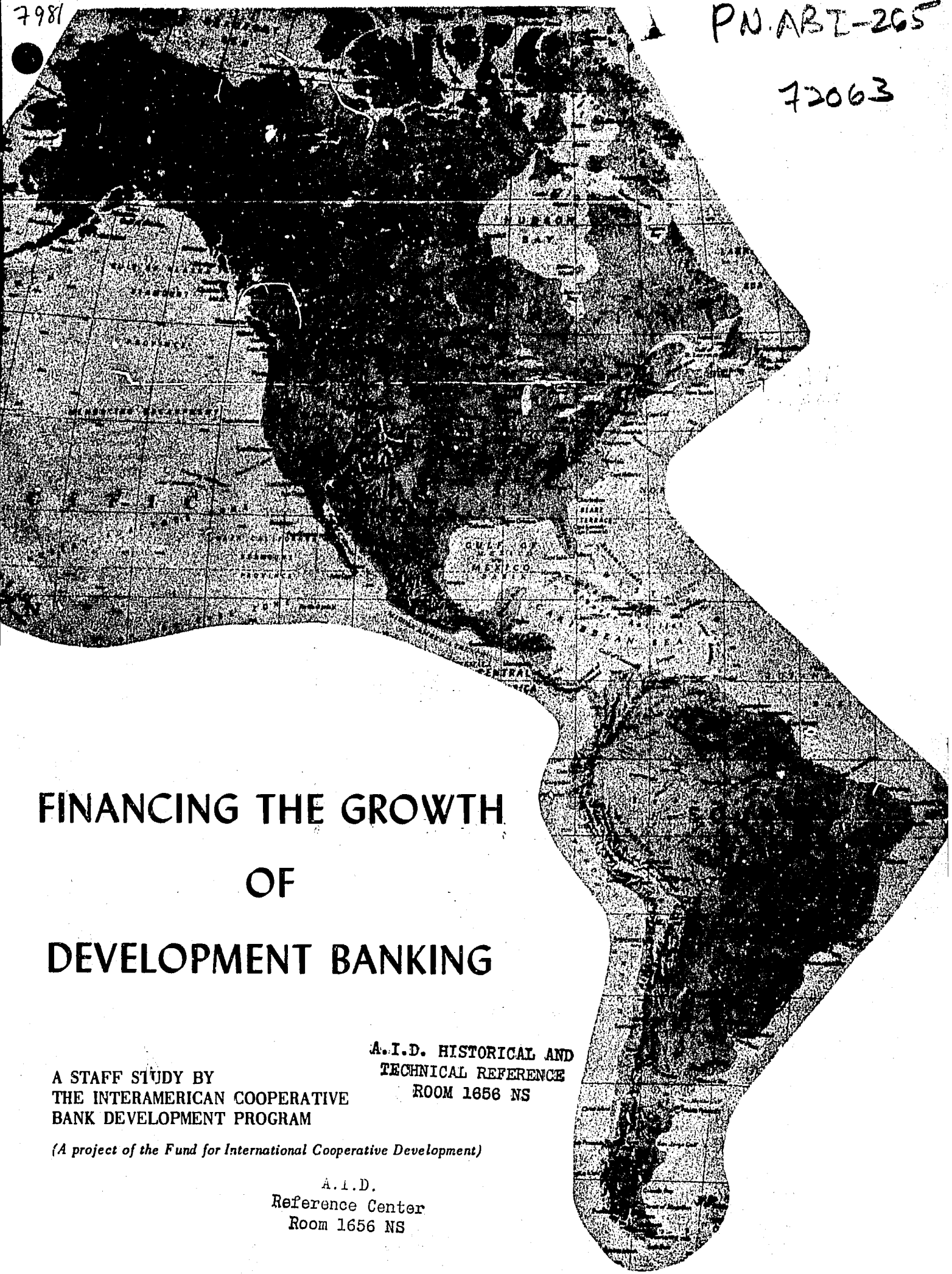
332.154
7981

PN-ABI-265
72063



FINANCING THE GROWTH OF DEVELOPMENT BANKING

A.I.D. HISTORICAL AND
TECHNICAL REFERENCE
ROOM 1656 NS

A STAFF STUDY BY
THE INTERAMERICAN COOPERATIVE
BANK DEVELOPMENT PROGRAM

(A project of the Fund for International Cooperative Development)

A.I.D.
Reference Center
Room 1656 NS

332.154
F981

FINANCING THE GROWTH OF DEVELOPMENT BANKS

Financing the growth of development banks.
332.154 Fund for International Cooperative Develop-
F981 ment, Washington, D.C.
Financing the growth of development banks; a staff paper. J. T. Dock Houk. Oct. 1965.
66 p.
Done on contract for A.I.D.
At bottom of title page: Inter-American Cooperative Bank Development Program(a project of the Fund for International Cooperative Development).

1.Development banks. I.Houk, J. T.
II.Title.

A staff paper by

J. T. Dock Houk

October 1965

This study was financed by funds made available by the Agency for International Development of the U. S. Department of State by means of a contract between A.I.D. and the Fund for International Cooperative Development. The inclusion of material in this publication does not imply that the opinion and conclusions expressed therein are necessarily those of the U. S. Government.

INTER-AMERICAN COOPERATIVE BANK
DEVELOPMENT PROGRAM
(a project of The Fund for International
Cooperative Development)
1012 14th Street, N.W. Washington, D.C.

PREFACE

This paper represents an attempt on the part of the author, Dr. J. T. Houk of our staff, to set forth certain aspects of the financing of Development Banks, such as capital limits, capital proportions and sources of capital. It is not intended to be more than a starting point for discussion, and should by no means be construed to be a full treatment of these subjects.

Our inquiry into the subject of the financing of such banks arises out of our responsibilities under contract with, and with the assistance of, the Agency for International Development. We are presently assisting in an effort designed to strengthen the cooperative finance system in Latin America. In countries where there is a need and a desire for a private cooperative bank, we are attempting to assist local cooperative leaders to set them up and to operate them during the early stages. We intend also to assist in the task of weaving these banks into a unified banking system.

This paper is intended to stimulate thought and discussion with respect to the subject covered, and should not be construed to be policy guidelines or official opinions advocated by this staff. The conclusions reached are the responsibility of Dr. Houk alone.

We are grateful for the assistance in the review of this paper by Dr. José Antonio Menendez of the Inter-American Development Bank; Messrs. William Diamond and B. H. Shin of the World Bank, and Messrs. George Wyeth and Albert W. Marble of A.I.D.

Robert L. Farrington

Robert L. Farrington
Administrator
Inter-American Cooperative
Bank Development Program

FINANCING THE GROWTH OF DEVELOPMENT BANKS

LIST OF TABLES

Table Number		Opposite Page
I	Proposed Ecuadorean Bank for Cooperatives Operating Forecast	10
II	Proposed Colombian Bank for Cooperatives Operating Forecast	12
III	Assets of Selected Industrial Development Banks in Latin America	20
IV	Some Assistance by Selected Public Institutions to Certain Development Banks	30
V	World Bank, IFC, IDA Financial Assistance to Private Industrial Development Finance Companies	42
VI	Inter-American Development Bank Global Loans to Intermediate Credit Institutions for Relending to the Private Sector	46
VII	Information Required by the Inter-American Development Bank for the Evaluation of a Financial Institution	48
VIII	Export-Import Bank Financial Assistance to Intermediate Credit Institutions	50
IX	Export-Import Bank Information Required of Prospective Borrowers	52
X	Agency for International Development Financial Assistance to Development Banks	54
XI	Status of AID Guarantee Covering U. S. Private Investment in Intermediate Credit Institutions	58
XII	Information Required by AID for Consideration of a Loan to a Development Bank	60
XIII	Selected Private Commercial Bank and U. S. Edge Act Corporation Investment in Selected Development Banks	67
XIV	Selected Financial Institutions with Investments in at least one Development Bank	After Table XIII

TABLE OF CONTENTS

		Page
I.	Introduction	1
II.	Initial Capital Requirements for Development	2
	A. Upper Limits of Development Bank Capital	2
	B. Lower Limits of Development Bank Capital	6
III.	Proportioning of Capital between Debt and Equity	15
IV.	Sources of Capital for Development Banks	19
	A. General	19
	B. Domestic Public Sources of Capital	19
	(1) Development Bank Attitudes toward Government Participation	20
	(2) Reasons for Government Participation	22
	(3) Other Domestic Public Sources of Capital	29
	(4) Patterns of Domestic Public Participation	29
	C. Domestic Private Sources of Capital	33
	(1) Commercial Banks	35
	(2) Insurance Companies	38
	(3) Business Corporations, Cooperatives and Individuals	39
	D. Foreign Public and International Sources	41
	(1) General	41
	(2) IBRD, IFC and IDA	42
	(3) Inter-American Development Bank	46
	(4) Export-Import Bank	50
	(5) Agency for International Development	53
	(6) Other Public Assistance	63
	E. Foreign Private Financial Assistance to Development Banks	64

FINANCING THE GROWTH OF DEVELOPMENT BANKS

I - Introduction

The investment by the World Bank in September and October of 1950 in both the Development Bank of Ethiopia and the Industrial Development Bank of Turkey initiated an era of accelerated stimulation of development financing institutions. The International Finance Corporation estimated in 1964 that there were approximately 125 development banks in the developing countries, most of them initiated within the last 12 to 15 years.

Successful development banks are sufficiently prevalent so that countries in the process of accelerating their economic and social development ought carefully to consider them as one of the most important tools which they might use to assist their own development. The present paper intends to explore aspects of the capital requirements of a development bank.

The question of financing a development bank has a number of aspects:

(1) the amount of capital needed by a development bank;

(2) the proportioning of that capital between debt and equity; and

(3) the sources of both of the above kinds of capital for development banks.

This paper will deal with each of these subjects in turn.

II - Initial Capital Requirements for Development Banks

The total capital requirement for a development bank is necessarily limited by both project availability and operating costs. Project availability is a good measure of the upper limits of capital requirements and operating costs is one way of approaching minimum capital requirements.

A. Upper limits of Development Bank Capital

The upper limits of the capital needed by a development bank may be measured by the existence of sound projects ready with little effort for financing. The projects, of course, must lie within geographic areas or fields of activity open to the bank. The shortage of sound projects is the most important problem in the field of development banking, and of course is only a reflection of a number of other important development bottlenecks such as: a shortage of entrepreneurial effort; a shortage of resources; a shortage of technical skill; an unsettling political climate; and cultural values which inhibit or frustrate the drive for material progress, to name a few.

One of the most interesting approaches to the project shortage in recent years has been the effort of Professor Morris Asimow of UCLA who, in 1961, with support from the Ford Foundation, Pan American Union, the Government of Brazil, and the Agency for International Development among others took a group of graduate students to the hinterlands of Northeast Brazil in the State of Ceara. There he met with a team from the University of Ceara and together they identified potentially profitable industries, helped to organize interested groups of local citizens into stockholders, helped solicit the subscription of stock, designed the plant, surveyed the market, supervised plant construction and initial operation. The equity was raised locally from among the many stockholders of each corporation. The debt was provided by Brazilian development banks, and the projects were prepared by the joint teams and submitted to the development bank for financing. The effort included most of the usual functions of the traditional "entrepreneur".

Capital Requirements

This technique has been repeated in four other states in Brazil and could, if properly organized and extended, be of considerable help in meeting the project shortage.

Usually the amount that can be committed to sound projects within two years is the upper limit of a bank's capital requirements. There are no standard techniques for making such an evaluation and naturally estimates of this upper limit are likely to differ.

This approach was illustrated recently by the pre-bank survey made in the Dominican Republic by Mr. J. Douglas Lawrence of the Inter-American Cooperative Bank Development Program. A group of cooperative leaders in the Dominican Republic requested the A.I.D. Mission for such a survey and, responsive to this request, Mr. Lawrence analyzed a number of cooperative businesses with respect to their operations, markets, managerial capacity and the like. He found, for example, a shoe manufacturing cooperative which could justify doubling its capital equipment and an improved plant site. He found a dairy cooperative that needed an additional loan to complete its plant and begin operations. With the knowledge gained from his survey, coupled with his years of experience as a cooperative banker, he was able to make a provisional estimate of the loan volume of the prospective bank.

If there already exists alternative sources of financing for the same kinds of projects as fall within the scope of the bank then such an approach as outlined above must make allowance for the possibility that some of the projects will be financed by other means.

One who is analyzing the amount of capital which a development bank might need either in the beginning or for its growth should not overlook any possible sources of information. The analyst must keep in mind, however, that many of the answers he receives may possibly be couched in such a way as to protect the special interest of the person answering the question. Some of the sources of information are as follows:

(1) Existing Manufacturing Industries. What are their own opinions about their own future capital requirements? What are their needs and/or present intentions of expansion? What is their financial condition and quality of management?

(2) Distributive Trades. What are the capital requirements of exporters, importers, merchants and other service industries in the light of existing conditions of demand and price?

(3) Financial Community. What do bankers say about the prospects for a new development bank? What has been their pace and volume of bank lending? What is the character of their short-term functions through various banking techniques such as rolling over short-term debt, balloon payments and refinancing etc.? What is the structure of the capital market and how actively does financial trading take place, if at all?

(4) Development Center, if any. What is their activity and experience within the scope of services that they offer? What kinds of industries have they assisted? What general surveys of investment prospects do they have on file?

(5) Associations of Productive Enterprises. Very often one can get a clear picture of what lies down the road for a particular industry or group of firms by discussing with a trade association its prospects and plans, or its knowledge about trends within the industry.

(6) Government Planning Organizations. There is an increasing tendency in the developing countries to plan for development. Government ministries related to planning should have a fairly good idea about the potential of the country for use of funds, for its absorptive capacity and for possible industrial requirements. They may even, if they are implementation oriented, have discussed with a number of businessmen the undertaking of certain industries in fulfillment of the objectives of the plan.

Government Ministries. There are several government ministries which should be able to give some assistance to the organizing group of a development bank, such ministries as Industry, Commerce, Finance, and, in some cases, the Ministry of Planning (if the planning organization has been raised to a ministerial level) relate more than other government ministries to the problems of economic development and therefore should be in a better position to give sound advice.

Capital Requirements

There is evidence, especially in Central America that capital availability is not the most important constraint upon industrial and agricultural development. There exists in many development banks great amounts of excess liquidity , and significant amounts of unused lines of credit. It does not injure a bank to have funds in excess of those it is able to lend because the bank may invest these liquid balances in short term earning assets which in turn bring revenue to the bank. However, in view of the scarcity of medium and long term capital in most developing countries one can hardly escape the conclusion that there is probably a higher priority alternative use for such capital.

International and national development financing organizations are not likely to commit funds to a development bank in excess of that amount which that particular bank expects to use within a two year period. They much prefer to cover the prospective demand for funds for two-year periods with the option for the bank to return to the organization for more funds when necessary. There have been cases where development banks have been able to use the funds provided in a shorter period of time.

For example, the Pakistan Industrial Credit and Investment Corporation (PICIC) received its first loan from the World Bank in the amount of $5,000.000, two years later, a second loan of double the amount - $10,000.000. It came back 21 months later for $15 million, 18 months after that for $20 million, and 19 months later for $30 million. The Industrial Development of Turkey similarly has been able to accelerate its commitment of funds in recent years. After receiving a loan of $5,000,000 in August of 1964 from IDA, it came again in March of 1965 for an additional $10,000,000 and in the interim received a $5,000,000 loan from A.I.D. in November of 1964.

Other development banks, however, have been much slower than this two year time period, sometimes for reasons other than the inavailability of projects. The Industrial Mining and Development Bank of Iran, for example,had committed by June of 1964 only about 70% of an A I.D. loan of 5.2 million dollars which it received in November of 1959. At the same time it also received a loan from the World Bank which was similarly slow of disbursal.

There are several reasons for this slow rate of commitment in addition to the project constraint, among them , the availability of foreign exchange through other sources such as conversion of local currency, the avoidance in this manner of such problems as the maintenance value risk, the requirement of sending project details to A.I.D. or the World Bank for review for projects in excess of a certain minimum, the restriction of procurement to the United States (as in the case of A.I.D. loans) and the like. The rate of commitment of loans to development banks by A.I.D. in Latin America has been to date agonizingly slow. Although there are other facts involved such as inflation, the project constraint is still significant.

B. Lower Limits of Development Bank Capital

Development bankers are also often confronted with the question of what is the minimum total capital needed for a bank to have a chance to be self sustaining. One may approach this problem by consideration of the total resources required to achieve an earning capacity sufficient to maintain the administration of the bank and to yield a reasonable surplus for use by the bank either to set aside as reserves, to increase its services to is customers, or to distribute to its owners or patrons. This principle is just a s sound and as relevant whether we are talking about industrial stock-owning development banks or development banks for cooperatives. The only difference in practice between the two is the method of distribution of net earnings. In the former case such earnings may be returned to stockholders in proportion to their investment. In the latter they are returned to the user-owners of the bank in proportion to the use made of the financial facilities of the bank during the period.

Even though it is clear that the total resources available to the bank for lending is one of the most important determinants of its earning capacity there are other ways of affecting earning capacity other than by increasing capital. Any attempt to set a minimum level of resources required for a development bank must be viewed in the light of these other ways to affect bank earnings. Some of the most important are as follows:

Capital Requirements

(1) Spread. A development bank can increase its earnings by increasing the difference between its cost of capital and the interest rate which it charges its borrowers. Equity capital, of course, from the standpoint of development bank earnings is costless. A development bank which was desirous of increasing its earnings would be well advised first to consider an increase in its equity. As we shall see from Section III, however, there are limits to the acquisition of equity by a development bank.

In the case of stockholder-controlled development banks one limit on equity rests in the principle of leverage. Prospective return to a unit of equity declines as equity becomes a greater part of total capital. In the case of user-controlled development banks (cooperative banks) equity is limited by capital availability. Cooperatives are by their nature not capital attracting businesses, and have always had a difficult time obtaining equity capital. Cooperative banks are no exception.

Cost of capital to a development bank can also be lowered by the bank's obtaining less expensive funds. A principal source of cheap funds for development banks has been host governments who have desired for one reason or another to stimulate the growth and strengthening of development banking. Many governments have made long-term low or no interest subordinated loans which have acted more as equity in the capital structure than debt and will be discussed further in Part III.

(2) Subsidy. Many development banks have in the past been able to obtain subsidies in one form or another from either local government or from an international or foreign national lending or technical assistance agency. Any assistance for which the bank pays less than market cost is in the nature of a subsidy and by this definition debt acquired by the bank below the market rate is also a subsidy.

In Ecuador, for example, the Banco de Cooperativas del Ecuador will receive financial assistance in the form of grants from A.I.D. and from the Government of Ecuador which are intended to lessen the strain on the financial structure of the bank.

An interesting form of quasi-subsidy was granted to the Industrial Development Bank of Turkey by the Government of Turkey in that they guaranteed 6% dividend on stock of the bank with payments made by the government under this arrangement regarded as a loan to IDB when made. This standby arrangement was of inestimable assistance to the bank when selling its equity shares.

(3) Managed Funds. A frequently used way of increasing the earning capacity in the formative years of a development bank is to use the bank as an agency of the subsidizing organization for certain fiduciary purposes. For example in the development of the Industrial Development Bank of Turkey the U. S. and Turkish Governments turned over three separate funds to be administered by the bank at a 3% commission.

(4) Portfolio Transfer. Many development banks had their earnings strengthened by the transfer to the bank of all or part of the portfolio of another banking institution. For example, the Development Bank of Ethiopia received $1,000,000 Ethiopian dollars in assets of the Agricultural and Commercial Bank of Ethiopia. The Industrial Mining and Development Bank of Iran received by act of the Iran Parliament in 1959 the entire loan portfolio of the Industrial Credit Bank plus certain loans from the Bank Melli. This portfolio of $18.7 million (equivalent) was transferred to IMDBI on a contract basis as agents of the government for a 3% fee.

(5) Portfolio Management. A development bank can increase its earnings irrespective of its total assets by astute management of its own portfolio. In the initial stages of operation, especially, a development bank may have a sizeable amount of uncommitted funds. These funds can be put to short-term use through discounting short-term commercial paper or even as time deposits in commercial banks. In the operating forecast for the Ecuadorean Bank for Cooperatives it was assumed that surplus cash would be deposited at three percent. A bank which plans thus to impair its liquidity for the sake of increasing its earnings would be well advised to negotiate standby credit arrangements with other elements of the banking community.

