loan officer then submits to his department chiefs the following documents:

(a) A telegram to the development bank informing it that the sub-project is considered suitable and has been approved, and that the Bank is prepared to credit the loan account with the amount necessary for the sub-project on request by the development bank. This approval is sometimes qualified by stating that, say, the Heads of Agreement have still to be received and that final approval must await satisfactory Heads of Agreement being submitted.

(b) A letter to the development bank confirming the above telegram.

In the case of ICICI applications for sub-projects within the "free limit", a similar procedure is followed as soon as the project has been looked over by TOD.

7. Thereafter, on receipt of a formal request from the development bank to credit the loan account, the loan account is credited with the amount involved and the development bank is notified, in the case of flexible interest loans, of the rate of interest applying to that tranche. Also, in the case of flexible amortization schedules, the development bank is notified of the amortization schedule which will apply to that particular tranche. A number is also given to the sub-project.

8. TOD informs me that the time it takes to submit the Bank appraisal of sub-projects is generally around two to three weeks after the information has been received in the Bank.

9. TOD Industry Division maintains a wall chart showing the applications under analysis by the Division, and also those that are pending awaiting the answers to queries sent back to the development bank concerned.
10. ICICI

The Bank has made three credit lines to ICICI. The following table summarizes the position as at December 10, 1961.

As of December 10, 1961
(US $ Million, unless otherwise noted)

<table>
<thead>
<tr>
<th></th>
<th>109-IN</th>
<th>232-IN</th>
<th>269-IN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Bank loans</td>
<td>10.00</td>
<td>10.00</td>
<td>20.00</td>
</tr>
<tr>
<td>(a) Approved projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>(14)</td>
<td>(17)</td>
<td>(13)</td>
</tr>
<tr>
<td>Total amount credited to Loan Account</td>
<td>9.79</td>
<td>8.71</td>
<td>6.64</td>
</tr>
<tr>
<td>Disbursed</td>
<td>8.94</td>
<td>2.54</td>
<td>1.15</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>.85</td>
<td>6.17</td>
<td>5.49</td>
</tr>
<tr>
<td>Unallocated Amount</td>
<td>.21</td>
<td>1.29</td>
<td>13.36</td>
</tr>
<tr>
<td>(b) Current applications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>(1)</td>
<td>(7)</td>
<td>(17)</td>
</tr>
<tr>
<td>Total amount</td>
<td>.13</td>
<td>.71</td>
<td>10.17</td>
</tr>
</tbody>
</table>

Of the outstanding twenty-five applications, the Bank has already notified ICICI that it is prepared to give its approval, on request, for twenty-one projects and, subject to review of the Heads of Agreement, to an additional three projects. There is thus additional information required on only one of these projects, namely, Universal Cable Company; this has been requested.

Since December 10, three further applications have been received and are under study. These are:

Galvanwire Industries Ltd. $340,000 (This is below the free limit, and only needs formal approval)
Anti-Friction Ball Bearings Ltd. $672,000
Fit-Tight Nuts & Bolts Ltd. $22,000 (This is a supplementary credit)

11. As you are aware, a Bank appraisal mission has recently been in India to make a full appraisal of ICICI with a view to negotiation of a fourth Bank credit line; the report should be ready shortly and negotiations are expected to start in the second week of February.
12. PICIC

The Bank has made three credit lines available to PICIC, and the status, as at November 30, 1961, is as follows:

<table>
<thead>
<tr>
<th>Amount of Bank loans</th>
<th>185-PAK</th>
<th>236-PAK</th>
<th>286-PAK</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Approved projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>(16)</td>
<td>(18)</td>
<td>(nil)</td>
</tr>
<tr>
<td>Total amount credited to Loan Account</td>
<td>3.91</td>
<td>6.83</td>
<td>nil</td>
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<tr>
<td>Disbursed</td>
<td>3.74</td>
<td>1.12</td>
<td>nil</td>
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<tr>
<td>Undisbursed</td>
<td>.17</td>
<td>5.71</td>
<td>nil</td>
</tr>
<tr>
<td>Unallocated Amount</td>
<td>.29</td>
<td>3.17</td>
<td>10.00</td>
</tr>
<tr>
<td>(b) Current applications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>(nil)</td>
<td>(4)</td>
<td>(6)</td>
</tr>
<tr>
<td>Total amount</td>
<td>nil</td>
<td>1.69</td>
<td>4.92</td>
</tr>
</tbody>
</table>

Since November 30, 1961, two further credits to the loan accounts have been made:

<table>
<thead>
<tr>
<th>236-PAK</th>
<th>Dacca Jute Mills</th>
<th>$357,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>286-PAK</td>
<td>Ismail Cement Industries</td>
<td>$3,000,000</td>
</tr>
</tbody>
</table>

Applications under study are:

<table>
<thead>
<tr>
<th>236-PAK</th>
<th>Charshadda Sugar Mills</th>
<th>$250,000. Further information requested.</th>
</tr>
</thead>
<tbody>
<tr>
<td>236-PAK</td>
<td>Batala Engineering Co. Ltd.</td>
<td>$840,000. &quot; &quot; &quot;</td>
</tr>
<tr>
<td>236-PAK</td>
<td>Habib Textile Mills Ltd.</td>
<td>$250,000. &quot; &quot; &quot;</td>
</tr>
<tr>
<td>286-PAK</td>
<td>Crescent Textile Mills</td>
<td>$200,000. &quot; &quot; &quot;</td>
</tr>
<tr>
<td>286-PAK</td>
<td>Adamjee Industries Ltd. (Textile)</td>
<td>$519,000. Awaiting full textile study</td>
</tr>
<tr>
<td>286-PAK</td>
<td>Bawany Violin Textile Mills</td>
<td>$509,000. &quot; &quot; &quot;</td>
</tr>
<tr>
<td>286-PAK</td>
<td>Dyer Textile &amp; Printing Mills</td>
<td>$468,000. &quot; &quot; &quot;</td>
</tr>
<tr>
<td></td>
<td>Crescent Jute Mills</td>
<td>$233,000. &quot; &quot; &quot;</td>
</tr>
</tbody>
</table>

13. The Bank has suggested on December 29, 1961, to PICIC that some of the applications under 286-PAK might be transferred to loan 236-PAK to exhaust it more quickly. The Bank has also drawn attention to the slow rate of disbursement on 236-PAK.
14. **IMBDI**

The Bank has made one loan to IMBDI in the amount of $5.2 million. To date the Bank has approved and credited two projects under this loan as follows:

(a) Eefahan Cement Co. ($533,000), approved December 22, 1960.
(b) Kalaleh Cotton Gin ($178,000), approved February 15, 1961

No applications are outstanding, except the Kermanshah Sugar Project, the papers on which were left by Mr. Samii on his recent visit.

15. **Development Bank of Ethiopia**

The Bank has made two loans to DBE each for $2 million.

These are:

- **32-ET** Fully committed. $1.95 million disbursed.
- **301-ET** Not yet effective, but effectiveness expected in about six weeks.

Of this, certain projects have already been approved in principle for crediting as soon as the loan becomes effective. These are:

- Ethiopian Woodworks $50,000
- Ethiopian Greek Cotton Processing $350,000
- Societe de Tedj $216,000
- General Ethiopian Transportation $320,000

Also, Durmco Ltd. (supplementary) $956,000

In addition to the above, DBE is working on two other projects, one a smallish power project and the other a scrap iron project. If these are submitted and found acceptable, loan 301-ET would be fully committed. There is thus a good chance that the Bank will be asked to start considering a third loan within the next few months.

16. DBE has two other problems which require early attention. A new Chief for the Industrial Division is required and the Bank’s help in securing a suitable person has been sought. Also, Mr. Kruithof is recommending that the Bank should send an advisor out to Ethiopia to give the present general manager some help.
16. **IVK of Austria**
The Bank has made two loans to IVK of Austria:

- **192-AUA** for $10 million, under which nine projects have been approved amounting to $9.288 million.
- **237-AUA** for $9 million, out of which fourteen projects have been approved amounting to $6.366 million.

Two projects are now under consideration:

<table>
<thead>
<tr>
<th>Vorarlberg Papier</th>
<th>$154,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metalwerk Plansee</td>
<td>$961,000</td>
</tr>
</tbody>
</table>

17. A further Bank loan has been requested by IVK and an appraisal mission will have to be mounted at a fairly early date.

18. **IDB of Turkey**

- IDB received two Bank loans:
  - **34-TU** for $9 million - fully committed.
  - **85-TU** for $9 million - Fully committed ($72,888 undisbursed).

An appraisal mission is due to be sent to Turkey at an early date to appraise the prospects for an IDA credit and an IFC equity investment.

19. **China Development Corporation**

- IDA has recently granted a $5 million credit to the Republic of China for relending to CDC. This has not yet been declared effective.

CDC has submitted to the Bank and IFC for comment a proposed Loan Agreement for use with sub-borrowers. CDC has also asked if we can take one of its staff members for a training period.

---

**GCW/rt**

**cc:** Messrs. Beevor
Paterson
Richards
Herrmeyer
Dodd
von Hoffmann
Circ. Folder
Management has decided that responsibility for development bank activities will be handled by IFC. This responsibility includes assisting development banks in recruiting personnel. Accordingly your note of December 29 should be sent along to IFC.

In your note you refer to the Societe d'Assistance Technique et de Credit Social d' outre-Mer, and ask whether we had any information on this institution. Mike Hoffman asked Michel Penent of EDI to prepare memorandum, which I attach. In this memorandum Penent gives background history of SATEC together with his observations both on SATEC and some of the personnel.
For your forthcoming visit to New York, you asked me to give you a note of the foreign shareholders in the various development banks, in particular, the banks which might be of interest to a new United States investor.

1. **IDB of Turkey** - IDB has an issued share capital of TL 25 million (approximately US$2.6 million). Shareholders are all Turkish nationals except for a TL 2 million holding by the Ottoman Bank.

   IDB has been paying a dividend of 12% since 1954.

2. **ICICI** - ICICI has an issued share capital of Rs.50 million (approximately US$10 million). I attach an up-to-date list of shareholders, as brought back by the recent appraisal mission. The U.S. shareholders were obtained by Mr. George D. Woods.

   For 1960, ICICI paid a dividend of 5-3/4% subject to tax.

3. **PICIC** - PICIC has an issued share capital of Pak. Rs.30 million (approximately US$6 million). I attach an amended list showing what we understand is the present position of the shareholdings, after the 1961 increase in issued capital. Again, I understand, Mr. Woods obtained the U.S. shareholders.

   For 1960, PICIC paid a dividend of 5%.

4. **IMDBI** - IMDBI has an issued share capital of Rials 400 million (approximately US$5.3 million); of this, foreign investors hold 40%. I attach a list of the foreign investors. Chase International and Lazards were the moving spirits behind the setting-up of this bank.

   For the period ended March 20, 1961, IMDBI paid a dividend of 4%.

5. **China Development Corporation** - CDC has an issued share capital of NT$80 million (approximately US$2 million). The Government holds about 30% of the equity. All the private shareholders are Chinese nationals, resident in Taiwan except, as far as I can remember, one investor who is resident in Hongkong.

   CDC has been paying a dividend of 18%.

6. **Development Bank of Ethiopia** - The issued share capital is the equivalent of US$2 million, and is entirely held by the Government. No dividends have been paid.
7. IVK of Austria - The total issued share capital of IVK is Schs.42 million (approximately US$1.6 million) held by Austrian nationals as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local commercial banks</td>
<td>70%</td>
</tr>
<tr>
<td>Industrial enterprises</td>
<td>20%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>6%</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>2.4%</td>
</tr>
<tr>
<td>Private shareholders</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

8. The above are the development banks with which the World Bank is at present closely associated. (I have omitted DFCC of Ceylon, as I do not think it is relevant to your inquiry.)

9. Malaya - MIDFL - Of the other development banks, one which might be of interest is MIDFL, if and when reorganized. Authorized capital is M$15 million, made up of 25,000 "A" shares and 125,000 "B" shares: shares have equal voting rights but "B" shareholders get a 5% dividend first, then "A" shareholders 5%, then pro rata. Present shareholders are:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>M$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federation Government (&quot;A&quot; shares)</td>
<td>2.50</td>
</tr>
<tr>
<td>C.D.C.</td>
<td>2.50</td>
</tr>
<tr>
<td>Chartered Bank</td>
<td>2.0</td>
</tr>
<tr>
<td>H.S.B.C.</td>
<td>1.0</td>
</tr>
<tr>
<td>Mercantile Bank</td>
<td>1.0</td>
</tr>
<tr>
<td>Eastern Bank</td>
<td>0.5</td>
</tr>
<tr>
<td>Overseas Chinese Bank</td>
<td>0.5</td>
</tr>
<tr>
<td>31 British insurance members</td>
<td>1.25</td>
</tr>
<tr>
<td>23 Other insurance companies</td>
<td>1.25</td>
</tr>
<tr>
<td>Others</td>
<td>2.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>M$15.00</strong></td>
</tr>
</tbody>
</table>

Paid-up Capital - 35%
THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED

List of Shareholders Holding 1% or More of Equity Capital
November 14, 1961

Shareholders in India

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bank of Baroda Ltd.</td>
<td>19,020</td>
</tr>
<tr>
<td>The Bank of India Ltd.</td>
<td>24,117</td>
</tr>
<tr>
<td>The Central Bank of India Ltd. (A/c. H.E.H. The Nizam's</td>
<td>5,000</td>
</tr>
<tr>
<td>Charitable Trust)</td>
<td></td>
</tr>
<tr>
<td>The Central Bank of India Ltd.</td>
<td>18,250</td>
</tr>
<tr>
<td>The Century Spg. &amp; Mfg. Co., Ltd.</td>
<td>6,339</td>
</tr>
<tr>
<td>The Indian Overseas Bank Ltd.</td>
<td>10,000</td>
</tr>
<tr>
<td>Life Insurance Corporation of India</td>
<td>83,067</td>
</tr>
<tr>
<td>The New India Assurance Co. Ltd.</td>
<td>13,982</td>
</tr>
<tr>
<td>The Punjab National Bank Ltd.</td>
<td>23,932</td>
</tr>
<tr>
<td>United Bank of India Ltd.</td>
<td>10,000</td>
</tr>
<tr>
<td>The United Commercial Bank Ltd.</td>
<td>23,932</td>
</tr>
<tr>
<td>Holders of less than 1% of equity capital (17%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>117,836</td>
</tr>
<tr>
<td></td>
<td>360,475 (72.1%)</td>
</tr>
</tbody>
</table>

Shareholders in U.K.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Chartered Bank</td>
<td>9,500</td>
</tr>
<tr>
<td>Commonwealth Development Finance Co. Ltd.</td>
<td>17,999</td>
</tr>
<tr>
<td>The Hongkong &amp; Shanghai Banking Corporation</td>
<td>5,000</td>
</tr>
<tr>
<td>National &amp; Grindlays Bank Limited</td>
<td>21,000</td>
</tr>
<tr>
<td>Holders of less than 1% of equity capital (38%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,766</td>
</tr>
<tr>
<td></td>
<td>89,265 (17.9%)</td>
</tr>
</tbody>
</table>

Shareholders in U.S.A.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>12,500</td>
</tr>
<tr>
<td>Olin Mathisson Chemical Corporation</td>
<td>12,500</td>
</tr>
<tr>
<td>John D. Rockefeller 3rd.</td>
<td>5,000</td>
</tr>
<tr>
<td>Holders of less than 1% of equity capital (5)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>260</td>
</tr>
<tr>
<td></td>
<td>30,260 (6.0%)</td>
</tr>
</tbody>
</table>

Shareholders in Germany

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>No. of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank AG</td>
<td>7,500</td>
</tr>
<tr>
<td>Dresdner Bank AG</td>
<td>12,500</td>
</tr>
<tr>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>500,000</td>
</tr>
</tbody>
</table>

Total (6366 shareholders)                                      |               |
PROPOSED SUBSCRIPTION TO THE SHARE CAPITAL OF THE PAKISTAN
INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

1. Authorized Share Capital: Rs. 150,000,000 ($31,500,000)
   - 2,000,000 Ordinary Shares: 20,000,000
   - 13,000,000 Unclassified Shares: 130,000,000

2. Initial Issue: Rs. 20,000,000 ($4,200,000)
   - Pakistani Investors: 12,000,000
   - American Investors: 3,000,000
   - British Investors: 3,000,000
   - Japanese Investors: 2,000,000

3. Pakistani Investors: Rs. 12,000,000 ($2,520,000)
   - Banks: 2,500,000
   - Insurance Companies: 500,000
   - Industrialists: 5,000,000
   - Public: 4,000,000

4. American Investors: Rs. 3,000,000 ($630,000)
   - International Basic Economy Corporation: 476,200
   - John D. Rockefeller III: 238,100
   - David Rockefeller: 238,100
   - Bank of America: 595,250
   - Transoceanic Development Corporation Ltd.: 595,250
   - Henry J. Kaiser Company: 833,300
   - George D. Woods: 23,800

5. British Investors: Rs. 3,000,000 ($630,000)
   - (a) The Commonwealth Development Finance Co., Ltd. 573,000
   - (b) Industrial Companies
      - Imperial Chemical Industries Ltd. 200,000
      - Associated Electrical Industries Ltd. 67,000
      - English Electric Company Limited 67,000
      - General Electric Company Limited 67,000
   - (c) Eastern Exchange Banks
      - Chartered Bank of India, Australia & China 347,000
      - The Eastern Bank, Limited 116,000
      - Grindlays Bank, Limited 80,000
      - Lloyds Bank, Limited 347,000
      - Mercantile Bank of India, Limited 116,000
      - National Bank of India, Limited 347,000
<table>
<thead>
<tr>
<th>Insurance Companies</th>
<th>Shareholders' Funds</th>
<th>Reserve and Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norwich Union Life Insurance Society</td>
<td>75,000</td>
<td>15,750</td>
</tr>
<tr>
<td>Norwich Union Fire Insurance Society</td>
<td>35,000</td>
<td>7,350</td>
</tr>
<tr>
<td>Prudential Assurance Company Limited</td>
<td>90,000</td>
<td>18,900</td>
</tr>
<tr>
<td>Royal Exchange Assurance together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Union Insurance Company Limited</td>
<td>45,000</td>
<td>9,450</td>
</tr>
<tr>
<td>State Assurance Company Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal Insurance Company Limited</td>
<td>30,000</td>
<td>6,300</td>
</tr>
<tr>
<td>Liverpool &amp; London &amp; Globe Insurance Co. Ltd.</td>
<td>15,000</td>
<td>3,150</td>
</tr>
<tr>
<td>Northern Assurance Company Limited</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>Scottish Union &amp; National Insurance Co.</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maritime Insurance Company Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Union Assurance Company Ltd.</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ocean Accident &amp; Guarantee Corp. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Palatine Insurance Company Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union Assurance Society Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eagle Star Insurance Company Limited</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>Atlas Assurance Company Limited</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>Guardian Assurance Company Limited</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>London &amp; Lancashire Insurance Company Ltd.</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law Union &amp; Rock Insurance Co. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Fire Insurance Company Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliance Assurance Company Limited</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>Employers' Liability Assurance Corp. Ltd.</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchants Marine Insurance Co. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Assurance Company</td>
<td>24,000</td>
<td>5,040</td>
</tr>
<tr>
<td>South British Insurance Company Limited</td>
<td>12,000</td>
<td>2,520</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern United Assurance Corp. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caledonian Insurance Company</td>
<td>12,000</td>
<td>2,520</td>
</tr>
<tr>
<td>Union Insurance Society of Canton Limited</td>
<td>12,000</td>
<td>2,520</td>
</tr>
<tr>
<td>together with:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Oak Insurance Company Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Traders' Insurance Co. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Pacific Insurance Company Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The London Assurance</td>
<td>8,000</td>
<td>1,680</td>
</tr>
<tr>
<td>Clive Insurance Company Limited</td>
<td>1,000</td>
<td>840</td>
</tr>
<tr>
<td>North British &amp; Mercantile Insurance Co. Ltd.</td>
<td>12,000</td>
<td>2,520</td>
</tr>
<tr>
<td>National Employers' Mutual General Insurance Association Limited</td>
<td>6,000</td>
<td>1,260</td>
</tr>
<tr>
<td>Pearl Assurance Company Limited</td>
<td>6,000</td>
<td>1,260</td>
</tr>
<tr>
<td>Phoenix Assurance Company Limited</td>
<td>6,000</td>
<td>1,260</td>
</tr>
<tr>
<td>Yorkshire Insurance Company Limited</td>
<td>6,000</td>
<td>1,260</td>
</tr>
</tbody>
</table>
6. **Japanese Investors:**
(divided equally among participating Banks)

Bank of Kobe Limited
Bank of Tokyo Limited
Dai-Ichi Bank Limited
Daiwa Bank Limited
Fuji Bank Limited
Mitsui Bank Limited
Mitsubishi Bank Limited
Nippon Kangyo Bank Limited
Nippon Kogyo Bank Limited
Sanwa Bank Limited
Sumitomo Bank Limited
Tokai Bank Limited

\[ \sqrt{\text{Rs. 2,000,000 (\$420,000)}} \]

7. **German Investors:**

Deutsche Bank, A.G. \[ \sqrt{\text{Rs. 4,000,000 (\$840,000)}} \]

Bayerische Bank.

September 17, 1957
LCLouvet/bm
INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN
Non-Iranian Shareholders Group

<table>
<thead>
<tr>
<th>Country</th>
<th>Company Name</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>Lazard Freres &amp; Co.</td>
<td>18,125</td>
</tr>
<tr>
<td></td>
<td>Chase International Investment Corporation</td>
<td>18,125</td>
</tr>
<tr>
<td></td>
<td>International Basic Economy Corporation (IBEC)</td>
<td>11,250</td>
</tr>
<tr>
<td></td>
<td>The First Boston Corporation</td>
<td>7,500</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- U.S.A.</strong></td>
<td><strong>55,000</strong></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Lazard Brothers &amp; Co., Ltd.</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>Lloyds Bank Limited</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>Midland Bank Limited</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>English Electric Co., Ltd.</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>Simon Carves Limited</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- United Kingdom</strong></td>
<td><strong>18,750</strong></td>
</tr>
<tr>
<td>France</td>
<td>Lazard Freres &amp; Cie</td>
<td>9,375</td>
</tr>
<tr>
<td></td>
<td>Banque de Paris et des Pays Bas</td>
<td>9,375</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- France</strong></td>
<td><strong>18,750</strong></td>
</tr>
<tr>
<td>Belgium</td>
<td>Societe Financiere de Transports et d'Entreprises Industrielles (Sofina)</td>
<td>15,000</td>
</tr>
<tr>
<td>Germany</td>
<td>Sal. Oppenheim Jr. &amp; Cie</td>
<td>9,375</td>
</tr>
<tr>
<td></td>
<td>Deutsche Bank A.G.</td>
<td>9,375</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- Germany</strong></td>
<td><strong>18,750</strong></td>
</tr>
<tr>
<td>Holland</td>
<td>Amsterdamsche Bank N.V.</td>
<td>7,500</td>
</tr>
<tr>
<td></td>
<td>Nederlandsche Handel-Maatschappij, N.V.</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>Hollandsche Bank-Unie N.V.</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- Holland</strong></td>
<td><strong>15,000</strong></td>
</tr>
<tr>
<td>Italy</td>
<td>Banca di Credito Finanziario (Mediobanca)</td>
<td>11,250</td>
</tr>
<tr>
<td></td>
<td>Monetecatini Societa Generale per l'Industria Mineraria e Chimica Anonoma</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td>Fiat S.p. A.</td>
<td>3,750</td>
</tr>
<tr>
<td></td>
<td><strong>Total -- Italy</strong></td>
<td><strong>18,750</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>160,000</strong></td>
</tr>
</tbody>
</table>
Mr. Martin M. Rosen

G. C. Wishart

IFC Work for Development Banks

In the circular from the President regarding the above, it is stated that appropriate arrangements have been made for reimbursement to IFC by the Bank (or IDA) of the cost of services supplied by IFC.

If you agree, I shall ask the Administration Department to get out a circular stating how records are to be kept, with an appropriate supply of forms for IFC staff members to fill in when they do development bank work on behalf of the Bank (or IDA).

GCW/jcg
OFFICE MEMORANDUM

TO: IFC Files
FROM: G.C. Wishart
SUBJECT: Development Bank

DATE: November 24, 1961

1. Mr. Ladd of Bankers' Trust telephoned today; he is off to the U.K. in early December and will be visiting Western Europe during January.

2. Bankers' Trust are actively considering the possibilities for a private development bank in which local private investors would participate, along with Bankers' Trust and Ajax. At the moment, he did not want to give the name of the country but he believed it would be a "natural" for a private development bank. He asked if IFC could be interested, and if so, what would our requirements be? I gave him the following general requirements:

   (a) A substantial part of the equity must be subscribed by local private investors. Mr. Ladd said that at least 51% would be so subscribed. I said we would really prefer 60% upwards.

   (b) The local subscribers should be fairly evenly spread, so that no one investor would have a controlling interest.

   (c) The board must be controlled by the private shareholders.

   (d) Some form of subsidy money would be needed. Mr. Ladd said he was hoping to get this from DLF, but I explained that DLF is not really a suitable source for subsidy money, only for cheaper debt money.

   (e) There would, of course, have to be a need for the development bank.

   (f) The charter and proposed operations of the development bank must be satisfactory to us.