(6) Cutting Operating Expenses. A development bank should always pay close attention to its operating costs. Its budget forecasting should permit it at all times to see possibilities of increasing earnings through lowering of such costs. In the early operations of a development bank when loan volumes are slow, a development bank which is situated in a community where other business services are available may choose to save on full time personnel and utilize such competent business services as are locally available such as accounting, engineering specialties, legal facilities and the like. Even secretarial service can, in some instances, be obtained on a job/contract basis and does not have to be provided for in the full-time staff of a development bank.

(7) Other. There are other ways for a development bank to increase its earnings capacity through either increasing its income or lowering its expenses other than by increasing its capital. The Colombia Development Bank for Cooperatives plans to charge an admission fee to new members to amortize administrative costs of the bank. This fee will be 5% of the stock purchase requirement which in turn is 3% of the proposed new members paid in capital. Another technique which has been used profitably in some banks is for the bank to charge a fee for technical services to a borrower in connection with either the preparation and submission of a loan application, in connection with problems that might arise during plant start up and initial operations or indeed under any other circumstances in which the staff of the bank can make a valuable contribution to the business.

But assuming that the bank will be as prudent and efficient with respect to the above as possible, there still remains the problem of the determination of minimum capital requirements. Let us approach the answer by a consideration of the forecasts of the Ecuadorean Bank for Cooperatives. Table I assumes that the interest charged by the bank would be 7%. Some relevant projections are given as follows:

Ecuadorean Bank for Cooperatives
Selected Items, Balance Sheet and Profit and Loss Forecasts
(in 000)

	1	2	3	4	5
1. Capital available at end of year	1006	2024	3057	4108	5169
2. Loans by the Bank	800	1800	3000	4000	5000
3. Interest earnings only	28	91	161	245	315
4. Total Expenses	121	135	154	172	189
5. Net Income* (Loss)	(70.5)	(28.9)	24,5	91	145

* Total Earnings (not shown) minus Total Expenses

Because cooperatives by their nature are not capital attracting business organizations, debt totalling 5 million dollars in five years comprises most of the capital structure during the early years, before borrower purchases of stock begin to accumulate. Therefore, line 1 above is almost entirely composed of the proposed A.I.D. capital loan. However, from year 3 on, equity purchases by members permit the entire amount of the A.I.D. loan to be utilized.

One can see that at the end of year 5, income from loans is already significantly greater than total expenses. Before one concludes, however, that 5 million dollars capital will do very nicely for a development bank, one must keep in mind that the cost of this capital is extremely low: 3/4% per annum during the grace period, and 2% thereafter. Although the grace period is the principal reason why the gap between income and expenses widens so early, this low cost capital is one of the principal reasons for the apparent strength of the bank.

A useful rule of thumb that many bankers use when estimating capital requirements of a bank, or when evaluating operation expenses, is that such expenses be 1% of total assets or less. After the fifth year the ratio of operating expenses to total assets for the Ecuadorean Cooperative Bank is forecasted to be 1.9%, and by the end of the tenth year it has dropped to 1.14%. Thus we might include that some additional capital could (depending upon the demand, the rate charged and paid by the bank and the like) give the bank additional earning power with which it might improve this ratio.

Not Official
For Illustration Only

TABLE I

Proposed Ecuadorean Bank for Cooperatives

Operating Forecast

	Yr. 1	(Yr. 2-10 to be calculated)
I. Income		$ 40,000
A. Interest Earned - Loans	$ 28,000	
(7% interest rate, no provision for Tax, average outstanding balance)		
B. Interest Earned - Deposits	12,000	
(Surplus cash deposited at 3%)		
C. Other Income (Services, etc.) . . .	- o -	
II. Expenses		121,555
A. Interest Paid	7,500	
(1) Capital Loan, AID, 3/4%	7,500	
(2) To purchasers of guaranteed loans, 5%	-o-	
B. Operating Expenses	105,555	
(1) Salaries: President (GM)	$24,444	
Vice President (Treas.)	11,111	
Secretary	8,888	
Chief Credit Examiner	13,333	
Legal	4,666	
Technical Specialist	6,666	
3 Secretaries	6,222	
(2) Other: Directors' expenses $2,555; Travel $3,333; Rent $3,333; Communications $1,666; Depreciation $1,222; Supplies $3,333 Benefits $9,222; Meetings, Ins. $2,500		
C. Provision for Losses on Loans . . .	8,000	
III. Net Income (Loss)	Year 1 -($70,500)	

Capital Requirements

Remember, we are asking ourselves the question "what is the minimum amount of capital that a development bank will need in order to be a viable institution within a five year period". Let us look at another operating forecast: that of the Colombian Bank for Cooperatives (Table II). This Table assumes that interest charged by the bank would be 10%. Some relevant projections are also given below.

Colombian Bank for Cooperatives
Selected Items, Balance Sheet and Profit and Loss Statement
(in 000)

		1	2	3	4	5
1.	Capital available for lending (mostly A.I.D. loan)	755	2116	3698	4600	6295
2.	Loans by the Bank	650	2086	3564	4450	6000
3.	Interest Earned by the Bank	33	137	283	401	526
4.	Total Expenses	111	199	236	296	368
5.	Total Income* (loss)	(72)	(62)	46	105	158

* Total Earnings (not shown) Minus Total Expenses

In this case, by the end of the fifth year, it is planned that this bank will have command over resources equivalent to 6.2 million dollars, composed mostly of the proceeds of an A.I.D. $5.7 million loan, plus capital and reserves. In this case, the interest rate used in calculating the cost of capital to the bank was 6% and presumed no subsidy as in the case of Ecuador.

By the end of the fifth year, the ratio of operating expenses to total assets, was down to 1.12% and by the end of the tenth year it was predicted to decline to .59%.

Clearly, the operating expenses of a development Bank play an important role in the determination of capital requirements. In the two examples above, one can see that $5-6 million made available to the bank over a five year period will do very nicely. Yet it is extremely difficult to give precise advice on the operating budget for a development bank during its formative years.

Many operating expense forecasts have presumed the need initially of at least five or six professionals, including a President, Vice President, Financial or Business Analyst Engineer, and an Accountant. It is usually hoped that at least one of the above has had some legal experience; if not, legal services should certainly be available to the bank if not of its own staff, at least by contract. As one can see in the forecast of the expenses for the Ecuadorean Bank (Table I), the staff requirements include a President, Vice President, Secretary, Chief Credit Examiner, Legal Assistance and Technical Specialists. In the Colombian Bank forecast (Table II) it was not considered necessary in the beginning to have legal services on the permanent staff. In a development bank which plans to invest in industrial projects it is usually found necessary to have a Managing Director, professional assistance in the finance and business analysis function, professional assistance in the technical function and legal, administrative, and accounting assistance. It is desirable, of course, to plan for the phasing in of additional assistance as workload requires.

The assumptions one makes with respect to operating expenses can make a great deal of difference even though the operating expense forecast for the Ecuadorean and Colombian Banks indicates almost identical personnel requirements. The disparity of almost fifty thousand dollars between them indicates different assumptions with respect to salary level. In the Ecuadorean forecast it can be seen that international salaries were used. In the Colombian forecast, however, it was anticipated that sufficient local trained personnel were available, so that a local salary table could be used. Both forecasts, however, were planned with the idea that the Inter-American Cooperative Development Bank Program would provide fulltime technical assistance for the first two years of operation, and hence are low by the amount of this assistance, if it is assumed that this assistance would have been obtained by the bank at its own expense if this program were not in existence.

Not Official
For Illustration Only

TABLE II

Proposed Colombian Bank for Cooperatives

Operating Forecast

		Yr. 1 (Yr. 2-10 to be calculated)
I. Income		$ 37,857
A. Interest Earned: Loans	$32,500	
(10% interest rate applied to average outstanding balance)		
B. Income Earned: Deposits	-o-	
C. Admission Fee (assessment against new members to amortize organization expense. 5% of stock purchase requirement, which is 3% of new member's paid-in capital.)	5,357	
D. Other Income (services, etc.) . . .	-o-	
II. Expenses		110,714
A. Interest Paid	30,000	
(1) Capital loan, AID, 6% on outstanding balance	30,000	
(2) Rediscounts, guarantees 6%	-o-	
B. Operating Expenses	48,214	
(1) Salaries: President (GM) $7,714		
Vice President and Treas. $5,142		
Secretary $5,142		
Business Analyst $3,428		
3 secretaries $3,427		
Accountant $3,428		
(2) Other Expenses: Directors Expense $142; Travel $8,571; Rent $1,428; Communications $1,285; Depreciation $142; Supplies $3,428; Benefits $1,142 Meetings, Ins., Contingencies $3,784.		
C. Provision for Losses on Loans	32,500	
III. Net Income (Loss)		Year 1 - ($72,857)

Capital Requirements

The International Finance Corporation, whose experience in initiating private industrial development banks is extensive, recommends that at the outset competent foreign personnel operate the bank on a management contract or as direct hire personnel of the bank. Consequently, most operating forecasts for development banks are built upon the assumption that international salaries must be paid. In such cases it is hard to keep initial operating expenses down to the level of $100,000 a year. Indeed, many forecasts which we have seen have been as high as $225,000. In the case of the Ivory Coast Development Bank it was assumed that the general manager would be paid a salary of $25,000 and receive benefits of $15,000. In addition, he would be supported by an industrial engineer, an accountant, and an assistant. The total annual salary bill initially was forecast at over $100,000. In addition, there were the other operating expenses in this forecast of secretarial and administrative personnel directors' expenses, travel and general contingency expenses bringing the total as mentioned above to $225,000.

As a general rule the use of local personnel should not be overlooked especially if some foreign technical assistance for an initial period can be obtained. However, it is always wise to consider in the operating forecast all the likely expenditures and costs at their normal rate. It is never a good idea in an operating forecast to anticipate the receiving of a subsidy or any technical assistance.

Even though it is to some degree and in some instances inappropriate to measure total assets by a preconceived relationship to operating expenses we can see, if we have an operating expenditure forecast of $200,000 we must acquire total assets of $20 million in order to maintain a ratio of 100:1. If we have an operating forecast expenditure of $100,000 we need total assets of $10 million.

One should always bear in mind that there is very little correlation between the total amount of capital available for lending and the number of staff personnel needed by the bank, since the size of staff depends not upon the total amount loaned but on the number of loans made in a given period of time. It may be true that the number of loans could vary with the amount of capital available, but very often

the size of each loan, and hence the number of pieces into which a given amount of capital is divided, is a matter of bank policy, and can be varied by the Board of Directors for different reasons such as the availability of capital, the function which the bank intends to perform, the availability of projects, and many other. Staffing usually changes only with changes in the kinds of loans made and with the number of loans made. Many bankers feel that a large loan takes even less staff time than a small loan because of the business experience of large borrowers, and because of the ability of large projects to absorb the cost of technical assistance.

In summary, it may be safely stated that there is no precise way in which the amount of capital required by a development bank, either initially or at any stage in its development. However, the approaches suggested above have been used with some success by practitioners in the field and are generally considered sound. One may use these techniques safely if one keeps in mind two important caveats:

(1) Optimism on the part of the bank or of its Organizing Committee often causes them to estimate a loan volume in excess of what they can actually accomplish, and;

(2) Inexperience on the part of the bank or its Organizing Committee often causes them to underestimate operating costs.

III - Proportioning of Capital between Debt and Equity

A very important consideration with respect to capital requirements for development banks is the proportioning of capital between debt and equity. First of all, let us define both debt and equity.

1. Debt:

Debt is defined as the bank total fixed payment and guarantee obligations minus those obligations of a commercial banking nature, if any, which will mature in one year, and minus also any borrowings furnished the bank in the form of subsidies (quasi-equity).

2. Equity:

Equity is defined as all paid-in capital, surplus, free reserves, and, in addition, any borrowings as above which are furnished the bank in the form of subsidies (quasi-equity).

The debt-equity ratio is used for industrial firms as well as for banks as one of the measures of financial soundness. It sets forth a certain relationship between owned and borrowed funds and is a measure both of financial risk, and of investor leverage.

The essence of the dilemma of the debt-equity ratio is that equity owners, to a certain extent, would like to see a high debt-equity ratio because it gives leverage to equity capital. That is, with a high debt-equity ratio there is less risk for investors and these same investors stand to make greater profits per unit of capital invested. In addition, with a small amount of equity it is easier for a small group to maintain control. Creditors, on the other hand, are looking for the security of their investment. Although realizing that debt is an important part of the financial structure of the bank, they are interested in the security of their loan. Consequently, they hesitate to permit the borrowers to have a debt-equity ratio in excess of a certain amount.

The answer as to what is a "correct" debt-equity ratio is answerable only within a range for specific categories of economic activity. These figures may further be modified by the different business characteristics in different countries. For industries in the United States, debt-equity ratios ranging between .5 and 1.5: 1 are normally accepted. For commercial banks debt-equity ratios are somewhat higher, ranging between 3 to 4:1 for smaller banks, to 9 to 12:1 for larger banks.

The reason for a difference between industry and commercial banks is because, in business, the risk of an individual industrial enterprise is much more concentrated than a commercial bank. Indeed, in industrial enterprise, fortunes may be tied up in the sale of one product. With respect to a bank, however, the risk is distributed throughout its portfolio, and its fortune may indeed depend on the business prospects of a good number of its clients.

Development banks from this standpoint should stand between industry and commercial banking. For example, the debt-equity ratio stipulated for the Small Business Investment Corporation in the United States is four to one. Similarly, the International Finance Corporation has imposed debt-equity ratios ranging from 3 to 4:1 on the development banks in which it has invested.

In this connection it would be useful to examine the role and function of quasi-equity in the capital structure of the development bank. Quasi-equity represents borrowings which are furnished the development bank in the form of subsidies. The essential element which permits such debt to be counted as equity is the subordination of this debt to all other debts of the development bank and sometimes even to equity.

For example, the 75 million rupee loan which was granted in 1955 by the Government of India to the Industrial Credit and Investment Corporation of India (ICICI), was subordinated both to share capital and to debt. In 1959, however, a 100 million rupee loan from the same source was subordinated only to foreign debt. Both of these are considered part of the borrowing base of the corporation. The China Development Corporation, on the other hand, has received 300 million new Taiwan dollars from the Government of the Republic of China, which debt ranks pari passu with share capital and is subordinated to all debts. Other terms and conditions under which quasi equity has been extended to development banks will be examined in detail in Part IV. Suffice it to say for the present that this form of debt is considered by international and foreign lending agencies as part of the borrowing base.

Debt - Equity Ratio

The International Finance Corporation feels that quasi-equity is an important part of the capital structure of a development bank, since it is additive to equity investment and permits a bank to start with a larger borrowing base than the bank's equity would otherwise justify. With the private industrial development banks they have sometimes recommended that quasi-equity be 150% of share capital. This, however, needs not to be a hard and fast rule and might be varied in other circumstances and with other kinds of development banks as the circumstances may require.

As we have mentioned above, the debt-equity ratio is a measure of financial prudence that bears a relationship to the risk that a commercial or banking institution is undergoing in the normal course of its operation. We suggest that a private industrial development bank of the stock-owning variety start off with a debt equity ratio of 3:1 and, depending upon its prudence and success in the use of funds at this ratio, it should be permitted, after a certain period of operations to increase this ratio to 4, 5 or 6:1.

At the present time the International Finance Corporation has permitted such successful development banks as the Pakistan Industrial Credit and Investment Corporation (PICIC), the Industrial Development Bank of Turkey (IDB/T) and the Industrial Credit and Investment Corporation of India (ICICI) to incur debt at the ratio of 4:1. When these limits are reached a development bank should give serious consideration to the issuance of additional share capital. This should be considered by all development banks before they take the step of increasing their debt equity ratio.

Even in an inflation a development bank might be able to increase its equity capital. During inflation several years ago in Turkey the Industrial Development Bank, although unsuccessful in an effort to sell bonds, found that its stock issue was quickly over-subscribed.

With respect to the debt-equity ratio for development banks for cooperatives, there is good reason for this ratio to be extremely high during the first few years of the bank's operations. The cooperatives, which are the owners of these banks, have always had difficulty in generating capital during the early stages of operation. Indeed, most of the funds for cooperative expansion have come from the earnings of the cooperatives, rather than from investments by profit-seekers in share capital. The reason is that the earnings of a cooperative are returned to the patrons and not to capital stockholders. Stock receives only a limited reward.

Financing the Growth of Development Banks

The development banks for cooperatives now being initiated in some countries in Latin America with the assistance of A.I.D. and IDB are based on experience in capitalizing similar banks in the United States of America. They have developed a capitalization technique that assumes they will start off with an extremely high debt-equity ratio. A surcharge of between 10 to 25% of each interest payment (1 to 2% of the loan) is then added onto each of the borrower's interest payments and is in fact an investment in return for which the borrowing cooperative receives stock in the bank.

After the limits of authorized capital are reached, the continuation of this stock purchase requirement acts in a manner to revolve the capital of the bank by retiring the capital of those who first bought stock, and thus keeps the bank in the hands of its current users. If at any time in the future, the bank wants to increase its equity, it merely has to suspend the process by which the earliest stock is redeemed until additional purchases by current borrowers raise paid-in capital to the new level.

A high debt-equity ratio for development banks for cooperatives during the initial stage of their operations is also considered to be prudent in the light of the nature of the risks involved in cooperative lending. A cooperative bank is owned by the cooperatives which in turn, borrow its funds, and the owner-interest acts as an additional safeguard which insures both that the loan will be properly used and that the loan will be repaid in due course.

IV - Sources of Capital for Development Banks

A. General:

Capital has been attracted to development banks from many different sources and for many different reasons. Both equity and debt capital has come from domestic, public and private sources and has also come from foreign private and public sources and international sources. It will be the purpose of this section to explore in some detail the sources of capital for a development bank, both as a review and historical reckoning of sources in the past and as a guide to possible future sources.

B. Domestic Public Sources of Capital:

A development bank, even one which intends to be privately controlled, should not overlook the possibility of local public sources for both equity and debt capital. Very often in a developing country, the private sector is too capital-poor to provide in the beginning sufficient capital to build an adequate borrowing base. Therefore, they might turn, and indeed have turned, to local public sources for both equity and debt. It will be our purpose in this section to survey experience with local public sources of equity and debt capital and to evaluate the reasons for participation on the part of both the development bank and the local public sources.

Governments of many developing countries realize that a development bank, although not a panacea, can be a very effective tool for the accomplishment of many economic and social objectives. Governments, therefore, have been sponsoring bodies either as sole owners, as participants, or as lenders, in a great number of development banks.

For example, of the 52 selected industrial development banks in Latin America which were reported in a recent issue of Business International(1), 26 of these were government-owned, 5 were mixed ownership, and the remaining 20 were privately owned. According to the calculations made in Table III the 26 government-owned development banks had assets of over 38 billion dollars or an average of $146 million per bank. The five mixed banks had total assets of $632 million or $126.4 million per bank. The 20 private development banks had total assets of $114 million or $5.7 million per bank.

(1) Business International, August through October 1964 issues.

One can see from this table that government support of development banking tends to be associated with significantly more capital per bank than private institutions. Indeed, this is what we would intuitively expect since a government's monetary and fiscal powers and its political position permit it to exert great influence upon the direction and mobilization of resources.

From Table III we might conclude that public participation in the equity of the bank will increase the likelihood that the bank will attain a significant amount of capital.

(1) Development Bank Attitudes toward Government Participation

At this point we might pause a moment to consider the posture of a development bank towards government participation in the ownership. Obviously, this is not a relevant consideration in the case of a publicly owned bank since the government or some other public body is the sole owner. Many private bankers, however, feel that any government participation whatsoever is an invitation to governmental control, and to the injection of political and other noneconomic considerations into the uses of bank funds.

Others, however, feel that government ownership can be useful even though it does carry an implied dilution of the objectives of a private business organization: the earning of a return on the investment of its stockholders. Realizing, of course, that the strength of arguments pro and con with respect to government participation in ownership will vary tremendously, we are setting out some of these arguments below in tabular form.