   (g) IFC could be interested in an equity participation, but he should not count on us for too much money. He said he was thinking of around $250,000.

3. The above, of course, is all rather vague, but Ladd will definitely have our interest in mind and may come up with something that could be satisfactory to us.

GCW/rty

cc: Circ. Folder
FROM: The President

December 28, 1961

ALLOCATION OF RESPONSIBILITY FOR DEVELOPMENT BANKS

1. One of the important pioneer efforts of the Bank in promoting economic development in our member countries has been the provision of technical and financial assistance for the creation and expansion of privately-owned and managed industrial development banks. More recently the IFC has commenced making investments in banks of this character. By a combination of Bank loans to and IFC investments in these intermediary institutions, much more can be done to promote the development of small to medium-sized industrial enterprises in the less-developed parts of the world.

2. I consider that if this work is to be carried on economically and efficiently, the responsibility for the analysis and appraisal of projects in this field should be concentrated in one place, within the family of the Bank and its affiliated institutions. I believe that the logical place for this work is the IFC, which is itself carrying on an industrial development banking business on an international scale.

3. Accordingly, I intend that in the future, as part of the current program for achieving closer integration of the IFC with the Bank and IDA, the IFC staff take the lead in the consideration of all industrial development banking problems and provide supporting advice and guidance to the Bank and IDA with respect to their operations in this field.

4. In order to implement this proposal, the following procedures will apply:

a) The IFC staff will be responsible for formulating and promoting the arrangements for the establishment of new industrial development banks.

Distribution:

President
Vice Presidents
Department Heads
b) The IFC staff will continue to process proposals for IFC investments in these institutions, consulting with the Area Departments in the Bank/IDA as appropriate. In addition the IFC staff will provide advice and guidance on the technical, financial and managerial merits of proposed Bank loans or IDA credits to these institutions, and in general, will discharge the same functions in the processing and negotiation of such loans or credits as have hitherto been provided by the Industry Division of T.O.D.

c) In the case of joint Bank/IDA/IFC financing of industrial development banks, special arrangements will be made for a joint presentation of the proposal to a combined meeting of the Executive Directors of the institutions concerned.

d) In making decisions regarding the priority to be accorded to proposals for the establishment of new industrial development banks, and in the processing of Bank/IDA loans to such banks, the normal Working Party and Staff Loan Committee procedures will apply, with IFC instead of T.O.D. representation on the Working Party and with IFC representation at the Staff Loan Committee. In the case of joint operations by the Bank/IDA and the IFC, the same procedure will be followed, modified as may be necessary as decided by Bank/IDA and IFC managements. The IFC staff will also discharge on behalf of the Bank/IDA the present functions of the Industry Division of T.O.D. in processing applications for the approval of sub-projects under Bank/IDA development bank loans and in making end-use inspections of development bank operations.

e) Appropriate arrangements will be made for reimbursement to IFC by the Bank (or IDA) of the cost of services supplied.
IFC and Development Banks

1. You asked for objective views on what staffing IFC needs to cope with its responsibilities in respect of development banks. These responsibilities will include:

   (a) IFC's own investments in development banks and "financieras";

   (b) the over-all technical assistance and promotional functions to be taken over from the Bank.

2. (a) Initial Investments

   We have certain proposals for IFC to make initial investments in development banks: Turkey, India, Nigeria (?), and others. Incidentally, Mr. Black told Mr. Cope on October 26, just after you left the Nigeria meeting, that he would like IFC in the Morocco development bank. For the short term, negotiations of these investments can perhaps best be handled by the same man (myself) who has already some knowledge of these institutions.

   (b) Following up on day-to-day work of development banks

   Once IFC has made its initial investment, or in cases where IFC does not intend to invest but will keep in close contact, I believe the area investment officer is the best person to follow the day-to-day work of the particular development bank. Receiving and going through the papers and appraisals prepared by development banks can give a very good insight into the industrial development of the country concerned. I know that I benefitted very considerably from following the appraisals prepared by ICICI; they gave me at least some idea of the problems facing Indian industry and the type of new ventures being undertaken. I think it would be a mistake if the area investment officers did not utilize these sources of information. Area investment officers might sit on the boards of the respective development banks, and on the joint Bank/IFC working parties.

   The day-to-day work rarely poses peculiar "development bank" problems; where they do, sub-paragraph (c) would apply.

   (c) Over-all problems and technical assistance

   Some over-all problems relating to development banks arise from time to time. These concern matters of capital structure, borrowing powers limits, etc. Normally, they
come up when a new loan has to be negotiated, but someone must keep an over-all watch all the time. The man involved has to be a type of specialist, i.e. someone who has made a study of different development banks, especially the ones in which we are to be involved.

Joined with this work, there will be technical assistance for countries sending in inquiries about development bank proposals. This can be very time-consuming work and a lot of it is devoted to telling countries that they are not really ready to establish a development bank.

(d) Promotional work
It is difficult to assess how much work may be involved under this heading. A lot will depend on how far we are willing to go in assisting a bank which would have a large governmental participation; the opportunities for strictly private development banks are somewhat limited. The man required to do this job must be very familiar with the technical assistance aspects referred to in (c) above. If I may say so, I think he needs some extra qualities: a promotional mission must look further than into the details, and there is a good deal of negotiation involved in bringing different sectors of the community together.

3. Conclusions
The conclusion I reach is that IFC probably requires a development bank staff.

(a) The main work of the staff would be to follow the activities of all development banks, be available to advise area investment officers (and sometimes to give advice unasked), and to carry out technical assistance functions.

(b) Promotional work will probably have to be assigned on an ad hoc basis. The requirements for the different promotional jobs vary. In some cases, an outside consultant or an IFC specialist would be used. At other times, the area investment officer, after briefing, could do the job.

In addition to a special development bank staff, the area investment officers should be brought in closely to the work of the development banks functioning in their areas.
Mr. Martin M. Rosen
G.C. Wishart

IFC and Development Banks.

1. You asked me to consider to what extent IFC should offer to take over the responsibilities for development banks at present exercised by the World Bank. This question is bound up with IFC's own requirements for cooperation with these banks: is it in IFC's interest to develop a close working relationship with existing development banks? (George Woods is of the opinion that we should stop calling these institutions "banks", which gives a wrong impression to the lay mind, and instead we should call them "financing companies". I am inclined to agree with him, but for the purposes of this paper I propose to continue to use the term "development banks" which is well understood within the Bank and IFC.)

2. Cooperation between IFC and Development Banks

IFC has a difficult role in that its area of operations is spread well over the world. The difficulties of appraising the personalities involved, working up satisfactory projects, and following an investment when made, in countries far removed from IFC's headquarters in Washington, D.C., are obvious. These are problems, however, which have faced other investment financing companies which operate outside, as well as inside, their own countries; the IFC special problem is one of degree since IFC cannot choose one or two outside areas to operate in, but must consider business from all (or at least most) of its less developed member countries. There can be various approaches to this problem: regular visits by IFC staff members to member countries; establishment of IFC resident representatives in selected countries; a close link between IFC and an existing financing institution in selected countries. Probably all these methods have to be adopted, but it would appear to me that a close link with an existing development bank can be the most immediately rewarding of the three. Experience has shown that a local businessman, anxious to start up a new enterprise or expand his existing business, is more likely to turn for advice and assistance to an institution established in his own country than he is to apply, by correspondence, to an overseas agency. There are, of course, dangers in a close association with an existing development bank: personalities in the local development bank may change, and its policies and operating procedures may become contrary to IFC requirements; to begin with, the local bank will probably welcome a link-up with the larger foreign-based associate but later on the local associate may begin to resent having to clear projects with its overseas partner and may develop the attitude "why can't they trust us and leave it to us?".

3. In choosing local associates, IFC would start off with an advantage in these countries where development banks, which were sponsored by the World Bank, exist. These development banks were formed on lines approved by the Bank, their directors and key staff were carefully chosen, and they
are already accustomed to the Bank's requirements for the submission of information/new projects. In my view, a prima facie case exists for IFC to try and establish a close association with these development banks. However, these development banks are not all of the same quality. I would assess them as follows:

(a) **Industrial Development Bank of Turkey**

This is a good bank, well organized, which carries out its project appraisals in a methodical manner. Under the chairmanship of Mr. Bulent Yazici, we could rely on IDB's policies being objective and free from undue government interference.

(b) **Industrial Credit and Investment Corporation of India Ltd.**

Again, I would rate this as a good institution, well directed and managed. Its staffing requirements have been built up very satisfactorily over the last few years. A major criticism which has been directed against ICICI has been that its operations have been concentrated in the Bombay area, but Chairman G.L. Mehta is conscious of this and has been taking steps to widen the area of operations, to hire staff from other areas and to hold board meetings throughout the country.

(c) **Pakistan Industrial Credit and Investment Corporation Ltd.**

In many ways, PICIC should have the best possibilities for doing good business. It has a big outstanding demand for industrial investment. At the time of the last Bank loan, however, the appraisal report showed a good deal of concern regarding PICIC's procedures for analyzing new investments. Chairman Mohamed Ali was emphatic that these shortcomings would soon be put right, but a certain amount of doubt still existed in the minds of Bank personnel and the Bank, in effect, insisted that all projects involving the use of Bank funds should still be submitted to Washington for approval.

(d) **Industrial and Mining Development Bank of Iran**

This bank has started off well and, in my opinion, has an excellent expatriate key staff; its operations are carefully watched and controlled by the managing director and his associate. However, under the terms of an agreement between its shareholders, the management of the bank is to be handed over to the Iranian shareholders after five years from its inception - about three-and-a-half years from now. It is not going to be easy for the present management to find and train a good Iranian staff in that time and a question mark must hang over IMDBI as to how it will perform when once the control has passed to the local shareholders.
3.

(e) Development Finance Corporation of Ceylon

The World Bank has not had to extend a credit line to DFCC, and knows less about its operations than those of other development banks. We believe it to be soundly run, but on a rather conservative and small scale basis. There have also been rumors of competition from a proposed government development bank.

(f) Development Bank of Ethiopia.

This is a government development bank which has suffered from bad management until about eighteen months ago when Mr. Kuiper took over. Mr. Kuiper has now resigned and the future of this bank must remain uncertain for some time until the strength of his successor has been proved.

4. In addition to the above, there are certain new banks under contemplation, and IFC has already expressed a willingness to consider making equity investments in them, if and when established. The proposed development bank for the Philippines looks promising, and there is hope of a new Chilean private development bank although progress towards getting it established has been slow. The reorganization of the Banco Industrial del Peru into a bank controlled by a private majority on the board may be accomplished soon. A small private development bank in Thailand is operating but, so far, has made little progress. There are government controlled development banks in Morocco and Tunisia, and new government banks planned for the Sudan and Liberia; there have been ideas for setting up government development banks in various French West African territories. In addition to the above, there are such institutions as GDFC, the Colonial Development Corporation, the French Caisse Central, of which IFC already knows.

5. My conclusion from the above is that IFC should actively pursue negotiations to become closely associated with the better of these development banks. In the first instance, IDB of Turkey, ICICI and the proposed Philippines' bank would be suitable vehicles for an IFC investment. The expectation would be that a close tie-up with these banks would provide IFC with financing opportunities by means of joint ventures; in addition, these banks would provide "eyes and ears" for IFC in the countries concerned. The mutuality of interest, which an IFC equity investment in a development bank would create, would entitle IFC: (a) to call on the development bank for local help in appraising new projects in that area; (b) to refer smaller projects to the development bank, in the first instance, as the more suitable financing agent; (c) to obtain office and secretarial facilities for visiting IFC officers. An equity investment is not essential to get these benefits, but I suggest that it would certainly be a help and would convince these development banks, if this is necessary, of IFC's genuine desire to work along with them in promoting industrial development. Investment by IFC must be followed up by regular and frequent visits by IFC staff to the development banks concerned; for these banks to act as "branch offices of IFC", a very close relationship is essential.
6. Promotion of new development banks

IFC is already taking a hand in the negotiations for the promotion of a Philippines' private development bank, and has also joined as a full partner in discussions regarding a possible new development bank in Nigeria. IFC's interest has also been mentioned to the Chilean sponsors of a new bank there, and IFC would hope to keep in touch with the action being taken to get that bank set up. Should IFC take over from the World Bank its responsibilities for the promotion of new banks?

7. The World Bank has stressed, in various Annual Reports, etc., its desire and availability to assist in the setting up of new private development banks in countries which do not already have one of these institutions. In working towards this objective, however, the Bank has experienced a number of difficulties. In various countries where new development banks are required, there is a shortage of private risk capital, and it is almost impossible to find the private equity element which is necessary. The quasi-equity device (counterpart funds, etc.) which was used for ICICI, PICIC, etc., is also more difficult to obtain now that U.S. counterpart funds are not so plentiful and the U.S. aid legislation is more restrictive. In addition, both the U.S. Government Agencies (the former ICA, DLF, etc.) and the Inter-American Development Bank have been prepared to finance government-owned development banks (of Sudan, Liberia, Haiti, the Central American Bank, etc.). There must still be opportunities for the formation of private banks but, to some extent, the cream has been skimmed off; for IFC to take over the responsibility for the promotion of new private banks, at this stage, might lead to our holding out expectations which we could not fulfill.

8. In addition, one of the incentives to persuade local private investors (and local governments) to sponsor a new private development bank is the promise of substantial credit lines from the World Bank. Perhaps later on IFC can supply these credit lines; it can hardly do so now. For this reason, I would conclude that the World Bank must continue to play a leading role in the negotiations leading up to the formation of a new development bank, but that this promotional role be shared between the Bank and IFC, much on the lines of the present negotiations for a new bank in the Philippines. Wherever IFC sees an opportunity to set up a new bank, it would immediately discuss the project with the World Bank, and vice versa, and a joint working party would be formed. I believe that a joint Bank/IFC approach will strengthen our case in arguing for the creation of a new bank.

9. Supervision of Use of Bank Credit Lines

When extending credit lines to development banks, the World Bank's practice is to require that the use of these funds is restricted to projects which have been submitted to the Bank for prior clearance. As the development bank becomes more experienced and obtains the confidence of the Bank, the Bank then relaxes this restriction and allows the development bank to commit portions of the Bank credit line(s) without prior Bank approval. At the moment, the position is as follows:
(a) For the third credit line to ICICI, ICICI is now allowed to commit up to $500,000 for any one project, with an aggregate ceiling of $4 million (out of $20 million).

(b) In effect, PICIC has no power to commit without prior Bank approval, but PICIC has been promised relaxation of this rule as the quality of PICIC appraisals improves.

(c) IMDBI has to submit all projects for the use of Bank funds to the Bank. This is reasonable as IMDBI is still working on its first Bank credit line.

I believe that the control over the use of Bank credit lines has been in the interests of the development banks; the exchange of information necessary has had a good educative value for the development banks, has helped to point out to them the weak spots in their staff appraisals, etc. The Bank's objective, as stated to the development banks, is to relax control as soon as possible and as quickly as the development banks prove that they can make proper appraisals.

10. I understand that the amount of work involved at the moment is the review of about five to seven projects a month (all told). I remember that, just after the third credit line went through to ICICI, a backlog of projects came through from that source - probably about six or seven a week. In addition to this work of approving specific projects, the TOD Industry Division of the Bank carries out end-use inspections and appraisals of the development bank before new credit lines are granted. The manpower involved is probably two or three staff members full time plus supervision up the line; in addition, working parties which are held by the area with legal, Treasurer's representatives, etc., follow the development bank's progress and the specific projects.

11. It would seem to me that, as long as it is the World Bank's credit lines which are involved, IFC should not be in a hurry to take over this responsibility from the World Bank; it is always more difficult to "manage" other people's money than to decide when to use one's own. By taking over this responsibility, IFC could be open to a good deal of worry and criticism from two sides: from the development banks involved when IFC queries and is not prepared to approve individual projects; from the Bank when any of the investments made with IFC approval go wrong. It would, however, be very useful for IFC to have a representative on each of the World Bank working parties for development banks: through such a representative, IFC would broaden its insight into what these development banks are doing, and could contribute knowledge as to related projects (e.g. at the moment we have a bicycle project in the Pfaff deal and PICIC recently got Bank approval for a bicycle project for Batala). With more experience, IFC could take more of a lead in these matters and might, perhaps, chair the joint working parties.

GCW/rty
Messrs. Cargill, Cope, Racinski and Schmidt

November 3, 1961

Richard H. Desautel

Development Bank Working Parties

As you know, the Development Services Department, established by Administrative Circular dated October 25, 1961, did not absorb the development bank responsibilities of the Technical Assistance and Planning Staff. I should appreciate it, therefore, if you would inform the members of your staff that this Department will not be represented on development bank working parties as a matter of routine and that it will not be necessary to send us copies of correspondence or other papers for clearance or information.

We would, of course, be glad to be of assistance in any case where, because of our past activities in this field, it is thought that our views might be helpful.
IFC/BANK ORGANIZATION FOR DEVELOPMENT BANKS

(assuming Industry Division remains in the Technical Operations Department)

(1) Development bank activities can be divided into four phases:
   (a) promotional and advisory;
   (b) Bank/IDA loans; and
   (c) IFC equity investments; and
   (d) follow-up and approval of re-lending.

(2) All four phases of the work will be handled on a joint IFC/Bank basis.

(3) The IFC will set up a division for development banks in its organization. This division will have a small staff concerned primarily with promotional and advisory work. IFC will take the leadership for promotional and advisory work. IFC staff will work with staff from the appropriate Bank Area Department in the organizing and financial planning of development banks. Both Bank and IFC missions to member countries will be instructed to look for and follow up appropriate opportunities either to establish development banks or work with existing development banks.

(4) Joint working parties will be established to appraise Bank/IDA loans to, or IFC equity investments in development banks. A mission to appraise a new Bank/IDA loan or an IFC investment will be a joint IFC/Bank mission.

(5) The actual negotiation of a Bank/IDA loan or an IFC equity investment will be handled by Bank/IDA or IFC respectively, in accordance with the existing procedures of the respective institutions. The negotiation of a
combined Bank/IDA loan and IFC investment will be handled by a joint negotiating group designed ad hoc and reporting to the managements of the institutions.

(6) Normally approvals for the re-lending by development banks of Bank/IDA loans will be the responsibility of the Industry Division of the Technical Operations Department. A working party will be set up only when there are unusual policy questions or difficult operational matters involved. When these working parties are established they will be joint IFC/Bank. Where there is both an IFC investment and a Bank/IDA loan, normally the Industry Division of the Technical Operations Department will have the responsibility for follow up, except in unusual or difficult cases when a joint Bank/IFC working party or mission may be established.

(7) In cases of joint operations there will be only one technical report to be prepared jointly by the Industry Division of the Bank's Technical Operations Department and the IFC staff.

(8) In cases of joint operations there will be only one report to the Boards of Directors which will consider it at a joint meeting of the Boards.
Development Banks

(1) Mr. Rosen's present thinking seems to be to organize IFC in accordance with the attached chart. Should the personnel from the Industry Division, Technical Operations Department, be transferred to IFC, he would plan to integrate them into the three area departments.

(2) The Development Banks Division would have a small staff primarily concerned with promotional and advisory work.

(3) Appraisal of Bank/IDA loans to, or IFC equity investment in development banks would become a joint responsibility of the IFC area departments with appropriate Bank area departments.

(4) Working parties and missions would be staffed by personnel from the area departments of IFC and the Bank.

(5) Normally approvals for the re-lending of development banks of Bank/IDA loans would be the responsibility of the area departments of IFC. A working party would be set up only when there were unusual policy questions or difficult operational matters involved. These working parties would be joint IFC/Bank with the people coming from the appropriate area departments.

(6) In case of joint operations there would be only one technical report prepared jointly by the appropriate area departments of the two organizations. Likewise, there would be only one report to the Board of Directors.
(7) Technical services for Bank industrial lending would have to come from the engineering and financial personnel in the three IFC area departments. Unless the Management of IFC uses its people in a flexible manner, this could create some problems of having the properly qualified person available for technical work on a Bank industrial project in a particular area of the world. The other alternative, of course, would be to staff up each of the three IFC area departments to meet any Bank industrial appraisal requirement, but this obviously could be wasteful of personnel.
Another approach to the handling of development bank matters could be as follows:

(1) The Development Bank Division of the IFC organization would become the overall Bank/IFC unit not only for promotion and advice but for appraisal of development banking projects, approval of re-lending, and follow-up.

(2) This would require, in addition to one or two high level people for promotional and advisory activity, a sufficient number of technically qualified people.

(3) This could mean the transfer of a limited number of people from the Industry Division of the Technical Operations Department rather than moving all of it to the IFC.

(4) This pattern of organization would have the advantage of creating one development bank unit for both organizations. It would also mean that this unit would then work only with the appropriate area departments in IFC or the Bank.
November 21, 1961

Dear Sune,

Thank you very much for your letter of November 10 with which you were good enough to let us have your comments on some of our country notes on the cost of capital that I gave you when we met in Southampton last August.

As I told you then, these notes which form part of a broader attempt to arrive at a "yardstick rate of return" were largely experimental in nature and therefore should in no way be considered as final products.

The points you raise are well taken, and we fully realize ourselves how difficult it is to ascertain the opportunity cost of capital, especially in underdeveloped countries. In the meantime, our work in this field has continued and a good deal of progress has been made in clarifying the concepts and theoretical points involved.

Yours sincerely,

John C. de Wilde
Acting Director, Economic Staff

Professor Sune Carlson
The Institute of Business Economics
and Business Finance

University of Uppsala
Övre Slottsgatan 4
Uppsala, Sweden
October 31, 1961

Mr. Monroe Burk
1930 Columbia Road, N.W.
Washington, D. C.

Dear Mr. Burk:

Your letter of October 11, addressed to Mr. Black, has been referred to me for reply.

As you know, the Bank is anxious to encourage untied aid and the procurement of goods and services on the basis of international competitive bidding. The proceeds of Bank loans and IDA credits can be used in any member country of the Bank or IDA, or in any country where we have been able to borrow funds for our operations. We insist that procurement be from the source of supply that is cheapest, consistent with quality.

We are very much interested in any proposals that would enable the developing countries to make the most economic use of assistance that is being made available to them from various sources. I must confess, however, that your proposals to reconcile tied aid with competitive international bidding, with respect to both commodity and project assistance, are not entirely clear to me. Perhaps if you would elaborate your proposals in greater detail we would be able to arrive at some judgment of their feasibility.

Sincerely yours,

John C. de Wilde
Acting Director, Economic Staff

CC: Mr. George Young
# Record Removal Notice

**File Title**
Operational - Development Banks - General - Volume 4

**Document Date**
10/11/1961

**Document Type**
Letter

**Correspondents / Participants**
Monroe Burke to Eugene Black

**Subject / Title**
Proposal on improving efficiency of economic development activities

**Exception(s)**
Information Provided by Member Countries or Third Parties in Confidence

**Additional Comments**

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

**Withdrawn by**
A. Miller

**Date**
8/30/2011
October 3, 1961

Mr. H. Erich Bachem
Kreditanstalt fur Wiederaufbau
Lindenstrasse 27
Frankfurt/Main
Germany

Dear Erich:

I have your letter of September 26 and was pleased to hear from you. Your letter indicates that you are already deeply involved in your new assignment. We all hope that you find it most interesting.

I am enclosing the last report on the ICICI. This report should be limited to your own use. I believe it will give you the information that you need about this particular development bank. However, Don Jeffries had an extra copy of the 1960 Annual Report of the ICICI and accordingly I am enclosing it for your use.

Shirley Boskey used to prepare a "blue book", which was a compilation of data on development banks. She has not done this for more than two years and she tells me that the last version is pretty well out of date. In any event, we do not have a copy of this blue book or I would send you one. I assume, however, that you have a copy of both Bill Diamond's and Shirley Boskey's books on development banks. The appendix to Shirley's book has a list of banks showing which ones are government and which ones are privately owned. If you do not have copies of these two books, I will send them to you if you will let me know.

You also ask whether there is any information available on other development banks in India. There is the Industrial Finance Corporation of India, the Refinance Corporation for Industry, the National Industrial Development Corporation, the National Small Industries Corporation, and State Financial Corporations in each Indian State. We know that they exist but we have no material on them.
If there is any further information we can give, let us know. Again we were pleased to have a letter from you at such an early date in your new undertaking. You continue to have our best regards and wishes for a successful new venture.

Sincerely yours,

Kenneth R. Iverson
Assistant Director
Technical Assistance and Planning Staff

Encls.
KRI:mo
cc: Central files with incoming letter
Dear Ken:

Thank you very much for your kind letter of Oct 3rd with the annual report of ICICI.

It is really a pity that this most commendable practice of up-dating the blue book on development banks seems to be discontinued. I should think that there are more institutions around the world apart from the KfW for which such a compilation of data is extremely helpful. On the other hand I know how much work it is.

In the meantime I met James Raj here and I got some additional information on the other development banks in India.

Don't forget to drop by on your next trip.

Sincerely yours,

H. E. Bachem

HEB/ek
Mr. G. L. Mehta, Chairman of the ICICI in India, was brought to the office by Bill Diamond on September 21. Mr. Mehta wants to have the Bank’s reaction to a tentative plan for ICICI to invite representatives of other privately controlled development banks to come to Bombay, India, sometime between December and February for the purpose of exchanging views and experience on the problems of development banks. Mr. Mehta has not worked up an agenda nor does he have any specific problems in mind to put on the agenda but he does feel that a general exchange of views by the persons operating development banks would be useful.

Mr. Mehta suggests that banks from Turkey, Iran, Pakistan, Ethiopia and countries to the East be invited to such a meeting.

Mr. Mehta asked two questions, (1) what would be the Bank’s reaction to this idea, and (2) would the Bank be willing to send an observer to participate in the meeting.

He raised the same questions with Sandy Stevenson and it is my understanding that Sandy indicated a favorable attitude.

Mr. Mehta would like to have a letter from you expressing your reaction to the two questions noted above.
Mr. Ken Iverson  
c/o International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington 25, D.C.

Dear Ken,

I am sure by now you will have had full reports about our annual meeting in Vienna. For me it was very pleasant, although I hate the present mixture of IBRD and Kreditanstalt business.

May I start already before I have formally joined the Kreditanstalt with bothering you with requests for information and material about development banks. As you know, the Kreditanstalt has financed and will continue to finance at a large scale several development banks. They are also interested in learning more about government-owned development banks which possibly could serve as channeling banks, or in some other way be of help in loan operations. I know the bank revises periodically a so-called blue book which lists a large number of development banks and gives some basic information. I guess this is no confidential information, and I would appreciate if you could have me sent two copies of the latest issue. In case there is any mailing list for subsequent revised copies, would you please include me with the above address.

On October 2nd I have a meeting with James Raj in the Kreditanstalt to discuss loan operations for private projects in India together with ICICI. Unfortunately I know very little about ICICI, and if you feel free to send me our latest appraisal report or some edited version which is not a strictly internal paper I would be very grateful.

As far as I know there are two other development banks in India which engage in financing private projects. Is there any information available on them which you could pass on to me?

I certainly do expect that you will stop over in Frankfurt whenever you are going to or through Europe and look me up in the Kreditanstalt.

Please give my best to my friends in 1818 H Street.

Yours ever,
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**REMARKS**

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<td>Mr. Folk</td>
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<td>Mr. Wheelock</td>
<td>511</td>
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</tbody>
</table>

Remarks: From: Communications Unit (Ext. 2023)
Dear Mr. Cope,

I have to acknowledge and thank you for the copy of "Problems and Practices of Development Banks", kindly forwarded as promised. I have read the material with interest and am sure that it will prove very useful to this organization.

I remember with pleasure your courteous and patient hearing afforded me during my recent visit to Washington, and trust that whenever you are next in the West Indies I will have the pleasure of seeing you and improving this acquaintanceship.

Best personal regards,

Yours very truly,

(B. A. Watkis)
General Manager

Mr. Raymond Cope,
International Bank for Reconstruction & Development,
1818 H Street,
Washington 25, D.C.

September 26, 1961.
September 26, 1961

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Best personal regards,

Your very truly,

(A. W. Nichol)
General Manager

Mr. Raymond Cope
International Bank for Reconstruction & Development
1918 H Street
Washington, D. C.
INTERNATIONAL FINANCE CORPORATION

To: IFC Professional Staff
From: J. G. Beevor

PRIVATE DEVELOPMENT BANKS AND LOCAL INVESTMENT INSTITUTIONS

There is attached a memorandum on "Principles for IFC Investments" as a general guide when considering possible IFC investments in private development banks and local investment institutions.

cc Mr. Demuth (IBRD)  
Mr. Wishart  
Mr. Lee  
Mr. Darton  
Mr. Bennubi  
Mr. Bengston  
Mr. Quandt  

June 19, 1961
PRIVATE DEVELOPMENT BANKS AND LOCAL INVESTMENT INSTITUTIONS

Principles for IFC Investments

1. Objectives of IFC

(a) To strengthen and assist private local institutions which are:

(i) financing development or private enterprise, primarily in industry, and

(ii) helping in or working towards the spread of private investments and the growth of capital markets.

(b) To assist indirectly in financing enterprises too small for direct IFC investment.

(c) To establish close relations with such local institutions, who may bring good business to IFC in the form of direct IFC investment in larger projects, in which they are themselves participating.

(d) To provide financial assistance for such local institutions in a form which will not be a burden on their revenue in the early years and will thus assist them (i) to afford to build up an adequate management and staff, and (ii) to make their own investments in local enterprises at long-term and, where appropriate, in the form of equity; and to give them such other assistance, technical or otherwise, as may be practicable.

(e) To make mainly equity or equity-type investments which, though probably yielding small returns in the early years, will offer good prospects of capital appreciation over a period and should be marketable by stages at a reasonable profit when a market for the shares develops.

(f) To make these investments, to the maximum extent practicable, in simple and traditional forms, which will avoid complicated negotiations and will be attractive to the local institutions of good standing and repute.

(g) To obtain the best practicable protection for IFC's position as a minority investor.

2. Types of Institutions

(a) There are for this purpose two main classes of private development bank or investment institution.

Class A: Those which, though privately owned or controlled, have been established with government sponsorship and official approval to meet special needs in the country as a whole, and
with a set-up and management based on recommendations from the IBRD, usually coupled with a line of credit in foreign exchange (For example, in Turkey, India, Pakistan and Iran.)

Class B: Other private institutions, which lack these special features but are contributing to the public interest by financing a wide range of enterprises or by participating in the wider spread of private investment.

(b) Class A Institutions

Class A institutions will usually have the following characteristics:

(1) Their policies, management and organization have been established with IBRD approval and in some degree can be reviewed and strengthened by IBRD as a result of its continuing interest;

(2) Their policies specifically stress industrial development and long-term investment;

(3) Their own projects and investments are subject to some measure of IBRD approval and end-use supervision;

(4) The expectation of future lines of credit strongly influences them to conform to advice and recommendations from IBRD;

(5) Their capital resources are substantial and are likely to grow with the aid of further lines of credit from IBRD, DLF and other sources, including long-term government loans in local currency. This background is likely to give their shares a special status and to facilitate the raising of some new equity capital, if their operations are reasonably profitable;

(6) From these credit lines, they have sources, probably continuing sources, of foreign exchange for long-term relending, and thus they have a specially preferred position in their own country;

(7) Due to these foreign exchange credit lines, they are not likely to need IFC funds in the form of conventional loans;

(8) They will, however, need increasing amounts of equity capital as a base for these credit lines;

(9) Because of their official role, even though privately managed, their profitability or their dividends will often tend to be limited to a level which may be relatively modest. On the other hand, with their special advantages and resources, their shares should produce a reasonably safe return.

1/ IDB Turkey $28 million, plus LT 152 million; ICICI India $40 million, plus Rs. 182 million; PICIC $35 million (currently being increased) plus Rs. 32 million; IMDBI Iran $10 million, plus Rials 2,000 million.
(c) Class B Institutions

These institutions will lack the special features and special advantages of Class A, but will be less inhibited and, if efficiently managed, may be more profitable. Factors which may be relevant include the following:

1. While desiring to move into long-term industrial investment, they may lack the necessary financial resources and the organization and experience; and thus, may initially be engaged largely in short-term lending. Hence, IFC may have to ask them to modify their policies and help them financially and technically to undertake genuine long-term investment.

2. Their organization and operating methods will need review and scrutiny by IFC as a potential investor with a view to strengthening.

3. They will often be lacking in foreign exchange resources, and (in the absence of a government guarantee as a basis for an IBRD loan) they may welcome IFC investments either in loans or in equity.

4. They will often be unable to pay for an adequate management and staff, if any IFC loans carry a substantial fixed interest.

5. They will usually need and welcome assistance from IFC in technical and accountancy matters and investment procedures.

3. Guiding Principles for IFC in all Cases

(a) In investigating the merits, we must evaluate the management, policies, and past record and future prospects of the institution, taking into account the pace and direction of economic development in the country.

(b) We should raise specific questions with the institution about (i) current policies on types of enterprise and forms and amounts of investment and any policy changes being contemplated; (ii) status and prospects of its larger investments; (iii) any defaults or pending defaults; (iv) adequacy of existing reserves and policy for building up reserves; (v) dividend record and policies; (vi) accountancy procedures; (vii) follow-up methods.

(c) We should need a special review of the institution’s audited accounts for recent years by independent accountants retained by IFC; and, as always, IFC would want the institutions to continue to have its own accounts audited by independent public accountants acceptable to IFC.

(d) IFC investments should generally be in equity, when the Charter is amended, and meanwhile in a Convertible Income Note which may be expressed in local currency and should yield returns equal to dividends on the shares;
(e) IFC should secure written understandings with the principal stockholders for consultation on (i) policy changes (ii) major capital proposals (iii) sales by them or by IFC of shareholdings in the institution.

4. Special Guiding Principles for IFC on Class B Institutions

(a) In investigating the merits IFC must appraise the capacity of the management and staff and the operating procedures of Class B institutions in greater detail than those in Class A institutions, with which the IBRD has been in close touch since they commenced operations. Hence, IFC representatives will usually spend more time in studying the organization and personnel.

(b) IFC should consider equity investments when its Charter is amended, and meanwhile, Convertible Income Notes, which may often be expressed in local currency and should yield returns equal to dividends on the shares, unless there is some compelling reason for linking the returns on the Notes to earnings. If the conversion rights on the Notes would represent too big a proportion of the total equity capital, the Notes or some part of them could be made convertible into Participating Preferred Shares, which may be attractive in due course for sale to local investors. In addition, an IFC investment may be partly in a conventional dollar loan, if the institution needs long-term foreign exchange financing in a non-equity form and cannot obtain it from other sources.
PRIVATE DEVELOPMENT BANKS AND LOCAL INVESTMENT INSTITUTIONS

Policy Questions to be Incorporated in Board Resolution of the Institution or in some other Document

The Corporation declares its intention to maintain or adopt the following policies and is negotiating an investment from IFC on the basis that the following policies will be implemented by it with such modifications as may from time to time be mutually agreed.

1. To continue to make its investments principally in industrial enterprises which are of value to the economic development of the country.

2. To use its funds to a progressively larger extent in longer-term investments, with a reduced proportion of its funds employed in short-term loans and similar credit facilities, and to apply to longer term investments all funds provided to the Corporation by IFC.

3. To diversify its financing (except for intermediate investment of its liquid funds in short-term securities) as among types of enterprises, and not to commit more than 10% of the total of (a) its share capital and free reserves and (b) the IFC Convertible Income Notes to any single enterprise.

4. To adopt a pattern of making investments or parts of investments in the form of share capital or in other forms of venture capital, which will confer on the Corporation some rights to share in the profits of an enterprise.

5. To consult IFC regarding any proposed investment to be made under paragraph 4, if the proposed amount exceeds the equivalent of US $50,000, and to provide IFC with reasonable information to appraise the merits of the proposed investment.

6. Generally to conduct its operations so as to assist in the growth of capital markets in the country, and to improve facilities for marketing of shares and securities and to revolve its own portfolio to a reasonable extent for this purpose.

7. To increase its own capital resources from time to time in consultation with IFC and having in mind the desirability of offering shares or bonds of the Corporation to the public for subscription, and thereby to widen the interest of private investors in the Corporation.

8. To observe reasonable and prudent limits for the exercise of its borrowing powers, not exceeding (3) times its share capital and free reserves.

9. To follow a prudent dividend policy calculated to maintain distributions at a reasonable level and to make the shares attractive to private investors, but not to distribute dividends more than 50% of net
profits in each year and to allocate out of surplus to reserves sums calculated to build up an investment reserve to a level not less than 15% of the book value of its investments.

10. To refrain from taking a controlling interest in any enterprise or any other interest which would give it primary responsibility for the management of such enterprise.

11. To put constant emphasis on securing or strengthening the management, technical, commercial and financial, for each enterprise by providing the advice and assistance of the staff of the Corporation, or any consultants or experts which it can secure for the purpose, including any assistance which can be provided by or through the International Finance Corporation.

12. To build up and strengthen the management and staff of the Corporation so as to achieve a well-balanced organization, including financial and economic analysis, technical, accountancy and legal services, and supervision of previously concluded investments.

13. To retain independent public accountants acceptable to IFC, to audit the books and accounts of the Corporation.

14. To prepare for the Board of Directors of the Corporation monthly progress reports on (a) investigation of new projects (b) progress of concluded investments, and (c) general matters and to send IFC copies of such reports.

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MEMORANDUM OF UNDERSTANDING

If a policy resolution on the forthcoming lines is adopted, a Memorandum of Understanding should be signed by IFC and the most important stockholders, agreeing among themselves -

(a) to co-operate in carrying out and giving effect to these policies;

(b) to consult together fully as regards any modifications or the adoptions of any new policies;

(c) to consult together regarding any proposed sales of shares or securities and to take into account, when effecting any sales, the future interests of the Corporation as well as the private interest of the seller.

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NOTE: Either in this Memorandum or by some other means, it may be advisable to arrange for the appointment of a mutually agreed local representative of IFC who would be privileged to attend Board Meetings of the Corporation.
### List of Development Banking or Related Institutions in the Lesser Developed Countries Which Have Received Financial Assistance from the U.S. Government or International Agencies

**Sources of Capital**

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of Bank or Fund</th>
<th>Approximate Available Resources ($'000 equivalent)</th>
<th>Country Private Funds</th>
<th>Country Government Funds</th>
<th>Foreign Private Funds</th>
<th>Foreign Public Funds</th>
<th>International Agencies (IDB + IFC)</th>
<th>U.S. Private Funds</th>
<th>Development Loan Fund</th>
<th>MSP Dollar Funds (IDB)</th>
<th>MSP Counterpart</th>
<th>MSP 480 Sales Proceeds</th>
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<td>x</td>
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<td>Libya Agricultural Bank of Libya</td>
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<td>x</td>
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<td>x</td>
<td>x</td>
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<td>Country</td>
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<td><strong>LATIN AMERICA</strong></td>
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(a) Excluding counterpart
(b) Excluding United States
(c) UNKRA
(d) Programmed from all sources by end of FY 1962

ICA/DLF
6-22-61
June 14, 1961

Mr. Benjamin R. Hopenhayn  
Executive Vice President  
Consortio para Promociones Industriales, C.A.  
Caracas, Venezuela

Dear Mr. Hopenhayn:

Thank you very much for your letter of June 9 returning the copy of the book I lent you. It was good of you to take the trouble to do this, and I am sorry you had the bother of mailing it back from Caracas.

I was glad to meet you when you called at the Bank the other day, and only sorry that I had to leave early to attend another meeting. We shall be interested to hear of the progress you make in regard to your project.

With kind regards,

Yours sincerely,

G. C. Wishart

cc: with copy of incoming letter to  
Mr. Sydney Wheelock

GCWishart:ml
Mr. George Wishart  
International Bank for Reconstruction and Development  
Washington, D.C.  
U.S.A.

Dear Mr. Wishart:

A few weeks ago, when I had the pleasure of visiting you at the World Bank, you kindly let me borrow for a couple of days the Spanish version of Mrs. Boskey's book on Development Banks. I promised to send it back to you from Washington, before returning to Venezuela. In effect, I left the book at the Embassy asking them to forward it to you. Unfortunately, a misunderstanding interfered and right now the mail brings me the book here in Caracas. I apologize for the delay and I am sending it to you herewith with my thanks and apologies.

We are working here among the banking community to see if some sort of industrial development banking institution can be established to extend short, medium and long term to industry and channel through private business part of the external capital available for this type of undertaking.

Yours sincerely,

Benjamín R. Hopenhayn  
Executive-Vice-President
June 1, 1961

Professor Raymond F. Mikesell,
Department of Economics,
College of Liberal Arts,
University of Oregon,
Eugene,
Oregon.

Dear Professor Mikesell:

I am at last replying to your letter of May 16, with which was enclosed a proposed questionnaire on development banks prepared by your research assistant, together with a list of banks to which the questionnaire is to be sent.

As you requested, I have supplied addresses where these were missing in the list to the extent that I could readily do so and have added the names of principal executive officers where I had them. I do not vouch for their currency, most particularly in the case of institutions with which the Bank is not associated.

I would suggest the addition of three banks to your list: Industrial and Mining Development Bank of Iran, 20th Boulevard Karaj, Tehran (Willem van Ravesteijn, General Manager); Industrial Development Bank of Israel, 22 Rothschild Boulevard, Tel Aviv; Industrial Development Finance, Ltd, Malaya Borneo Building Society, Ampang Street, Kuala Lumpur, Malaya (Dermot O'Regan, General Manager).

As for the questionnaire itself, I have noted some specific comments in the margins, as you suggested. One general comment I have relates to the advisability of a "yes" and "no" formulation.
A series of leading questions around which an answer can be built is likely, I should think, to produce a much more informative result. The questionnaire does make provision for a narrative reply in many instances by including an "other" category, but I think it quite probable that a number of recipients will take the easy alternative of checking "yes" or "no" rather than giving you a full story.

The questionnaire does not cover a number of aspects of development bank activity, for example the possible extent of entrepreneurial efforts (investigation of new fields of investment, search for private investors to go into these fields, or establishment of enterprises if the latter endeavour is unsuccessful) and support of a capital market (e.g., through underwriting, portfolio sales). Other topics not dealt with are internal organisation, the respective roles of the directors and the chief executive (general manager), nature of information sought from applicants, and considerations determining the form of investment in any given case. Much more could be done with terms of investment: interest policy, for example. It is difficult for me to comment helpfully because I do not know what scope is envisaged for the end product. My general impression is that there is some imbalance in the queries, that considerable detail is sought in some areas and that others are only touched on. If the questions were to be grouped under general headings (e.g. financial resources; nature of activities; investment policies and criteria; investment terms; procedures; organisation) I think that impression would be reinforced. It may well be, of course, that there is a general focus or thesis which I have missed.

Notwithstanding the rather critical character of this letter, I hope the marginal comments will prove useful.

Sincerely yours,

Shirley Boskey
Technical Assistance and Planning Staff

P.S. I omitted to list the
China Development Corporation, Taiwan
(F.H. Ho, President)
Dear Jack,

Further to your letter of 24th April regarding policy resolutions, we have now searched our files and I find that at the first Board Meeting of ICICI, held on 20th January 1955, a resolution was passed exactly on the lines of the resolution you quoted, except that the last word in line 1 of paragraph 1 - "take" was altered to "seek".

Best wishes,

Yours sincerely,

A.S.G. Hoar
28th April 1961

Mr. J.G. Beevor,
International Finance Corporation,
1818 H Street, N.W.,
Washington 25, D.C.

Dear Jack,

Thank you for your letter of 24th April. We will go into the question of the ICICI policy resolution to which you refer and I will let you know what we find as soon as possible.

I am glad to hear that the votes are coming in from the Governors in favour of the IFC Charter amendment. I suppose the crucial one from the U.S. is still to come.

Yours sincerely,

A.S.G. Hoar
OFFICE MEMORANDUM

TO: Mr N. J. Paterson

FROM: A. H. C. Lewis

DATE: April 19, 1961

SUBJECT: Detailed Review of the Lamson-Scribner memo on Development Banks (draft)

A. GENERAL:

1. The report would be greatly improved by the addition of an annex listing those Development Banks with which the World Bank and IFC has done or contemplates doing business, together with special peculiarities, ownership, capitalization and other pertinent details.

B. PROBLEMS RAISED FOR IFC:

2. If investors in Development Banks are looking for a return of only 4% after taxes, it seems clear that the Development Banks must be under-cutting private capital. How then should we assist them without indirectly doing the same thing, in contravention of our charter?

3. It would seem desirable to evolve a standard policy for investment in Development Banks.

4. Development Banks probably lack suitable experience to establish their own ground rules. One substantial service that IFC could consider rendering is that of suggesting guiding policies for the Banks. It seems that we could usefully make a study of the whole area of theory and practice and as a result evolve some sort of standard operating manual as well as considering the proper balance between loans and investments, appropriate security requirements and interest rates.

5. If we are to go into this seriously, consideration might be given to setting up an investment group specializing in the field. It seems reasonable to suppose that there is more in common between a Development Bank in the Mali Republic and one in El Salvador than there is between an investment in a Development Bank and one in an actual industry in the same country.

C. DETAILED CRITICISMS:

6. In section 2, debt is defined to exclude principal payments falling due within 12 months. Is this not accounting pedantry? Analysis would be both simplified and made more useful by treating debt of a long term description uniformly (and distinguishing of course from any short term borrowings).

7. In the same section it is unclear what is meant by "without reducing its level of investments" (the last clause in the section). If this means reducing its rate of investment then it should say so. If it means what it appears to mean, then the implication is that its level of investments could be reduced only by selling its shareholdings, if any. What happens to Development Banks whose investments are confined to term loans which upon their terms cannot be called ahead of maturity (it happens that this is the case with IDB in Canada)?
8. In section 4 there is a theoretical discussion about "spreads". This would be pointed up by examples of the practices now in force or proposed.

9. In section 7 the assumption is made "that the minimum acceptable return is 4% after taxes". Is this realistic? How could Development Banks hope to raise equity capital on such a basis? If government and quasi-government agencies are prepared to put up money on these terms, perhaps they ought to buy preferred stock, thus creating leverage as an attraction for outside investors in the Bank.

10. In section 8 it would be helpful to know whether rigid interest rates are the norm, and whether these are fixed by management or by external agencies (central bank or government).

11. Some sort of consideration of the desirability of differentiating between local currency and foreign exchange on the lending side would add to the value of the discussion. Do we favor the idea of local currency loans being cheaper than foreign exchange loans?
You asked me to think about the effects of our Articles of Agreement on investments in the Development Corporations. I submit the following observations:

A. In Article III, Section 1, we are required to confine our investments to "productive private enterprises". While there might be some question as to whether a Development Bank was a productive enterprise, the explanatory memorandum adequately covers this "the Corporation may also invest in ........ in financial ................ ventures".

B. In Article III, Section 3, Sub section (v), we are required to undertake our financing upon terms and conditions normally obtained by private investors for similar financing. It would not seem that any of these small Development Corporations can pay returns on investment in any way comparable to their risks and thus it would seem that there are no terms upon which private investors would put their money in any overseas Development Bank. This sub section of Article III however, contradicts sub section (i) of the same section, which prohibits the Corporation from doing anything that private capital would do. I wonder if consideration might not be given to having a declaration by the Board of Directors concerning the appropriateness of our making low return investments in these institutions.

C. In sub section (iv) the Corporation is required not to assume responsibility for Management. Perhaps we should therefore consider whether the aid and counsel, which no doubt we would afford a Development Bank which we financed, might not constitute Management.

These points are rather trivial, but appear to constitute the only ones suggested by the Articles.
OFFICE MEMORANDUM

TO: Mr. Richard H. Demuth
FROM: Orvis A. Schmidt
SUBJECT: Request from Inter-American Bank for assistance in training staff handling development bank operations

DATE: April 25, 1961

1. Monday, Grady Upton told me that the Inter-American Bank will soon be assembling in Washington a number of people (I believe it is about 5 or 6) who will be stationed abroad by the Inter-American Bank as their representatives to supervise the relending by development banks in various countries of funds made available to them by the IADB (e.g. Bolivia, Nicaragua, Paraguay, etc.). Grady said that they would have but a short time to indoctrinate these men before sending them in the field. He said he knew we had made several loans of this type and also that we had done much work in the general field of development banks. He asked whether we could help in some way in the training of the new IADB members who are going to be stationed abroad. I told him I would think about this matter and get in touch with him.

2. I suggest that you take the lead in considering what type of an answer we should give to Grady.

cc: Messrs. Wishart, Ripman/Armstrong, Cancio, Hoffman, de Wilde
April 24, 1961

Dear Stanley:

We have been considering some of the problems of making an investment in a development bank or similar investment institution, in anticipation of the IFC Charter being amended in the next few months so as to permit equity investment.

One point which I have raised is the desirability of getting some policy resolutions passed by the Board of the institution concerned as to the basis on which an outside investor is prepared to come in. I remember that IBRD and CDFC asked for the passing of such a policy resolution in the case of ICICI, and I have been trying to get a copy out of the IBRD files. Jeffries of the Bank has sent me the attached note which gives the text of a policy statement put before the ICICI Steering Committee, but the Bank does not seem to have the final version which I am sure was in fact adopted by the ICICI Board.

I would be grateful if you could tell me whether the resolution as passed was in the form set out in Jeffries' note or, if there was any material difference, could you send me a copy?

So far, we have got over 20 votes from Governors in favor of the Charter amendment with no votes to the contrary, but it will be some time yet before we have the necessary majorities and before the amendment becomes effective.

Yours sincerely,

J.G. Beevor

Enclosure

A.S.G. Hoar, Esq.
Managing Director
Commonwealth Development Finance Co., Ltd.
1 Union Court
Old Broad Street, E.C.2.
cc Messrs. Paterson, Bell, Barnard

JGBeevor:us
Arising out of the discussion at lunch today, you will find a summary about the reserve provisions of several development banks on pp. 15 - 18 of "Problems and Practice of Development Banks" by Shirley Boskey.
I took Lamson-Scribner's paper home over the weekend and subjected it to a cursory perusal.

In outline he points out that Development Banks are not inherently profitable institutions and that a lender to them must necessarily find itself in a position which by Industrial lending standards is most exposed. I think this points out two aspects of our own policy which we have to face up to:

1. That the return to lenders in the Development Banks, which only get about 4% return on equity, must necessarily be modest and cannot be based in our customary way upon the market considerations.

2. That any investment we make in this kind of institution must surely be on an income note basis.

I shall be preparing in the course of the next few days a more detailed critique of the paper.
<table>
<thead>
<tr>
<th>Action</th>
<th>Note and File</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval</td>
<td>Note and Return</td>
</tr>
<tr>
<td>Comment</td>
<td>Prepare Reply</td>
</tr>
<tr>
<td>Full Report</td>
<td>Previous Papers</td>
</tr>
<tr>
<td>Information</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Initial</td>
<td>Signature</td>
</tr>
</tbody>
</table>

Remarks:

This is Helpful Information.