TABLE III

ASSETS OF SELECTED INDUSTRIAL DEVELOPMENT BANKS IN LATIN AMERICA

Name of Bank	OWNERSHIP		
	Public	Private	Mixed
	(Total assets in millions of dollars)		
Argentina			
Banco Industrial de Argentina			$420
Banco Provincial de Santa Fe	$67		
Banco de la Provincia de Córdoba			82
Bolivia			
Banco Industrial		$.505	
Corporación Boliviana de Fomento	14.8		
Brazil			
Banco Nacional do Desenvolvimento Económico	1,340		
Banco do Nordeste do Brasil	343		
Copeg Industrial Development Bank		4.1	
British Guiana			
British Guiana Credit Corporation		14.5	
Chile			
Corporación de Fomento de la Producción	282		
Colombia			
Fondo de Inversiones Privadas	5.9		
Esso Investment Corporation		5	
Instituto de Fomento Industrial	4		
Corporación Financiera de Caldas		8	
Corporación Financiera del Norte		1.6 *	
Corporación Financiera Colombiana de Desarrollo Industrial		18.6	
Corporación Financiera Nacional		23	
Corporación Financiera del Valle		3.9	

TABLE III

ASSETS OF SELECTED INDUSTRIAL DEVELOPMENT BANKS IN LATIN AMERICA (Continued)

Name of Bank	OWNERSHIP		
	Public	Private	Mixed
	(Total assets in millions of dollars)		
Costa Rica			
Banco de Costa Rica	$46		
Banco Nacional de Costa Rica	$55		
Corporación de Inversiones	2.1		
Corporación Costarricense de Financiamiento Industrial		$6** .9	
Dominican Republic			
Corporación de Fomento Industrial	50		
El Salvador			
Instituto Salvadoreño de Fomento Industrial	$6.7		
Banco Central de Reserva	87 C217.8 million		
Financiera de Desarrollo e Inversión		6.2	
Ecuador			
Banco Nacional de Fomento	71		
Comisión Nacional de Valores	22		
Guatemala			
Instituto Nacional de Fomento de la Producción	8.6		
Financiera Guatemalteca, S.A.		1*	
Haiti			
Institut de Developpement Agricole et Industriel	7		
Honduras			
Banco Nacional de Fomento de Honduras	$18		
Financiera Hondureña		1*	

TABLE III

ASSETS OF SELECTED INDUSTRIAL
DEVELOPMENT BANKS IN LATIN AMERICA
(Continued)

Name of Bank	O W N E R S H I P Public	Private	Mixed
	(Total assets in millions of dollars)		
Jamica			
Development Finance Corporation	$3.9		
Small Business Loans Board	8.66		
Mexico			
Intercontinental, S. A.		$2***	
Nacional Financiera			$76.3**
Nicaragua			
Corporación Nicaraguense de Inversión		2*	
Instituto de Fomento Nacional	19		
Panama			
Insituto de Fomento Económico	18.6		
Desarrollo Industrial, S. A.		4**	
Paraguay			
Banco Nacional de Fomento	111		
Peru			
Peruana de Fomento de Inversiones, S.A.		6.9	
Banco Industrial del Peru			35.8
Puerto Rico			
Development Bank of Puerto Rico	122		
Surinam			
Surinam Development Bank		1*	
Uruguay			
Banco de la República Oriental del Uruguay	579.2 P 9.5 billion		

TABLE III

ASSETS OF SELECTED INDUSTRIAL
DEVELOPMENT BANKS IN LATIN AMERICA
(Continued)

Name of Bank	OWNERSHIP		
	Public	Private	Mixed
	(Total assets in millions of dollars)		
Venezuela			
Creole Investment Corporation		$10*	
Banco Industrial de Venezuela			$17.7
Corporación Financiera Venezolana de Desarrollo (Cavendez)		9	
Corporación Venezolana de Fomento	$430 Bl.9 billion		
TOTAL ASSETS	$3,000	$114	$632
AVERAGE ASSETS PER BANK	$ 146.1	$5.7	$126.4

* Initial paid-in capital only

** Paid-in capital stock only

***Authorized capital only

Source: Derived from data published by Business International in August through October, 1964, as modified by data and information acquired at the Inter-American Development Bank.

Attitudes toward Government Participation in the Ownership of Development Banks

Pro	Con
1. Easier to obtain capital from many sources.	1. Political or social considerations may be brought more easily on the bank to use funds in less-than-optimum uses.
2. Possibilities greater of obtaining significant amounts of government capital, and other government concessions.	2. The scope of the bank is likely, at government insistence from within, to be expanded with costly services.
3. Tends to lessen the threat of government expropriation or other intervention.	3. Disclosure by borrowers to a bank with government ownership will lead to "leakage" of business information to other branches of the government such as Tax Collectors.
4. "Inside Track" to assist borrowers to obtain discounts, permits, concessions, and other government-controlled requirements or benefits.	4. Selection of bank personnel likely to be influenced by political favoritism at the sacrifice of capable leadership.
	5. Bank will become overstaffed with people who are not productive, yet who, because of their political connections cannot be fired.
	6. Lack of profit motive may cause the bank to become careless with its funds.

Those organizing a development bank must be aware of the implications of government equity ownership, either directly or through a quasi autonomous organization. It is quite likely, as indicated above, that the government has motives for so doing apart from the selection of the most profitable projects, or apart from the selection of those projects which use resources in a most wise and efficient way. Most practitioners in the field of development banking recognize the absolute necessity for the development bank, if not privately owned, to be at least in some measure autonomous and free from political influence.

It must be underlined that government ownership does not always imply that political pressure will be forthcoming. Whether indeed political pressure is applied to the selection of projects depends upon the magnitude of government ownership and the kind of government ownership and the motives for government participation. If the government share is small, or if the government has purchased a class of equity which has a limitation on voting powers, or if the motives for government participation are simply to protect its investment and to keep a watchful eye on a young important development institution, in these cases government ownership need not imply political control. The private sectors of many developing countries are beginning to realize that the government can in some instances be an effective partner in development.

(2) Reasons for Government Participation

Governments on the other hand have a number of reasons for their participation in both equity and debt of development banks. We might examine these reasons under the following headings:

a) Economic Objectives

As a tool of economic development a development bank, although not a panacea, can relate to a number of pressing bottlenecks to economic growth.

(i) Entrepreneurial Development

One of the critical bottlenecks in the eyes of many practitioners of economic development is the critical lack of entrepreneurs. These are the individuals or, as the case may be, institutions, in a society that mobilize resources for development, and associate factors of production in productive viable combinations to produce goods and services needed and demanded by the people.

Many writers in the field of economic development have noted the importance of the entrepreurial function to development, and many governments, casting about for ways to accelerate the pace of growth in their countries, have turned to development banks as a way to relate to this problem. Indeed, His Majesty's government of Nepal, has invested quite heavily in the equity of the Nepal Industrial Development Corporation for one reason, among many others,

because the NIDC was planning to assist entrepreneurs to take advantage of the many small industries that were potentially viable under present day conditions in Nepal.

For example, the private Industrial Credit and Investment Corporation of India (ICICI), which received in 1955, the first year of its operation, a seventy-five million rupee loan from the Government of India, has always been extremely aware of the problem of entrepreneurial development. They have made it a general policy to try to contribute to this aspect of economic development. Many projects financed by ICICI have been started by entrepreneurs for whom these projects were the first step in industry and to quote from the statement of the Chairman of the Board, Shri G. L. Mehta, to the shareholders, on April 9, 1964.

> "ICICI plays an important part in providing various ancillary services to new entrepreneurs. We advise them on the various formalities to be fulfilled in setting up a manufacturing unit, on a suitable capital structure for the project, and on the need for and, if so, the terms of foreign collaboration arrangements"

(ii) Capital Mobilization

A development bank is a proven technique for the mobilization of capital for productive purposes. Most governments realize that great amounts of capital in their country, which potentially could be bent to the use of economic development objectives, are presently in unproductive uses, such as in land, in buildings, luxury housing, inventories, hoards, and especially in bank accounts or other assets in foreign countries.

A development bank does much more for mobilizing capital for economic development than just the filling out of its own capital structure. Each project that it approves has a heavy content of other funds. And very often a development bank, with its extensive financial contacts, both within or without a country, can assist its borrowers

in obtaining other financing, such as suppliers' credits or investment from other sources of capital. The Industrial Finance Corporation of India, estimated in 1963 that it had been associated since 1948 with projects whose total investment amounted to over 30% of the private capital formation in India.

The many things that a development bank can do to strengthen the capital market, such as underwriting, portfolio sales, stock and bond issuance, and the like, make it an ideal tool to accomplish a government's economic objective of capital mobilization.

(iii) Investors' confidence

A pressing problem with which governments interested in economic growth must deal is the problem of lack of confidence on the part of domestic and foreign investors. This lack of confidence springs both from their lack of experience and knowledge and, perhaps, from various kinds of instability within the country, such as political turnover or price changes.

Government investments in a development bank, Although certainly only one of many ways in which the government can relate to this problem, could be a clear demonstration of the government's interest in economic development and its intention to do something about it. Investors' confidence relates both to problems of entrepreneurial development and capital mobilization mentioned above, but is separated here because of its crucial relationship to foreign capital flows.

(iv) Plan Implementation

Many countries have turned to planning as a way of rationalizing the process by which resources are directed to the satisfaction of consuming needs. Although from many points of view this method of economic development carries with it additional problems such as fostering initiative, building confidence, and creating incentives, nevertheless planning has achieved in many countries a high

degree of respectability and will be certainly very much in use by the developing countries until at least the "take-off" stage of economic growth.

The relationship between plan formulation and plan implementation, however, is extremely weak in many countries. No matter how good the plan looks on paper it somehow just doesn't get translated into actual production. A government may look upon a development bank as a medium through which it can have an impact on the allocation of resources in the country according to the development plan. Governments in many countries have chosen development banks as their chosen instruments for investment. Nacional Financiera in Mexico, Corporación de Fomento de la Producción in Chile, and Uganda Development Corporation, to name a few, are examples of this kind of development bank.

(v) Revenue

Another objective for the participation of a government in a development bank might be the obtaining of revenue. The investment by the Japanese Government in the Japan Development Bank has been extremely profitable and has yielded 6% on its borrowings and has paid to the Government of Japan more than the capital which the Government originally contributed. In the 12½ years from its establishment to September 1963 the Japan Development Bank paid to the Government of Japan $706 million dollars (equivalent) which was composed of $339 million in interest payments and $367 million in earnings. This is more than 8% more than the bank's $650 million initial capitalization.

b) Political and Social Objectives

Governments have invested in development banks not only to stimulate their country's economic development but also to achieve certain political and social objectives. Governments are by nature concerned with their political position within the country and equally concerned with the attainment of certain social goals or objectives. Consequently, there are times when it appears that their investment in development banking is oriented toward the achievement of certain of these non-economic goals, to wit:

(i) Regional Balance

Very often a government is concerned with the strengths and weaknesses of particular sectors and segments of its economy and invests in a development bank in order to influence the allocation of the bank's resources to this end. One gets the feeling that the Government of Pakistan is somewhat displeased with the pattern of investments of the Pakistan Industrial Credit and Investment Corporation in that this corporation has chosen productive investments which have been overwhelmingly concentrated in West Pakistan. Although the total amount of the loans in effect on December 21, 1963, expressed in dollars, amounted to $114.7 million, only $32.3 million had been loaned to projects located in East Pakistan, whereas almost three times that amount had been allocated to projects in Karachi and West Pakistan. The Government of Pakistan in the initial phase of PICIC financing made available 30 million rupees in October of 1957 and made another 30 million available in December of 1961.

Many observers feel that the Government of Pakistan wants PICIC to be a little more sensitive to the problem of regional balance and to increase the amount and volume of their lending in East Pakistan. It is easy to understand on the other hand, how a private development bank such as PICIC would concentrate its lending pattern in West Pakistan. The large markets are there; infrastructure is quite a lot further advanced in West Pakistan; the existence of skilled labor, business services and other necessary ingredients for economic development are more plentiful. East Pakistan, on the other hand, is a very low country subject to annual flooding which disrupts transportation and does not have the tradition of industrial development that West Pakistan enjoys.

The Industrial Finance Corporation of India, a development bank in which the government owns nearly half the equity has been extremely sensitive to the geographical pattern of its investments. On page 16 of its Annual Report for 1964 it indicates the geographical distribution of its financial assistance in considerable detail, and it points out:

"The corporation continued to give special assistance to the less developed areas of the country. A number of loans and other facilities were sanctioned during the year for industrial units to be located in less industrialized states like Assam, Andhra Pradesh, Orissa and Uttar Pradesh."

(ii) Grassroots Popular Impact

No one would be naive enough to suggest that economic ills are the only cause of political strife. On the other hand, many governments realize fully well that progress in raising material standards of living is an indispensable element in political stability. Consequently, in order to satisfy public demand for economic development, many governments are casting about for institutional solutions.

A development bank has been proven to be one effective such institution. Through the impact made by the investment of the development bank on the economy and in the additional employment and prosperity which these investments should achieve, a government, by its investments in the development bank, is relating to this problem.

Because of the necessity for government investments somehow to reach the small investor, governments have tried interesting experiments in development banking. In India, for example, the National Small Industries Corporation lends only for capital equipment purchases by small businessmen. Pakistan, too, has a small industries corporation which provides credit to small industries in both public and private sectors, in addition to rendering technical assistance, commercial advice and marketing advice to these industries.

Recently a local currency loan was made to the National Bank of Egypt by A.I.D. of one million Egyptian pounds (2.2 million dollars) which is earmarked specifically to provide credit for small borrowers who otherwise have no access to bank credit.

Financing the Growth of Development Banks

Many governments are finding that development banks for cooperatives are an ideal way in which to have grassroots impact and at the same time make significant economic progress. A recent conference on the development of national markets in Latin America in October of 1964, convened by A.I.D. at the request of Dr. W. W. Rostow, braintruster of the policy planning council of the Department of State, heard many of the participants refer to cooperatives as effective instruments for achieving agricultural productivity and for rationalizing national marketing and distribution systems.

At the present time, at the request of many Latin American governments, the Inter-American Cooperative Bank Development Program, a program being administered under a contract with A.I.D. by the Fund for International Cooperative Development, is assisting local groups of cooperatives to form banks. Government support of this kind of development bank can mean real political mileage in terms of number of people affected, stimulated and assisted.

(iii) Private Initiative

Disillusionment is growing among many of the developing countries in socialism as an engine for economic growth. Indeed, reports even from Soviet Russia indicate that profit is considered an indispensable incentive to productivity. Most people have observed that government ownership and operation of industrial enterprise abounds in inefficiency and waste, is unresponsive to consumer demand, and does not, in the absence of artificial incentives, relate effectively to the problem of industrial progress.

These governments are examining ways in which they can relate to the private sector in a way in which the advantages of private initiative can be realized within the framework of overall government directions, and within a framework which protects people against potential abuses or excesses.

These governments are beginning now to realize that the positive incentive of personal gain, properly controlled and directed, is the only way to achieve a dynamic and viable productive economy. Their investments in development banks all over the world are eloquent testimony to this fact.

(3) Other Domestic Public Sources of Capital

Other governmental agencies such as government owned commercial banks, central banks, and other institutions have invested in development banks, either as instrumentalities to effect the purpose of the central government or, if they have considerable autonomy, on their own volition. It is quite likely, except possibly in the case of autonomous institutions, that the motivational patterns, although perhaps differing in emphasis, would be somewhat along the same lines as outlined above. In the case of autonomous public agencies, the fact that a development bank may be a sound investment capable of yielding a reasonable return on investment, might be an additional incentive.

The investment in Industrial Finance Corporation of India by the Reserve Bank of India, and the investment by the Central Bank of Nigeria in NIDB are examples of this kind of participation. In the latter case cited above, the Central Bank, along with the International Finance Corporation hold their shares in trust for future private purchases.

(4) Patterns of Domestic Public Participation

In Table IV we intend to present certain ways in which public institutions have assisted selected developmnet banks. The list is certainly by no means complete. Indeed, even in the cases which are described in the table, government assistance to the particular bank mentioned and to other development financing institutions in the country may be more extensive than herein described. Nevertheless, it does permit us to identify some of the typical patterns of assistance to development banks by public institutions as follows:

a) Equity Investment

One can see from the accompanying Table (IV) that domestic public bodies have made a number of equity investments in development banks. In addition to the information provided in Table IV there have been other examples of Government equity purchases. Not appearing in the Table are, among others, the Government of Morocco which invested in Banque Nationale pour le Developpement Economique, the Investment of the Government of Ethiopia in the stock of the Development Bank of Ethiopia, and the investment of 83,000,000 dollars by the Government of Japan in the equity of the Japan Development Bank.

Very often the government will participate as a trustee, holding equity shares against the day when they can be purchased by the private sector. Such was the case mentioned above in the investment by the Central Bank of Nigeria in the Nigerian Industrial Development Bank. Both the Central Bank of Nigeria and the International Finance Corporation picked up 24½% of the original stock issue apiece with the agreement that they would pari passu sell these shares in such a manner and at such a time that the private sector could purchase ownership interest in the bank without impairing its capital structure. It is anticipated that this stock will be sold gradually over a period of years.

This technique has also been suggested as a method of approach to the financing of development banks for cooperatives. The difficulty of raising equity capital for such development banks from capital-poor cooperatives could possibly be overcome by equity investment on the part of a public institution with the pre-agreement that shares would be released to cooperatives as they were able to purchase them. Such an arrangement would lessen the clamor for loans at the door of a bank for cooperatives on opening day. This clamor arises from many small cooperatives which have invested in the equity of the bank and which now all want a loan at the same time.

b) Loans

One technique that has been used quite frequently and is recommended for use by the International Finance Corporation is the technique of a loan to the development bank from the public institution, usually the government, on such terms that the loan can be considered part of the borrowing base. "Quasi-equity", as this form of lending is called, has three essential characteristics. Most important, probably, is the fact that such a loan is subordinated to all debts of the bank and usually subordinated to equity. Its subordination to debt permits lenders to lend without fear that this quasi-equity loan will constitute a prior lien on the assets of the bank. Its subordination to equity facilitates the sale of shares in the development bank.

TABLE IV

SOME ASSISTANCE BY SELECTED PUBLIC INSTITUTIONS TO CERTAIN DEVELOPMENT BANKS

Country	Public Body	Development Bank	Form of Assist-ance	Amount* ($ equiv.)	Term (Yrs.)	% Int. Rate	Grace (Yrs.)	Other
India	Government of India	Industrial Finance Corporation of India (IFC)	equity	$2.9	N.A.	N.A.	N.A.	owns approximately 20%
India	Reserve Bank of India	Industrial Finance Corporation of India (IFC)	equity	2.9	N.A.	N.A.	N.A.	owns approximately 20%
India	Government of India	Industrial Finance Corporation of India	loan	20	40	5	4	made in 1959
India	Government of India	Industrial Credit and Investment Corp. of India (ICICI)	loan	15	30	6	15	subordinated to share capital and debt, made in 1955
India	Government of India	Industrial Credit and Investment Corp. of India (ICICI)	loan	20	20	4½	10	subordinated only to foreign debt, made in 1959
India	Government of India	Refinance Corporation for Industry	loan	55	40	4	4	made in 1958

* In millions of dollars

TABLE IV

SOME ASSISTANCE BY SELECTED PUBLIC INSTITUTIONS
TO CERTAIN DEVELOPMENT BANKS
(Cont'd)

Country	Public Body	Development Bank	Form of Assist-ance	Amount* ($ equiv.)	Term (Yrs.)	% Int. Rate	Grace (Yrs.)	Other
Pakistan	Government of Pakistan	Pakistan Industrial Credit and Invest-ment Corporation	loan	$6.3	30	0	15	both loans subordinated to debt and share capital, made in 1957 and 1961 respectively
Pakistan	Government of Pakistan	Pakistan Industrial Credit and Invest-ment Corporation	loan	6.3	40	4	4	see above
Pakistan	Government of Pakistan	Industrial Devel-opment Bank of Pakistan	loan	6.3	30	4	4	made in 1960
Pakistan	Government of Pakistan	Small Industries Corporation	loan	2	30	4	4	made in 1959
Ecuador	Government of Ecuador	National Devel-opment Bank	loan	2.9	12	3/4	4	made over a 2 year period 1956-7
Ecuador	Government of Ecuador	Banco de Coopera-tivas del Ecuador	grant	75**				to be made over a 3 year period 1965-7
Brazil	Government of Brazil	Banco Nacional do Desenvolvimento Economico	loan	14.2	35	4	4	

* In millions of dollars
** In thousands of dollars

TABLE IV

SOME ASSISTANCE BY SELECTED PUBLIC INSTITUTIONS
TO CERTAIN DEVELOPMENT BANKS
(Cont'd)

Country	Public Body	Development Bank	Form of Assistance	Amount* ($ Equiv.)	Term (Yrs.)	% Int. Rate	Grace (Yrs.)	Other
Bolivia	Government of Bolivia	Banco Industrial de Bolivia	loan	300**	30	3/4	14	made in 1963
Turkey	Government of Turkey	Industrial Development Bank of Turkey	guarantee	N.A.	N.A.	N.A.	N.A.	government agreed to absorb foreign exchange risk, and in addition, to guarantee a 6% dividend
Turkey	Government of Turkey	Industrial Development Bank of Turkey	Portfolio mgm't	36	N.A.	N.A.	N.A.	government turned over to IDB management of 3 funds at a 3% commission fee--amounts to more than 48% of total IDB resources
China	Government of Republic	Bank of Communications	loan	875**	8	10.8	0	
China	Government of Republic of China	China Development Corporation	loan subordinated to other debt ,not to share capital	10	30	6	15	interest rate adjustable to provide at least a 4% spread--loans $2.5 million per year over 4 year period 1959-63
China	Government of Republic of China	Overseas Chinese Commercial Bank	loan	250**	3	12	0	made in 1961

* In millions of dollars
** In thousands of dollars

TABLE IV

SOME ASSISTANCE BY SELECTED PUBLIC INSTITUTIONS
TO CERTAIN DEVELOPMENT BANKS
(Cont'd)

Country	Public Body	Development Bank	Form of Assistance	Amount* ($ equiv.)	Term (Yrs.)	% Int. Rate	Grace (Yrs.)	Other
China	Government of Republic of China	Small Industry Loan Fund	loan	$3.3	8	10.8	0	
Nigeria	Government of Nigeria	Nigerian Industrial Development Bank	loan	5.6				
Nigeria	Central Bank of Nigeria	Nigerian Industrial Development Bank	equity	1.4				

*In millions of dollars

In some cases governments which have not felt that the stock of a development bank should be thus stimulated have indicated that their loans should rank pari passu with equity and not be subordinated thereto. Such has been the case in loans by the Governments of Austria, Republic of China and Iran to their respective development banks.

The second element of a quasi-equity loan is its long-term nature, with perhaps a significant grace period. One will note in Table IV that the term of lending on many loans by governments to development banks is in the nature of 20, 30 to 40 years, with grace periods up to 15 years.

The third element of quasi-equity is the low interest rate. Indeed, in some instances India and Pakistan have lent at no rate of interest. Not shown on the Table is the loan by the Government of Thailand to the Industrial Finance Corporation of Thailand at no interest and loans by the Government of the Philippines and the Government of Malaysia to their respective development banks at no interest and three quarters per cent respectively.

c) Asset/Portfolio Transfer and Fund Administration.

This technique is one which has been used to excellent advantage by governments in stimulating development banking. As one can see from Table IV, the Government of Turkey turned over to the Industrial Development Bank of Turkey the management of three funds at a management fee of 3%. These funds originated from U. S. capital assistance to Turkey and consisted of the Marshall Plan Private Enterprise Fund established in 1951, and the Industrial Export Working Capital Fund, established also in 1961. As pointed out above, total resources provided by these three funds amount to over 48% of the total resources of funds available to the bank for lending.

Not shown on Table IV is the transfer by the Government of Iran of the portfolio of the Industrial Credit Bank of Iran to the private Industrial Mining and Development Bank of Iran. Also, the Government of Ethiopia transferred the portfolio of the Agriculture and Commercial Bank to the Development Bank of Ethiopia and the Government of Japan tranferred the equivalent of $237 million to the Japan Development Bank which comprised the entire portfolio of the Reconversion Finance Bank of Japan.

d) Guarantees and Agreements

Table IV indicates that a number of governments have supported development banking by making certain advantageous agreements with the development bank. For two loans, for example, the Government of Turkey agreed to absorb the foreign exchange risk by guaranteeing to convert into dollars local currency repayments of borrowers on loans made by the bank in foreign exchange. In addition the government agreed to guarantee a 6% dividend on the stock of the bank, such dividend, if and when paid by the government, was to operate as a loan to the development bank. In practice this contingent commitment was very little used by the bank except in the very early stages of its operation.

The Government of Pakistan absorbed the maintenance of value risk on the first World Bank loan to the Pakistan Industrial Credit and Investment Corporation. Since then, however, it has not so guaranteed loans made to PICIC.

In Latin America several governments have been willing to undertake the maintenance of value burden by pre-agreement with development banks. The Government of Colombia, for example, is requiring the Instituto Colombiano de Reforma Agraria (INCORA) to repay only the amount of currency borrowed. The Colombian Government is also taking the foreign exchange risk in the case of a dollar credit to the Instituto de Credito Agropecuario. In Ecuador, too, the Government seems willing to assume part or all of the risk of maintenance of value for certain kinds of development banks.

Other kinds of agreements that the government might make with a development bank very often will not lead to actual cash outflow on the part of the government but merely serve to underscore and undergird the confidence which the government has in the potential of the institution. Such was the case in which the Government of India guaranteed IFC's payment of both principal and a minimum annual dividend of 2-1/4% on the first series of shares and 4% on the second series of shares. In actual practice, however, the earnings of the Industrial Finance Corporation have been sufficiently high so that this guarantee was only used in the beginning of operations of the bank.

(e) Discounting Facilities

The provision of discounting facilities to development banks by governments is similar to a loan. The liquidity of a bank is enhanced if it can sell the assets it acquires to another institution in order to obtain funds to relend. The ability to sell or discount its assets to another institution and thus obtaining additional funds is extremely important to a development bank specially in view of the fact that it is designed to provide medium and long term loans.

The Government of Colombia has extended discounting facilities to several of the Colombian Development Banks with an interest spread of 5% per year with maturities up to five years. The banks, however, remain liable for obligations which are discounted.

C. Domestic Private Sources of Capital

The ability of a development bank to raise equity or debt locally depends on a number of factors including among them:

1. The availability and sources of such funds.

2. The confidence of the public in the quality and caliber of the people chosen to manage the bank.

3. The leverage of equity capital or the security for debt.

4. If the bank has been operating for some time, the soundness of its operations and its likely prospects of future success.

5. Likely future price conditions will determine the choice between debt and equity. In an inflation, unless the debt is linked to something whose real value is maintained, an investor, if he invests at all, will prefer equity.

6. The terms and conditions under which the proposed investment is offered to the proposed investor.

In addition to these considerations, there are a number of things that may be said about domestic private sources of capital for development banks. Some of the most significant private sources are as follows:

1. Commercial banks
2. Insurance companies
3. Business corporations
4. Cooperatives, and
5. Private individuals.

In general the reasons for private investment in development banks are the same in developing countries as they are anywhere. Investors usually seek to move in their investment portfolio toward one or two of three possible financial objectives:

1. Present income
2. Future growth, and
3. Security of investment

From the standpoint of earnings, a development bank cannot hope to compete with many profit opportunities in developing countries in the short run because of the many obstacles and hurdles that are inherent in initial start-up and operation of a development bank. For the first two or three years, in the absence of any subsidy from the government or any other sources, a development bank is quite likely to lose money until its loan volume is sufficient to pay for the administrative costs. The Banco de Cooperativas del Ecuador was able to project in the black from the very beginning only because of a three-year grant by the Agency for International Development and because of a subsidy from the Government of Ecuador.

After a few years of operation, however, the earnings potential of a development bank should be very good and in the long run the earnings should be even better provided that the development bank choses its investments wisely and doesn't let administrative costs get out of hand. The Industrial Development Bank of Turkey, for example, during the last decade has been paying a dividend of the legal maximum of twelve percent each year and still building up sizeable reserves.

From the standpoint of growth, an equity investment in a development bank is likely to be a very sound investment. Development banks will grow probably as fast as, or faster than, the rest of the economy, depending, of course, on the productivity of the uses made of its funds. If the bank has the authority to make equity investments, and it usually does,

these investments, if wisely chosen, will through capital gains and payment of dividends enhance both the earning capacity of the bank and the saleability of its own obligations.

During an inflation equity investments in a development bank are much more easily sold than debt in the absence of any arrangement tying the debt to the level of prices. The Industrial Development Bank of Turkey, during a brief period of inflation about five years ago as we mentioned above found that whereas its issue of bonds was not completely taken up, its issue of stock was oversubscribed. One would naturally expect that a debt instrument with its fixed income and repayment obligations would be less attractive during a time of rising prices than would be a share of ownership or equity in a development bank. A share of ownership would be presumed to rise in price along with the other prices in the economy.

From the standpoint of security, a development bank is also a good investment. The diversity of its portfolio makes an investment in a development bank a less risky thing than an investment in a corporation. Under some circumstances the shares of a development bank will be able to be traded even in countries where the capital market is not very well articulated. Most people feel that development banks will play an important role in their country's economic growth. Therefore, they tend to feel that investment in a development bank is reasonably secure.

Let us now examine certain subsectors of the domestic private sector which have invested in development banks together with some of the reasons therefore.

(1) Commercial banks and other financial institutions

Commercial banks have in the past lent significant support to the formation of development banks both in the purchase of equity and in some cases consortia to provide debt.

For example, a consortium of banks in Finland, for example, provided a line of credit of $8,000,000 to the Industrialization Fund Corporation in Finland. Among the main shareholders of this bank are three private Finnish commercial banks, in addition to the Central Bank of Savings Banks, the Central Bank of Cooperative Societies, and the Postal Savings Bank. The China Development Corporation, too, was established by, among others, leading bankers in Taiwan.

Development banks in Thailand, Philippines, India, Pakistan, Turkey, Ivory Coast, Colombia, Venezuela, and many other countries have obtained equity capital from commercial banks and other financial domestic private institutions.

As we pointed out above, the reasons for their participation are partly because in their judgment an investment in a development bank offers the probability of future earnings, offers the prospec t of excellent growth, and offers the security of a diverse portfolio. In addition, however, there are other reasons why such institutions can be induced to participate in the formation or strengthening of a development bank. Some of the most important of these reasons as as follows:

a) Increased deposits

A commercial bank, cfcourse, depends for its sources of capital mainly upon demand and time deposits which are placed there by individuals in anticipation of immediate or possible future need. Businesses are prime users of the deposit facilities of commercial banks and it is the knowledge of this fact that encourages a commercial bank to assume an ownership interest in a development bank. Development banks are usually not banks of deposits and therefore do not compete with a commercial bank for sources of funds. Development banks in turn usually meet the immediate and long-term lending requirements and again do not compete with the short-term loans that are made by commercial banks. Commercial banks feel that their participation in the equity of a development bank may strengthen their position in the business community of a country which will indirectly result in increased deposits and use of their services and facilities by both the bank and the bank's borrowers.

b) More business

A commercial bank may make an investment in a development bank to gain an entree to the business community which will result in joint financing of profitable business projects. As pointed out above, commercial banks do not feel competition with development banks for the uses of their funds. Situations might arise in which the development bank would be providing the long term fund, with the commercial bank providing the short term debt capital.

c) Image

Related to the above is the image which a commercial bank is projecting in a particular economy. Generally speaking its clients are business men and individuals who come to the commercial bank because it can provide them with financial services. A commercial bank, therefore, would try to project an image of competence and broad financial contact within the domestic community. An investment in the equity of a development bank would be one important part of this image.

d) Contacts

In its rendering of financial services to clients, a commercial bank is often in a position of advising on the total financial strucutre of a project. The contacts which a commercial bank would make as a result of its investment in a development bank with international sources of capital, with international agencies, and with other elements of the domestic foreign financial community should be valuable to the commercial bank for the rendering of this kind of service.

e) Other

There are certain other reasons which are worth mentioning why a commercial bank or other financial institution in a country will invest in a local development bank. There is a general feeling that a development bank is an integral part of an economic development program and the commercial bank is probably proud from a patriotic point of view to participate in the economic development of its country.

Sometimes there may be pressure exerted directly or indirectly on the commercial banks by the government which helps to induce them through fear or favor to make an investment in a development bank. Another possible minor reason applicable only in special instances is the desire of the commercial bank to do through a development bank what they are not permitted to do themselves. Commercial banks in Mexico, for example, initiated Financieras and made investments through them on terms which would not be possible for them to make directly. In the early 1950's, however, the Government of Mexico stepped in to regulate these Financieras in the same manner as the commercial banks so that the advantage gained was only temporary.

U. S. commercial banks have set up investment corporations under the Edge Act to comply with laws prohibiting a commercial bank from taking equity positions.

(2) Insurance Companies

Insurance companies are also interested in investments in development banks for its potential earnings, for its prospects of future growth, and for the security of diversified portfolio. The growth possibility is probably the most attractive to insurance companies. An insurance company when it insures an individual undertakes a commitment that is not likely to be realized until some future date is reached. This fact requires that an insurance company make the kind of investments with these funds that will insure their maintenance of value until the time that they are called upon for use.

Insurance companies in many countries have realized that an investment in the equity of a development bank is an excellent way in which to insure that its investment will grow and keep pace with the economy. The law in many countries is designed to prevent capital flight of the liquid assets of insurance companies and in Mexico, for instance, insurance companies are required to reinvest their liquid assets in that country. Thus, an investment in a development bank either in equity or in debt might appeal to insurance companies if properly presented to them.

One must not forget that as insurers of the population insurance companies have a financial interest in general well-being and would be doing themselves an indirect favor if by their investments the material well-being of the population could be improved. In addition, it does the local image of an insurance company no damage to be associated with such a popular locally owned institution such as a development bank. A goodly number of development banks have obtained either equity or debt financing from insurance companies. A few such banks are as follows:

Austrian Credit and Investment Corporation
Industrial Finance Corporation of Thailand
Industrial Credit and Investment Corporation of India
Pakistan Industrial Credit and Investment Corporation
Banque Nationale pour le Developpement Economique in Morocco.

(3) Business Corporations, Cooperatives, and Individuals

Many businesses in developing countries have realized that although development banking may be quite alien to their customary economic endeavors, investment may be beneficial to the corporation for a number of reasons.

Again, as above, it may offer profit to the investor in the form of earnings, growth, or security, since each bank is different as we pointed out above and the opportunity for profit must be evaluated by the investor in each case. In addition to potential profits, however, many business corporations are well-advised to consider equity or debt investment in a development bank on the grounds that the bank may some day be a source of funds for that business. Although such a business should never attempt to influence the making of a loan by a bank, it is reasonable to suspect that other things being equal it would receive prior consideration for financial services as compared with an applicant who had no financial interest in the bank.

As a source of information, investment in a development bank is also valuable for a business corporation. It has an inside track to many business opportunities which it can explore with the applicant on its own or even sometimes at the request of the bank. Many excellent joint ventures have been thus worked out between applicants of the bank and investors in a bank.

As above, investment in such a popular development institution as a development bank does the company's public image no harm. In many countries, indeed, corporations with a heavy dose of foreign financial control are quite anxious to improve their image in a country. Not only does it help sell their product but it, indeed, also paves the way with governments for more equitable treatment as compared with all domestically-owned corporations. One of the most pressing problems that many corporations have identified in these countries is that of convincing the government that they are sincerely interested in the development of the country and not just in their own profits.

Cooperative organizations, too, have invested in development banks. Recently, seeking to strengthen the cooperative financing system in Latin America, the Agency for International Development contracted with the Fund for International Cooperative Development, a private organization, to undertake the task of assisting Latin American cooperatives to set up development banks in countries where they appear to be needed and appropriate. The entire amount of equity capital in most cases has come from the cooperatives themselves.

Equity is gradually acquired by a development bank for cooperatives by adding a surcharge of a certain percent to each interest payment, such surcharge being used to purchase stock in the bank in the name of the borrowing cooperative. When the limits of authorized capital are reached, additional stock purchases then retire capital stock on a first-in-first-out basis, thus assuring that the bank is always owned by its current users.

Many different kinds of cooperatives have invested in cooperative banks. The principal investors in Banco de Cooperativas del Ecuador have been credit unions which see the bank as a source of funds. The cooperative bank permits certain qualified credit unions to borrow up to three times their members' savings. This gives the credit union movement additional leverage since they can hold out the prospect that one sucre saved commands three sucres in borrowing power.

Individuals too have invested in development banks. The development banks which have issued public share offerings have experienced, in many cases, excellent success. As mentioned above the Industrial Development Bank of Turkey when frustrated in its attempt to sell bonds during an inflationary period found that its equity share offering was oversubscribed within a short time.

The Cyprus Development Corporation (CDC) offers a good example, too, of how a properly organized and publicized development bank can excite and arouse a high degree of local interest. The Board of Directors of CDC decided to offer initially 400,000 shares and on June 14, 1963, they appointed eight banks as local agents. A small brokerage firm agreed to act as agent abroad, mostly in the United Kingdom. By June 27, 1963, the prospectus was officially published in local newspapers. A television program was written and produced in both the Greek and Turkish languages. A simple question and answer booklet was printed to be available at all bank branches along with the prospectus and application forms. On July 1 the subscription lists were opened in Cyprus and London and by July 11 it was apparent that the issue would be oversubscribed. The Directors of the Bank decided to close the subscription lists as of July 20. By July 20, the issue had, indeed, been oversubscribed by more than 100% (803,269 shares). The success of a public share offering will depend in great measure on the amount of publicity and pre-sale preparation which is done by the bank.

It is extremely important that the timing of the advertisements, the notices, the prospectus and the applications be perfectly coordinated. Development banks in Venezuela, Colombia, Morocco and Philippines to name a few, have also had excellent success in public share offerings.

D. Foreign Public and International Sources

(1) General

Since the first World Bank loans to the Industrial Development Bank of Turkey and the Development Bank of Ethiopia, foreign public and international lending through development banks has been a popular method of foreign aid. It has been estimated by the author that very close to $2 billion has been channeled to private agricultural and industrial efforts through development banks all over the world from foreign public and international sources. The principal sources of funds for this re-lending have been the following:

1. Agency for International Development
2. International Bank for Reconstruction and Development
3. International Finance Corporation
4. International Development Association
5. Inter-American Development Bank
6. Export-Import Bank of Washington

One of the principal reasons for the popularity of lending to private industrial and agricultural projects to development banks is that these banks have proven the ability to reach the small investor or small farmer. They are familiar with local conditions, laws, economic and political situations and can do a much better job of supervising the loan.

In considering the ways in which development banks of today can obtain the financing they need to grow, the solicitation of debt and equity from foreign public and international sources appears to be one of the most useful channels. It, therefore, behooves us to explore each one of these in turn, to observe their past pattern of lending both geographical and functional and to explore briefly some of the touchstones which are liable, if pressed, to release funds to a development bank.

(2) IBRD, IFC and IDA

The World Bank family has been an important source of lending to development banks. The International Bank for Reconstruction and Development which is popularly known as the World Bank is the mother institution of this family and is supported by its 103 member nations. Principally, it extends hard currency loans to development banks and through June 30, 1964, had extended $405.6 million to private borrowers through industrial development banks.

The International Finance Corporation and the International Development Association, both off-shoots and close affiliates of the World Bank were organized by members of the bank in 1956 and 1960 respectively. The IFC has been a partner with the World Bank in the building of seven private development finance companies since September 1961 when its charter was amended to permit it to take equity positions. The International Development Association (IDA) gives the World Bank flexibility to invest in countries with balance of payments problems. The terms and conditions of loans to the development bank itself are not significantly different from World Bank terms and can be considered the same for all practical purposes.

As one can see from Table V, the World Bank had made 29 hard currency loans to eleven private development banks. Its average loan is about $10 million.. The present interest rate being charged by the Bank is 5-1/2% per annum, but the Bank agrees with the borrower that the rate charged the borrower will be the current World Bank rate when each development bank subloan is made. The terms of World Bank loans to development banks generally run around 15 years. Repayment generally starts two or three years after the signing of the loan agreement.

The geographical pattern of lending has seen the overwhelming majority of World Bank family loans and investments banks go to the Near East South Asia (NESA) region. Of the $443.4 million that the World Bank family has committed almost $325 million has gone to NESA. Of that $325 million $250 million has been committed to two banks -- one in India (ICICI) and one in Pakistan (PICIC). The Far East ranks second in the geographical pattern with $47 million, principally because of a $15 million loan to the Private Development Corporation (PDC) of the Philippines. Europe ranks third in the geographical pattern of World Bank lending with $45 million. Africa is next with $22.4 million and Latin America last with $4.2 million.