From: Bell

Copies to: VanVreven, Patterson
OFFICE MEMORANDUM

DATE: April 12, 1961

TO: Mr. R. L. Garner

FROM: Richard H. Demuth

SUBJECT: Proposed IFC Investments in Development Banks

I refer to our recent conversation and, as promised, enclose a draft of a paper we have been working on here.

The paper is not designed to set forth a definite proposal for IFC investments in development banks but rather to serve as a basis for further discussion. It concentrates, as you will see, on only one way of handling the proposed IFC investments, namely, having IFC take income notes with features which approximate equity features. This line seems to me to be a logical one, fair to all parties, and one which should be reasonably easy to negotiate. But there are, of course, many alternatives, some of which may, in particular cases, appear more attractive either to the IFC or the development bank. I see no overriding reason why the IFC investment in each bank should take the same form.

The data given in the paper, and the calculations made, are approximate only; they have not been fully checked.
International Finance Corporation

Proposed Investments in Development Banks

1. Proposal

The proposal is that the International Finance Corporation (IFC) should make investments in certain development banks with which the International Bank is closely associated. By means of these investments, IFC would hope to:

(a) Strengthen the capital structures of the development banks since it is envisaged (see paragraph 2 below) that the IFC investments will eventually take the form of additional equity for these banks; increased equity for the development banks will also expand their borrowing bases and increase their borrowing powers by three or four times the amount of the new equity.

(b) Expand IFC’s own financing opportunities by means of new borrowers to be brought to IFC by the development banks; where the project to be financed is too large for the development banks to handle the full financing needs, IFC and the development bank could undertake a joint operation to provide the finance required.

2. Form of Investments

The form of the IFC investments would be for IFC to make loans to the development banks and receive convertible income notes; these notes would be without date and would be convertible, at IFC’s option, into
shares of the development banks. The intention would be that IFC would exercise the conversion rights as soon as IFC becomes authorized to invest in equities.

3. Development Banks Appropriate for IFC Investment

IFC might consider investing in the development banks which are under private control and management, which operate in the less-developed countries, and with which the International Bank is closely associated. These are:

- The Industrial Development Bank of Turkey (IDB)
- Industrial Credit and Investment Corporation of India (ICICI)
- Pakistan Industrial Credit and Investment Corporation (PICIC)
- The Development Finance Corporation of Ceylon (DFCC)
- Industrial Mining and Development Bank of Iran (IMDBI)
- Industrial Finance Corporation of Thailand (IFCT)

4. Basis for IFC Investment

The income notes are to be converted into equity participations in the development banks, as soon as IFC is authorized to invest directly in equities. Accordingly, in planning its present investment policy, IFC will want to look at the proposed investments on the basis of what equity participations it ultimately wants to hold in these banks. This paper suggests that a suitable equity participation by IFC in each development bank would be about 20% of the issued share capital of each bank, making the issued equity after conversion by IFC 120% of the previous amount of issued equity. The 20% figure is suggested for the following reasons. IFC would not want too large an equity stake in each bank, for these investments are designed to give IFC a "window"
on the local affairs and a point of contact with the local private industrial development, rather than a major part in shaping the policies of the banks concerned. IFC's shareholding in each bank, after conversion of the income notes, would amount to 16.6% of the then total issued equity which would make IFC a substantial shareholder (probably the biggest individual shareholder in each bank) without putting it in the position, say, that an affirmative vote by IFC would be necessary for the passing of a Special Resolution. The intention is also to strengthen the equity base of the banks and so IFC would want to convert into a substantial shareholding, carrying with it an increase in the borrowing powers of the bank of three or four times the amount of the new equity. The majority of the shares in each development bank is, at present, owned by nationals of the country concerned and IFC would not want to disturb that balance. This may cause difficulties in the cases of PICIC and IMDBI where the present ratio between shareholdings of nationals and expatriates is 60:40.

5. To calculate the correct investment which will ultimately give IFC a holding of approximately 20% of the present issued equity, negotiations will be required, at the time of the initial decision to invest, on the conversion price at which the IFC loans will be converted into shares. It is presumably, IFC would be prepared, in appropriate cases, to

---

1/ The conversion price could be a price fixed at the time of negotiation, or could be the market price at the time of conversion. The second alternative may not be satisfactory as market price may depend on a number of uncertain factors, including the volume of shares on offer, etc.
accept a conversion price above par. Negotiations would also have to cover such matters as: (a) the income to be paid to IFC before conversion; (b) protection against dilution of the conversion rights; (c) the rights of the income notes on a liquidation; (d) arrangements for cooperation between the development bank and IFC, both before and after conversion of the notes; (e) IFC's right to board representation after conversion; etc. To assist IFC in considering what these terms might be, Part II of this paper sets out some salient points in respect of the development banks mentioned in paragraph 3 above.

2/ IFC intends its investments in income notes to be a first step to taking direct equity participations. Presumably, therefore, the income IFC receives on these notes should be at the rate of the dividend paid to shareholders, or, if the conversion price agreed is over par, at the dividend yield to a new investor who bought shares of the development bank at that price.
6. The Industrial Development Bank of Turkey (IDB)

Latest Available Balance Sheet: December 31, 1959, (incorporating accounts as at January 4, 1960)

Authorized and issued share capital:

250,000 shares in bearer certificates of Turkish Liras 100 each = Ls. 25 million (about US $2.7 million)

The shares are now held by about 500 individual Turkish shareholders.

Other Resources:

<table>
<thead>
<tr>
<th>Description</th>
<th>US $</th>
<th>Ls.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) IBRD loans</td>
<td></td>
<td>9 m</td>
</tr>
<tr>
<td>1950</td>
<td></td>
<td>9 m</td>
</tr>
<tr>
<td>1953</td>
<td></td>
<td>9 m</td>
</tr>
<tr>
<td>(b) DLF loan</td>
<td></td>
<td>10 m</td>
</tr>
<tr>
<td>(c) Bonds issued to Central Bank, and Pension Fund of Turkish Republic</td>
<td>25.0 m</td>
<td></td>
</tr>
<tr>
<td>(d) Managed Funds</td>
<td></td>
<td>117.2 m</td>
</tr>
<tr>
<td>Marshall Plan Private Enterprise Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Reserves and Surplus</td>
<td>say</td>
<td>10.0 m</td>
</tr>
<tr>
<td>say,</td>
<td>US $28 m</td>
<td>Ls. 152.2 m</td>
</tr>
</tbody>
</table>

Control and Management

The board of directors consists of seven members elected by the General Assembly of Shareholders; under an arrangement with the Central Bank, the shareholders choose one member from a panel picked by the Central Bank "from the shareholders and belonging to the banking profession."

The Government has no rights with regard to board membership; however, "a Government voice is heard through the Is Bank, the largest shareholder, in which the Government and the Democratic Party exercise great influence, and through the Central Bank's homme de confiance." (W. Diamond's Case Study - 1957).
The board appoints the General Manager and the Assistant General Manager.

Dividends  A dividend of 12% has been earned and paid for each of the last few years.

Market Price  The market price of each share of Ls. 100 is about Ls. 180.

Asset Value  A calculation, based on latest available balance sheet, gives an estimated asset value for each share of Ls. 154 - see Appendix "A".

Need for Financing and General

IDB has committed both its IBRD loans; the DLF loan of US $10 million is about half committed. IDB might, therefore, be interested in obtaining some additional U.S. dollar financing, especially if the financing is not tied to a "Buy American" policy and also if it does not have to be repaid in U.S. dollars. The business of IDB has been dropping off lately, but it is taking steps to promote new business by seeking out new industrial projects which might be started up.

Possible Investment by IFC

IFC might consider a loan to IDB of US $900,000. The loan might carry the right, at IFC's option, to convert into ordinary shares at the price of Ls. 150 for each share of Ls. 100. If the full option is exercised, IFC would then obtain shares with a par value of US $600,000 (Ls. 5.4 million or 54,000 shares - a little over 20% of the present issued equity).

It could be argued that IFC should not ask for conversion rights at less than the current market price at the date of negotiations (say, Ls. 180 at today's date). But the market price depends on a number of factors including the volume of shares on offer. It would not be unreasonable for IFC to seek to negotiate a conversion price in line with the estimated valuation at the time of the deal.
The income notes issued to IFC might carry the right to interest at two-thirds of the declared dividend; for example, at present dividend rate of 12%, the notes would be entitled to an interest rate of 8%.

7. Industrial Credit and Investment Corporation of India (ICICI)

Latest Available Balance Sheet: December 31, 1960

Authorized share capital:

500,000 Ordinary Shares of Rs. 100 each.
2,000,000 Unclassified Shares of Rs. 100 each.

Issued and Subscribed Capital:

500,000 Ordinary Shares of Rs. 100 each = Rs. 50 million (US $10 million)

When originally issued, 70% of ICICI's shares were held by Indian nationals, the balance being allocated to foreign institutional investors from the United States and the United Kingdom.

Other Resources:

<table>
<thead>
<tr>
<th>(a) IBRD loans</th>
<th>1955</th>
<th>10 m</th>
<th>Rs. 75 m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1959</td>
<td>10 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1960</td>
<td>20 m</td>
<td></td>
</tr>
</tbody>
</table>

Note: A DLF loan of US $5 million is approved and awaiting signature.

(b) Government Loans

From Government of India 1955 (interest free)

From Government of India 1959 (at 1 1/2% interest)

(c) Reserves and Surplus

<table>
<thead>
<tr>
<th></th>
<th>US $40 m</th>
<th>Rs. 182 m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Control and Management

The number of directors is limited to ten, excluding a Government Director and a Debenture Director (if any). The first board of directors was agreed in advance by the original subscribers: it consisted of seven
Indian nationals and three representatives of the foreign shareholders. One-third of the Directors retires each year, but retiring Directors are eligible for re-election. In addition, the President of India is entitled to appoint a Government Director to hold office until the government advances are repaid.

Dividend in 1960 5 3/4% (taxable).

Market Price The market price of each share of Rs. 100 is about Rs. 80.

Asset Value A calculation, based on the latest available balance sheet, gives an estimated asset value for each share of Rs. 127 - see Appendix "A".

Need for Financing and General

ICICI has no immediate need for financing; it has still to commit most of the IBRD third loan of US $20 million, and has not yet started to draw down its second Government of India advance. ICICI has built up a good staff and has demonstrated its ability to make good project appraisals. The present market value undervalues the worth of the ICICI shares, probably because the dividend return is not attractive to investors.

Possible Investment by IFC

IFC might consider a loan to ICICI of US $2 million. The loan might carry the right, at IFC's option, to convert into ordinary shares at par. If the full option is exercised, IFC would then obtain 100,000 shares with a par value of Rs. 10 million.

It could be argued that IFC should not accept conversion rights at more than the current market price (say, Rs. 80 at today's date). However,
taking into account the estimated asset value of Rs. 127, it would seem reasonable for IFC to agree to a conversion price at par.

The income notes issued to IFC might carry the right to interest at the declared dividend rate (5 3/4% for 1960).

8. Pakistan Industrial Credit and Investment Corporation (PICIC)

Latest Available Balance Sheet: December 31, 1960

Authorized share capital:

2,000,000 Ordinary Shares of Rs. 10 each.
13,000,000 Unclassified Shares of Rs. 10 each.

Issued and Subscribed Capital:

2,000,000 Ordinary Shares of Rs. 10 each = Rs. 20 million (US $4 million)
When originally issued, 60% of PICIC's shares were held by Pakistani nationals, with remaining 40% being allocated to foreign investors from the United States, the United Kingdom and Japan. In May 1959, PICIC had 675 shareholders, all but 56 being Pakistani nationals; domestic shareholders consisted of 383 private individuals, 203 industrialists and businessmen, 9 banks, 8 insurance companies and 16 business houses and other institutions. In March 1961, PICIC is increasing its issued share capital by a rights issue of 1,000,000 Ordinary Shares at par; this will raise the issued share capital to 3,000,000 Ordinary Shares = Rs. 30,000,000 (US $6 million).3/ (The present foreign investors may forego half of their rights in order to allow German investors to take an equity interest by taking up the relinquished rights.)

3/ It is the intention of the PICIC board to augment the issued capital further in 1963 (perhaps in 1962) by means of a second rights issue of 1,000,000 Ordinary Shares, to be issued presumably at par. The issued share capital would then be 4,000,000 shares = Rs. 40,000,000 (US $8 million).
Other Resources:

| (a) IBRD loans  | 1957 | 4.2 m  |
|                | 1959 | 10.0 m |
| (b) DLF loans  | 1957 | 4.2 m  |
|                | 1959 | 10.0 m |
| (c) Government Loans  |
| From Government of Pakistan 1957 | (interest free) | 30.0 m |
| (d) Reserves and Surplus  |
|                         | US $28.1 m | Rs. 32.9 m |

Control and Management

The number of directors is limited to 15, including the Government Director and the appointed Directors (if any). The rights to appoint Directors are as follows: (a) United Kingdom shareholders are entitled to appoint one Director as long as they hold 200,000 Ordinary Shares or 7% of the paid-up ordinary capital, whichever is greater; (b) Japanese shareholders have a similar right; (c) United States and/or Canadian shareholders have a similar right. (If German investors come in, the intention is that they should have a seat on the board.)

The President of Pakistan has the right to appoint a Government Director, such right to continue until the Government advance has been repaid in full.

The board appoints the General Manager.

Dividends  PICIC paid a dividend of 3 3/4% (free of income tax) for 1959; a dividend of 5% is proposed for 1960.

Market Price  The market price of each share of Rs. 10 is about Rs. 12.

Asset Value  A calculation, based on latest available balance sheet, gives an estimated value for each share of Rs. 11.82 (say, Rs. 12) - see Appendix "A". When the issued share capital is increased to
Rs. 30,000,000, the estimated asset value will fall to Rs. 11.19 each share. However, although not shown in the balance sheet, PICIC holds potentially valuable option rights over shares at par; these options are over shares amounting to approximately Rs. 20 million. So, even after the share capital has been increased in March/April 1961, it is considered that each share should be worth at least Rs. 12.

Need for Financing and General
PICIC has earmarked all the resources from its IBRD and DLF loans, although the loans are not fully committed from the legal standpoint; PICIC has accordingly approached IBRD and DLF for further lines of credit of US $15 million each. It may be that PICIC will be able to arrange for $5 million of the German loan to Pakistan to be channelled through PICIC; if so, that may reduce the amount to be borrowed from DLF which has indicated that it may not be prepared to consider the full $15 million requested. It is understood that the Government of Pakistan has agreed to make a second loan of Rs. 30 million, but the terms of this second advance are not yet known.

Possible Investment by IFC
IFC might consider a loan to PICIC of US $1,440,000. The loan might carry the right, at IFC's option, to convert into Ordinary Shares at the price of Rs. 12 for each share of Rs. 10. If the full option is exercised, IFC would then obtain shares with a par value of US $1,200,000 (Rs. 6 million or 600,000 shares - 20% of the issued equity after the share capital has been increased by means of the present rights issue).

Protection would be required against dilution of the conversion rights as and when the issued equity is further increased up to Rs. 40 million. The income notes issued to IFC might carry the right to interest at five-sixths of the declared dividend (this would be 4.16% on the basis of the 5% dividend proposed for 1960).
9. Industrial Mining and Development Bank of Iran (IMDBI)

Latest Available Balance Sheet: September 22, 1960

Authorized and Issued share capital: Rials 400 million (US $5.3 million)

The equity is divided between Class "A" stock consisting of 60%, and Class "B" stock consisting of 40% of the total; each share has a par value of Rials 1,000. The Class "A" shares are held by over 1,900 Iranian private investors, while the Class "B" are held by 20 private banking and industrial firms of the United States, the United Kingdom and Western Europe.

Other Resources:

(a) IBRD loan 1959 5.2 m
(b) DLF loan 1959 5.2 m
(c) Iranian Government Advance (interest free) 600.0 m
(d) Managed Funds
   The portfolios of industrial loans made by the Industrial Credit Bank of the Plan Organization, and Bank Melli Iran 1,400.0 m

Control and Management

The board of directors consists of 15 members. For the first five years, the Class "B" shareholders (the non-Iranian group) has the majority of 8 members, the Class "A" shareholders (the Iranian group) having 7 members. At the end of five years from 1959, the Class "A" shareholders will have 8 board members, the Class "B" having 7. The Government has an observer. The board appoints the Managing Director and Associate Managing Director.

Dividends No dividend has been paid as yet.

Market Price The market price of the shares is not known.
the full option is exercised, IFC would then obtain 80,000 shares with a par value of Rials 80 million.

The income notes to IFC might carry the right to interest at the rate of the declared dividends; whether or not a dividend should be paid for the last year is now under consideration.

10. Development Finance Corporation of Ceylon (DFCC)

Latest Available Balance Sheet: March 31, 1960

Authorized share capital:

80,000 Ordinary Shares of Rs. 100 each = Rs. 8 million (about US $1.6 million)

Issued Share Capital:

71,178 Ordinary Shares of Rs. 100 each = Rs. 7,117,800 (about US $1.5 million)

Investors include Ceylonese nationals, British banks, etc.

Other Resources:

(a) Government Loan
From Government of Ceylon (interest free) 16 m

(b) Reserves and Surplus

Control and Management

The Minister of Finance, Ceylon, has the right to appoint one person as a Government Director, the right to continue until the Government loan has been repaid.

The Director of the Ceylon Institute of Scientific and Industrial Research and the General Manager of DFCC are ex officio directors, without the right to vote.

In addition, there are four to six directors who were appointed initially by the Minister of Finance; one of these directors retires at the end of
each financial year, and his replacement is elected under regulations made by DFCC.

The board appoints the General Manager.

Dividend For the year to March 31, 1960, a dividend of 3% (taxable) was paid.

Market Price The market price per share is not known.

Asset Value A calculation, based on latest available balance sheet, gives an estimated asset value for each share of Rs. 100.05 - see Appendix A.

Need for Financing and General
As at 31 March 1960, DFCC had resources available in Government securities and cash of approximately Rs. 8.3 million.

Possible Investment by IFC
IFC might consider a loan to DFCC of US $300,000. The loan might carry the right, at IFC's option, to convert into Ordinary Shares at par. If the full option is exercised, IFC would then obtain 14,100 shares having a par value of Rs. 1,410,000.

The income notes issued to IFC might carry the right to interest at the rate of the declared dividend which was 3% for the year 1959/60.

11. Industrial Finance Corporation of Thailand (IFCT)

Latest Available Balance Sheet: No balance sheet available since inception of the corporation.

Authorized Share Capital:
The authorized share capital is 20,000 Ordinary Shares of Baht 1,000 each = Baht 20 million (US $952,347).

Issued Share Capital:
5,000 Ordinary Shares of Baht 1,000 each = Baht 5 million (US $238,000).
Other Resources:
(a) The net assets of the former government-owned Industrial Bank transferred to IFCT as a long-term interest-free loan. These assets are expected to amount to not less than Baht 10 million.
(b) ICA has made a long-term interest-free loan of Baht 15 million.

Control and Management
The Minister of Finance appointed the first board of directors consisting of four members. At the first meeting of shareholders, the shareholders elected two additional directors. At the end of each financial year, one of the appointed directors and one of the elected directors retire. The shareholders elect replacements. When all the appointed directors have retired, then the directors retire each year by rotation.

The board appoints the General Manager.

Dividends
None paid as yet.

Market Price
Not known.

Asset Value
Not known - presumably par.

Need for Financing and General
IFCT has only started operations and has not yet committed the bulk of its funds.

No IFC investment is suggested at the moment as the size of, say, a 20% interest would be rather too small for IFC (about US $40,000). The situation might be watched and, if IFCT expands at a later date, IFC might consider participating at that time.
12. Total of Proposed IFC Investments and Income Return to IFC

On the above basis, IFC would be investing in existing development banks a total of US $5,700,000 and, on the basis of latest dividends paid by these banks, IFC would receive a dividend income of about $250,000, say, approximately 4.5% return on the money invested.

(See table on next page.)
Proposed Investments and Income to IFC

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Amount to be Invested in Income Notes US $</th>
<th>Par Value of Shares US $</th>
<th>Dividend Rate or Dividend Yield and Amount of Return US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Development Bank of Turkey</td>
<td>900,000</td>
<td>600,000</td>
<td>(12% rate; 8% yield)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>72,000</td>
</tr>
<tr>
<td>Industrial Credit and Investment Corporation of India</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>(5 3/4% yield) 115,000</td>
</tr>
<tr>
<td>Pakistan Industrial Credit and Investment Corporation</td>
<td>1,400,000</td>
<td>1,200,000</td>
<td>(5% rate; 4.1% yield)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Industrial Mining and Development Bank of Iran</td>
<td>1,060,000</td>
<td>1,060,000</td>
<td>No dividend as yet</td>
</tr>
<tr>
<td>Development Finance Corporation of Ceylon</td>
<td>300,000</td>
<td>300,000</td>
<td>(3%) 9,000</td>
</tr>
<tr>
<td></td>
<td>5,700,000</td>
<td>5,160,000</td>
<td>256,000</td>
</tr>
<tr>
<td>Total Investment:</td>
<td>US $5,700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present Income:</td>
<td>US $ 256,000</td>
<td></td>
<td>Approximately 4.5% return on total sum invested.</td>
</tr>
</tbody>
</table>
Industrial Development Bank of Turkey

Asset Value of Each Share - based on figures in Accounts as at January 4, 1960

Issued Share Capital

250,000 Shares in bearer certificates of Liras 100 each = Ls. 25,000,000

In addition, there are 100 Founders' bearer certificates which have no par value but entitle their owners to a percentage of net profit after legal reserves and after a six percent dividend on the ordinary shares has been paid.

Asset Value of Each Share

Subscribed value of share

<table>
<thead>
<tr>
<th></th>
<th>Ls.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves and Surplus</td>
<td></td>
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<td>Legal Reserves</td>
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<td>Reserves for Future Losses</td>
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<td>Contingency Reserves</td>
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<td>Balance on P.I.</td>
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</tr>
<tr>
<td></td>
<td>7,807,406</td>
</tr>
</tbody>
</table>

* Reserves for Future Losses have not been included in calculating the asset value of each share, as they may be an attempt to estimate the probable amount of defaults on loans, etc.

Attributable to each share = \( \frac{7,807,406}{250,000} \) = Ls. 31.2

Dividend for 1960 accrued but not paid as at January 4, 1961 = Ls. 12.0

Share Participations held by IDB = Ls. 18,041,231

Allow a 20% capital appreciation = 3,608,246

Less tax at, say, 23% = \( \frac{829,896}{2,778,350} \)

Attributable to each share = \( \frac{2,778,350}{250,000} \) = Ls. 11.1

Asset value of each share = Ls. 154.3
Asset Value of Each Share - based on figures in Accounts as at December 31, 1960

Issued Share Capital

500,000 Ordinary Shares of Rs. 100 each = Rs. 50,000,000

Asset Value of Each Share

Subscribed value of share Rs. 100.0

Reserves & Surplus

Capital Reserve Rs. 3,979,946
General Reserve 3,300,000
Balance on P.L. 77,237
Rs. 7,357,183

Attributable to each share

$= \frac{7,357,183}{500,000} = 14.7$

Quoted Shares

Market value Rs. 66,392,521
Book value 56,886,825
(About 17%) Appreciation 9,505,696
Less tax at 45% 4,277,563
Rs. 5,228,133

Attributable to each share

$= \frac{5,228,133}{500,000} = 10.4$

Unquoted Shares

Book value Rs. 10,558,318
Appreciation, say, 20% 2,171,663
Less tax at 45% 977,248
Rs. 1,194,415

Attributable to each share

$= \frac{1,194,415}{500,000} = 2.3$

Asset value of each share Rs. 127.4
The Pakistan Industrial Credit and Investment Corporation, Ltd.

Asset Value of Each Share - based on figures in Accounts as at December 31, 1960

Issued Share Capital

2,000,000 Ordinary Shares of Rs. 10 each = Rs. 20,000,000

Asset Value of Each Share

Subscribed value of share Rs. 10.00

Reserves and Surplus

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Reserve</td>
<td>Rs. 3,600</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>393,514</td>
</tr>
<tr>
<td>Special Reserve</td>
<td>256,140</td>
</tr>
<tr>
<td>Balance on P.L.</td>
<td>1,934,500</td>
</tr>
<tr>
<td></td>
<td>Rs. 2,928,014</td>
</tr>
<tr>
<td>Less Required for 1960 Dividend</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>Rs. 1,928,014</td>
</tr>
</tbody>
</table>

Attributable to each share

= \frac{1,928,014}{2,000,000} = .96

PICIC has options at par on shares in enterprises which it has financed amounting to almost Rs. 20 million. These are not shown in the balance sheet.

Total Investments (including Rs. 15.6 million in Government securities)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value</td>
<td>Rs. 24,701,077</td>
</tr>
<tr>
<td>Book value</td>
<td>22,968,277</td>
</tr>
<tr>
<td>(About 7 3/4%) Appreciation</td>
<td>Rs. 1,732,800</td>
</tr>
</tbody>
</table>

Attributable to each share

= \frac{1,732,800}{2,000,000} = .86

Asset value of each share say, Rs. 11.82

Notes:

(a) No allowance has been made for taxation on the surplus on the sale of investments as PICIC contends that such surplus is not liable to tax.