TABLE V

World Bank, IFC, IDA

Financial Assistance to Private Development Finance Companies
to October 31, 1965

Country and Institution	IBRD No. Loans	Total IBRD (mil.$)	Interest Range (%)	Term Range (years)	IDA Loan (mil.$)	Interest IDA (%)	Term IDA (years)	IFC (mil.$)	Term IFC
Austria									
Oesterreichische Investitions-kredit A.G. (IVK)	3	23.3	5½*	10-15					
China									
China Development Corporation (CDC)	1	15.0	5½	15	5	Variable. Currently 9.84%	30		
Colombia									
Corporacion Financiera Colombiana (CFC Bogota)								2.0	Equity
Corporacion Financiera de Caldas (CFC Caldas)								0.7	Equity
Corporacion Financiera del Norte (CFN)								2.0	Equity
Ethiopia									
Development Bank of Ethiopia (DBE)	2	4.0	4 - 5½*	10-20					
Finland									
Industrialization Fund (IFF)	2	21.0	5½*	15				0.2	Equity
India									
Industrial Credit and Investment Corporation of India (ICICI)	6	139.9	4 5/8-5½*	7-15					

* The interest rate will be the current World Bank rate when each development finance company subloan is made.

Country and Institution	IBRD No. Loans	Total IBRD (mil.$)	Interest Range (%)	Term Range (years)	IDA Loan (mil.$)	Interest IDA (%)	Term IDA (years)	IFC (mil.$)	Term IFC
Iran									
Industrial and Mining Development Bank of Iran (IMDBI)	2	15.2	5½*	15					
Israel									
Industrial Development Bank of Israel (IDBI)	1	20.0	5½	15					
Ivory Coast									
Banque Ivoirienne de Developpement Industrial (BIDI)								0.2	Equity
Liberia									
Liberian Bank for Industrial Development and Investment (LBIDI)								0.3	Equity
Malaysia									
Malaysian Industrial Development Finance Ltd. (MIDFL)	1	8.0	5½*	15				0.8	Equity
Morocco									
Banque Nationale pour le Developpement Economique (BNDE)	1	15.0	5½*	15				1.5	Equity
Nigeria									
Nigerian Industrial Development Bank Ltd. (NIDB)								1.4	Equity
Pakistan									
Pakistan Industrial Credit and Investment Corporation Ltd. (PICIC)	6	109.1	5 3/4-5½*	7-15				0.4	Equity

* The interest rate will be the current World Bank rate when each development finance company subloan is made.

Country and Institution	IBRD No. Loans	Total IBRD (mil.$)	Interest Range (%)	Term Range (years)	IDA Loan (mil.$)	Interest IDA (%)	Term IDA (years)	IFC (mil.$)	Term IFC
Philippines									
Private Development Corporation of the Philippines (PDCP)	1	15.0	5½*	15				0.4	Equity
Spain									
Banco del Desarrollo Economico Espanol (BANDESCOO								0.6	Equity
Thailand									
Industrial Finance Corporation of Thailand (IFCT)	1	2.5	5½*	15				0.2	Equity
Turkey									
Turkiye Sinai Kalkinma Bankasi A.S. (TSKB)	2	17.6	3 3/4-4 7/8	15	20	5½	15	0.9	Equity
Venezuela									
C.A. Venezolana de Desarrollo (CAVENDES)								1.3	Equity
		405.6			25			12.8	

* The interest rate will be the current World Bank rate when each development finance company subloan is made.

Sources of Capital

The International Finance Corporation has invested in 13 private development banks up to June 30, 1964. Its average investment in each bank was around $1 million and it is usually the catalyst that has in the past brought the various equity participants of a bank together.

One can see from Table V that the World Bank's financial assistance to development banks extends only to private industrial finance companies. By a policy determination the IBRD restricts its lending to development banks to those which are privately controlled, in spite of the loan made in 1950 to the Development Bank of Ethiopia. The IFC, on the other hand, is constrained by its charter to limit its investments to private enterprise. However, some World Bank project loans have been channeled into specific agricultural projects through government development banks. For example, $25 million has been extended recently to Corporación de Fomento de la Producción (CORFO) in Chile for such purpose.

But the experience of the World Bank and the IFC over the past years is that development finance companies are most likely to be successful if their ownership is predominantly private. They feel that private ownership is the best way to assure sound investment policies and to assure the retention of experienced management. They feel that operations of the bank should be conducted along sound business lines and by strict adherance to economic rather than political criteria.

The IFC prefers that a development bank should be regarded as genuinely national: that is, a majority of its stock should be owned within the country. As a matter of policy, the IFC regards itself as an institution which partakes of the national character of the country in which it is investing. As mentioned before in another connection, IFC purchased 24-1/2% of the equity in the Nigerian Industrial Development Bank, with an agreement to sell this stock at some later time to investors in Nigeria.

The IFC also prefers that private development banks should be as broadly owned as possible and not controlled by a single investor or small group of investors. They feel that such a representative pattern of ownership permits the government of that country to recognize that the successful operation of the bank is not merely in the interest of a few but in the public interest. With respect to government ownership, the IFC has, in the Nigerian case, participated with the government in an investment in a development bank, after being assured that the NIDB was effectively isolated from governmental control, and that the government was prepared to sell its shares to domestic private investors, at some future.

Even though all the above ingredients are present, IFC may still be reluctant to participate in the formation of a development bank or in the strengthening of an existing bank, if it is not convinced that three additional conditions exist:

a) The development and strengthening of the private sector must be consistent with the nation's overall aims and objectives. They point out that it would be pointless to establish a development bank in a country whose objective was social ownership and control of production.

b) The country must have an adequate absorptive capacity for the type of financial assistance which the development bank is designed to provide. They feel that in order for a development bank to be successful in a country, it must possess a nucleus of entrepreneurial and managerial talent, a reasonably broad market for the products of new enterprises, some natural resources and some infra-structure. IFC feels that if there is not a fairly large volume of private industrial activity which could utilize funds if made available to them through a development bank at a certain minimum volume, a development bank could not be viable.

This is an excellent word of caution to those who feel that development banks are in some way conditions precedent to private industrial development. Some people have criticized this policy as being too coldly businesslike and feel that the International Finance Corporation should be more responsive to long-run development objectives. Critics point out that private business will never gain a foothold in a country unless it is accompanied from the start by the very kind of financial and technical assistance that a development bank is designed to provide. Therefore, one has seen development banks spring up throughout the world mostly without IFC assistance, as a reflection of the conviction that development finance must be a condition concurrent to private industrial growth and not a condition subsequent.

c) The third condition is that IFC needs to be convinced that the financial function of the proposed development bank is, indeed, filling a clearly-defined gap in the capital market. They point out that if financial assistance of the kind which the development bank is likely to offer is already available from existing sources, no purpose is served by its establishment. On the other hand, IFC officials are quick to point out that there are few suppliers of medium and long term capital in the new nations. This condition is very easily satisfied in most instances.

As pointed out above, once the World Bank group is convinced that a Development Finance Company is feasible or that an existing Development Finance Company needs strengthening, they are qualified to give assistance far beyond that of providing capital. Their assistance can include help in drafting the Articles of Association of the bank, giving advice on appropriate operating policies, identifying top management and in serving as a catalyst to bring other sponsors together. IFC has responded to requests of other sponsors to nominate a member to the Board of Directors of the development bank in which IFC is investing if in their own judgment such membership can be a constructive influence in the company's affairs. In their opinion the lack

of skill and experience on the part of the staff of a new development bank causes project appraisal to be the bank's greatest weakness, and they feel that the selection of sound projects is probably the most important task of the bank officials. Very often project appraisals are referred to the bank or IFC for advisory opinions, even when such submission is not necessary.

Development banks borrowing from the World Bank group should keep in mind that procurement of goods and services may be from any country which is a member of the World Bank group, including Switzerland, which is not a member but which has been a great source of funds to the World Bank.

(3) Inter-American Development Bank

The Inter-American Development Bank or "El BID" as it is called by the Latin Americans has in its short four year life span made available over $276 million (equivalent) to private agricultural and industrial projects through development banks both private, public and mixed. A large part, $103 million, has been specifically earmarked for agricultural re-lending. $129 million has been specifically earmarked for industrial re-lending. $73 million has had no specification tied to it, presuming that the funds would be re-lent both for qualified industrial and agricultural projects. $11 million has been made available to cooperatives in Chile and Costa Rica. The average loan made by BID to intermediate credit institutions is about $5.7 million, but the 51 loans listed in Table VI have been received by 35 institutions, so that the average amount per institution would be slightly greater ($8.1 million).

Development banks have tapped into both of the principal funds of the bank, the Fund for Ordinary Operations from which funds are available generally at 6% interest and the Fund for Special Operations from which the interest rate is around 4%. BID requires that the loans be repaid in the currency lent which makes them hard currency loans, but very often as one can see from the table, local currencies or third country currencies are made available to qualified borrowers.

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR

Development Bank	Amount* (Gross of Participations)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Argentina					
1. Banco de la Nación 12.5 million in dollars 7.5 million in pesos 5 million in lire	25	4-63	5-3/4	15	3
2. Banco de la Nación 6 million in dollars 6 million in DM 3 million in pesos	15	12-64	6	15	2
3. Consorcio de Bancos Provinciales 14 million in dollars 1 million in pesos	15	8-61	5-3/4	12	4
Bolivia					
4. Corporación Boliviana de Fomento	10	2-61	4-1/2	13	3
Brazil					
5. BNDE 12 million in dollars 15 million in cruzeiros	27	7-64	5-3/4	15	3
6. Banco do Nordeste do Brasil	10	4-61	4-1/2	16	4
7. Caixa Economica do Estado do Minas Gerais	6.4	4-62	1-1/4	11	1
8. Banco de Credito Agricola do Espírito Santo	2	1-63	1-1/4	20	1

* In millions of dollars

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR
(Continued)

Development Bank	Amount*(Gross of Participations	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Chile					
9. CORFO 4.5 million in dollars 1.5 million in escudos	6	4-61	5-3/4	12	3
10. CORFO	6	3-64	5-3/4	12	3
11. CORFO and CORA	10	12-61	1-1/4	11	1
Colombia					
12. Corporación Financiera Colombiana de Desarrollo Industrial .5 million in dollars 8.5 million in pesos	1.05	4-61	5-3/4	10	2
13. Banco de la República	3	10-63	5-3/4	12½	2½
14. Fondo de Desarrollo de Zonas Cafeteras y Federación Nacional de Cafeteros	7	5-64	1-3/4	20	1
Costa Rica					
15. Banco Nacional 2.5 million in dollars .5 million in colones	3	11-61	5-3/4	12	3
16. Banco Nacional	1	4-63	4	21	2.5
17. Banco de Costa Rica 2.6 million in dollars .4 million in colones	3	8-62	5-3/4	12	3

* In millions of dollars

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR
(Continued)

Development Bank	Amount*(Gross of participations)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Dominican Republic					
18. Banco Agrícola 4.5 million in dollars 1.5 million in escudos	6	10-63	5-3/4	12	3
19. Banco Agrícola	3	8-63	1-3/4	11	1
Ecuador					
20. Comisión Nacional de Valores 1.6 million in dollars .7 million in sucres	2.3	8-61	5-3/4	12	2
21. Comisión Nacional de Valores 2 million in dollars .3 million in sucres	2.3	7-61	5	14	3
22. Banco Nacional de Fomento	.097	7-62	4	4	2
23. Sistema de Crédito de Fomento	6	10-62	4	14	½
El Salvador					
24. Banco Central de Reserva	2.5	8-61	5-3/4	13	3
25. Banco Central de Reserva	2	8-61	1-3/4	11	1
Guatemala					
26. Banco de Guatemala 4.2 million in dollars .8 in quetzales	5	8-61	5-3/4	12	2
Haiti					
27. Banque Nationale de la Republique d'Haiti	3.5	4-61	4	15	3

* In millions of dollars

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR
(Continued)

Development Bank	Amount*(Gross of participations)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Honduras	($)				
28. Banco Nacional de Fomento	6	4-62	4	16	4
29. Banco Nacional de Fomento	2.5	8-62	1-3/4	21	1
Mexico					
30. Nacional Financiera 2 million in dollars 1 million in pesos	3	8-61	5-3/4	10	2
31. Nacional Financiera	5.7	11-61	5-3/4	20	3
Nicaragua					
32. Instituto de Fomento Nacional	2	3-61	5-3/4	12	2
33. Instituto de Fomento Nacional	2.3	7-64	5-3/4	15	3
34. Banco Nacional de Nicaragua	4.5	12-64	4	15	
Panama					
35. Banco Nacional	1	12-64	4	14	3
36. Instituto de Fomento Económico	2.9	12-61	4	16	4
Paraguay					
37. Banco Nacional de Fomento 3.5 million in dollars .5 million in guaranies	4	7-64	4	15	3
38. Banco Nacional de Fomento	3	3-61	5-3/4	10	3
39. Banco Nacional de Fomento	2.9	12-62	1-3/4	21	1

* In millions of dollars

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR
(Continued)

Development Banks	Amount*(Gross of participations)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Peru					
40. PERUINVEST	.75	11-63	5-3/4	12	2
41. Banco Industrial del Peru	2.5	10-62	5-3/4	12	2
42. Banco Industrial del Peru	5	12-63	5-3/4	12	2
Uruguay					
43. Banco de la República Oriental	5	12-63	5-3/4	12½	3½
Venezuela					
44. Banco Agrícola y Pecuario 4.9 million in dollars 1.1 million in pesos	6	4-63	5-3/4	10	2
45. Corporación Venezolana de Fomento 7 million in dollars 3 million in bolivares	10	5-61	5-3/4	12	2
46. Corporación Venezolana de Fomento 5 million in dollars 5 million in bolivares	10	11-64	6	12	2
Central America Regional					
47. CABEI 5 million in dollars 1 million in various	6	4-63	4	20	3

* In millions of dollars

46R

TABLE VI

INTER-AMERICAN DEVELOPMENT BANK
GLOBAL LOANS TO INTERMEDIATE CREDIT INSTITUTIONS
FOR RELENDING TO THE PRIVATE SECTOR
(Continued)

Development Banks	Amount* (Gross of Participations)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Central America Regional (Cont'd)					
48. CABEI 7.8 million in dollars .4 million in various	8.2	12-64	4	20	3
TOTAL LOANS	278.5				
Average Amount per Loan	5.7				
Average Loan per Institution	8.1				

* In millions of dollars

Sources of Capital

To be eligible for a loan from BID, the development bank must be located in one of the countries belonging to the Organization of American States (OAS), which includes all of the Latin American republics except Cuba. The loans made by BID to intermediate credit institutions are between 12 and 20 years with two to three years grace, although there have been some few exceptions.

As compared with the World Bank, a relatively large part of the BID funds have been channeled through development banks. The explanation seems to be that because of the newness of the institution and because it takes time to build up staff capability, BID in the beginning has felt it necessary to rely extensively upon the loan analysis and project evaluation capability of its development bank borrowers. In addition, BID officials realize the other advantages to development banks: their ability to reach smaller projects, their ability to evaluate more carefully background economic and political conditions which may affect the borrower, their ability to relate to and identify with the borrower and, consequently, service him better, and many other advantages.

To be eligible for a BID loan, the development bank must be an integral part of the national banking and financing system of the particular country concerned, and it must be in some manner under the supervision of the government agency responsible for the country's credit activities. In contradistinction to the World Bank policy of lending only to private institutions, the financing institutions eligible for BID loans can be public, private or mixed and can operate at the national, provincial or international level, but the ultimate beneficiaries must be small and medium-scaled private business, in any sector related to economic development.

In order to arrive at a judgment with respect to the eligibility of a bank for a BID loan, BID will investigate the institution's legal framework, administration, financial structure, operating policies, operating experience, if any, technical and human resources and the economic and social results that have been achieved since its establishment.

BID also offers technical assistance covering many different areas, such as, operating policies, administrative structures, mobilization of resources, accounting and auditing systems, training of personnel and other specific aid on an ad hoc basis.

As one can see from Table VII BID requires a rather detailed volume of information from a prospective borrowing development bank before it will consider an intensive review of the loan application.

In some cases, especially in countries whose national development plans have not yet been approved at the time the particular development bank is negotiating its loan with BID, BID very often finds it necessary to agree on the kinds of projects that will be financed with the loan. Among the restrictions sometimes imposed, the following may be mentioned:

a. Operations that are merely the refinancing and refunding of earlier debts or the substitution of one creditor by another.

b. Production for export of goods of which there is already world overproduction.

c. Production of luxury items for domestic consumption.

d. Direct financing of working capital.

e. Purchase or lease of land even for the location of enterprises that are receiving financing.

f. Operations for the marketing of products for the purpose of price stabilization.

A guarantee is usually required by BID on loans that it makes to development banks and this guarantee is usually issued by the nation in which the bank is located on terms and conditions agreed upon by BID. In some instances a guarantee has been accepted on the part of the central bank acting as such or as fiscal agent of the government. In addition to general guarantees mentioned above, in certain cases specific guarantees are agreed upon. In such cases the development bank has provided BID with promisory notes of various sub-borrowers payable to BID. This collateral is maintained during the life of the loan in an amount equivalent to at least 120% of the balance owned by the bank to BID.

BID, when it loans, does not make available a volume of funds to be indiscriminately incorporated with any other funds a development bank may have.

TABLE VII

INFORMATION REQUIRED BY THE INTER-AMERICAN DEVELOPMENT BANK FOR THE EVALUATION OF A FINANCIAL INSTITUTION

1. General

In order to be able to evaluate a financial institution and decide whether or not it is capable of being a subject of credit, it is necessary to obtain widely varied and complete information about its legal structure, administration, financial structure, operating policies, systems of control, and the economic, social and financial results obtained.

2. Legal and Administrative Structure

(a) Purpose of organization

Text of charter or law authorizing its establishment, and the by-laws currently in force

(b) General information

Date of establishment
Date of commencement of operations
Ownership and control (public, mixed or private)
Principal shareholders
Country or, in the case of a regional organization, member countries

(c) Administration

Membership and method of selecting Board of Directors and other officials
Voting power of shareholders
Description and duties of special committees
Number and duties of technical staff
Number and duties of administrative staff
Number and location of branches and agencies
Plans for reorganizing the institution

(d) Table of organization

TABLE VII

INFORMATION REQUIRED BY THE INTER-AMERICAN DEVELOPMENT BANK FOR THE EVALUATION OF A FINANCIAL INSTITUTION

(Continued)

3. Financial structure

(a) Capital and reserves

Authorized capital
Subscribed and paid-in capital
Distribution of shares
Reserves
Investments
Financial program

(b) Means of obtaining funds

Current accounts
Time deposits
Savings
Issue of securities
Authorization to contract external loans
Loans obtained--external and internal
Availability of foreign exchange
Subsidies and contributions from the state or other sources

(c) The institution vis-a-vis monetary policy

Access to central bank
Provisions applicable to rediscount operations
Provisions governing legal reserves

(d) Status of portfolio

Amount and number of outstanding loans
Distribution by sectors
Distribution by terms of repayment
Distribution by guarantees
Distribution by interest rates
Percentage of recovery

TABLE VII

INFORMATION REQUIRED BY THE
INTER-AMERICAN DEVELOPMENT BANK FOR THE
EVALUATION OF A FINANCIAL INSTITUTION

(Continued)

4. Operating policy

(a) Sphere of influence

National
Special regions
Underdeveloped areas

(b) Sphere of operations

Intrastructure
Agriculture
Industry
Transportation
Housing
Commerce
Public utilities
Hotel and tourism

(c) Eligible borrowers

Public
Private
Local
Foreign

(d) Activities financed

Promotion of new enterprises
Expansion of existing enterprises
Modernization of enterprises

(e) Utilization of financing and currencies loaned

Working capital
Refinancing
Local currency
Assumption of exchange risk
Maintenance of value of currencies loaned
Use of foreign exchange to finance local costs

TABLE VII

INFORMATION REQUIRED BY THE
INTER-AMERICAN DEVELOPMENT BANK FOR THE
EVALUATION OF A FINANCIAL INSTITUTION

(Continued)

(f) Ineligible or restricted projects

Description by objectives (radio, television, alcoholic beverage, factory, luxury items for local consumption, newspaper companies, etc.)

5. Basic loan criteria

(a) General consideration

Priorities for country development
Economic benefits
Social considerations
Portfolio considerations
Scale of limits on loans
Maximum and minimum amounts
Ratio of loan to net worth
Percentage of participation required by borrower

(b) Guarantee of loans

Mortgages
Chattel mortgages
Bank guarantees
Negative pledge clauses (prohibiting the borrower from incurring new obligations)

(c) Maturities on loans

(d) Interest rates

(e) Service charges

(f) Prepayment provision

(g) Restrictions imposed on borrowers

Limitation on dividends
Compensation for directors
Limitations on sale of outstanding shares and on the issue of new shares
Limitations on the encumbrance of assets
Minimum insurance
Participation in management

(h) Flow Chart of Operations

TABLE VII

INFORMATION REQUIRED BY THE INTER-AMERICAN DEVELOPMENT BANK FOR THE EVALUATION OF A FINANCIAL INSTITUTION

(Continued)

6. Coordination, promotion, and integration activities

   (a) Economic planning functions

      Economic studies
      Relationship to economic or social programs of the government

   (b) Coordination

      Coordination with other private or public development institutions
      Is borrower required to exhaust all possibilities of financing from private sources?

   (c) Role in encouragement of capital markets

      Promotional campaign
      Training courses
      Activities in securities market

   (d) Technical assistance

      Technical supervision of loans
      Assistance in accounting and auditing procedures
      Assistance to borrowers in preparing applications

   (e) Latin American economic integration

      Relationship of programs to Latin American economic integration

7. Procedures and control

   (a) Provisions usually included in loan contracts

      Supervision of loans

   (b) Audit

      External
      Internal
      Appointment of auditor

TABLE VII

INFORMATION REQUIRED BY THE INTER-AMERICAN DEVELOPMENT BANK FOR THE EVALUATION OF A FINANCIAL INSTITUTION

(Continued)

(c) Procurement policy

Competitive bidding as opposed to negotiated contracts
Policy concerning purchases of domestic goods
Policy concerning purchases of imported goods

8. Results obtained

(a) In this section, there should be outlined the economic social and financial results obtained since the establishment of the institution.

9. Other information

The data listed in the preceding paragraphs make it possible to arrive at conclusions on the institutional capacity of the development bank, but it is necessary to have additional information on the program of investments for loans which it is proposed to make with IDB funds. The basic description of the investment plan for the proposed activity must include the following details:

(a) Kind

Total amount of credit and repayment plan

(b) Possible demand for subloans indicating the basis for the estimate

(c) Availability of necessary agencies and other services for the implementation of the plan

(d) Proposed administration of the plan

For the sake of achieving uniformity in the presentation of investment plans, the IDB will supply upon request proforma models of investment plans.

Indeed global loans are to be applied to the financing of a specific agreed-upon investment plan in accordance with acceptable standards of project selection. Therefore, development banks which borrow from BID must submit periodic reports so that BID will know whether or not the program for which it lent is being carried out. The periodic reports, submitted either quarterly, semi-annually, or annually according to prior agreement are divided into three groups:

a. Financial position of the institution at the close of the business year. This includes basic financial statements, balance sheets, operating statements, with necessary annexes to make possible a proper analysis of the development bank's position;

b. financial projections showing the forecast of operations in subsequent years; and

c. an investment plan which serves to outline the proposed use of the BID loan.

Like IFC, BID also has a maximum amount of sub-loans which can be made by the bank without prior approval of BID. If the sub-loan exceeds this limit, it must be submitted to BID but only after it has been approved by the Board of Directors of the borrowing bank. BID always reserves the right to request supplementary information and to raise objections to certain operations for such reasons as the following:

a. Duplication of another direct operation which BID is studying or has approved.

b. Disagreement as to the priority of the sub-loan in question.

c. The need to consider additional technical, economic, or financial factors on the basis of more complete information.

Procurement policies on BID loans to development banks permit procurement of goods and services on a worldwide basis, exclusive of the Sino-Soviet block, except in cases where it is clearly inappropriate, such as for the expansion of a project requiring equipment from the manufacturer of the existing installation.

BID will continue in the future to be a major supplier of credits for development banks in Latin America. As the ability of the various countries in Latin America to articulate well-defined projects increases it is probable that BID lending to development banks will become a declining proportion of the then current level of BID resources. However, these resources are expected to increase and the estimated volume of BID lending to development banks will therefore probably increase in absolute terms.

(4) Export-Import Bank

The principal purpose of the Export-Import Bank, which was chartered in 1934 in an abortive effort to finance trade with Russia, is to assist in the financing of the U.S. export trade. The Export-Import Bank during the period of January 1960 to December 1964 lent $113.5 million to intermediate credit institutions for re-lending to sub-borrowers for purchases of goods manufactured in the United States.

For the Export-Import Bank to lend to a development bank is a rather round-about way of achieving its purposes, yet because many development banks over a period of one to two years have been able to place the funds lent by the Ex-Im Bank in purchases in the United States, the Ex-Im Bank has continued and expanded this practice.

As one can see from Table VIII the average loan by the Ex-Im Bank to an intermediate credit institution is about $5 million and the interest rate for the past few years has been 5½% . Generally, the terms run between six and nine years with a grace period between one and three years.

The geographical pattern of lending finds that almost half the credits have been extended to Latin America with the balance divided almost equally between Europe and the Far East (see Table VIII). Both the Near East and Africa have not received much Ex-Im Bank assistance through development banks.

TABLE VIII

EXPORT-IMPORT BANK

FINANCIAL ASSISTANCE TO INTERMEDIATE CREDIT INSTITUTIONS

January 1960 - December 1964

Development Bank	Amount (in millions)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Argentina					
1. Banco Industrial de la República	5	12-60	5-3/4	8	3
2. Banco Industrial de la República	5	12-60	5-3/4	8	3
Colombia					
3. Corporación Colombiana de Desarrollo	.5	3-60	5-3/4	5	1½
Chile					
4. Banco Central de Chile	5	9-60	5-3/4	8	2
5. Banco Central de Chile	15	3-64	5-1/2	8	2
Dominican Republic					
6. Corporación de Fomento de la República Dominicana	1	12-62	5-3/4	7	2
Italy					
7. Istituto Mobiliare Italiano	20	12-64	4-3/4	7	2
Japan					
8. Industrial Bank of Japan	25	1-61	5-1/2	7	2
Jamaica					
9. Development Finance Corp.	5	3-63	5-3/4	6½	2
Mexico					
10. Cía. Central de Aceptaciones	2	4-63	5-3/4	7	2
Pakistan					
11. Industrial Development Bank	2.5	2-63	5-3/4	6½	2

TABLE VIII

EXPORT-IMPORT BANK

FINANCIAL ASSISTANCE TO INTERMEDIATE CREDIT INSTITUTIONS
(Continued)

January 1960 - December 1964

Development Bank	Amount (in millions)	Date	% Int. Rate	Term (Yrs.)	Grace (Yrs.)
Peru					
12. Banco Industrial de Peru	2.5	6-60	5-3/4	9	2
Spain					
13. Banco Industrial de Bilbao	10	7-64	4-3/4	7	1
14. Banco de Crédito Industrial	2.5	4-61	5-1/2	6	1
Uruguay					
15. Banco de la República Oriental del Uruguay	5	11-62	5-3/4	6.5	2
Venezuela					
16. Corp. Venezolana de Fomento	7.5	8-61	5-3/4	6.5	2
TOTAL	113.5				

Source: Annual Reports - Export-Import Bank

Sources of Capital

The bank operates on the following principles; and any development bank which can satisfy Ex-Im Bank can expect an opportunity to obtain a line of credit on the above terms:

a) The bank's primary purpose is to promote the U.S. export and import trade. The bank, therefore, does not place primary emphasis on the contribution its financing will make to economic or social development, but rather on the contribution it will make to the promotion of the trade of the Unites States. At the present time the bank's programs relate almost exclusively to assisting export trade rather than import trade because of the ready availability of financing for imports.

b) The bank does not compete with private capital. Therefore the bank will not provide assistance for those export transactions where financing from private sources on reasonable terms is available.

c) The loans of the bank shall generally be made for specific purposes, although in some cases lines of credit have been extended to development banks where the precise details of the projects to be financed were not available at the time of the signing of the loan. In each case, however, there was a general agreement as to how the loan would be used.

d) The bank must have reasonable assurance of repayment. This criterion relates both to the ability of the borrower to secure income to service the debt as well as to the ability of the borrower to obtain foreign exchange sufficient to repay the debt. The bank expects its loan to be repaid on time and in dollars. Therefore it examines the credit standing of the particular borrower involved and also the ability of the country in which the borrower is located to provide the necessary dollars with which the borrower can repay the loan.

Indeed, all of the countries with which the Ex-Im Bank deals are rated from A to D according to the evaluation of the bank's staff of the ability of the country to service a debt in dollars.

The financing provided by the bank through these loans is available for the payment of technical aervices in addition to payment for the cost of machinery and equipment.

The source of the technical services and of the machinery and equipment is restricted to the United States of America.

The borrower under a loan from Ex-Im Bank will, as in the case of a loan from AID, be required to ship all products financed by the bank on United States Flag carriers unless a waiver is obtained from the appropriate authorities to the effect that United States vessels are not available in sufficient numbers or in sufficient tonnage capacity or in sufficient time or at reasonable rates.

While the bank is interested in obtaining maximum security on its loans it usually does not take a mortgage. However, it may take other forms of security such as equipment liens, foreign bank guarantee, collateral in the form of stocks, bonds or other aspects or some other arrangements. The loan agreement may also prohibit the borrower from mortgaging the property unless he secures the bank. Bank loans are repayable in dollars and the bank will generally in the case of a loan to a private borrower require that the appropriate governmental authorities have approved the project and have given their assurances that the dollar exchange necessary to repay the principal and interest on the loan will be made available as the loan payments become due.

The bank has no formal loan procedures but has prepared a list of information which it will require in the consideration of a loan application, which we have included as Table IX.

One can see that Table IX was designed to fit the normal kind of project which the Export-Import Bank finances, that is, one which is clearly capable of breakdown into its various elements. A loan to a development bank must be justified to the Ex-Im Bank in as much detail as possible according to Table IX but clearly some modifications must be obtained since it is hardly likely that a development bank will find it feasible to submit all of the details on each project even if these details were available to and known by the bank at the time it was soliciting a loan from the Ex-Im Bank.

It appears that the present volume and rate of Export-Import Bank lending through development banks will remain about the same for the near future. There does not appear to be any significant reason why the present level should change.

TABLE IX

EXPORT-IMPORT BANK
INFORMATION REQUIRED OF PROSPECTIVE BORROWERS

1. Describe the materials, equipment and services involved, the estimated cost thereof and the amount of financial assistance sought from the Export-Import Bank.

2. Describe the use which will be made of the goods and services in the country of import.

3. Indicate the repayment schedule and other credit terms desired.

4. Show that the assistance necessary to finance the transaction is not available from sources other than the Export-Import Bank.

5. For private borrowers only:

   a) Describe the project for which United States materials and equipment and associated services are desired and indicate whether it is likely to lead to new industries or expansion of existing ones.

   b) Present engineering data and market surveys as appropriate to the extent that they are available for possible sub-loans.

   c) Indicate the extent to which prospective U.S. suppliers might participate in the financing if such information is available at the time the development bank is applying for the loan.

   d) Give separately the estimated dollar expenditures for the project and the estimated expenditures in local and other currencies.

   e) Show what portion of the total capital will be provided for the project in the form of equity and what forms of investment including the loan requested would provide the remainder of the total capital required.

   f) If the project is the expansion of an existing industry include as much financial details on the firm as possible including balance sheets, profit and loss statements for the last three to five years and for all projects estimated forecasted balance sheets and profit and loss statements for three years after completion of the project.

/2

TABLE IX (Continuation)

g) Indicate whether a guarantee of repayment of the proposed loan could be offered and if so, by whom.

h) Where exchange controls are in effect, indicate whether the Ex-Im Bank could be furnished an assurance by the proper authority of the country of import that United States dollars will be made available upon payment of local currency to meet payments of interest and principal to the bank as they fall due.

6. If the borrower is a government or a political subdivision, the following information is solicited:

a) Describe the project for which United States materials, equipment and associated services are desired.

b) Present engineering and economic data and market surveys to the extent that they are pertinent and available.

c) Indicate whether the project will be self-liquidating or whether repayment will be paid from other revenues.

d) Show the total amount of funds required for the project and show the amounts and sources of funds other than those requested from the bank.

e) Give separately the estimated dollar expenditures for the project and the estimated expenditures in local and other currencies.

f) State the external assets of the country in the form of gold and foreign exchange showing official holdings separate from private holdings and holdings of dollars and other convertible currencies separate from the holdings of inconvertible currencies.

g) State the international investment position of the country at short-term and long-term including major commitments pending or contemplated and an estimate of the amount of interest and amortization due in dollars and other convertible currencies on all external fixed service obligations as well as on commercial accounts, if any, annually over the life of the loan.

h) Give the current and prospective balance of payments of the country.

i) If the application is on behalf of a public entity other than the national government, state the financial and legal relationship of the entity to that government and show whether a payment by the entity would be guaranteed by that government or its central bank.

Source: Export-Import Bank Office of Public Information

(5) Agency for International Development

To describe in this brief treatise, such a complex organization as the Agency for International Development is a difficult task at best, even when we are relating it to the assistance that it may have in the past rendered and in the future be capable of rendering just to development banking. Nevertheless we have attempted to set out in Table X the pattern of assistance in considerable detail which AID has rendered over the past fifteen years to development banks.

As one can see the impact has been extensive both in magnitude and in scope. The AID assistance to private industrial and agricultural projects through intermediate credit institutions totals approximately $1,154,000,000. Of this total, industry has received by far the lion's share: about $958 million; with agriculture coming in for $201 million. By region, the Near East and South Asia (NESA) has received the most financial assistance, $518 million, which has predominantly been made up of assistance to industry of $448 million. Assistance to agriculture has been $70 million in the NESA region. Latin America and the Far East are almost even from the standpoint of AID financial assistance through development banks, but in Latin America the assistance has been divided $197 million to industry and $108 million to agriculture, whereas in the Far East the assistance has been divided $285 million to industry and $11 million to agriculture. Assistance to Africa through development banks has been comparatively small: only $39 million in all; $26 million being extended through banks specified for industrial re-lending and $12 million specified for agricultural re-lending.

There are five general categories of assistance through which AID has been able to relate to the financial growth of development banks as follows:

a) Development Loans

One of the most significant ways, especially for the future, that AID can relate to development banking is through the extension of development loans for re-lending to qualified private borrowers.

In the Near East South Asia region, the interest rates for these loans for industrial relending are about $4\frac{1}{2}$ to $5\frac{1}{2}\%$ with terms ranging from 10 to 15 years. Grace periods on these loans in the NESA region have ranged from 0 to 5 years. In the Latin American and African regions the terms have been somewhat softer for industrial relending. In Latin America, interest rates have ranged from 2 to $4\frac{1}{2}\%$ with one loan at 5-3/4% and terms have been longer, 15 to 20 years, with grace periods consistently at 5 years with one exception of 10 years. In Africa dollar loans for industrial relending have been usually made at 3 to 4% for 15 years but between one and five-year grace periods. The only region in which AID has had a significant impact on development banks which lend to private agricultural projects in Latin America, in which, as mentioned above, $108 million has been extended to eleven institutions. Here the terms are somewhat softer,with six of the eleven institutions assisted receiving terms of up to 40 years with ten years grace.

Dollarloans are with some exceptions restricted to procurement within the United States and the loan agreement or subsequent letters of implementation usually spell out the categories of sub-loans which are permitted without prior AID approval. AID usually tries to dissuade the sub-borrower from the development bank from lending for projects which:

1. Produce goods for export which are currently in world surplus.

2. Produce goods for export in competition with United States' goods in U.S. domestic markets.

3. In some agreements there is prohibition against the use of the loan funds for sub-loans which result in luxury production. However, this prohibition is not contained in other loan agreements and, indeed, development banks have used AID funds for sub-loans to soft drink manufacturers, to beer manufacturers and to manufacturers of hosiery and cosmetics.

Key: Private ownership - P
Government ownership - G
Mixed ownership - M

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Years	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
NEAR EAST	INDUSTRIAL RELENDING (TOTALS)		$443.5	$123.5	.....	.....	.....	$7.1	....	$271.2	.....	.....	.....	$46.7	.....
Greece	Economic Development Financing Organization	(G)	93	5	62	4½	15-5	.....	....	93	58	4	40-4	.....	.....
	National Bank of Greece	(P)	5	5	62	4½	15-5	.....	....	.....	.....	.....	.....	.....	.....
India	ICICI	(P)	26	5	61	5	15-0	.....	....	21	59-62	5	40-4	.....	.....
	IFC	(M-G)	51	30	60-62	5	15-1	.....	....	21	59-62	5	40-4	.....	.....
	National Small Industries Corp.	(G)	10	10	60	5	10-0	.....	....	.....	.....	.....	.....	.....	.....
	Refinance Corp. for Industry	(G)	55	.....	.....	.....	.....	.....	....	55	59-62	4	40-4	.....	.....
Iran	IMDBI	(P)	5.2	5.2	59	5-3/4	15-0	.....	....	.....	.....	....	20-0	.....	.....
Israel	IDB	(M-P)	72	20	59-61	5	10-0	.....	....	52	59-64	4-5	30-4	.....	.....
Jordan	Industrial Development Fund	(G)	1.1	.....	.....	.....	.....	1.1	55	.....	.....	.....	.....	.....	.....
	Jordan Central Cooperative Union	(P)	5.5	.....	.....	.....	.....	.....	....	.....	.....	.....	.....	.5	62
	Municipal Loan Fund	(G)	3	.....	.....	.....	.....	2.8	57	.....	.....	.....	.....	.2	63
Lebanon	BCAIF	(M-P)	5	5	59	.....	.....	.....	....	.....	.....	.....	.....	.....	.....
Nepal	NIDC	(M-G)	5	1.4	61-63	4½-5	15-3	1.3	56	2.0	61-64	4½-5	15-3	.2	64
Pakistan	PICIC	(P)	34	21.7	58-62	5	7-0	.....	....	6.3	59-63	4	30-4	6.3	58-63
	IDB	(G)	6.3	.....	.....	.....	.....	.....	....	6.3	59-63	4	30-4	.....	.....
	Small Industries Corp.	(G)	2.1	.....	.....	.....	.....	.....	....	2.1	59	4	30-4	.....	.....
Syria	Industrial Bank	(G)	.2	.2	60	5	10-0	.....	....	.....	.....	.....	.....	.....	.....

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Years	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
Turkey	IDB	(P)	$ 55.5	$15	58-62	5½	15-0	$1.9	57	.....	.....	.....	.....	$38	62-61
	4 Other Turkish Banks	(G)	13.0	.....	.....	.....	10-0	.....	.....	$ 12.5	63-64	4-6	.....	1.5	61
NEAR EAST	AGRICULTURE RELENDING (TOTALS)		$ 69.9	.....	.....	.....	.....	$2.1	.....	.....	.....	.....	.....	$67.8	.....
Afghanistan	Agriculture and Cottage Industries Bank	(G)	.035	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.035	60
Greece	Agriculture Bank of Greece	(G)	60.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	60.9	62
Jordan	Agriculture Loan Fund	(G)	2.1	.....	.....	.....	.....	2.1	58	.....	.....	.....	.....	.....	.....
Turkey	Agriculture Bank	(G)	6.9	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.9	57-62
LATIN AMERICA	INDUSTRIAL RELENDING (TOTALS)		$197.6	$66.6	.....	.....	.....	$2	.....	$129.0	.....	.....	.....	.....	.....
Bolivia	Banco Industrial	(P)	2.7	2.4	58-63	2¼	20-5	.....	.....	.3	63	NA	NA	.....	.....
	Banco Minero de Bolivia	(G)	.4	.....	.....	.....	.....	.....	.....	.4	62	NA	NA	.....	.....
Brazil	BNDE	(G)	94.8	.....	.....	.....	.....	.....	.....	94.8	57-63	4	35-4	.....	.....
	COPEG Development Bank	(M-G)	4	4	53-63	3¼	20-5	.....	.....	.....	.....	.....	.....	.....	.....
Colombia	Banco de la República (Private Investment)	(G)	40	10	64	5½	15-5	.....	.....	30	63	.....	.....	.....	.....
Costa Rica	COFISA	(P)	5	5	64	4¼	20-5	.....	.....	.....	.....	.....	.....	.....	.....