(b) There are Advances and Deposits shown in the balance sheet as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recoverable in cash</td>
<td>Rs. 991,458</td>
</tr>
<tr>
<td>For value to be received</td>
<td>65,065</td>
</tr>
</tbody>
</table>

These have been treated as being fully recoverable.
Appendix "A"

Industrial Mining and Development Bank of Iran

Asset Value of Each Share - based on figures in Accounts as at September 22, 1960

Issued Share Capital

400,000 Shares (240,000 Class "A" and 160,000 Class "B") each of Rials 1,000 = Rls. 400,000,000

Asset Value of Each Share

Subscribed value of share Rls. 1,000

Balance on P.L. Rls. 8,607,298

Attributable to each share

\[
\frac{8,607,298}{400,000} = 21
\]

Asset value of each share Rls. 1,021

Notes:

(a) There is also a Reserve for Contingencies of Rls. 3,676,503. It is too early to know whether this is adequate or not.

(b) Share participations at cost amount to Rls. 500,000. Again, it is too early to estimate whether there is likely to have been any appreciation.
Appendix "A"

Development Finance Corporation of Ceylon

Asset Value of Each Share - based on figures in Accounts as at March 31, 1960

Issued Share Capital

71,178 Ordinary Shares of Rs. 100 each = Rs. 7,117,800

Asset Value of Each Share

Subscribed value of share

Rs. 100.00

Reserves and Surplus

General Reserve Rs. 100,000
Special Reserve 195,000
Balance on P.L. 94,816
Rs. 389,816

Attributable to each share

$\frac{389,816}{7,117,800} = .05$

Asset value of each share Rs. 100.05

Notes:

Investments are shown at cost less provisions, so are presumably written down by the Directors to a present market value.
I enclose herewith a copy of a draft paper on possible IFC investments in development banks, together with a copy of my covering note to Mr. Garner. This is, of course, primarily a matter for IFC's consideration; the paper was prepared by us at Mr. Black's request to assist IFC with some very preliminary suggestions. Accordingly, I suggest we restrict circulation of the draft as far as possible.

The data in the paper have not been fully checked. Perhaps you will advise George Wishart direct of any corrections or amendments that ought to be made.
International Finance Corporation

Proposed Investments in Development Banks

1. Proposal

The proposal is that the International Finance Corporation (IFC) should make investments in certain development banks with which the International Bank is closely associated. By means of these investments, IFC would hope to:

(a) Strengthen the capital structures of the development banks since it is envisaged (see paragraph 2 below) that the IFC investments will eventually take the form of additional equity for these banks; increased equity for the development banks will also expand their borrowing bases and increase their borrowing powers by three or four times the amount of the new equity.

(b) Expand IFC's own financing opportunities by means of new borrowers to be brought to IFC by the development banks; where the project to be financed is too large for the development banks to handle the full financing needs, IFC and the development bank could undertake a joint operation to provide the finance required.

2. Form of Investments

The form of the IFC investments would be for IFC to make loans to the development banks and receive convertible income notes; these notes would be without date and would be convertible, at IFC's option, into
shares of the development banks. The intention would be that IFC would exercise the conversion rights as soon as IFC becomes authorized to invest in equities.

3. **Development Banks Appropriate for IFC Investment**

IFC might consider investing in the development banks which are under private control and management, which operate in the less-developed countries, and with which the International Bank is closely associated. These are:

- The Industrial Development Bank of Turkey (IDB)
- Industrial Credit and Investment Corporation of India (ICICI)
- Pakistan Industrial Credit and Investment Corporation (PICIC)
- The Development Finance Corporation of Ceylon (DFCC)
- Industrial Mining and Development Bank of Iran (IMDBI)
- Industrial Finance Corporation of Thailand (IFCT)

4. **Basis for IFC Investment**

The income notes are to be converted into equity participations in the development banks, as soon as IFC is authorized to invest directly in equities. Accordingly, in planning its present investment policy, IFC will want to look at the proposed investments on the basis of what equity participations it ultimately wants to hold in these banks. This paper suggests that a suitable equity participation by IFC in each development bank would be about 20% of the issued share capital of each bank, making the issued equity after conversion by IFC 120% of the previous amount of issued equity. The 20% figure is suggested for the following reasons. IFC would not want too large an equity stake in each bank, for these investments are designed to give IFC a "window"
on the local affairs and a point of contact with the local private
industrial development, rather than a major part in shaping the policies
of the banks concerned. IFC's shareholding in each bank, after conver-
sion of the income notes, would amount to 16.6% of the then total issued
equity which would make IFC a substantial shareholder (probably the big-
gest individual shareholder in each bank) without putting it in the po-
sition, say, that an affirmative vote by IFC would be necessary for the
passing of a Special Resolution. The intention is also to strengthen
the equity base of the banks and so IFC would want to convert into
a substantial shareholding, carrying with it an increase in the bor-
rowing powers of the bank of three or four times the amount of the new
equity. The majority of the shares in each development bank is, at
present, owned by nationals of the country concerned and IFC would not
want to disturb that balance. This may cause difficulties in the cases
of PICIC and IMDBI where the present ratio between shareholdings of
nationals and expatriates is 60:40.

5. To calculate the correct investment which will ultimately give
IFC a holding of approximately 20% of the present issued equity, nego-
tiations will be required, at the time of the initial decision to invest,
on the conversion price at which the IFC loans will be converted into
shares. 1/ Presumably, IFC would be prepared, in appropriate cases, to

1/ The conversion price could be a price fixed at the time of nego-
tiation, or could be the market price at the time of conversion. The
second alternative may not be satisfactory as market price may depend
on a number of uncertain factors, including the volume of shares on
offer, etc.
accept a conversion price above par. Negotiations would also have to cover such matters as: (a) the income to be paid to IFC before conversion; (b) protection against dilution of the conversion rights; (c) the rights of the income notes on a liquidation; (d) arrangements for cooperation between the development bank and IFC, both before and after conversion of the notes; (e) IFC's right to board representation after conversion; etc. To assist IFC in considering what these terms might be, Part II of this paper sets out some salient points in respect of the development banks mentioned in paragraph 3 above.

2/ IFC intends its investments in income notes to be a first step to taking direct equity participations. Presumably, therefore, the income IFC receives on these notes should be at the rate of the dividend paid to shareholders, or, if the conversion price agreed is over par, at the dividend yield to a new investor who bought shares of the development bank at that price.
6. The Industrial Development Bank of Turkey (IDB)

Latest Available Balance Sheet: December 31, 1959, (incorporating accounts as at January 4, 1960)

Authorized and issued share capital:

250,000 shares in bearer certificates of Turkish Liras 100 each = Ls. 25 million (about US $2.7 million)

The shares are now held by about 500 individual Turkish shareholders.

Other Resources:

(a) IBRD loans 1950 9 m 1953 9 m
(b) DLF loan 10 m
(c) Bonds issued to Central Bank, and Pension Fund of Turkish Republic 25.0 m
(d) Managed Funds
   Marshall Plan Private Enterprise Fund 117.2 m
(e) Reserves and Surplus say, US$28 m Ls. 152.2 m

Control and Management

The board of directors consists of seven members elected by the General Assembly of Shareholders; under an arrangement with the Central Bank, the shareholders choose one member from a panel picked by the Central Bank "from the shareholders and belonging to the banking profession."

The Government has no rights with regard to board membership; however, "a Government voice is heard through the Is Bank, the largest shareholder, in which the Government and the Democratic Party exercise great influence, and through the Central Bank's homme de confiance." (W. Diamond's Case Study - 1957).
The board appoints the General Manager and the Assistant General Manager.

**Dividends**  A dividend of 12% has been earned and paid for each of the last few years.

**Market Price**  The market price of each share of Ls. 100 is about Ls. 180.

**Asset Value**  A calculation, based on latest available balance sheet, gives an estimated asset value for each share of Ls. 154 - see Appendix "A".

**Need for Financing and General**

IDB has committed both its IBRD loans; the DLF loan of US $10 million is about half committed. IDB might, therefore, be interested in obtaining some additional U.S. dollar financing, especially if the financing is not tied to a "Buy American" policy and also if it does not have to be repaid in U.S. dollars. The business of IDB has been dropping off lately, but it is taking steps to promote new business by seeking out new industrial projects which might be started up.

**Possible Investment by IFC**

IFC might consider a loan to IDB of US $900,000. The loan might carry the right, at IFC's option, to convert into ordinary shares at the price of Ls. 150 for each share of Ls. 100. If the full option is exercised, IFC would then obtain shares with a par value of US $600,000 (Ls. 5.4 million or 54,000 shares - a little over 20% of the present issued equity).

It could be argued that IFC should not ask for conversion rights at less than the current market price at the date of negotiations (say, Ls. 180 at today's date). But the market price depends on a number of factors including the volume of shares on offer. It would not be unreasonable for IFC to seek to negotiate a conversion price in line with the estimated valuation at the time of the deal.
The income notes issued to IFC might carry the right to interest at two-thirds of the declared dividend; for example, at present dividend rate of 12%, the notes would be entitled to an interest rate of 8%.

7. Industrial Credit and Investment Corporation of India (ICICI)

Latest Available Balance Sheet: December 31, 1960

Authorized share capital:
500,000 Ordinary Shares of Rs. 100 each.
2,000,000 Unclassified Shares of Rs. 100 each.

Issued and Subscribed Capital:
500,000 Ordinary Shares of Rs. 100 each = Rs. 50 million (US $10 million)
When originally issued, 70% of ICICI's shares were held by Indian nationals, the balance being allocated to foreign institutional investors from the United States and the United Kingdom.

Other Resources:

<table>
<thead>
<tr>
<th>(a)</th>
<th>IBRD loans</th>
<th>US $</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1955</td>
<td>10 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1959</td>
<td>10 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1960</td>
<td>20 m</td>
<td></td>
</tr>
</tbody>
</table>

Note: A DLF loan of US $5 million is approved and awaiting signature.

<table>
<thead>
<tr>
<th>(b)</th>
<th>Government Loans</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From Government of India 1955</td>
<td>75 m</td>
</tr>
<tr>
<td></td>
<td>(interest free)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>From Government of India 1959</td>
<td>100 m</td>
</tr>
<tr>
<td></td>
<td>(at 1/2% interest)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(c)</th>
<th>Reserves and Surplus</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US $40 m</td>
<td>Rs. 132 m</td>
</tr>
</tbody>
</table>

Control and Management

The number of directors is limited to ten, excluding a Government Director and a Debenture Director (if any). The first board of directors was agreed in advance by the original subscribers: it consisted of seven
Indian nationals and three representatives of the foreign shareholders. One-third of the Directors retire each year, but retiring Directors are eligible for re-election. In addition, the President of India is entitled to appoint a Government Director to hold office until the government advances are repaid.

Dividend in 1960 5 3/4% (taxable).

Market Price  The market price of each share of Rs. 100 is about Rs. 80.

Asset Value  A calculation, based on the latest available balance sheet, gives an estimated asset value for each share of Rs. 127 - see Appendix "A".

Need for Financing and General

ICICI has no immediate need for financing; it has still to commit most of the IBRD third loan of US $20 million, and has not yet started to draw down its second Government of India advance. ICICI has built up a good staff and has demonstrated its ability to make good project appraisals. The present market value undervalues the worth of the ICICI shares, probably because the dividend return is not attractive to investors.

Possible Investment by IFC

IFC might consider a loan to ICICI of US $2 million. The loan might carry the right, at IFC's option, to convert into ordinary shares at par. If the full option is exercised, IFC would then obtain 100,000 shares with a par value of Rs. 10 million.

It could be argued that IFC should not accept conversion rights at more than the current market price (say, Rs. 80 at today's date). However,
taking into account the estimated asset value of Rs. 127, it would seem reasonable for IFC to agree to a conversion price at par.

The income notes issued to IFC might carry the right to interest at the declared dividend rate (5 3/4% for 1960).

8. **Pakistan Industrial Credit and Investment Corporation (PICIC)**

**Latest Available Balance Sheet:** December 31, 1960

**Authorized Share Capital:**
- 2,000,000 Ordinary Shares of Rs. 10 each.
- 13,000,000 Unclassified Shares of Rs. 10 each.

**Issued and Subscribed Capital:**
- 2,000,000 Ordinary Shares of Rs. 10 each = Rs. 20 million (US $4 million)

When originally issued, 60% of PICIC's shares were held by Pakistani nationals, with remaining 40% being allocated to foreign investors from the United States, the United Kingdom and Japan. In May 1959, PICIC had 675 shareholders, all but 56 being Pakistani nationals; domestic shareholders consisted of 383 private individuals, 203 industrialists and businessmen, 9 banks, 8 insurance companies and 16 business houses and other institutions. In March 1961, PICIC is increasing its issued share capital by a rights issue of 1,000,000 Ordinary Shares at par; this will raise the issued share capital to 3,000,000 Ordinary Shares = Rs. 30,000,000 (US $6 million).  

(3/ The present foreign investors may forego half of their rights in order to allow German investors to take an equity interest by taking up the relinquished rights.)

---

3/ It is the intention of the PICIC board to augment the issued capital further in 1963 (perhaps in 1962) by means of a second rights issue of 1,000,000 Ordinary Shares, to be issued presumably at par. The issued share capital would then be 4,000,000 shares = Rs. 40,000,000 (US $8 million).
Other Resources:

<table>
<thead>
<tr>
<th></th>
<th>US $</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) IBRD loans</td>
<td>1957</td>
<td>4.2 m</td>
</tr>
<tr>
<td>(b) DLF loans</td>
<td>1957</td>
<td>4.2 m</td>
</tr>
<tr>
<td></td>
<td>1959</td>
<td></td>
</tr>
<tr>
<td>(c) Government Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From Government of Pakistan 1957</td>
<td>(interest free)</td>
<td>30.0 m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Reserves and Surplus</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>US $28.4 m</td>
<td>Rs. 32.9 m</td>
</tr>
</tbody>
</table>

Control and Management

The number of directors is limited to 15, including the Government Director and the appointed Directors (if any). The rights to appoint Directors are as follows: (a) United Kingdom shareholders are entitled to appoint one Director as long as they hold 200,000 Ordinary Shares or 7% of the paid-up ordinary capital, whichever is greater; (b) Japanese shareholders have a similar right; (c) United States and/or Canadian shareholders have a similar right. (If German investors come in, the intention is that they should have a seat on the board.)

The President of Pakistan has the right to appoint a Government Director, such right to continue until the Government advance has been repaid in full.

The board appoints the General Manager.

Dividends  PICIC paid a dividend of 3 3/4% (free of income tax) for 1959; a dividend of 5% is proposed for 1960.

Market Price  The market price of each share of Rs. 10 is about Rs. 12.

Asset Value  A calculation, based on latest available balance sheet, gives an estimated/value for each share of Rs. 11.32 (say, Rs. 12) — see Appendix "A". When the issued share capital is increased to
Rs. 30,000,000, the estimated asset value will fall to Rs. 11.19 each share. However, although not shown in the balance sheet, PICIC holds potentially valuable option rights over shares at par; these options are over shares amounting to approximately Rs. 20 million. So, even after the share capital has been increased in March/April 1961, it is considered that each share should be worth at least Rs. 12.

Need for Financing and General
PICIC has earmarked all the resources from its IBRD and DLF loans, although the loans are not fully committed from the legal standpoint; PICIC has accordingly approached IBRD and DLF for further lines of credit of US $15 million each. It may be that PICIC will be able to arrange for $5 million of the German loan to Pakistan to be channelled through PICIC; if so, that may reduce the amount to be borrowed from DLF which has indicated that it may not be prepared to consider the full $15 million requested. It is understood that the Government of Pakistan has agreed to make a second loan of Rs. 30 million, but the terms of this second advance are not yet known.

Possible Investment by IFC
IFC might consider a loan to PICIC of US $1,400,000. The loan might carry the right, at IFC's option, to convert into Ordinary Shares at the price of Rs. 12 for each share of Rs. 10. If the full option is exercised, IFC would then obtain shares with a par value of US $1,200,000 (Rs. 6 million or 600,000 shares - 20% of the issued equity after the share capital has been increased by means of the present rights issue).

Protection would be required against dilution of the conversion rights as and when the issued equity is further increased up to Rs. 40 million. The income notes issued to IFC might carry the right to interest at five-sixths of the declared dividend (this would be 4.16% on the basis of the 5% dividend proposed for 1960).
9. **Industrial Mining and Development Bank of Iran (IMDBI)**

**Latest Available Balance Sheet:** September 22, 1960

**Authorized and Issued share capital:** Rials 400 million (US $5.3 million)

The equity is divided between Class "A" stock consisting of 60%, and Class "B" stock consisting of 40% of the total; each share has a par value of Rials 1,000. The Class "A" shares are held by over 1,900 Iranian private investors, while the Class "B" are held by 20 private banking and industrial firms of the United States, the United Kingdom and Western Europe.

<table>
<thead>
<tr>
<th>Other Resources</th>
<th>US $</th>
<th>Rials</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) IBERD loan</td>
<td>1959</td>
<td>5.2 m</td>
</tr>
<tr>
<td>(b) DLF loan</td>
<td>1959</td>
<td>5.2 m</td>
</tr>
<tr>
<td>(c) Iranian Government Advance</td>
<td></td>
<td>600.0 m</td>
</tr>
<tr>
<td>(interest free)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Managed Funds</td>
<td></td>
<td>1,400.0 m</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,000.0 m</td>
</tr>
</tbody>
</table>

**Control and Management**

The board of directors consists of 15 members. For the first five years, the Class "B" shareholders (the non-Iranian group) has the majority of 8 members, the Class "A" shareholders (the Iranian group) having 7 members. At the end of five years from 1959, the Class "A" shareholders will have 8 board members, the Class "B" having 7. The Government has an observer. The board appoints the Managing Director and Associate Managing Director.

**Dividends** No dividend has been paid as yet.

**Market Price** The market price of the shares is not known.
Asset Value  A calculation, based on the latest available balance sheet, gives an estimated asset value for each share of Rials 1,021 - see Appendix "A".

Need for Financing and General
IMDBI has only committed a small part of its foreign loans to date. The Iranian Government has agreed to make a further advance of Rials 400 million, if requested to do so within five years from March 1959 and provided terms and conditions for the further advance are mutually agreed at the time such a request is made.

As and when loans from the managed funds are repaid, IMDBI has undertaken to reinvest these proceeds along with IMDBI's own resources in the appropriate proportion that the free money from the portfolios bears to IMDBI's own resources.

Conversion Rights
In the agreement with the Government of Iran and in the Memorandum of Association, it is specified that 60% of the share capital will be held by Iranian investors and 40% by non-Iranian investors. Under the IMDBI Articles, Class "A" and Class "B" shareholders have preemptive rights on the issue of any new shares. Accordingly, if new shares are to be issued to satisfy any conversion rights held by IFC, it will be necessary to reach a new agreement with both Class "A" and Class "B" shareholders, and presumably with the Government, or to arrange that Class "B" shareholders make sufficient shares available from their own holdings to satisfy the conversion rights held by IFC.

Possible Investment by IFC
IFC might consider a loan to IMDBI of US $1,060,000. The loan might carry the right, at IFC's option, to convert into ordinary shares at par. If
the full option is exercised, IFC would then obtain 80,000 shares with a par value of Rials 80 million.

The income notes to IFC might carry the right to interest at the rate of the declared dividends; whether or not a dividend should be paid for the last year is now under consideration.

10. Development Finance Corporation of Ceylon (DFCC)

Latest Available Balance Sheet: March 31, 1960

Authorized share capital:

80,000 Ordinary Shares of Rs. 100 each = Rs. 8 million (about US $1.6 million)

Issued Share Capital:

71,178 Ordinary Shares of Rs. 100 each = Rs. 7,117,800 (about US $1.5 million)

Investors include Ceylonese nationals, British banks, etc.

Other Resources:  

<table>
<thead>
<tr>
<th>US $</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Government Loan From Government of Ceylon (interest free)</td>
<td>16 m</td>
</tr>
<tr>
<td>(b) Reserves and Surplus</td>
<td>390,000</td>
</tr>
<tr>
<td></td>
<td>Rs. 16,390,000</td>
</tr>
</tbody>
</table>

Control and Management

The Minister of Finance, Ceylon, has the right to appoint one person as a Government Director, the right to continue until the Government loan has been repaid.

The Director of the Ceylon Institute of Scientific and Industrial Research and the General Manager of DFCC are ex officiis directors, without the right to vote.

In addition, there are four to six directors who were appointed initially by the Minister of Finance; one of these directors retires at the end of
each financial year, and his replacement is elected under regulations
made by DFCC.

The board appoints the General Manager.

Dividend For the year to March 31, 1960, a dividend of 3% (taxable)
was paid.

Market Price The market price per share is not known.

Asset Value A calculation, based on latest available balance sheet,
gives an estimated asset value for each share of Rs. 100.05 - see
Appendix A.

Need for Financing and General

As at 31 March 1960, DFCC had resources available in Government securities
and cash of approximately Rs. 8.3 million.

Possible Investment by IFC

IFC might consider a loan to DFCC of US $300,000. The loan might carry
the right, at IFC's option, to convert into Ordinary Shares at par. If
the full option is exercised, IFC would then obtain 14,100 shares having
a par value of Rs. 1,410,000.

The income notes issued to IFC might carry the right to interest at the
rate of the declared dividend which was 3% for the year 1959/60.

11. Industrial Finance Corporation of Thailand (IFCT)

Latest Available Balance Sheet: No balance sheet available
since inception of the cor-

poration.

Authorized share capital:

The authorized share capital is 20,000 Ordinary Shares of
Baht 1,000 each = Baht 20 million (US $952,347).

Issued Share Capital:

5,000 Ordinary Shares of Baht 1,000 each = Baht 5 million (US $238,000).
Other Resources:
(a) The net assets of the former government-owned Industrial Bank transferred to IFCT as a long-term interest-free loan. These assets are expected to amount to not less than Baht 10 million.
(b) ICA has made a long-term interest-free loan of Baht 15 million.

Control and Management
The Minister of Finance appointed the first board of directors consisting of four members. At the first meeting of shareholders, the shareholders elected two additional directors. At the end of each financial year, one of the appointed directors and one of the elected directors retire. The shareholders elect replacements. When all the appointed directors have retired, then the directors retire each year by rotation.

The board appoints the General Manager.

Dividends None paid as yet.

Market Price Not known.

Asset Value Not known - presumably par.

Need for Financing and General
IFCT has only started operations and has not yet committed the bulk of its funds.

No IFC investment is suggested at the moment as the size of, say, a 20% interest would be rather too small for IFC (about US $40,000). The situation might be watched and, if IFCT expands at a later date, IFC might consider participating at that time.
12. **Total of Proposed IFC Investments and Income Return to IFC**

On the above basis, IFC would be investing in existing development banks a total of US $5,700,000 and, on the basis of latest dividends paid by these banks, IFC would receive a dividend income of about $250,000, say, approximately 4.5% return on the money invested.

(See table on next page.)
### Proposed Investments and Income to IFC

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Amount to be Invested in Income Notes US $</th>
<th>Par Value of Shares US $</th>
<th>Dividend Rate or Dividend Yield and Amount of Return US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Development Bank of Turkey</td>
<td>900,000</td>
<td>600,000</td>
<td>(12% rate; 8% yield) 72,000</td>
</tr>
<tr>
<td>Industrial Credit and Investment Corporation of India</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>(5 3/4% 115,000)</td>
</tr>
<tr>
<td>Pakistan Industrial Credit and Investment Corporation</td>
<td>1,400,000</td>
<td>1,200,000</td>
<td>(5% rate; 4.1% yield) 60,000</td>
</tr>
<tr>
<td>Industrial Mining and Development Bank of Iran</td>
<td>1,060,000</td>
<td>1,060,000</td>
<td>No dividend as yet</td>
</tr>
<tr>
<td>Development Finance Corporation of Ceylon</td>
<td>300,000</td>
<td>300,000</td>
<td>(3% 2,000)</td>
</tr>
<tr>
<td>Total Investment:</td>
<td>US $5,700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present Income:</td>
<td>US $256,000</td>
<td></td>
<td>Approximately 4.5% return on total sum invested.</td>
</tr>
</tbody>
</table>
Industrial Development Bank of Turkey

Asset Value of Each Share - based on figures in Accounts as at January 4, 1960

Issued Share Capital

250,000 Shares in bearer certificates of Liras 100 each = Ls. 25,000,000

In addition, there are 100 Founders' bearer certificates which have no par value but entitle their owners to a percentage of net profit after legal reserves and after a six percent dividend on the ordinary shares has been paid.

Asset Value of Each Share

Subscribed value of share = Ls. 100.0

Reserves and Surplus

Legal Reserves = Ls. 1,330,150
Reserves for Future Losses = Ls. 1,330,150
Contingency Reserves = 6,477,256
Balance on P.L. = Ls. 7,807,406

* Reserves for Future Losses have not been included in calculating the asset value of each share, as they may be an attempt to estimate the probable amount of defaults on loans, etc.

Attributable to each share = \( \frac{7,807,406}{250,000} \) = Ls. 31.2

Dividend for 1960 accrued but not paid as at January 4, 1961 = Ls. 12.0

Share Participation held by IDB = Ls. 18,041,231

Allow a 20% capital appreciation = 3,608,246
Less tax at, say, 23% = 829,896

Attributable to each share = \( \frac{2,778,350}{250,000} \) = Ls. 11.1

Asset value of each share = Ls. 154.3
The Industrial Credit and Investment Corporation of India, Ltd.

Asset Value of Each Share - based on figures in Accounts as at
December 31, 1960

Issued Share Capital

500,000 Ordinary Shares of Rs. 100 each = Rs. 50,000,000

Asset Value of Each Share

Subscribed value of share = Rs. 100.0

Reserves & Surplus

Capital Reserve = Rs. 3,979,946
General Reserve = 3,300,000
Balance on P.L. = 77,237
Total = Rs. 7,357,183

Attributable to each share

\[
\frac{7,357,183}{500,000} = 14.7
\]

Quoted Shares

Market value = Rs. 66,392,521
Book value = 56,886,825
(About 17%) Appreciation = 9,505,696
Less tax at 45% = 4,277,563
Total = Rs. 5,228,133

Attributable to each share

\[
\frac{5,228,133}{500,000} = 10.4
\]

Unquoted Shares

Book value = Rs. 10,558,318
Appreciation, say, 20% = 2,171,663
Less tax at 45% = 977,218
Total = Rs. 1,194,415

Attributable to each share

\[
\frac{1,194,415}{500,000} = 2.3
\]

Asset value of each share = Rs. 127.44
The Pakistan Industrial Credit and Investment Corporation, Ltd.

Asset Value of Each Share - based on figures in Accounts as at December 31, 1960

Issued Share Capital

2,000,000 Ordinary Shares of Rs. 10 each = Rs. 20,000,000

Asset Value of Each Share

Subscribed value of share = Rs. 10.00

Reserves and Surplus

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Value (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Reserve</td>
<td>3,233,600</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>393,514</td>
</tr>
<tr>
<td>Special Reserve</td>
<td>256,400</td>
</tr>
<tr>
<td>Balance on P.L.</td>
<td>1,928,024</td>
</tr>
</tbody>
</table>

Less Required for 1960 Dividend

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Value (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,928,014</td>
</tr>
<tr>
<td>Reserve</td>
<td>1,928,024</td>
</tr>
<tr>
<td>Required for Dividend</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

Attributable to each share

\[
\frac{1,928,024}{2,000,000} = .96
\]

PICIC has options at par on shares in enterprises which it has financed amounting to almost Rs. 20 million. These are not shown in the balance sheet.

Total Investments (including Rs. 15.6 million in Government securities)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value</td>
<td>24,701,077</td>
</tr>
<tr>
<td>Book value (About 7 3/4%) Appreciation</td>
<td>22,968,277</td>
</tr>
</tbody>
</table>

Attributable to each share

\[
\frac{1,732,800}{2,000,000} = .86
\]

Asset value of each share say, Rs. 11.82

Notes:

(a) No allowance has been made for taxation on the surplus on the sale of investments as PICIC contends that such surplus is not liable to tax.

(b) There are Advances and Deposits shown in the balance sheet as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recoverable in cash</td>
<td>Rs. 991,458</td>
</tr>
<tr>
<td>For value to be received</td>
<td>Rs. 65,065</td>
</tr>
</tbody>
</table>

These have been treated as being fully recoverable.
Industrial Mining and Development Bank of Iran

Asset Value of Each Share - based on figures in Accounts as at September 22, 1960

Issued Share Capital

400,000 Shares (240,000 Class "A" and 160,000 Class "B") each of Rials 1,000 = Rls. 400,000,000

Asset Value of Each Share

Subscribed value of share

Rls. 1,000

Balance on P.L.

Rls. 8,607,298

Attributable to each share

\[
\frac{8,607,298}{400,000} = 21
\]

Asset value of each share

Rls. 1,021

Notes:

(a) There is also a Reserve for Contingencies of Rls. 3,676,503. It is too early to know whether this is adequate nor not.

(b) Share participations at cost amount to Rls. 500,000. Again, it is too early to estimate whether there is likely to have been any appreciation.
Development Finance Corporation of Ceylon

Asset Value of Each Share - based on figures in Accounts as at March 31, 1960

Issued Share Capital

71,178 Ordinary Shares of Rs. 100 each = Rs. 7,117,800

Asset Value of Each Share

Subscribed value of share Rs. 100.00

Reserves and Surplus

General Reserve Rs. 100,000
Special Reserve 195,000
Balance on P.L. 94,816
Rs. 389,816

Attributable to each share = 389,816 = .05
7,117,800 Asset value of each share Rs. 100.05

Notes:

Investments are shown at cost less provisions, so are presumably written down by the Directors to a present market value.
I refer to our recent conversation and, as promised, enclose a draft of a paper we have been working on here.

The paper is not designed to set forth a definite proposal for IFC investments in development banks but rather to serve as a basis for further discussion. It concentrates, as you will see, on only one way of handling the proposed IFC investments, namely, having IFC take income notes with features which approximate equity features. This line seems to me to be a logical one, fair to all parties, and one which should be reasonably easy to negotiate. But there are, of course, many alternatives, some of which may, in particular cases, appear more attractive either to the IFC or the development bank. I see no overriding reason why the IFC investment in each bank should take the same form.

The data given in the paper, and the calculations made, are approximate only; they have not been fully checked.
April 11, 1961

Mr. Paul Monk
128 Yale
Claremont, California

Dear Mr. Monk:

Mrs. Shirley Boskey has asked me to reply to your letter to her of March 17. Mrs. Boskey is at present in Europe, but she discussed your letter with me before she left, and she has asked me to explain that pressure of other work prevented her from answering it earlier.

We think the subject matter of your proposed dissertation, the financing of industry in India through industrial development corporations, is interesting and provides scope for a good paper; the outline you have prepared appears to be comprehensive and ambitious.

On your request for material, we note you have already written to the various financing institutions in India asking for the material they have available, and sending questionnaires. We would not have available here, for release outside the Bank, any additional material which the institutions themselves would not be able to supply. We suggest that the best course is for you to study first the material you obtain from India. If you find some gaps in the information you then have, and would care to consult us again, we can see if we can assist you.

You ask whether any further research is being carried out here on the subject of development banks. We are actively concerned with the activities of a number of development banks, those to which we have made loans or to which we have provided or are engaged in providing technical assistance, but we are not at present engaged in any studies which are expected to result in published material.

We trust you have fully recovered from your illness. When your dissertation is further advanced, we would be interested to see the end product of your research work.

Yours sincerely,

G. C. Wishart
Technical Assistance and Planning Staff
The following has been prepared in accordance with your request for information on loans made by the Development Loan Fund, the Export-Import Bank, and the Inter-American Development Bank and on operations under PL 480:

**Development Loan Fund.** Congress has authorized to date $2.65 billion in capital, and has appropriated $1.95 billion. As of to-day, loans and guarantees by DLF total slightly in excess of $1.8 billion. The guarantee portion of this sum is negligible.

**Export-Import Bank.** The total lending authority is $7 billion. As of December 31, 1960, authorized loans have totaled $10.8 billion, outstanding loans $3.2 billion, and amounts remaining to be disbursed $1.8 billion.

**Inter-American Development Bank.** The authorized capital is $850 million, of which $400 million is paid-in capital and the balance is callable only to meet the obligations of the IADB. In addition the IADB has a Fund for Special Operations which totals $150 million. The U.S. share is $150 million of the paid-in capital and $100 million of the Fund for Special Operations. In addition the U.S. has an obligation for $200 million of the callable capital.

To date the IADB has made two loans, one to Peru for $3.9 million under its regular capital, and the other to Bolivia for $10 million under the Fund for Special Operations.

**PL 480.** Congress has authorized $9.25 billion for Title I sales of agricultural surpluses (for local currency). This authorization is now almost all committed and a request has been made to Congress for an additional $2 billion for this calendar year.

The Title II (grants of agricultural surpluses for emergency purposes) authorization is $1.4 billion. As of December 31, 1960, $771 million of this amount had been committed.
**REMARKS**

Attached is a draft paper we have circulated to a number of people in the Bank for comments. If you are interested in this, I would appreciate having your comments or suggestions on this paper.

From

W. J. Armstrong
DETERMINATION OF DEBT-EQUITY RATIOS FOR DEVELOPMENT BANKS

Introduction
1. Certain limits of debt to equity, or debt-equity ratios, have been imposed upon the various development banks to which the Bank has made loans. Recently, several banks informally have proposed an increase in the ratio of debt to equity, and discussion has ensued about what ratios should be permitted. The purpose of this memorandum is to attempt to identify and relate the principal considerations which might guide the Bank in its review of, and negotiations on, the debt-equity position of the development banks with which it has loan agreements.

Definitions
2. Debt, as used herein, is the total amount of long-term borrowing outstanding, less that portion of amortization payment falling due within 12 months. Equity includes all paid-in capital, free reserves and earned surpluses, plus the outstanding balance of long-term government advances in those instances where the Bank agrees that the long-term character of the advance warrants consideration as equity. Debt service coverage is the number of times a development bank's cash resources can meet its cash requirements, including fixed obligations, without reducing its level of investments.

Discussion
3. The attitudes of the shareholders and creditors of a development bank toward a debt-equity ratio are quite naturally diametrically opposed, owners wanting a large amount of debt for high return on their equity, and creditors seeking high equity to assure collection of the debt despite all eventualities. Actually, the ratio of debt to equity is of most importance to creditors in the event of liquidation, while debt-service capability is more important as a measurement of viability.
under operating conditions. Perhaps too little attention to this point has been given in the Bank's approach to development banks. But the Bank is more than a normal creditor; as a sponsor of many of these institutions and concerned with their development missions, it necessarily must seek to find a balance between the two viewpoints.

4. The owner's interests in development bank operations can be simply charted, as in Annex #1, which shows the net return on equity under varying debt-equity ratios and varying interest rate spreads on funds borrowed and relent. It will be noted that with a 1% spread a 5:1 debt-equity ratio is not more attractive than a 2:1 ratio. With a 2% spread an increase in the debt-equity ratio from 2:1 to 5:1 will raise the return from slightly over 3% to almost 5%. Above a 2% spread, it will be seen that the earnings benefit of a higher debt limit becomes substantial. At less than a 1% spread an inverse relation occurs, with increasing debt lowering the return.

5. The debt-service considerations of the creditors are set forth in Annex #2. Two principal conclusions may be drawn from this graph. Most striking is the low level of debt-service capability of most of the development banks with which the IBRD is associated. Second, the flatness of the curves indicates that the debt-equity ratio has little bearing upon debt-service coverage, or, conversely, that the interest spread (assumed in this instance to be foreign exchange only) has more impact upon coverage than has been recognized. Coverage would be nearly the same for a 5:1 debt-equity ratio as for a 2:1 ratio if the interest spread were but 1% higher. Conversely, under a single spread, say 4%, coverage falls from 1.174 times for a 2:1 debt-equity ratio merely to 1.158 under a 5:1 debt-equity ratio.
6. In order to determine a development bank's ability to cover its fixed obligations under periods of temporary stringency, it is possible to project, as done on the right hand of Annex #2, the extent of delinquent loans which can be incurred without actually pushing resources available for debt repayment below the debt servicing requirements. It will be seen, for example, that a bank with a 2% interest spread and a 3:1 debt-equity ratio cannot cover its fixed obligations if over 11% of its loan repayments due are temporarily uncollected without reducing its level of investments. It is believed that the difficulty most likely to confront development banks is a general economic slump, of perhaps several years duration, during which a significant number of projects will be unable to repay their obligations on schedule.

7. In pursuit of the objective to balance owners' and creditors' interests, it is possible to relate four distinct variables: a) debt-equity ratio; b) debt service coverage; c) net return on equity, and d) interest spread. This is done on Annex #3, which may be used to determine the return and debt coverage which will result from alternate interest spreads under a fixed debt-equity ratio or, from alternate debt-equity ratios under a given interest spread. The shareholders may be expected to have a minimum return on equity which they consider acceptable, while the creditors may conclude that a given risk situation requires operations above an established debt-coverage level. Assuming after taxes that the minimum acceptable return is 4% and the minimum acceptable debt coverage is 1.1, certainly low by any standards, the presentation in Annex #4 highlights the alternatives. The area at the bottom of the graph represents operations acceptable to neither shareholders nor creditors. The triangular-shaped area to the right of the graph, is acceptable to shareholders because it is above the 4% return line but unacceptable to
creditors because it is below the 1.1 debt-coverage line. Conversely, the small, triangular-shaped area to the left of the graph is acceptable to creditors but not to owners. The area at the top of the graph is acceptable to both parties and may be achieved by a 3% or 4% interest spread under all reasonable debt-equity ratios. Since the line representing a 2% interest spread would fall either below the 4% return line or the 1.1 debt service coverage line, or both, (see Annex #3), this spread must be considered unsatisfactory to both owners and creditors.

8. Those involved in analysis and negotiations must understand that none of the four factors should be considered "fixed". While the interest spread normally would be dictated by the capital market place, more often than not it may be determined by government "policy" or an unrealistic appraisal of effective demand by the banks' management. It should be recognized that good business, and also good economics, may warrant a higher lending interest rate than heretofore accepted by both creditors and owners as the maximum.

9. It is apparent that whatever aspirations owners and creditors may have about income and security, respectively, they ultimately must make realistic business judgements on these matters. Owners must be governed by the current and prospective rate of earnings in alternate investment areas. The Bank must be responsive to reasonable earnings targets, since earnings and the concomitant growth in reserves will increase a bank's borrowing power under a given debt-equity ratio or eventually permit raising of further share capital.

10. The creditor's decision about debt coverage to be required also must be a business judgement based upon a full assessment of all factors pertaining to the risk involved. It is important that the debt-equity ratio be recognized as not an in itself but a means whereby the Bank can limit the freedom of action by the management of development banks in
order to prevent the banks from slipping into an unsound financial position. It is essential that creditors, as well as owners, understand the impact upon their well-being of the interest spread between funds borrowed and funds lent.

In order for the creditor to assess risk as a part of making the debt-coverage decision, an abundance of information should be available to him, not only about the bank's general financial condition but also detailed data about its investment portfolio. The principal points for analysis are set forth in checklist fashion in Annex #5. Clearly these must relate to the creditworthiness of the borrowing projects, separately, but also to the overall balance of the portfolio. These investment objectives are often set forth in policy guidance from the bank's board. The limitations on speculative equity investments, in contrast to secured loans, offer one basis for assessment. The extent of diversity among industries and among geographic locations provides another. To the extent the projects are seasoned and productive, (i.e., loans are being repaid and equity shares are marketable at a fair price) the assessment of risk can be made with greater assurance. Despite the inherent risk, a variety of techniques are available to development bank managers to keep such risks from jeopardizing the financial health of the institution. In addition to obtaining sound security in the form of mortgages or bank guarantees, they may employ prompt write-offs of bad projects, reserves for doubtful projects, conservative valuation of equity investment, and so forth, to accurately state their financial position. When these are used properly the effect is to reduce equity, resulting in a less favorable debt-equity ratio, but probably warranting correspondingly lower debt coverage. A sample portfolio summary (drawn up for the Industrial
Credit and Investment Corporation of India) is set forth in Annex #6.

12-11. Special mention must be made of development banks which have government loans or advances which, by their ranking in the event of liquidation, serve as equity. Such consideration is acceptable, but at some point these advances must be repaid. Some banks are earmarking on their balance sheets a percentage of net earnings for repayment of these advances. It is present practice for development banks to including both government advances and any set-asides for repayment as equity. Such practice tends to overstate legitimate borrowing authority under a specified debt-equity ratio. It is believed essential that development bank managers project their resource positions and debt-equity positions to a point several years after the first payment is scheduled to commence. For illustrative purposes this has been done for ICICI in Annex #7. This approach should encourage directors and managers to make current investment and profit distribution decisions with full awareness of the government repayment problem. This approach should help the bank's management work toward that desired situation when, despite reductions in government equity, they may meet the credit needs of their customers by the use of existing resources or by new publicly subscribed or borrower funds.

Conclusion

13-12. The debt-equity ratio is a limited control device in protecting the Bank's interests as a creditor of development banks. While it must be conceded the debt-equity ratio is perhaps the only means of influencing debt-service capability through the loan agreements, the Bank must concern itself more with the ability of these institutions to survive periods of adversity without failure or default on its own obligations. The Bank's judgement about the tolerable level of debt-
service capability in each instance must be based in part upon the risks inherent in the economy, the risks inherent in the portfolio of projects and the extent of delinquent loans which may be incurred without jeopardizing the financial stability of the institution. In negotiating it should further be recognized that debt-service capability is more a function of the interest spread between funds borrowed and those lent than the debt-equity ratio. Moreover, the interest spread need not be considered as a "fixed" element of the equation. The graphical analysis suggested may provide a useful framework for analysis and negotiation in order to achieve a healthy balance between creditors' and owners' interest.

A preliminary analysis of the six development banks to which IBRD has made loans indicates that all of them, except perhaps the IDB of Turkey, are still in the early stages of investment. None has, as yet, a portfolio grown to be sound. Moreover, by any financial standards, debt coverage by these institutions already is low. This situation would suggest that no increases in any presently accepted debt-equity ratio, nor any new debt-equity ratios, should be agreed to without a thorough analysis of income and risk and without a long range projection of the debt-equity situation. Annex #8 includes a list of recommended materials which should be required from development banks in order for such an analysis to be made.
<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Graph – Net Earnings and Debt-Equity Ratios. Notes to Annex #1</td>
</tr>
<tr>
<td>2.</td>
<td>Graph – Debt-Service Coverage and Debt-Equity Ratios. Notes to Annex #2.</td>
</tr>
<tr>
<td>4.</td>
<td>Graph – Case Study. Notes to Annex #4.</td>
</tr>
<tr>
<td>5.</td>
<td>Risk Analysis Checklist.</td>
</tr>
<tr>
<td>6.</td>
<td>Portfolio Summary. Table.</td>
</tr>
<tr>
<td>8.</td>
<td>Recommendations for Materials to be Submitted for Review Prior to Changes in Debt-Equity Ratios.</td>
</tr>
</tbody>
</table>

DEVELOPMENT BANK DEBT - EQUITY RATIO STUDY
NET EARNINGS AND DEBT - EQUITY RATIOS*

*FOR ASSUMPTIONS, SEE NOTES TO THIS ANNEX.

IBRD - Economic Staff
NOTES TO ANNEX #1

In relating the net return on equity to the debt-equity ratio, the following assumptions were used:

1. Equity is in the form of local currency which can be invested or loaned to yield a 5% return.

2. Debt is in the form of foreign exchange which is assumed to be lent at varying interest spreads above the borrowing rate.

3. Operating costs are 0.5% of total capital employed (i.e. debt plus equity), although this is somewhat lower than experience to date.

4. Reserves for losses due to bad debts and investments, and extra expenses incurred in recovery of bad debts, is taken at 0.5% of loans and investments outstanding.

5. Corporate taxes are assumed to be 45% which amount is deducted to arrive at net return on equity.

While the possible refinements to this presentation are limitless, it is believed that the formula could easily be expanded to accommodate those factors which might be suspected to alter significantly the shape or position of the curves. For example, where a development bank holds significant amounts of equity in marketable securities or short-term fixed deposits, yielding a lower return, this refinement can be employed. Or, if local currency is borrowed and relent, the specific interest spread involved can be included.
DEVELOPMENT BANK DEBT-EQUITY RATIO STUDY
DEBT SERVICE COVERAGE AND DEBT-EQUITY RATIOS*

* FOR ASSUMPTIONS, SEE NOTES TO THIS ANNEX.
NOTES TO ANNEX #2

In relating debt service coverage to the debt-equity ratio the following assumptions were used in addition to those set forth under Annex #1:

1. Local currency investments are assumed to be recouped evenly over a seven-year period in order to avoid impairment of capital.

2. Foreign exchange is assumed to be borrowed at 5 3/4% and the principal repaid over a seven-year period.

3. The scale indicating the level of allowable loan delinquencies includes both foreign exchange and local currency loans and investments.

As in the case of Annex #1, a number of refinements could be made without substantially affecting the character of the curves. It may be noted that foreign exchange loans collectible by the development bank and those payable are assumed to remain equal. Any difference between the borrowing and lending periods represents a special case. To the extent that losses are incurred or a reserve is set against loan assets the two figures will vary and foreign exchange loan assets will fall below loan liabilities and coverage will be reduced accordingly.
DEVELOPMENT BANK DEBT-EQUITY STUDY
NET EARNINGS, DEBT SERVICE COVERAGE, AND DEBT-EQUITY RATIOS

DEBT-EQUITY RATIO

DEBT SERVICE COVERAGE
(NUMBER OF TIMES CASH REQUIREMENTS ARE COVERED BY CASH RESOURCES)

8% RETURN

4% INTEREST SPREAD

4%

3%

2%

1%

0%

0%
NOTES TO ANNEX #3

This graph represents a correlation of the data in Annex #1 on the net results in Annex #2. It would also be possible although not quite so useful, to plot the debt-coverage data on the graph representing net return on equity.
DEVELOPMENT BANK DEBT-EQUITY RATIO STUDY

CASE STUDY *

DEBT-EQUITY RATIO

ACCEPTABLE TO OWNERS

ACCEPTABLE TO CREDITORS

ACCEPTABLE TO OWNERS

ACCEPTABLE TO CREDITORS

ACCEPTABLE TO OWNERS NOR CREDITORS

DEBT-EQUITY RATIO

DEBT SERVICE COVERAGE

NUMBERS OF TIMES CASH REQUIREMENTS ARE COVERED BY CASH RESOURCES

8% RETURN

6% RETURN

4% RETURN

4% INTEREST SPREAD

3% INTEREST SPREAD

1.3

1.2

1.1

1.0

2:1

3:1

4:1

5:1

* SEE NOTE TO THIS ANNEX.
For purposes of providing an illustration of the use of Annex 3, it has arbitrarily been assumed that owners demand at least a 4% return on equity, after tax, and that creditors require a 1.1 debt-service coverage. The key provided shows those areas acceptable to both, to one group or the other, and to neither. Within the area acceptable to both it is possible to determine what combinations of interest spread and debt-equity ratio may be employed.
Balance of Portfolio

The following should be considered:

1. Ratio of equity investments to loans.
2. Ratio of equity investments to development banks' own equity.
3. Extent of concentration in single plants.
4. Extent of concentration in single industries.
5. Extent of concentration in particular geographic areas.
6. Extent to which equity investments are a result of "swallowing" unmarketable underwritten shares.
7. Compliance with banks' own investment policy as laid down by governing body.

Seasoning of Portfolio

Four distinct stages may be usefully identified:

Stage #1.- No portfolio yet exists and investment opportunities can only be assessed upon the basis of potential industrial development throughout the country, long-term financing requirements and availabilities, labor and management skills, the legal framework for pledging security, the traditional approach to honoring obligations, and so forth.

Stage #2.- A significant number of commitments have been made to invest in or loan to projects, thereby permitting assessment of diversity, debt-service capability, and security, even though funds are just beginning to be disbursed.
Stage 3.— A significant portion, say half, of the committed loan portfolio is on a current repayment basis and a large proportion of investments are paying dividends, or otherwise marketable at a reasonable over-all profit. At this point it is possible to predict with greater accuracy the chances of continued viability, not only for mature projects but projects still in the construction stage.

Stage #4.— Earnings have proven steady and adequate and reserves accumulated from earnings have passed perhaps 50% of capital and approach a sum equal to paid-in capital, at which time it becomes relatively easy to acquire additional funds, either by bond issuance or share offering.

Measures to Reduce Risk

1. Security in the form of mortgages or bank guarantees.
2. Proper end-use analysis so development bank may exercise controls in loan agreement while remedies may still be effective.
3. Realistic presentation in financial statements of asset values. (While these do not improve the inherent value of the asset, they are designed to be a sobering influence on management, a deterrent to pressure for unwarranted dividends, and a source of honest information to creditors.)

a. The value of equity investments and short-term securities should be valued at the lower of cost or market. Non-marketable securities should clearly be so labelled.
b. Loans for failing projects should be written down to the level of expected recovery.

c. A reserve for losses from bad debts should be set up as a deduction against assets on the basis of an appropriate percentage of total loans outstanding, based upon actual loss experience in prior years or estimate of future losses, and adjusted from time to time on the basis of experience.
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<th>Industry Classification</th>
<th>Equity Investments</th>
<th>Loans</th>
<th>Company Total</th>
<th>Industry Total</th>
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**Development Bank Debt-Investment Study**

**Industrial Credit and Investment Corporation (India)**

**Total Assistance to Industrial Concerns as at June 30, 1950**

[Square million]
In order to illustrate the kind of portfolio presentation which should be required from development banks, a sample summary has been prepared for the Industrial Credit and Investment Corporation (India) from data as at June 30, 1960.

Enterprises receiving assistance from ICICI are grouped according to industries and ranked by the total value of the assistance rendered. The columns permit a fairly detailed analysis of the form of investment involved. Liberal use should be made of the remarks column.

For purposes of this illustration, direct investments and underwritings have been shown at the amount subscribed, regardless of whether paid up or not, less sales from the portfolio calculated at cost. An exception has been made for underwritings made in 1960 which have been shown at the amount sanctioned, since no experience regarding actual subscriptions for these projects is yet available. Loans, both rupee and foreign exchange, are shown at the amount advanced, less repayments, except that loans sanctioned in 1960 are shown at the amount sanctioned. The net effect of these assumptions is to understate commitments resulting from prior underwritings but to overstate investments and underwritings and, to some extent, loans, sanctioned in 1960. Modifications can easily be made to fit the need.