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Years	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
Ecuador	National Development Bank	(G)	$2.9	.....	.....	.....	.....	.....	....	$2.9	56-57	4	12-4	.....	.....
	National Securities Commission	(G)	5	$5	62	5-3/4	20-5	.....	....	.....	.....	.....	.....	.....	.....
El Salvador	INSAFI	(G)	4.5	4.5	63	....	25-10	.....	....	.....	.....	.....	.....	.....	.....
	Financiera de Desarrollo e Inversiones	(P)	5.2	5.2	64	2	20-5	.....	....	.....	.....	.....	.....	.....	.....
Honduras	Financiera Hondureña	(P)	5	5	64	2	20-5	.....	....	.....	.....	.....	.....	.....	.....
Panama	Desarrollo Industrial	(P)	5	5	64	....	20-5	.....	....	.....	.....	.....	.....	.....	.....
Paraguay	Banco Central del Paraguay	(G)	.6	.....	.....	.....	.....	.....	....	.6	63	4	22-4	.....	.....
Uruguay	Banco de la República Oriental	(G)	3	3	64	3½	25-5	.....	....	.....	.....	.....	.....	.....	.....
Regional	CABEI	(G)	19.5	17.5	62-64	3/4	40-10	$2	61-62	.....	.....	.....	.....	.....	.....
LATIN AMERICA	AGRICULTURAL RELENDING (TOTALS)		$108.3	$98.2	.....	.....	.....	.....	...	$2.5	.....	.....	.....	$7.6	.....
Bolivia	Agricultural Bank	(G)	11.3	3.7	63	3/4	40-10	.....	....	.....	.....	.....	.....	.....	.....
Colombia	Casa de Crédito Agrario	(G)	8	8	61	4	20-10	.....	....	.....	.....	.....	.....	.....	.....
	INCORA	(G)	10	10	63	3/4	40-10	.....	....	.....	.....	.....	.....	.....	.....
	Banco Ganadero	(M-P)	4	4	64	2	20-5	.....	....	.....	.....	.....	.....	.....	.....
Costa Rica	Banco Nacional de Costa Rica	(G)	10	10	61-63	3½	20-0	.....	....	.....	.....	.....	.....	.....	.....
Dominican Republic	Banco Agrícola	(G)	2.5	.....	.....	.....	.....	.....	....	2.5	62	3/4	20-0	.....	.....

54c

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Years	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
El Salvador	Banco Central de la Reserva	(G)	$ 8.9	$ 8.9	63	3/4	30-10	.....	.....	.....	.....	.....	.....	.....	.....
Guatemala	Banco de Guatemala	(G)	5	5	59	3	14-1	.....	.....	.....	.....	.....	.....	.....	.....
Mexico	Nacional Financiera	(G)	20	20	62	3/4	40-10	.....	.....	.....	.....	.....	.....	.....	.....
Paraguay	Banco de Fomento	(G)	3	3	64	3/4	40-10	.....	.....	.....	.....	.....	.....	.....	.....
Peru	Institute of Agrarian Reform and Colonization	(G)	15.6	15.6	61-64	3/4	40-10	.....	.....	.....	.....	.....	.....	.....	.....
Venezuela	Agricultural and Livestock Bank	(G)	10	10	62	3/4	20-5	.....	.....	.....	.....	.....	.....	.....	.....
LATIN AMERICA-COOPERATIVE RELENDING (TOTALS)			$ 4.95	$ 4.95	.....	.....	.....	.....	.....	.....	.....	.....	.....	$ .15	.....
Ecuador	Banco de Cooperativas del Ecuador	(P)	$ 1.3	$ 1.2	64	3/4	25-10	.....	.....	.....	.....	.....	.....	.15	1964
Chile	Instituto de Financiamiento Cooperativo	(P)	$ 3.65	$ 3.65	65	NA	NA	.....	.....	.....	.....	.....	.....	.....	.....
AFRICA	INDUSTRIAL RELENDING (TOTALS)		$ 26.5	$ 18.5	.....	.....	.....	.....	.....	$ 7.1	.....	.....	.....	$ .9	.....
Dahomey	DBD	(G)	.7	.....	.....	.....	.....	.....	.....	.7	62	3/4	40-10	.....	.....
Ethiopia	DBE	(G)	2	2	61	4	15-1	.....	.....	.....	.....	.....	.....	.....	.....
Ivory Coast	BIDI	(P)	5	5	64	4	20-5	.....	.....	.....	.....	.....	.....	.....	.....
Kenya	IDC	(G)	.14	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.14	59-63
	Ministry of Commerce	(G)	.29	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.29	.....

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Year	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
Niger	Development Bank	(G)	$ .5	$ .5	63	4	15-3	.....	.....	.....	.....	.....	.....	.....	.....
Nigeria	Revolving Loan Fund	(G)	.5	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	$ .5	59
Somali	Credito Somalo	(G)	2	2	59	4	15-0	.....	.....	.....	.....	.....	.....	.....	.....
Sudan	IDB	(G)	2	2	62	3¼	15-3	.....	.....	.....	.....	.....	.....	.....	.....
Tunisia	STB	(G)	11.4	5	61	4	15-1	.....	.....	$ 6.4	58-62	4	30-4	.....	.....
Uganda	UDC	(M-G)	2	2	63	3¼	15-3	.....	.....	.....	.....	.....	.....	.....	.....
AFRICA	AGRICULTURAL RELENDING (TOTALS)		$ 12.6	$ 5.0	.....	.....	.....	.....	.....	$ 6.5	.....	.....	.....	$ 1.1	.....
Kenya	Board of Agriculture	(G)	.35	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.35	.....
Libya	National Agriculture Bank..	(G)	.7	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.7	59-63
Tunisia	Banque Nationale Agricole .	(G)	11.5	5	61	4	.....	.....	.....	6.5	60-62	4	27-4	.....	.....
FAR EAST	INDUSTRIAL RELENDING (TOTALS)		$ 285.9	$23.1	.....	.....	.....	$46.6	.....	$169.4	.....	.....	.....	$ 46.8	.....
Cambodia	Caisse Nationale d'Equippement	(G)	2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2	60
	Royal Office of Corporations	(G)	1.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1.3	53
China	Bank of Communications	(G)	.9	.....	.....	.....	.....	.....	.....	.9	63-64	9	8-0	.....	.....
	CDC	(P)	20	10	60	5	10-0	.....	.....	10.0	60-62	6	30-0	.....	.....
	Land Bank Corporation	(G)	.68	.68	58	3/4	5-0	.....	.....	.....	.....	.....	.....	.....	.....
	Overseas Chinese Commercial Bank.....	(P)	.25	.....	.....	.....	.....	.....	.....	.25	60-62	6	3-0	.....	.....

TABLE X

AGENCY FOR INTERNATIONAL DEVELOPMENT
FINANCIAL ASSISTANCE TO DEVELOPMENT BANKS
To June 30, 1964
(In millions of dollars)

Country	Bank	Ownership	Total Financial Assistance	Dollar Loans	Year	% Int. Rate	Term-Grace	Dollar Grants	Date	Local Currency Loans	Date	% Int. Rate	Term-Grace	Local Currency Grants	Date
China	Small Industry Loan Fund.....	(G)	$ 13	$ 2.4	59	5	5-0	$ 6.7	54	$ 3.9	60-63	9	8-0	.....	.....
Korea	Medium Industry Bank.....	(G)	14.2	.....	.....	.....	.....	8.2	57	6.0	57-59	2	30-5	.....	.....
	Reconstruction Bank	(G)	181	5	59	5	10-0	21.0	57-59	134.4	62-63	8	35-5	$20.6	62
	Small Industry Development...	(G)	3.8	.....	.....	.....	.....	3.8	57	.....	.....	.....	.....	.....	.....
Philippines	Central Bank (Industrial Guarantees)	(G)	21.6	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	21.6	.....
	Central Bank (Small Industry)	(G)	5	5	59	5	7-1	.....	.....	.....	.....	.....	.....	.....	.....
	Development Bank of Philippines	(G)	6.2	.....	.....	.....	.....	.....	.....	6.2	58	4	17-4	.....	.....
	PDC	(P)	7.0	.....	.....	.....	.....	.....	.....	7.0	63	½	30-15	.....	.....
Thailand	IFC	(P)	.75	.....	.....	.....	.....	.....	.....	.75	62	NA	NA	.....	.....
Vietnam	Industrial Development Center	(G)	8.2	.....	.....	.....	.....	6.9	58	.....	.....	.....	.....	1.3	58
FAR EAST	AGRICULTURAL RELENDING (TOTALS)		$ 11.0	.....	.....	.....	.....	.....	.....	$ 6.8	.....	.....	.....	$ 4.2	.....
Indonesia	Bank for Cooperatives	(P)	.04	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.04	64
Korea	National Agricultural Cooperative Federation	(P)	6.8	.....	.....	.....	.....	.....	.....	6.8	62	3	30-5	.....	.....
Philippines	Rural Bank Trust	(G)	4.2	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4.2	53

Source: Unpublished unofficial AID statistics released September, 1964, by AID/DFPE

Along with other major international public sources of capital, AID requires that the borrower submit periodic reports adequate to indicate the financial status of the development bank and adequate to indicate the use being made of the loan proceeds. Projects involving AID funds over a certain amount are required to be submitted to AID in Washington for approval. It is both in the reporting process and the sub-loan approval process that AID and the other international lenders appear to be killing two birds with one stone. First, they are ensuring that they are kept informed and that their loan is in this manner and to this extent protected; secondly, they are educating the management of the borrower with respect to project analysis.

Although in the beginning most borrowers find AID reporting and sub-loan approval requirements rather onerous, they realize eventually that these requirements benefit them as well as protect AID. The requirement of AID review of projects over a certain amount gives the development bank additional leverage to resist political pressure for a sub-loan in that a development bank would confidently expect AID to refuse to approve clearly uneconomic projects.

There are other minor restrictions on the use of AID dollar loans, such as the requirement that half of the goods purchases by proceeds of the loan be shipped in United States Flag vessels. Also, there is the requirement that marine insurance be purchased in the United States and that purchases be made only after competitive bids are solicited and small business in the United States circularized.

b) Dollar Grants

Dollar grants to development banks will be used in the future to a decreasing extent, if at all. The only dollar grant which has been made available to development banks since 1959 has been a grant of $2 million over the period of 1961-62 to the Central American Bank for Economic Integration (CABEI). The purpose of grant is to cover some of the expenses of the bank during its initial period of operations.

Dollar grants are subject to much the same restrictions as to use, procurement, and the like as dollar loans so there is no need to repeat what we have mentioned above. A development bank would be wise to explore the possibility, if dollar resources are required that AID should extend it a dollar grant. However, the likelihood as one can see from Table X is not great.

c) Local Currency Loans

These are loans which are made in some cases by AID alone, and in other cases jointly by the host government and by AID. The funds usually arise from the sale of U. S. surplus agricultural products in the host country or from local currency counterparts of AID Program Loans to the host country government.

The use of local currency generated from the sale of U.S. surplus products in that country under U.S. Public Law 480 or generated under any other program is the subject of prior agreement between the governments of the respective countries as to broad categories of spending. U.S. Public Law (480) under which these currencies are generated has many titles to which a certain amount of proceeds of a P.L. 480 sale are allocated in advance. Individuals organizing a development bank or officials of a development bank interested in obtaining local currency for expenditures for use by the bank would be wise to consult with officials of AID and of the host government at a very early stage to determine whether there is any local currency available under Public Law 480 and precisely how the funds are approved for release. In most cases both AID and the host country must agree to the uses to which the funds will be put.

d) Local Currency Grants

As one can see from Table X, local currency grants have also been rather sparingly used. The tendency is to move away from the grant form of assistance in all its forms to the loan form of assistance. Yet grants still are available.

For example, local currency grants have been made as recently as 1962 to the agricultural bank in Turkey, the agricultural bank in Bolivia, as recently as 1963 to the Banco Nacional de la Vivienda in Dominican Republic, the Municipal Loan Fund in Jordan, the industrial Development Corporation in Kenya, the Kenya Board of Agriculture and the Bank for Cooperatives in Indonesia and Ecuador.

Local currency grants can be justified by development banks on the grounds that such a grant will help it over the first few years of operation. During this period loan volumes and interest revenues are small, a fact which usually produces a deficit in operating revenues. Such a grant will help a bank obtain the kind of assistance it needs in order to accomplish its purposes and objectives.

e) The Investment Guarantee Program

The investment guarantee program, as one can see from Table XI has been of assistance to development banks in that it has facilitated lending by U.S. private commercial banks and Edge Act companies to development banks.

The guarantee program is open to corporations, partnerships, citizens, or any other association created under the laws of the United States or any State or Territory in the United States and substantially beneficially owned by citizens of the United States. The investor may also be a wholly owned foreign subsidiary of an eligible United States corporation.

Three separate kinds of guarantee programs are available:

(i) Specific political-risk guarantees against
   a) inconvertibility of foreign currency,
   b) expropriation or confiscation, and
   c) loss due to war, revolution, or insurrection.

(ii) Extended-risk guarantees which cover up to 75 percent of both political and business risks.

(iii) Extended-risk guarantees covering up to 100 percent of losses on pilot or demonstration private housing projects.

This latter guarantee program need not concern us since development bank activity usually does not include relending for the financing of houses, although, indeed, a development bank may relend for housing construction.

Before a guarantee can be issued for an investment in a particular country, its government must sign an agreement with the United States to institute the guarantee program. AID provides on request a current list of the countries with whom it has already signed guarantee agreements. There is a provision in the current foreign assistance act that aid will be terminated to countries which have not signed a guarantee agreement with the United States covering the political risks mentioned above by a certain cut-off date.

The guarantee when issued is in the form of a contract between the investor and AID and is backed by the full faith and credit of the United States Government. The standard formal contract is available upon request from AID.

In general, projects must be approved by AID as furthering the economic development and productive capacities of less developed countries. This includes most projects which promote trade, increase production, raise standards of living, and improve technical efficiency. At the present time there is no restriction as to the size of investments which may be guaranteed and contracts have been written for as little as $1,000 or for as much as $63 million and for a maximum term of 20 years.

TABLE XI

STATUS OF AID GUARANTEES COVERING
U.S. PRIVATE INVESTMENT IN INTERMEDIATE CREDIT INSTITUTIONS
as of June 30,1964

Bank	Investor	Amount of Coverage	Type of Guarantee
COLOMBIA			
1. Financiera del Valle	Continental International Finance Corp.	1.010 mill	
PERU			
2. PERUINVEST	Morgan Guarantee International Banking Corp.	.632 mill	
CHINA			
3. China Development Corp.	Morgan Guarantee International Banking Corp.	.800 mill	usually divided equally between convertibility and expropriation
IVORY COAST			
4. Societe Ivoirienne de Banque	Morgan Guarantee International Banking Corp.	.656 mill	
MOROCCO			
5. Banque Nationale pour le Developpement Economique	Morgan Guarantee International Banking Corp.	.400 mill	
TUNISIA			
6. Banque d'Escompte et de Credit et Industrie en Tunisia	Morgan Guarantee International Banking Corp.	.578 mill	

TABLE XI

STATUS OF AID GUARANTEES COVERING
U.S. PRIVATE INVESTMENT IN INTERMEDIATE CREDIT INSTITUTIONS
as of June 30,1964

(continued)

Bank	Investor	Amount of Guarantee	Type of Guarantee
TUNISIA (continued)			usually divided
7. Union International de Banques	Bank of America	.153	equally between
TURKEY			convertibility
8. Americo Turk-Is Ticoset Bankasi	Bank of America	.501	and expropriation

Sources of Capital

Before any investment guarantee contract is issued, AID requires the investor to secure approval from the foreign government for the inclusion of his project under the investment guarantee agreement. It is the responsibility of the investor to present to the foreign government the plan and details of the investment and to fulfill the foreign government's requirements regarding the investment and to request the foreign government's written expression to the U.S. AID Mission or the U.S. Embassy of the approval of the project for investment guarantee purposes. When the investor has obtained such approval and when the terms of a proposal are clearly understood by AID to meet the criteria, the application for a guarantee then receives intensive review in AID. If approved the guarantee contract is then executed on behalf of the United States Government by AID.

AID is interested in guaranteeing loans made by banks, insurance companies and Edge Act companies to development banks where it is clearly demonstrable that such loans will lead to the establishment, expansion or modernization of productive facilities. Loans which in effect refinance or pay off outstanding indebtedness or which provide funds for distribution to owners, partners or shareholders normally will not be eligible for a guarantee of any kind either political risk or extended risk,nor will guarantees be available to cover loans the primary purpose of which is to effect a change in ownership in the enterprise or to provide funds for speculation in any kind of property, real or personal.

Except in unusual circumstances guarantees will be made only in connection with projects which involve procurement of United States goods and services, in amounts substantially equal to the amount of the guarantee. Loans will not be guaranteed if the necessary private financing is available on reasonable terms without the guarantee or if an acceptable alternative guarantee is otherwise available or if the project may result in unacceptable effect on the U. S. economy or the United Sttes balance of payments.

In the case of the extended risk guarantee where 75% only of an investor's commitment is protected, AID will consider proposals for applying this guarantee against the later maturities of a loan while allowing the percentage of the loan not covered by such a guarantee to constitute the early maturities. For example, if one assumes that AID was prepared to guarantee 75% of the loan, they would in effect be guaranteeing none of the risks for installments equal to the first 25% of the principal due, and 100% of the remainder of the installments.

For the extended risk coverage, the fee charged is payable annually in advance not to exceed 1 - 3/4 percent of the amount of the extended risk guarantee to be in force on the estimated amount of the disbursed and outstanding credit. The fee for the political risk is one-half percent of the amount of each of the three coverages in force in any given contract year. There is also an annual fee of 1/4% of the amount of each standby coverage, that is, the difference between the amount in force and the maximum amount which the investor may elect to have put in force on each of the three coverages.

f) AID Policy with Regard to Development Banks

Table XII sets out information required by AID in order to consider a loan to a development bank. As a general rule AID will encourage the establishment and growth of sound development banks where there is a demonstrative need for such institutions. In the case of a dollar loan, both AID and the host country have to agree that such a loan is both of sufficient high priority within a country program and, also, meets AID's normal lending criteria, such as reasonable prospects of repayment, nonavailability of other free world capital, etc.

AID has in the past worked closely with U.S. and other free world private and international banking interests in the establishment and operation of development banks, such as the Industrial Development Bank of Turkey, the Industrial Mining and Development Bank of Iran, PICIC and ICICI.

TABLE XII

INFORMATION REQUIRED BY AID FOR CONSIDERATION OF A LOAN TO A DEVELOPMENT BANK

This outline covers information required for an application from an existing bank. When application is made by sponsors of a proposed new bank, information should be supplied to the extent that it is available. All information, including required documents, must be supplied in the English language.

1. The Applicant

   (a) Official name of the institution
   (b) Mail and cable addresses
   (c) Nature of present operations (types of loans made, purpose, terms, etc., with references to applicable provisions in charter, by-laws and policy statements)
   (d) Legal basis of the institution, including any statutory authority, articles of agreement or charter and other founding documents
   (e) Any general policy statements covering operations of the bank
   (f) Geographic area of operations

2. Names and Brief Biographic Sketches of Founders

   (a) Capitalization, equity and debt, how raised, subscribers, including brief biographic sketches, terms of debt capital, etc.
   (b) Balance sheets and profit and loss statements covering each of the previous five years of operations
   (c) Description of organization structure of the bank
   (d) Brief biographic sketches of the directors of the bank, including present full-time positions and any information indicating financial experience
   (e) Management -- full biographic sketches indicating qualifications and principal previous employments
   (f) Professional and technical staff -- full biographic descriptions of principal staff members and brief biographic sketches of remainder of staff indicating professional qualifications and experience
   (g) Brief description of procedures of the bank

TABLE XII

INFORMATION REQUIRED BY AID
FOR CONSIDERATION OF A
LOAN TO A DEVELOPMENT BANK

(Continued)

3. Current Agricultural and/or Industrial Credit Needs in the Applicant's Country

(a) The importance of agriculture and/or industry in applicant's country

(1) Statistics re agricultural undertakings, industrial establishments, capital investment, value of production, small industrial development, etc.
(2) Relationship of agriculture and/or industry to growth of economy
(3) Prospective agricultural and/or industrial development required to serve domestic market; export possibilities
(4) General climate for agricultural and/or industrial development

(b) Agricultural and/or industrial credit needs

(1) Investment over the past decade
(2) Estimates in agriculture in next ten years
(3) Other development banks in the country
(4) Other commercial banks -- scope of their operation

4. AID Loan Request

(a) Amount of loan requested with a justification for this amount. The justification should include the time period in which the bank expects the funds to be loaned and some basis for this estimate.
(b) Proposed use of funds. This should include a description of the type of loans to be made, maturities of the loans, the amount of equity which will be required from borrowers of the bank, the amount and kind of security which will be required from borrowers, the interest rate which will normally be charged and a form copy of the loan agreement which will normally be used.
(c) Repayment schedules which will be requested from AID
(d) Proposed interest rate and justification thereof

TABLE XII

INFORMATION REQUIRED BY AID
FOR CONSIDERATION OF A
LOAN TO A DEVELOPMENT BANK

(Continued)

(e) The nature of the government guarantee, if applicable
(f) Description of how the bank intends to apply funds available to it, including both local and foreign currencies

5. Estimated General Results of the Proposed Loan

(a) Kind and amount of agricultural and/or industrial and other development it would make possible
(b) Benefits accruing to the applicant's national economy as a result of (a) above
(c) Relation to overall development program of applicant's country
(d) Effect, if any, on the foreign exchange position of the applicant's country
(e) Other material which would serve as justification arguments, such as:

(1) Whether financing can be obtained in whole or in part from other Free World sources on reasonable terms
(2) The consistency of the activity with, and its relation to, other development activities being undertaken or planned and its potential contribution to the realization of the long-range activities
(3) The extent to which the recipient country is being responsive to the economic, political and social needs of its people and a demonstration of the country's determination to take effective self-help measures
(4) The possible effects of the loan on the United States economy with special reference to areas of substantial labor surplus, and also its effect on United States balance of payments

6. Operations Projection

Proforma operating statements covering the first five years of operations following the AID loan showing interest charges, interest payments, operating expenses, etc., including net profit for each year and the proposed distribution thereof.