Each column is totalled once and the column labelled "Total" is summarized for each industry grouping in the adjacent column. Where relevant, industry subtotals for the several forms of assistance could
be inserted. Percentages are applied to totals and numbers of projects are shown in parentheses. These project summaries do not add across since an enterprise receiving both investment and loan assistance is counted only once in the total column. The range of project sizes, and the average, also is shown.

A brief evaluation of each project, based upon ICICI submissions, divides projects into "old" projects (i.e., those actually in production prior to 1960) and "new" ones, including those only sanctioned. "Old" projects in turn, are grouped into those whose performance provides grounds for concern (shown by a "?"), all others being "OK". In about 10 instances, where ICICI admits it has no information whatsoever on the project, the benefit of the doubt has placed the project in the OK category.

A brief perusal of total figures reveals, among others, the following relevant facts about the ICICI portfolio:

- Over 1/5 of all assistance has been given to the paper industry, although the balance has been distributed fairly widely among other industries.
- Only one of the nine paper plants may be considered a proven project.
- Rs. 58.9 million (or slightly over 30% of resources employed) have been allocated to equity investments. (This is in excess of paid-in capital and represents investment use of the Government advance.)
- Rupee loans and investments represent almost 58% of resources employed, foreign exchange loans representing the balance.
Almost equal amounts of funds have been invested in preference shares and ordinary shares, while the number of projects involved in each type also is about the same.

The largest four benefitting enterprises represent Rs. 34.7 million or 18% of the portfolio, as defined.

Of the 75 enterprises involved, projects in 49 must be considered "new" and 6 doubtful. These represent 76% of the value of the portfolio, leaving less than 24% as proven.

Of the doubtful projects identifiable so far, only one involved a loan (rupee in this instance), the balance being direct investments.

Only three of the foreign exchange loan projects were sufficiently in production on June 30, 1960 to be described as "old".

Two summaries of the seasoning and quality of the industrial assistance follow (Rs. million):
The importance of this resume lies not so much in any weakness or immaturity revealed in the ICICI portfolio, for it is probably one of the soundest and most diversified, but rather in the presentation format. It is believed that this format will provide the basis for a review of all investments which will quickly reveal major defects. It does not take the place of a project-by-project analysis, although it may suggest areas in which such analysis should be concentrated.
DEVELOPMENT BANK DEBT-EQUITY RATIO STUDY
PROJECTION OF DEBT-EQUITY OF INVESTMENT AND CREDIT CORPORATION OF INDIA*

DEBT LIMIT

MILLIONS OF RUPEES

0 100 200 300 400 500 600 700


FISCAL YEARS

2/98 15/85 26/74 45/55 58/42 63/37 70/30 69/31 68/32 65/35 52/48 52/48 48/52 45/55 42/58 38/62 34/66

DEBT-EQUITY RATIO (CASH BASIS)

*SEE NOTES TO THIS ANNEX.

IBRD - Economic Staff

1765
NOTES TO ANNEX #7

The following assumptions were employed in projecting ICICI's debt-equity position:

1. Equity capital increased to Rs.100 million in 1968.
2. Government advance reduced by Rs.7.5 million per year, starting with 1971.
3. Government loan increased to Rs.100.0 million by 1964 and balance reduced to Rs.85.0 million by 1974.
7. Additional foreign exchange borrowing of $20 million fully disbursed by 1966 and balance reduced to Rs.15 million ($3.2 million) by 1974.
9. Reserves and surplus are augmented annually on the basis of the following assumptions:
   a. After tax earnings are 3.43%, 2.74%, and 2.24% of capital employed in 1960 thru 1962, respectively, and 2.0% thereafter.
   b. Dividends payable from earnings are 5% of paid-in capital in 1960 and 1961, 6% in 1962 and 1963, 7% in 1964 and 1965, and 7½% thereafter.
In order to provide the analysis prerequisite to approving a new or revised debt-equity ratio, the following should be required of a borrower:

a. All data necessary to plot planned earnings and coverage for the borrowing bank, including a discussion of interest spread on foreign exchange borrowings (and also local currency if also borrowed), and average return expected on local currency investments. Any other data, such as a large volume of current assets, which might affect the analysis should be obtained.

b. The portfolio should be set forth classifying each project and its current value as (1) regular equity investment, underwriting investment, or secured or unsecured loan; and (2) by industry grouping (see Annex #6).

c. All doubtful loans should be listed with estimates of losses or delays and all unmarketable securities should be listed with remarks about possible future worth.

d. A projection in table or chart form of the debt-equity position year by year until several years after repayment of any government advance commences (see Annex #7). Planned dividend rates should be stated in order that reserve growth may be determined.
e. Even though the development bank may be reluctant to revise its own financial statements, in calculating its debt-equity position in terms of an agreed debt limit, the following accounting procedures should be followed:

(i) all investments should be valued at cost or market, whichever is lower (all underwritings held or estimated to be held more than 90 days should be considered investments);

(ii) loans for failing projects should be written down promptly to the level of expected recovery;

(iii) a reserve for losses from bad debts should be established as a deduction against assets on the basis of percentage factor of total loans outstanding, based upon actual loss experience in prior years or estimate of future losses, and adjusted from time to time on the basis of experience; and

(iv) deduct from equity reserves any amounts earmarked for the repayment of a government advance.

f. A resume of all statements of current lending or investment policy.
My dear Dick,

It is not so long since I saw you but I thought you might like a brief note from each of my ports of call. I had excellent flights, both to London and here.

I have now spent two days going through the organization here and have met practically all the members of the staff. I must say I am very impressed with the set-up; I used to think CDC was well organized but it could learn a lot from this place in the way of processing applications. There are weekly meetings of the Eliminations and Credits Committees, and also a weekly board meeting which is going on now.

Of particular interest to me (Ken will be interested too as he spoke of this to me) is a new department - the Project Development Dept. Its work is to do pre-investment surveys and to suggest new projects which can be mounted either by others or by IDB itself. If IDB decides to go ahead, the project has to be worked up independently by the new dept. and then treated to just as rigorous an examination by the other depts. as if it were an application coming from outside. So far, a decision has been taken to go ahead with one project and IDB has arranged for about 80% of the equity to be taken by private investors, IDB to retain 20%. The new dept. reckons it can do about two such projects a year.

Yazici has arrived for the board meeting and I have a date to spend Monday morning with him.

My regards to all.

Yours ever,

/s/ George Wishart

Copies to: Messrs. Iliff
Cope/Lajeune
Ripman/Armstrong
As requested, I attach a note of the various International Bank credit lines to development banks. These are our loans to development banks proper, for their re-lending to borrowers approaching them directly, and do not include loans made where the development bank was only used as a vehicle, e.g., various power and other project loans made through the Japan Development Bank. Nor have I included our loans for agricultural purposes made through agricultural lending institutions.

There are no Bank credit lines so far to the banks in Ceylon, Malaya or Thailand.
## International Bank Credit Lines to Development Banks: as at November 1960

<table>
<thead>
<tr>
<th>Development Bank</th>
<th>Date of Loan Agreement</th>
<th>Net Amount (in U.S. $ equivalent)</th>
<th>Disbursed as at October 31, 1960 (in U.S. $ equivalent)</th>
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<tr>
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<td>Government of Ethiopia for</td>
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<td>Development Bank of Ethiopia</td>
<td>September 1950</td>
<td>2,000,000</td>
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<tr>
<td><strong>India</strong></td>
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<td>ICICI</td>
<td>March 1955</td>
<td>10,000,000</td>
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<td></td>
<td>July 1959</td>
<td>10,000,000</td>
<td>75,702</td>
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<td></td>
<td>October 1960</td>
<td>20,000,000</td>
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<tr>
<td><strong>Iran</strong></td>
<td></td>
<td></td>
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<tr>
<td>IMDBI</td>
<td>November 1959</td>
<td>5,200,000</td>
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<tr>
<td><strong>Pakistan</strong></td>
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<td>PICIC</td>
<td>December 1957</td>
<td>4,200,000</td>
<td>2,873,293</td>
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<td>September 1959</td>
<td>10,000,000</td>
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<td><strong>Turkey</strong></td>
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<td>IDB</td>
<td>October 1950</td>
<td>8,676,220</td>
<td>8,676,055</td>
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<td></td>
<td>September 1953</td>
<td>9,000,000</td>
<td>8,841,850</td>
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<td><strong>Totals</strong></td>
<td></td>
<td>97,364,374</td>
<td>38,130,376</td>
</tr>
</tbody>
</table>
November 9, 1960

Mr. Sharda N. Singh,
Commerce Annex,
University of Illinois,
Urbana,
Illinois.

Dear Mr. Singh:

I am replying to your letter of November 1, in which you say you are considering doing your doctoral thesis on the subject of development banks.

You asked a number of questions in the hope that the answers would help you to decide how to go about doing your thesis. Let me take the simplest question first. The library of the International Bank does have a number of annual reports of development banks. The collection is spotty, by which I mean that not all development banks are represented, while for some we do not have a complete set of reports. Moreover, not all the reports are available in English. I am informed by the library that it may be possible to borrow reports on an inter-library loan through the University library, but whether a given report could be made available would depend on what the demand for it was in the Bank: reports which are frequently consulted would not be made available. In any case, the particular reports you wanted would have to be requested: you could not ask for "all reports of development banks". Doubtless the University library will be able to advise you about this. You can, I am sure, obtain copies of annual reports directly from the banks in which you are interested.

As for published materials dealing comprehensively with development banks, apart from "Problems and Practices of Development Banks", with which you are familiar, and the earlier book, "Development Banks", by William Diamond, to which "Problems and Practices" is a companion,
there is little I can suggest. One chapter in a document published by the Pan American Union in 1958, "Financing of Economic Development in Latin America", prepared by the Secretariat for the Inter-American Economic and Social Council (ES Doc. 30/58), is devoted to Latin American development banks. There is material in the Bank files, derived mostly from periodic inspection and review of the operations of banks to which we have made loans, but it is not publicly available.

From time to time we receive inquiries similar to yours, and we invariably advise students that it is difficult to do a study of any aspect of development banks on the basis of published documentary material alone. This is in part because there is so little published data, in part because the quality and quantity of what is available is very uneven, and in part because the data reveal very little about the actual operation of the banks. We always urge on-the-spot observation, particularly if the study or thesis is to be comparative or analytical.

If, however, it is not feasible for you to visit a development bank, you can probably collect some material by correspondence, on such aspects of a bank's operations as investment criteria, for example, or activity in support of a capital market, or promotional work. You might find this an easier task if you were to concentrate on a single bank. While there are a number of banks from which to choose, the Industrial Credit and Investment Corporation of India might be particularly appropriate, for a number of reasons. You have the advantage of familiarity with the environment in which the bank operates. ICICI illustrates the wide range of functions which a development bank can usefully perform and is generally regarded as among the most successful and effective of such institutions. And finally, it is among the better documented banks. Should you wish to communicate directly with the bank, its address is 163 Backbay Reclamation, Bombay. As you undoubtedly know, there are a number of other development banks in India, including the State Finance Corporation, and you might wish to consider a more ambitious project, confined to India but covering more than one institution.

I am sorry that I cannot be of more assistance and hope that what I have written will be helpful to you.

Sincerely yours,

Shirley Boskey
Technical Assistance and Planning Staff
<table>
<thead>
<tr>
<th>Name</th>
<th>Route Number</th>
<th>Department</th>
<th>Route Number</th>
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<tbody>
<tr>
<td>Mr. Black</td>
<td>1024</td>
<td>Mr. Perry</td>
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<td>Mr. Broches</td>
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<td>Personnel Div.</td>
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<td>Mr. Cargill</td>
<td>614</td>
<td>Mr. Poore</td>
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<td>Mr. Cope</td>
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<td>Mr. Ramm</td>
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<td>Mr. Demuth</td>
<td>506</td>
<td>Mr. Reamy</td>
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<td>1017</td>
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<td>Mr. Hauenstein</td>
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<td>Mr. Howell</td>
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<tr>
<td>Mr. Iliff</td>
<td>1003</td>
<td>Mr. Stevenson</td>
<td>600</td>
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<td>Mr. Knapp</td>
<td>1024</td>
<td>Technical Op.</td>
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<td>Mr. Lejeune</td>
<td>813</td>
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<td>Mr. Mendels</td>
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<td>Treasurers</td>
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<tr>
<td>Mr. Nurick</td>
<td>1121</td>
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<tr>
<td>Office Services</td>
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</tbody>
</table>

Remarks: From: Communications Unit - Room P-106 (Ext. 3630)
November 8, 1960

Dear Mr. Cope,

I acknowledge receipt of your letter dated October 31, 1960 informing me of the interest of Dr. Hermann Jannsen of the Frankfurter Bank in Österreichische Investitionskredit Aktiengesellschaft. Following your advice I shall send him informations on our company.

I am very pleased indeed of your remark on the soundness of forging links with leading European banks, as it is my believe that this is a right way to overcome some of the specifically Austrian problems in long term financing. I would greatly welcome to discuss these problems in detail with you.

Yours sincerely,

Dr. Wilhelm Teufenstein

Mr. S.R. Cope
Director of Operations
Europe, Africa and Australasia
International Bank for Reconstruction and Development
19th and H Streets, N.W.
Washington 25, D.C.
Dear Mr. Copie,

I acknowledge receipt of your letter dated October 21, 1960.

I am very pleased to hear of your interest in the acquisition of the Bantam Bank in a merger with the International Investment Bank. A letter has been sent to Mr. R. M. Copie, Director of Operations, regarding this matter.

Enclosed please find a copy of the agreement for your information.

Yours sincerely,

[Signature]
October 31, 1960

Dear Dr. Teufenstein:

Recently I had a conversation with Dr. Hermann Jannsen of the Frankfurter Bank during which he asked me about the development banks which we have been associated with in underdeveloped countries. In the course of this conversation I inquired whether he would also be interested in something nearer home and asked him if he had heard about Investitionskredit. He expressed interest and I told him about Investitionskredit and its operations.

I do not know whether or not the Frankfurter Bank could play any part in your future plans for raising new capital but I think that it is sound in principle to forge links with leading European banks. Unless therefore you see any reason for not doing so, I would suggest that you send him a copy of your report for 1959 and any other information which you think might be helpful to him as a potential investor.

Yours sincerely,

S. R. Cope
Director of Operations
Europe, Africa and Australasia

Dr. W. Teufenstein
Österreichische Investitionskredit
Aktiengesellschaft
Am Hof 4.
Vienna, Austria

JHCollier:vmc
September 2, 1960

My dear Soutendijk:

As I promised you this morning, I am enclosing a copy of the recent book by Mrs. Boskey entitled "Problems and Practices of Development Banks." This is, as you will see, a logical addition to Mr. Diamond's book.

In Appendix A you will find rather summary data on development banks in different countries and I think this will go some way towards answering your question about sources of credit and equity in India, Pakistan and the Far East. Should you wish further details on any of the institutions mentioned in the Appendix, we will be glad to help you if we can.

I might also mention that Dr. Antonin Basch is engaged in a rather extensive study of the capital markets in various countries of the world. He is out of the country at the present time, but should you have the opportunity you might wish to discuss your problems with him or one of his associates when you come to Washington at the end of the month.

Looking forward to seeing you then,

Yours sincerely,

[Signature]

Alexander Stevenson
Assistant Director
Department of Operations
South Asia and Middle East

Mr. I.R.W. Soutendijk
Brown Brothers Harriman & Co.
59 Wall Street
New York 5, N. Y.

Enclosure

A Stevenson: rha
August 30, 1960

Mr. Mohamed T. Diawara
Delegation Generale de la Cote d'Ivoire en France
159 Boulevard Haussmann
Paris, Se.

Dear Mr. Diawara:

Thank you for your letter of August 5, enclosing a copy of your study on a proposed development bank for the Ivory Coast, which was received here on August 18.

I have already had the opportunity of reading through your full report, but I should like to spend more time studying the documents carefully. Accordingly, this is merely an acknowledgement of your letter and I shall write you again at a later date with any comments or suggestions we may have.

With kind regards,

Yours sincerely,

G.C. Wishart
Technical Assistance and Planning Staff

GCW:eb

cc. Mr. Jentgen
CROSS REFERENCE SHEET

COMMUNICATION: Memorandum

DATED: August 29, 1960

TO: Files

FROM: C. W. Wang

FILED UNDER: Africa - General

SUMMARY: African Development Bank.

According to a report from UNTAB resident representative in Ethiopia, the second Conference of Independent African States, held in Addis Ababa during June 14-26, passed two resolution (among others) calling for the establishment of an organization to be known as the "Council for African Economic Cooperation" and of a joint "African Development Bank" and also a joint "African Commercial Bank".
August 15, 1960

Mr. Paul Hirsch
International Finance and Trade
26 Broadway
New York 1, N.Y.

Dear Mr. Hirsch:

On my return from leave, I found your letter of July 27, asking for a list of development banks. I take it that you intend to inquire of them whether they would be interested in participating in your proposed machinery and equipment leasing scheme. Many banks, as you probably know, do themselves provide funds for imports of plant and machinery, as an integral part of an over-all financing plan worked out with borrowers. This is, at any rate, true of the banks with which we are well acquainted. In the circumstances, I would not venture to predict what the reaction to your plan may be.

In response to your request, I am enclosing a copy of the most recent edition of "Data on Development Banks." I am afraid it may tell you more about development banks than you want to know, and I must also add that some of the data are by now out of date. However, we do not have a simple list of banks, and perhaps this will serve your purpose. I hope it does not arrive too late to be useful.

Sincerely yours,

Shirley Boskey
Technical Assistance and Planning Staff

Enclosure

SEB:em
OFFICE MEMORANDUM

TO: Messrs. J.B. Knapp, R.H. Demuth & S.R. Cope
FROM: George R. Young
DATE: August 8, 1960.
SUBJECT: Some Techniques of Development Lending.

Attached is a copy of the DAG paper, as revised. I hope it will commend itself to you. A copy of this revise has been sent to Mr. Black.

GRY/ls

P.S. Mr. Knapp.

I thought your footnote to the Title belonged better as an opening paragraph of the Introduction, since it is an important part of the definition of the paper. I hope you will agree that it seems to fit there very well.
International Bank for Reconstruction and Development

SOME TECHNIQUES OF DEVELOPMENT LENDING

I. Introduction
II. Creditworthiness
III. The Selection of Projects
IV. The Appraisal of Projects
   - Economic Aspects
   - Technical Aspects
   - Managerial Aspects
   - Organizational Aspects
   - Commercial Aspects
   - Financial Aspects
V. The Supervision of Projects

September, 1960.
I. Introduction

1. This paper sets forth some of the techniques of development lending which have been evolved by the World Bank in the preparation and administration of its loans for specific development projects in the less developed countries. Many of these techniques may be applicable in one form or another to other forms of development assistance (e.g. to "soft" loans or more generalized aid programs); it should be noted, however, that the paper does not attempt to cover the full range of problems arising in connection with financial aid to the undeveloped countries.

2. The first step in the formulation of a program for conventional development loans to undeveloped countries is to establish the "creditworthiness" of the country concerned, i.e. its capacity to service external debt without imposing an undue strain upon its internal finances or its external balance of payments. When the limits of creditworthiness are reached, additional development assistance can be rendered effectively only if it is placed on a "soft loan" or outright grant-in-aid basis. Whatever may be the repayment terms, development capital is almost always short in relation to the potential requirements of a less developed country. It is therefore a matter of vital importance to assure that the available funds are applied to the most productive uses and that development projects are executed with maximum efficiency. This paper describes ways of achieving these objectives. It should be emphasized that they do not and cannot provide a definitive body of techniques which can be applied immediately and straightforwardly in any situation. All underdeveloped countries have their own peculiarities which must be taken into account and a thorough knowledge of local conditions is essential. Moreover, statistical data are often incomplete, making more difficult the appreciation of economic problems and of the changes which are taking place in an economy. But even if all the necessary statistics are available, judgment is required as well as technical analysis. The devising of policies for economic development and the selection of projects is not an exact science.

II. Creditworthiness

3. Creditworthiness must be considered both in connection with the project itself and in connection with the economic situation of the borrowing country.

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1/ For an analysis of the growth of the external public debt of the less developed countries from 1950-1958, see "Debt Servicing Capacity & Postwar Growth in International Indebtedness" by Dragoslav Avramovic (Johns Hopkins Press, 1958) and "Debt Servicing Problems of Low-Income Countries, 1956-1958" by Dragoslav Avramovic & Ravi Gulhati (Johns Hopkins Press, 1960).
This is because the repayment of international loans requires both the accumulation of local funds and — except in certain so-called "soft" loans — their transfer into foreign exchange. If a country encounters severe foreign exchange difficulties, the repayment of all its external debt may be endangered even though many of the projects for which loans were originally made may have been sound.

4. The borrower carries the responsibility for providing the local funds necessary for the service of the loan. If the project itself earns revenue, the creditworthiness of the borrower in local currency must be judged by an appraisal of the project and the financial situation of the borrower as is described later in this paper. If the project does not earn revenue directly, the servicing of the loan in local currency must depend upon some other source of revenue, usually tax revenue of the government or of a government agency. But in every case the transfer of the debt service payment to the lender depends upon the availability of foreign exchange, which is itself determined by the general balance of payments situation of the country.

5. Sometimes a project may itself earn foreign exchange directly, for example, the development of a new mineral resource for export. In such a case it may be possible for the lender to obtain specific security by a lien on the foreign exchange earnings of the project itself. But in the majority of cases, even where the project does lead to increased exports, it is not possible to segregate specific foreign exchange income to provide security for the lender, and he must depend upon the adequacy of the country's overall foreign exchange earnings.

6. Clearly, therefore, the prospects for total export earnings are of major importance in assessing creditworthiness. It is true that a project may also improve the balance of payments by reducing imports rather than by increasing exports, and there is a legitimate place for this type of development. There is some danger, however, that in practice such projects may be fostered at too great a cost. Import saving projects entail in many cases some form of subsidy or tariff protection; this is a cost which must be borne by the rest of the economy including the export industries. It is therefore all the more necessary that projects of this kind should be carefully appraised since otherwise there is a danger that the direction of investment within the country will be distorted and the development of exports will be held back. In the long run, the expansion of exports is one of the most effective of all the stimuli to economic development, and the rising incomes which it brings provide the best incentive for the growth of local industries. In other words, economic development takes place most easily in a context of rising international trade; if a country's exports cease to grow, either because of market conditions or physical limitations, development in the rest of the economy will certainly be hampered and may even cease altogether.

7. In judging the ability of a country to service additional external debt, the size and terms of the existing debt are clearly central factors. On the basis of comprehensive information about external debt a broad comparison can be made between the annual service payments which have to be
made abroad and the growth of national income and foreign exchange earnings. Difficulties often arise, not so much from the size of the debt as from an overlarge proportion of it being at too short a term. In this event the annual burden of repayments may increase much more rapidly than foreign exchange income so that the country may eventually be forced either to reduce imports severely or -- unless it is able to solicit emergency assistance -- to default. It should be noted, on the other hand, that to incur long-term debt for sound development projects need not result in any substantial relative increase in a country's debt burden, if the country pursues sound foreign trade and exchange policies. Loans for productive projects will be matched by higher income and this should result in a stronger balance of payments position.

8. It is the annual service charges on external indebtedness which is the important magnitude. The lower the interest and the longer the term the greater the debt that can be serviced for the same annual charge. The terms on which development aid is provided are therefore of great significance. Whether for reasons connected either with the project itself or with the balance of payments, it is important that aid should be provided on terms which are not unduly burdensome. A great many development projects pay themselves out only over a long period of years but are frequently financed by short- or medium-term borrowings. These excessively short repayment terms may place serious strains upon a country's foreign exchange income, and destroy the flexibility which is required to meet vicissitudes in its external accounts. Some of the same effects may be produced in the financing of projects which governments should carry out, but which do not earn revenue to provide for debt service because the benefits accrue largely to the public. In such cases some or all of the debt burden falls within a short period upon the general budget, which is usually already overstrained with current governmental expenditures.

9. The behavior of a country's balance of payments is the result not only of the operation of independent economic forces but also of government policy. Since creditworthiness depends on the balance of payments, it depends also upon government policy to keep the demand for foreign exchange within the limits set by exports, invisible earnings and the proceeds of external borrowing and foreign aid. The consequences of inflation are well known; it stimulates imports and hampers exports and so may reduce foreign exchange holdings to a dangerously low level and lead to an accumulation of short- and medium-term external debt, particularly in the form of suppliers' credits. If it continues, inflation can create a distortion of investment. In these ways, and others, inflation tends to increase the difficulty of servicing external debt.

10. The importance of avoiding inflation is, of course, familiar territory. It is as well to stress, however, that sound financial management in many underdeveloped countries demands more than the elimination of inflation. The ability of an economy to adjust to external changes is another essential element in creditworthiness. This applies particularly to countries relying for the bulk of their exports on one or a very few commodities or on those whose prices are subject to wide fluctuations. A fall in the demand for a country's exports normally sets in motion certain forces tending to restore a balance in its external accounts. However, it is generally also necessary for the government to take deliberate measures to adapt the economy to a
lower level of foreign exchange income and hence an added responsibility is placed upon the government's economic and financial policies. It is in circumstances of this kind that the level of exchange reserves is of paramount importance since exchange reserves can provide the vital element of time which is necessary for corrective policies to take effect.