TABLE XII

INFORMATION REQUIRED BY AID FOR CONSIDERATION OF A LOAN TO A DEVELOPMENT BANK

(Continued)

7. Other

Applicant should describe attempts made to obtain credit from either public, international, or private lending institutions, stocks subscriptions, etc. Also the applicant should describe the role which any foreign government or international institution, such as IBRD, has played in the establishment and/or the operation of the bank.

Source: AID Policy Guideline No.2 March 12, 1962.

Sources of Capital

AID feels that the key to success for a development bank lies in its management. Consequently, they must have reasonable assurance that the personnel who will be responsible for the management of the bank are competent. They look very closely at the Board of Directors and expect it to be composed of men of stature representing a broad segment of the business community. AID feels that it is important in the beginning years of a bank for foreign advisors to work with bank personnel training them in the tasks that they are to perform.

As mentioned above, the ownership of a bank (private, government or mixed) is not a problem to AID lending as it is in the case of the World Bank family. On the other hand, AID officials point out that in the case of sole government or joint private/government ownership, AID will encourage the government to divest itself of its holdings in the bank at the earliest practicable time. In any event, AID officials feel that it is in the interest of the bank that it obtain a reasonable degree of autonomy to ensure insulation from undue political pressure.

AID avoids ownership of foreign assets and, consequently, has not invested in equity shares of development banks although, legally, it probably could receive convertible debentures. If such debentures are converted into stock, however, AID will sell this stock in order to avoid owning equity. The author knows of no instance where AID has obtained such convertible debenture positions.

AID in general expects that the loan made will be an amount sufficient to cover the expected lending activity of the development bank over an 18 to 24-month period with the understanding that: (1) when the loan has been committed, (2) the bank's effectiveness proven, and (3) the need for additional finances demonstrated, AID might be sympathetic to the consideration of a second "tranche'. After two or possibly three injections of seed capital on concessional terms, AID would expect the institution to be able to bear the market rates.

The terms and conditions of AID loans necessarily vary depending upon a number of factors. The interest rate is usually set so that the rate charged by the bank can bear a reasonable relationship to the local interest rate structure of the type of sub-loan contemplated. Bearing in mind the bank's need to generate earnings sufficient to meet administrative costs to attract increased investment and to make a contribution to economic development, AID realizes that for new development banks a special problem exists in meeting expenses in the early years. It often works with the organizing committee of a bank to obtain other local governmental assistance in the form of subsidies such as long-term loans at little or no interest, assistance with administrative costs, tax benefits, etc.

In addition to the many kinds of financial assistance above, AID can also provide technical assistance to assist development banks. In the first place, AID can arrange to send a survey team to the host country to study with the organizing group of the bank the need for such a bank and details as to its organization and implementation. Such a team normally makes recommendations regarding the relative urgency of supporting such a bank, what kind of a bank should be formed, and how it should operate. Second, AID can assist managements of development banks by providing U.S. or third country experts to the institution for training or in certain cases bring selected host country personnel to the U.S. or to third countries for training.

With respect to the cost of technical assistance, AID is increasingly holding to a policy requiring that technical assistance be paid for out of the loan. In smaller loans this is often a formidable burden. AID in such cases will explore the possibility that the loan might be made from AID to the host government and the host government will lend an amount smaller by the amount of the technical assistance to the bank, thus assuming itself the financial responsibility for the technical assistance to the bank.

In larger loans, of course, costs of technical assistance are much smaller in proportion to the total amount of the loan and may be borne by the institution itself. Third, AID can also assist in the establishment and improvement of permanent development centers either within or separate from the bank. AID's present policy is to separate these development centers from the development bank because of the danger that the same personnel who work with an investor to develop a project will, indeed, be approving the project for a loan. AID does not feel that such a procedure is a sufficient guarantee of objectivity in loan analysis.

6. Other Public Assistance

A development bank seeking finances for initiation or growth should not overlook other public sources of finance from governments and other institutions outside the United States. The assistance programs of many governments may be a more responsive source of capital than AID or any other public or international source. The assistance programs of the United Kingdom, France, Germany, Netherlands, Belgium, Italy and Japan, to name a few, have assisted development banks throughout the world.

Both United Kingdom and France have had geographic limitations to their assistance, the United Kingdom assisting the Commonwealth and depending territories through the Commonwealth Development Corporation (CDC) and France to the French Community through Caisse Centrale de Cooperation Economique (CCCE).

Germany, through the Kreditanstalt für Wiederaufbau, has made credits available to IFC in India, ICICI in India and Nepal Industrial Development Corporation, Development Banks in Cameroons and Pakistan, Kenya and Tanganika. The Netherlands has made a loan to a development bank in Surinam and Belgium has extended credits to a bank in Congo. Italy, through Istituto Mobiliare Italiano, has made available credits to a Liberian Bank. Japan has invested chiefly through a consortium of private development banks in India, Pakistan, Thailand, Malaysia and Nigeria.

Terms and conditions under which assistance can be extended will naturally vary from institution to institution but should bear some similarity and should require information similar to that required by AID, or the World Bank, or BID. A development bank interested in relating to one of these institutions should explore with them directly the terms and conditions on which they would participate.

E. Foreign Private Financial Assistance to Development Banks

There are many private financial institutions which have in the past rendered financial assistance to development banks or which offer a potential for financial assistance to development banks in the future.

One can see from Tables XIII and XIV that quite a number of financial institutions all over the world have provided both debt and equity to development banks. These institutions frequently participate in loans made to development banks by public and international lending agencies such as the World Bank, the Inter-American Development Bank, the Export-Import Bank and the like. These public and international lending agencies like to obtain participations so that their own money will go further. In view of the relatively small amounts involved in participations one must conclude that this motive is weak. Obtaining of these participations is also looked upon as a way of leading the private financial community gradually into the business of international investment and is a method demonstrating the soundness of a particular investment.

The Inter-American Development Bank, for example, offers for participation many of the loans that it makes from its Ordinary Fund. It must send out 170 letters to various financial houses in the United States and in Europe known to be interested in these kinds of participations, outlining the terms of the participations and making the offer.

Because of the tremendous paper work involved in notifying the participator that the loan has been signed, confirming the amount of their participation, drawing up and signing a participation agreement and a loan contract, in addition to para passu disbursement agreements, and notification with respect to borrower repayment, no loan under $5 million is offered for participation. The private banks are usually interested in taking the early maturities on these loans in order to minimize their own risk and in order to make their position maximally liquid.

Sources of Capital

One of the reasons for the public and international lending agencies seeking participation is that if participations are forthcoming it is a demonstration to the financial community that it has made a bankable loan. It thus gets the private financial community used to the idea of limited exposure to risks of international lending.

From the standpoint of the private financial community, participations can be a lucrative and liquid form of investment although this is probably not the principal reason why they participate. One of the principal reasons seems to be that the private banking community senses that the trend of the future is in investment overseas and they, too, feel that they are gaining valuable experience in dealing with risks of international investment. Another reason which may or may not be important depending on the particular case is the fact that the bank may feel an obligation to participate in view of other aspects of its relationship with the public or international body. For example, the public lending agency has to make use of private commercial banks for normal banking functions. Private commercial banks may feel an obligation to participate with the public lending agency because of the fact that the public agency is also a customer. Naturally, the strength of this motive is difficult to assess. Nevertheless it does probably exist.

In the future, it is likely that participations in the near future at least, may not be quite as extensive as they have in the past. There has been a suggestion, in view of the current U.S. balance of payments crisis, that the U.S. banking system limit the increase in its portfolio abroad to 5% of the amount that existed December 31, 1964. Because no commercial bank wants to be in a position to say to a good client that it cannot accommodate his request for private investment overseas, commercial banks are quite likely to restrict their participation in the loans of public and international agencies so as to free their portfolio for such accomodation.

Europe is not likely to be in the future a good source of participation for such loans because rates are not competitive. The 6 % charged by the Inter-American Bank and the 5 ½ % charged by the World Bank on their loans are not competitive with interest rates that can be obtained in Europe. The Inter-American Development Bank regularly solicits 40 European houses for participation and occasionally does obtain European participation although one intuitively feels that such participation is being rendered out of an obligation by the European house to a good client or for some other reason other than the inducement of the interest rate. Because of the higher rates in Europe, BID charges an additional 1½% on money obtained by Bond issues in Europe.

Financing the Growth of Development Banks

As can be seen in Tables XIII and XIV private financial institutions have taken extensive equity positions in development banks abroad. The reasons are probably as follows:

(i) They have obtained thus the ability to refer customers to this bank for local advice.

(ii) They thus obtain a window into the country and are better able to identify and evaluate profit opportunities.

(iii) They thus obtain a presence in the country and enhance their image.

(iv) They thus obtain the goodwill of the country by associating themselves with popular development finance institutions.

(v) They obtain contacts within the country that may lead to other valuable indirect benefits.

Individual banks have different techniques for attaining the above objectives. The First National City Bank, for example, and the Bank of America establish branch banks in these countries. Other banks affiliate with local banks and still others may take equity positions in development banks.

A commercial bank can take an equity position in a development bank only through its Edge Act corporation which are corporations set up under the Amendment of Senator Edge to the law regulating the activities of commercial banks.

Corporations, cooperatives, other institutions and even individuals have in the past invested and are likely in the future to invest in development banks either through the purchase of equity shares or through the purchase of debt obligations, for one or more of the following reasons:

(i) To improve one's image in the country. This has been found a very valuable technique to many private corporations which have subsidiaries or other interests in a developing country. They enjoy and benefit from being associated with a private development bank.

(ii) Such an investment can be a source of profit to the investor since although earnings in the beginning are likely to be small, growth potential is great, and the security of a diversified portfolio is also great.

(iii) The private investor may consider such investment as an entree into that country.

(iv) Such an investment also may be considered by the investor as a source of information about profit opportunities in that country.

For these and other reasons many people feel that private foreign source of capital is a major untapped source of funds for development banks both for equity and for debt. It is patently apparent that through investment in a development bank an investor is receiving protection of a diversified portfolio and has a front row opportunity to participate in the tremendous growth that lies ahead for all developing countries.

TABLE XIII

SELECTED PRIVATE COMMERCIAL BANK
AND
U.S. EDGE ACT CORPORATION INVESTMENT
IN SELECTED DEVELOPMENT BANKS

1. Bank of America (U.S.)

Equity	Debt
	Early maturities, 5-3/4 - 5-1/2 % IADB or IBRD loans:
PICIC (Pakistan)	Banco Agrícola y Pecuario (Venezuela)
ICICI (India)	Banco de la Nación (Argentina)
IFC (Thailand)	Nacional Financiera (2) (Mexico)
PDC (Philippines)	CORFO (Chile)
MDFL (Malaysia)	Corporación Venezolana de Fomento (Venezuela
NIDB (Nigeria)	ICICI (India)
Investment Bank (Athens)	

2. Irving International Financing Corporation (U.S.)

Equity	Debt
	Early maturities, 5-3/4 - 5-1/2 % IADB or IBRD loans (as Irving Trust Co.)
PDC (Philippines)	Banco de Costa Rica (Costa Rica)
Industrialization Fund Co. (Finland)	Nacional Financiera (2) (Mexico)
NIDB (Nigeria)	CORFO (Chile
	Banco de Guatemala (Guatemala)
	Instituto de Fomento Nacional (Nicaragua)
	Corporación Venezolana de Fomento (2) (Venezuela)
	Banco Nacional de Nicaragua (Nicaragua)
	Austrian Investment Credit Corporation (Austria)

3. Manufacturers Hanover International Financing Corporation (U.S.)

Equity	Debt
	Early maturities, 5-3/4% IADB or IBRD loans (as Manufacturers Hanover Trust)
C.A. Venezolana de Desarollo (Venezuela)	Banco Agrícola y Pecuario (Venezuela)
IFC (Thailand)	Banco Industrial (Peru)
PDC (Philippines)	Nacional Financiera (Mexico)
MIDFL (Malaysia)	Banco Nacional de Costa Rica (Costa Rica)
Industrialization Fund (Finland)	Austrian Investment Credit Corporation (Austria)

TABLE XIII

SELECTED PRIVATE COMMERCIAL BANK
AND
U.S. EDGE ACT CORPORATION INVESTMENT
IN SELECTED DEVELOPMENT BANKS
(Continued)

4. Morgan Guarantee International Finance Corporation (U.S.)

Equity	Debt
	Early maturities 5-3/4% IADB loans (as Morgan Guarantee Trust Co.)
BNDE (Morocco) MIDFL (Malaysia) BDEE (Spain)	Banco Agrícola y Pecuario (Venezuela) Banco de Guatemala (Guatemala)

5. Northwest Internaional Bank (U.S.)

Equity	Debt
C.A. Venezolana de Desarrollo (Venezuela) NIDB (Nigeria) BIDI (Ivory Coast) Industrialization Fund Co. (Finland)	None

6. Chemical International Finance (U.S.)

Equity	Debt
	Early maturities 5-1/2 - 5-3/4% IADB and IBRD loans (as Chemical Corn Exchange Bank New York Trust Co.)
C.A. Venezolana de Desarrollo (Venezuela) PDC (Philippines) Industrialization Fund Co. (Finland)	Banco Agrícola y Pecuario (Venezuela) Banco de la Nación (Argentina) Corporación Venezolana de Fomento (Venezuela) Austrian Investment Credit Corporation (Austria)

TABLE XIII

SELECTED PRIVATE COMMERCIAL BANK
AND
U.S. EDGE ACT CORPORATION INVESTMENT
IN SELECTED DEVELOPMENT BANKS
(Continued)

7. Chase International Investment Corporation (U.S.)

Equity	Debt
	Early maturities 5-3/4% IADB loans (Chase Manhattan Bank)
NIDB (Nigeria)	Banco Agrícola y Pecuario (Venezuela)
BIDI (Ivory Coast)	CORFO (Chile)
IMDBI (Iran)	Banco de la Nación (Argentina)
IFC (Thailand)	

8. Bank of Tokyo (Japan)

Equity	Debt
NIDB (Nigeria)	None
PICIC (Pakistan)	
IFC (Thailand)	
PDC (Philippines)	
MIDFCL (Malaysia)	

9. Commonwealth Development Finance Corporation (U.K.)

Equity	Debt
NIDB (Nigeria)	None
PICIC (Pakistan)	
ICICI (India)	
MIDFCL (Malaysia)	

10. Deutche Bank (Germany)

Equity	Debt
BNDE (Morocco)	None
IMDBI (Iran)	
PDC (Philippines)	
MIDFCL (Malaysia)	
Industrialization Fund Co. (Finland)	
BDEE (Spain)	

Source: Annual reports and press releases of the IBRD and IDB.

TABLE XIV

SELECTED FINANCIAL INSTITUTIONS WITH INVESTMENTS IN AT LEAST ONE DEVELOPMENT BANK

	Bank	Investment		Bank	Investment
	NEW YORK				
1.	First National City Bank	Debt	9.	Morgan Guarantee Trust Co.	Debt
	(First National City Overseas Investment Corp.)	Equity		(Morgan Guarantee IFC)	Equity
2.	Bankers Trust Co.	Debt	10.	Chemical Corn Exchange Bank	
	(Bankers International Financing Co.)	Equity		New York Trust Co.	Debt
3.	Irving Trust Co.	Debt		Chemical Int'l Finance Co.	Equity
	(Irving International Financing Corporation)	Equity	11.	Chase Manhattan Bank	Debt
4.	Manufacturer's Hanover Trust	Debt		(Chase International Investment Corporation)	Equity
	(Manufacturer's Hanover IFC)	Equity	12.	New York Hanseatic Co.	Equity
5.	Meadow Brook National Bank	Debt	13.	Development and Resources Co.	Equity
6.	Continental Bank International, New York	Debt	14.	International Basic Economy Co.	Debt
7.	Grace National Bank	Debt	15.	Bankers Trust Co.	Debt
8.	J. Henry Schroeder Bank Corporation	Debt	16.	Marine Midland Trust Co.	Debt
			17.	American Express Co., Inc.	Debt
	PENNSYLVANIA				
1.	Philadelphia National Bank	Debt	3.	Fidelity Philadelphia Trust	Debt
	(Philadelphia International Investment Co.)	Equity	4.	Girard Trust Corn Exchange Bank	Debt
2.	First Penn. Banking and Trust Co.	Debt	5.	Mellon National Bank and Trust Co.	Debt
	WASHINGTON, D. C.				
1.	American Security and Trust Co.	Debt	2.	National Bank of Washington	Debt
	BOSTON				
1.	The Boston Corporation	Equity	3.	The National Shawmut Bank	Debt
2.	First National Bank, Boston	Debt			

TABLE XIV

SELECTED FINANCIAL INSTITUTIONS WITH INVESTMENTS IN AT LEAST ONE DEVELOPMENT BANK

(continued)

Bank	Investment	Bank	Investment
ILLINOIS-OHIO			
1. Continental Illinois National Bank and Trust Co.	Debt	4. (Northwest International Bank)	Equity
2. Central National Bank, Cleveland	Debt	5. First National Bank, Chicago	Debt
3. Harris Trust and Savings Bank, Chicago	Debt	6. Northern Trust Co.	Debt
		7. American National Bank and Trust Co. of Chicago	Debt
CALIFORNIA			
1. United California Bank, L.A.	Debt	4. Crocker Citizens National Bank	Debt
2. Union Bank, Los Angeles	Debt	5. Wells Fargo Bank, San Francisco	Debt
3. Bank of California	Debt		
FRANCE			
1. Lazard Freres	Equity	5. Societé Financiere pour les Pays d'Outre Mer	Equity
2. Caisse Central de Cooperation Economique	Equity	6. Caisse de Depots et Consignations	Equity
3. Banque Francaise du Commerce Exterior	Equity	7. De Rothschild Freres	Equity
4. Credit Lyonnaise	Equity	8. Banque de Paris et de Pays Bas	Equity
UNITED KINGDOM			
1. The Chartered Bank (Hong Kong)	Equity	10. Commonwealth Development Finance Co.	Equity
2. Eastern Exchange Banks (8)	Equity	11. Commonwealth Development Co.	Equity
3. Lloyds Bank, Ltd.	Equity	12. C.A. Inversiones Shell de Venezuela	Equity
4. Barclays Bank	Equity	13. Lehman Bros.	Equity
5. Midland Bank	Equity	14. Mercantile Bank	Equity
6. Hong Kong and Shanghai Bank	Equity	15. United Commercial Bank	Equity
7. United Commercial Bank	Equity		
8. Colonial Development Co.	Equity		
9. Br nchman-Wirtz and Co.	Equity		

TABLE XIV

SELECTED FINANCIAL INSTITUTIONS WITH INVESTMENTS IN AT LEAST ONE DEVELOPMENT BANK

(continued)

Bank	Investment	Bank	Investment
GERMANY			
1. Deutche Bank	Equity	4. Commerz Bank A.G.	Debt
2. Dresdner Bank, Hamburg	Debt		
3. Oppenheim and Son	Equity	5. Westfallen Bank	Equity
		6. Hanbros Bank	Equity
OTHERS			
Italy			
Istituto Mobiliare Italiano	Equity	Banca Nazionale del Lavoro, Rome	Equity
		Medio Banca	Equity
Monte Catini	Equity	Fiat S.P.A.	Equity
Sweden			
Scandinaviska Banken	Equity	Aktiebolaget Investor	Equity
Japan			
Bank of Tokyo	Equity	Mitsui Bank	Equity
Netherland			
Algemene Bank Nederland	Equity		

Source: IBRD, IDB, IFC Annual Reports and Press Releaaes.