11. For all these reasons the financial policies of borrowers are of the utmost significance to lenders. If these policies are such as to endanger the repayment prospects of foreign loans, it is surely reasonable to require that the borrowing country institute measures designed to restore stability to its economy. It is not generally practicable to insist that all remedial measures which may appear necessary be completed before any further loans can be made, but it is desirable to obtain concrete evidence that the government is actually taking appropriate steps toward the re-establishment of stability.

12. Creditworthiness is not determined by economic forces alone; within fairly wide limits it is determined, also, by the intangible factor of the country's attitude towards its foreign debts. A country which shows a willingness to maintain debt service at the expense, if necessary, of sacrifices in consumption standards is plainly a better credit risk than a country, even with a potentially somewhat stronger economy, which does not treat its foreign obligations with equal seriousness. In this connection, the past debt record of the country is significant. To be sure, events have sometimes made defaults inevitable, but in such cases the attitude of the country toward its obligations, and the sort of settlement it has made or offered to its creditors, are valuable guides in judging credit for future loans. All lenders have, therefore, a direct interest in the creation and maintenance of satisfactory relations between countries and their external creditors. It is the normal practice of the International Bank, for example, to inform loan applicants who are in default on publicly-held external obligations that the Bank will be unable to assist them unless and until they take appropriate steps to reach a fair and equitable settlement of their debts.

III. The Selection of Projects

13. Financial assistance for development lending should be so directed as to make the maximum possible contribution to the growth of developing countries. This is a broader objective than that which is uppermost in ordinary commercial lending. Not only must the funds be used to increase investment rather than consumption but the direction of investment as a whole must be such as to make the best use of available resources.

14. Ideally, therefore, development assistance should be accompanied by an appraisal of investment in all the different sectors of the borrowing country. To carry out such a task adequately would be a major undertaking. Generally, however, it is possible to make some assessment of priorities in the different sectors of the economy so as to indicate where the most urgent projects may be found. In examining the different economic sectors it is useful to distinguish the basic services -- transport, electric power, ports,
etc. -- from industry or agriculture. The problem of promoting economic development presents itself differently in these sectors; moreover, the former are frequently the responsibility of governments whereas the latter are traditionally the province of private enterprise.

15. As their name implies, the basic services are pre-requisites for the growth of the other sectors. If one of them falls behind, a bottleneck is created, and in such a case the projects having a high priority are generally obvious. More difficult are those cases where it is thought that the expansion of certain basic services may itself stimulate other investment. A new road may well, for example, foster new industrial or agricultural activity. However, this process is by no means inevitable and the particular circumstances must be carefully studied. Instances in which the hoped-for growth has not materialized are far from unknown.

16. In an effort to ensure that each sector develops at the right pace and in the right way, many governments have drawn up development plans. The most important part of most of these plans is a program for public investment covering not only the basic services of an economic nature but also capital expenditure on education, health, and other social services. A program of this kind necessitates decisions by the government both on the size of the investment in the public sector which it is possible to finance and on which of the many desirable projects are to be included and which must be deferred. To take such a decision involves a careful estimate of the resources which will be available to carry out the program and an examination of the individual projects to see which of them will make the greatest contribution to the country's development.

17. One important problem in drawing up a public investment program is the balance between "economic" or "productive" projects and "social" projects which may be urgent and beneficial but which will not result in any immediate increase in the production of goods or services. And productive projects themselves may be either revenue-earning, such as power plants and railways, or they may be projects which, while they do increase the national income, do not produce a direct revenue to the government (such as flood control or roads). If insufficient emphasis is placed on projects in the former category, difficulties will arise in maintaining a balance in the current budget owing to rising current expenditures for the operation of the projects and for servicing debt incurred in their construction.

18. The task of encouraging development in the industrial sector is a more complex one than the provision of basic services. Obsolescence because of technical changes is usually more rapid; conditions for the purchase of raw materials and for marketing the finished product are usually more complex and variable; and hence the risks are greater and the demands on entrepreneurial ability are usually more exacting. The governments of less developed countries are rarely well advised to embark on industrial ventures. The numerous claims upon public funds for projects unattractive to private capital provide a strong practical reason for leaving competitive industry as much as possible to private enterprise. A clear delimitation between the spheres of public
and private enterprise is one of the best ways of encouraging the investment of local capital in industry and the inflow of foreign private capital. Uncertainty about the intentions of government in this field can have an unsettling and therefore deterrent effect on enterprise. Furthermore, government participation in private industry always carries with it the possibility that decisions in government-controlled enterprises will be influenced by political considerations. Governments are by their nature subject to all kinds of pressures which it is undesirable to have carried over into the management of business enterprises. Finally, especially in the less developed countries, governments are very short of the kind of executive and administrative personnel required for the management of industrial enterprises. They usually have quite enough on their hands to supply the necessary supporting services for the private sector of the economy. If private initiative for the production of some important goods and services, or for the exploitation of some natural resources is not forthcoming, because the initial capital requirements are beyond the limits available to a private firm, then it may be preferable for the government to lend assistance through the provision of funds (e.g. through a Development Bank supported by the Treasury), or a guarantee, than to enter the field itself as an entrepreneur.

19. Since it is usually the small and medium-sized enterprises which have most difficulty in finding long-term capital, a local institution which is closely in touch with conditions in the country is essential. Where these development banks exist, they also provide a channel by which foreign capital may be encouraged to enter the country. The World Bank has been active in promoting the establishment of such institutions on a basis of private ownership and administration, but usually with some government support.

20. Agricultural development is perhaps the most difficult of all. Here the problems of agricultural techniques, land use and land tenure, the need for agricultural extension work, etc., are far more important than the availability of capital. In some countries the problem of modernizing agricultural traditions which may go back for centuries requires what is tantamount to a social revolution. The demand for external assistance in the form of agricultural credit is usually limited, not because investment in agriculture is not beneficial, but because the necessary conditions for utilizing credit are lacking. Irrigation, flood control or land reclamation schemes, where they are possible, are exceptions, since they frequently require substantial capital outlays. Even here, however, most of the benefit goes to the farmers concerned, and the government rarely manages to obtain a return sufficient to provide the full service on the invested capital. Some part of the debt service must therefore be met from general tax revenue. No hard and fast line can be drawn as conditions vary so much from one country to another. In general, however, it could be said that the provision of basic services for agriculture, such as feeder roads to enable farmers to market their crops, irrigation, water supplies, and drainage are a proper concern of governments or public authorities while the provision of farm implements and the growing of crops or raising of stock are best left to individual farmers. Even here, however, governments frequently assist in establishing facilities for providing credit for the purchase of implements, perhaps through an agricultural development bank. Producers' cooperatives may in some countries be useful in enabling farmers collectively to do what they could not do individually. Marketing schemes and machinery pools are examples.
21. It will be clear from what has been said that there is no single test by which various alternative projects can be judged. In some cases, such as the expansion of a single industrial enterprise, a simple test of profitability may be sufficient, but in the field of public works and "infrastructure" projects, much more analysis is usually required. With this in mind the next section of the paper discusses some of the questions which arise in the appraisal of specific projects.

IV. The Appraisal of Projects

22. In general, project appraisal has to answer three main questions, which involve the investigation of the project from six different points of view.

23. The first of these questions is: are the goods or services to be produced by the project needed by the economy for consumption or for export? In order to answer this question, the project must be investigated from the economic point of view.

24. The second question is: is the project properly designed and planned? To answer this question, the project must be examined from four different points of view, namely, the technical, the managerial, the organizational and the commercial.

25. The third question is: is the proposed method of financing the project appropriate, and (where relevant) are the earnings prospects satisfactory? This requires an examination of the project from the financial point of view.

26. The relative importance of these different aspects varies considerably according to the type of project involved, as is brought out in the following paragraphs, in which the six aspects are discussed in turn.

Economic Aspects

27. It is assumed that the sector of the economy in which the project belongs (agriculture, transportation, etc.) is of a priority which has already been established in a general review of the development needs of the economy. The economic examination of the project itself normally involves some kind of market study, the extent of which will depend on the type of project. In some cases, the study may be limited to a relatively confined area (for example, when a small power system is being considered), or at the other extreme, it may involve an analysis of the demand and supply prospects for a commodity on a world-wide scale (as for instance in the case of a large new source of iron ore).

28. The objective of the economic appraisal is to discover whether the project is able to earn a reasonable return on the capital which must be invested. The question of what rate of return is "reasonable" is not easy to answer, and the answer will vary from case to case. Where market forces operate freely it could be said that the new project should earn not less than the return from comparable enterprises in the country concerned. But
in the case of projects which are subject to regulation because of their monopoly position (for instance, some public utilities and transport systems) this test tends to become indistinct, and resort must often be had to the application of pricing formulae to produce the desired results.

29. In addition to the direct return which a project may produce, there are a number of other possible ways in which it may contribute to economic development. One of these is the extent to which it would utilize resources, material or human, which would otherwise be idle or under-employed. Then there is the question whether the project would create conditions favorable for the establishment of related economic activities (for instance, industries supplying raw materials or processing the products of the project). The obverse of this question is the question whether the project could be successfully carried out only on condition that other developments, which were not directly a part of it, were also carried out (for instance, the establishment or expansion of a steel industry is only practical if there are adequate facilities to transport the raw materials and the finished products).

30. In the case of agricultural projects, an economic analysis may be required on several scales (that of the individual farmer, that on the project as a whole, and that of its effects on the whole economy).

31. An important aspect of the economic appraisal is a determination of the project's probable effects on a country's balance of payments, whether by way of generating increased exports or by way of import substitution. It is of course the net effect on the balance of payments which must be estimated, that is, account must be taken of possible need to import spare parts or raw materials, as well as debt service, etc. Nor should the indirect impact of the project on the balance of payments be overlooked.

32. In considering projects for highways or railways, particularly on a national scale, it may be necessary to compare the relative merits of different types of transportation (railways, highways, inland water transportation). Similarly, when considering projects for the development of energy sources, the relative advantages of different types of energy source may have to be examined.

33. Another important economic question is whether the success of the project will depend upon measures taken to protect it from competition. These may be of various kinds. The commonest type is the imposition of import duties or quotas, but there are other types of protection such as a limitation on the freedom of road transport in order to protect a railway system. Any protection should be embarked upon with care, although there are cases in which protection for a period can be justified on the classical "infant industry" grounds.

34. Where the project is a regulated monopoly it is necessary to investigate whether the regulatory supervision is such as to permit the sound operation and development of the project. In many cases external assistance, e.g. a loan from the Bank, will only be forthcoming if necessary changes are made in the management and regulations governing a project, as well as in its pricing policies, if the latter endanger the project's successful operation.
Technical Aspects

35. This side of the investigation concerns the appraisal work done by engineers and similar specialists.

36. One of the first things to be examined is the proposed scale of operation, which has to be viewed in relation to the results of the market study referred to in paragraph 27. This is of particular importance in the case of those industries which cannot be carried on economically except on a large scale (an integrated steel mill is an outstanding example). Technical appraisal will also include an investigation of the processes which it is proposed to use (and here probable technical obsolescence must be taken into account). It is necessary to confirm the availability of the different factors of production (raw materials, fuel, power, water, skilled and unskilled labor). The proposed location has to be considered in relation to the sources of the factors of production, to transportation, and to the markets where the products are to be sold. The layout of a project may also be very important, especially from the point of view of possible future expansion. The basis for the estimates of operating results must also be examined.

37. It is necessary to consider whether the engineering arrangements for a project are satisfactory. In many cases, especially where the type of activity involved is something new to a country, or where an organization undertakes a major expansion involving a change in the scale of its operation, it may be necessary to employ consultants to assist those responsible for the engineering arrangements. The scope of the consultants' work may need to cover any or all of the following functions: design, preparation of specifications, drafting of invitations to bid, analysis of tenders and recommendation for placing contracts, arrangements for the payment of suppliers and contractors and for the transportation of equipment, inspection and expediting of equipment, supervision of construction and installation, training or arrangement for the training of staff, and sometimes the supervision of initial operations. Where consultants are employed, it is necessary to be sure not only that the firm chosen has a good reputation and record, but also that their staff and organization are adequate.

38. This part of the appraisal also includes the investigation of the proposed construction schedule, which must cover all the different phases from design through installation, and must take into account the effect of seasonal variations in working conditions, etc.

39. The appraising engineers' work also involves the investigation of the assumptions on which the cost estimates have been calculated. The cost estimates must include adequate allowances for physical contingencies and for likely increases in the general level of costs during the construction period. Provision must also be made for interest on borrowed money during construction and for initial working capital. The cost estimates usually need to be broken down according to the amounts which will be spent locally and abroad, according to a time schedule and according to the different main elements of the project.
40. Each type of project has its own set of problems. There is, for instance, the question whether it is better, at a given stage in the development of an electric power system, to construct hydro plants which may combine large immediate investments with low running costs or to install thermal generating capacity, which has a lower immediate cost but a higher cost of operation. In preparing the answers to this question it is important to assume a realistic rate of interest. For hydro-electric projects, it is also necessary to check geological investigations for dam sites, and to examine hydrographical records, both in order to confirm the minimum amount of stream flow which can be relied on and to estimate the maximum amount of flood to be taken into account. The potential sedimentation of reservoirs must also be examined. In the agricultural field, one of the most important subjects for investigation is the adequacy of soil studies. In many agricultural projects, success will depend upon the education of farmers through extension services, and their willingness to adopt new systems of cultivation, etc. The system of land tenure is a question of particular importance in this respect.

41. There are some types of projects, particularly for instance railroad and highway construction, in which the commencement of work need not be delayed until all the detailed engineering has been completed. In such cases, there may be a substantial margin of error in the estimate of the work to be done, and in particular of the amount of earth and rock to be moved. Adequate allowances must be made for these uncertainties in estimating the cost.

Managerial Aspects

42. The appraisal of management presents peculiar difficulties. Of course, where a project is to be carried out by an existing organization much can be learned about the quality of management from a study of what has happened in the past. But it often happens that a management with a good past record may be inadequate to handle a greatly expanded operation. In particular, proper delegation of authority is sometimes difficult to obtain, and this may be due not only to unwillingness to delegate from the top but also to lack of executive ability on the second level.

43. The shortage of management experience and ability is one of the main difficulties standing in the way of economic development in many countries. This is compounded by the limited concept of the role of management in some countries, where it is not understood that management is much more than simply keeping a plant running. And there is often an unwillingness to employ foreigners in positions of management responsibility. One solution to this problem may be the partnership between local investors and an existing foreign organization. Another possibility is to have professional managing agents provide centralized management services for a number of different organizations.

44. There are, however, cases in which these solutions may not be practical, and in which the only reasonable assurance of adequate management is to import it. It may be possible to arrange for a management contract with a foreign organization, or it may be practical to employ individuals from abroad. One of the objectives of such arrangements should be that the foreigners train local people to take their places as soon as practicable.
45. A problem which often arises, and not only in countries which are
called under-developed, is that of the management of government-owned enter-
prises. It is true that there are examples which are managed efficiently;
but in many cases government enterprises suffer from bad management, and in
particular a lack of flexibility and of rapid decision. One possible way
of solving this problem is to set up public corporations or autonomous
agencies, but this in itself is no guarantee of good management, particularly
when those in charge are appointed, or may be removed, for political reasons,
and also where the arrangements provide for limited terms of office and so
may militate against continuity of management.

Organizational Aspects

46. This side of the investigation of a project falls naturally into two
phases, the organization required to bring a project to the operating stage
and the organization required thereafter. The type of problem which has to
be investigated here is the extent to which responsibility and authority
should be centralized or delegated. This, of course, is intimately related
with the scale of operations, and with their geographical extension.

47. One of the most important aspects of organization is the question of
adequate internal controls. For management to function efficiently, an
organization must be able to provide without delay intelligently presented
information which is constantly checking performance against expectations
and so bringing to light problems as they arise. It is, of course, equally
important that an organization should be able to put the decisions of
management into practice without undue delay.

48. As the scale of operation grows, functions previously combined in one
part of the organization may need to be divided between separate parts. In
certain types of projects, for instance those concerned with the development
of ports and harbors, investigation may show that a number of different
authorities are responsible for various aspects of what is essentially a
single operation. This kind of organization seldom works smoothly, and it
may be necessary to establish a single authority responsible for all the
functions which are integrally connected.

49. There are special problems of organization concerned with regulated
industries, such as the electric power industry, the railroad industry, etc.,
in particular whether the mechanism for exercising the regulatory function
(for instance, the tariff commission) is well designed to carry out its
tasks, and whether it does so in practice. There are countries, for
instance, where the laws provide for a rapid adjustment of permitted tariffs
to compensate for types of increased cost which are beyond the control of
management, but where in practice there is difficulty and delay in obtaining
the necessary tariff increases.

Commercial Aspects

50. The commercial aspects of appraisal entail the investigation of the
arrangements for buying the materials needed to construct the project and
the arrangements for obtaining the raw materials, power and labor for the
operation of the project and for marketing its product.
51. In the construction phase, the main objective is to see that the proposed arrangements will ensure that the best value is obtained for the money spent. This will normally mean that the arrangements should provide effective competition between potential suppliers and contractors. The best way to ensure this is usually international competitive bidding. It is, of course, true that there are exceptions to this. For example, it may be most economic to standardize on the basis of existing equipment in order to reduce both the investment in spare parts and the cost of maintenance; and sometimes competition may be inappropriate, as in the case of manufacture under license.

52. It is necessary to investigate whether those responsible for the project have the necessary knowledge and experience to reach the best decisions about the way in which the available money is to be spent. In many cases, they need outside help, which can be provided by consultants.

53. The investigation of this aspect of the project at the operating stage involves the proposed arrangements for obtaining raw materials, power, etc., and for marketing the products of the project. Among other things, this will involve investigation of the terms of purchase and sale, which will have an important bearing on the amount of working capital required.

54. Some of the most difficult problems in this field arise in connection with regulated industries, and in particular with the electric power industry. Two questions are generally at issue here. The first is whether the prices which the organization concerned is permitted to charge will give it adequate revenue. This question is discussed below in connection with the financial aspects of appraisal. The second question is whether the structure of rates charged is appropriate to the different types of traffic or customer concerned.

Financial Aspects

55. This side of the investigation usually falls into two parts: that concerned with the amount of money required to bring the project into operation and with the sources from which this money is to be obtained, and that concerned with the operating costs and revenue and the prospective liquidity in the operating phase. In order to explain this approach fully, the main outline of the following paragraphs assumes a project which is to be carried out by an organization already engaged in operations, and already earning revenue. After the financial investigation of a project of this type has been sketched, the variations for other types of projects will be considered.

56. The first question is: how much money will be needed? Requirements will include some or all of the following items:

   a) cost of goods and services for the project itself

   b) allowances for escalation and contingencies

   c) interest on borrowed funds during construction

In addition account has to be taken of the financial position of the other activities of the enterprise, which during the construction of the project
might make a net contribution to the requirements of the project or might
give rise to additional cash requirements. Finally allowance has to be
made for the additional working capital required when the project starts
operations.

57. Many projects have got into difficulty because inadequate working
capital was provided. The estimation of working capital requirements has
to be based on reasonable assumptions concerning the amount of stocks, raw
materials, spare parts, etc.; the terms on which products are sold, which
will indicate the amount of receivables to be financed; and the amount of
funds necessary to take care of swings in payments and receipts, taking into
account any seasonal variations in production or sales.

58. The sources from which it is planned to meet the financial require-
ments will normally include funds (depreciation and undistributed earnings)
generated from operations. They may also include the proceeds of the
issue of share capital, and part of the funds will normally be provided by
borrowings at long-term, short-term, or both. In many projects, there may
also be provision for public funds from central or local budgetary sources.

59. The importance of retained earnings as a source of finance in
countries where capital is scarce and the rate of savings low must be under-
lined. It is recognized in many countries by existing tax legislation,
but there are countries where regulated industries, particularly the electric
power industry, have been unable to generate funds from operations to meet an
adequate proportion of the costs of new construction.

60. The next step in the financial analysis is to prepare projections of
two kinds:
   a) estimates of cash receipts and expenditures, from which it
can be seen whether funds will be available at the right
time to meet the expected requirements; and
   b) periodical balance sheets which show the financial situation
of the organization during the construction period.

61. These projections, together with projections of earnings, then have
to be carried on into the operating period to show the likely financial
results of the operation. In these forecasts account must be taken of the
time required to overcome initial operating difficulties and the rate at
which the market may be able to absorb production. Corresponding calcu-
lations will have to be made of the growth in the amount of working capital
required.

62. With these forecasts in hand, the investigator has to form various
judgments. He has to satisfy himself that there will be no shortage of funds
during the construction period and that the financial situation at the end
of the period will meet the requirements of sound financial principles. He
has to judge whether the expected revenue from operations represents a
reasonable return on the capital invested, whether there is an adequate
margin in the funds generated by operations to meet fixed financial obliga-
tions, and in many cases whether revenue will be adequate to establish
reserves needed for sound operation and possibly for future expansion.
63. In the light of these judgments, the investigator should be able to say whether the proposed financing plan is sound, or whether some change is necessary. He should, in addition, be able to formulate the conditions upon which money should be made available for the project. The object of these conditions will be, among other things, to ensure that subsequent action on the part of the management will not jeopardize the soundness of the financial situation and prospects. This may involve placing limitations on freedom to incur future debt, to distribute cash dividends, etc. It may also be necessary to make arrangements for security, and for the provision of additional funds in case they are needed. With public utilities, it may be desirable to obtain an undertaking that adequate rates will be sought not only to meet the expenses of operation and financial obligations, but in addition to provide funds towards the cost of future construction.

64. There are various types of projects to which an analysis in the form described cannot appropriately be applied. This is true, for instance, of projects which do not earn revenue, such as highways (except toll roads), irrigation projects where no direct payment is made for the water, etc. Particular problems arise in the case of multi-purpose projects, where the allocation of costs to the different functions which the project serves must always be to some extent arbitrary.

65. Where the benefits of a project (say for highways) cannot be measured precisely, estimates have to be made, for instance, of the decreased cost of road transportation, the increase in the amount of farm products which can be brought to market in good condition, the yield from new farming areas which may be opened up, etc. Moreover, it is generally necessary to assess separately the potential benefits at different levels, i.e., to the individual farmer, and to local or central government authorities. Even in the case of a revenue-earning project, such as an irrigation scheme in which a charge for water is made, a deficit on the project operation should be more than offset by increased revenue on growing production and commerce.

66. In this connection the habit of governments of not accounting separately for capital and current expenditures often obscures the real results of government enterprises. There are also cases where a government makes money available either at very low cost, or as equity on which no return is expected, for projects which earn revenue. If the revenue is not adequate to provide a reasonable return on the funds invested, it must be recognized that the recipients of the services or goods provided are being subsidized by the general taxpayer. On the other hand, there have been cases of industrial enterprises clearly unable to stand on their own feet, being started by private capital on the promise of a high protective tariff or a special tax regime. In such cases the general consumer or the taxpayer is providing a subsidy, not for the benefit of the private investor, but as the price for accelerating industrialization.

V. The Supervision of Projects

67. Experience shows that, at least for a lender, there are strong arguments against the method, at first sight attractive, of supervising a project by means of a resident representative. The main disadvantage of
this type of supervision is the risk that the lender will unintentionally but inevitably become involved in management decisions which should be the responsibility of those running the project. On the other hand, there are risks involved in depending exclusively on written reports submitted by the borrower. Such written reports are certainly necessary for the efficient management of the project, and should therefore be readily available without the need for special procedures. It is, however, often the case that the management and organization responsible for the project are not sufficiently experienced or sophisticated to realize the importance of such reports or to be able to produce them, and consequently the lender may be obliged to specify the reports required. It is desirable to confirm the information provided by these reports by periodical visits to the project, which also provide an opportunity to discuss problems which have arisen or may be foreseen.

68. The kind of reports required will, of course, depend upon the type of project, but in general their function is to provide up-to-date information at reasonably frequent intervals which will show how the actual progress of the project compares with the physical and financial forecasts which were the basis for the decision to undertake it. This will apply both during the construction period and during the operating period, although, of course, the contents of the reports will be quite different in the two periods.
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Remarks:

From: Communications Unit - Room P-106 (Ext. 3630)
Cher Monsieur Wishart,

J'ai bien reçu votre lettre du 12 mai et je vous en remercie bien vivement.

Comme vous le prévoyiez, j'ai bien discuté du projet de banque de développement de la Côte d'Ivoire avec la Caisse Centrale et avec des représentants de différents établissements bancaires existant en Côte d'Ivoire.

En outre, Monsieur ANOMA m'a bien remis les publications rédigées par des membres du STAFF et de la B.I.R.D. et l'ouvrage de Monsieur DIAMOND.

Enfin j'ai reçu un exemplaire du livre de Mrs Shirley BOSKEY que vous avez eu l'amabilité de m'envoyer.

Je pense avoir tiré un grand profit de tous ces documents.

Je viens de terminer l'étude du projet dont j'étais chargé par mon gouvernement et je vous en envoie un exemplaire, de même que j'en fais tenir un à Monsieur KING.

Je serais très honoré si vous acceptiez de prendre connaissance de ce travail et de me communiquer les critiques et les suggestions que cette lecture suscite de votre part (ou de celle de vos collègues dela B.I.R.D.).

Vous remerciant bien vivement pour l'aimable concours que j'ai trouvé auprès de vous, je vous prie d'accepter, cher Monsieur WISHART, l'assurance de mes sentiments très distingués.

Mohamed T. DIAWARA