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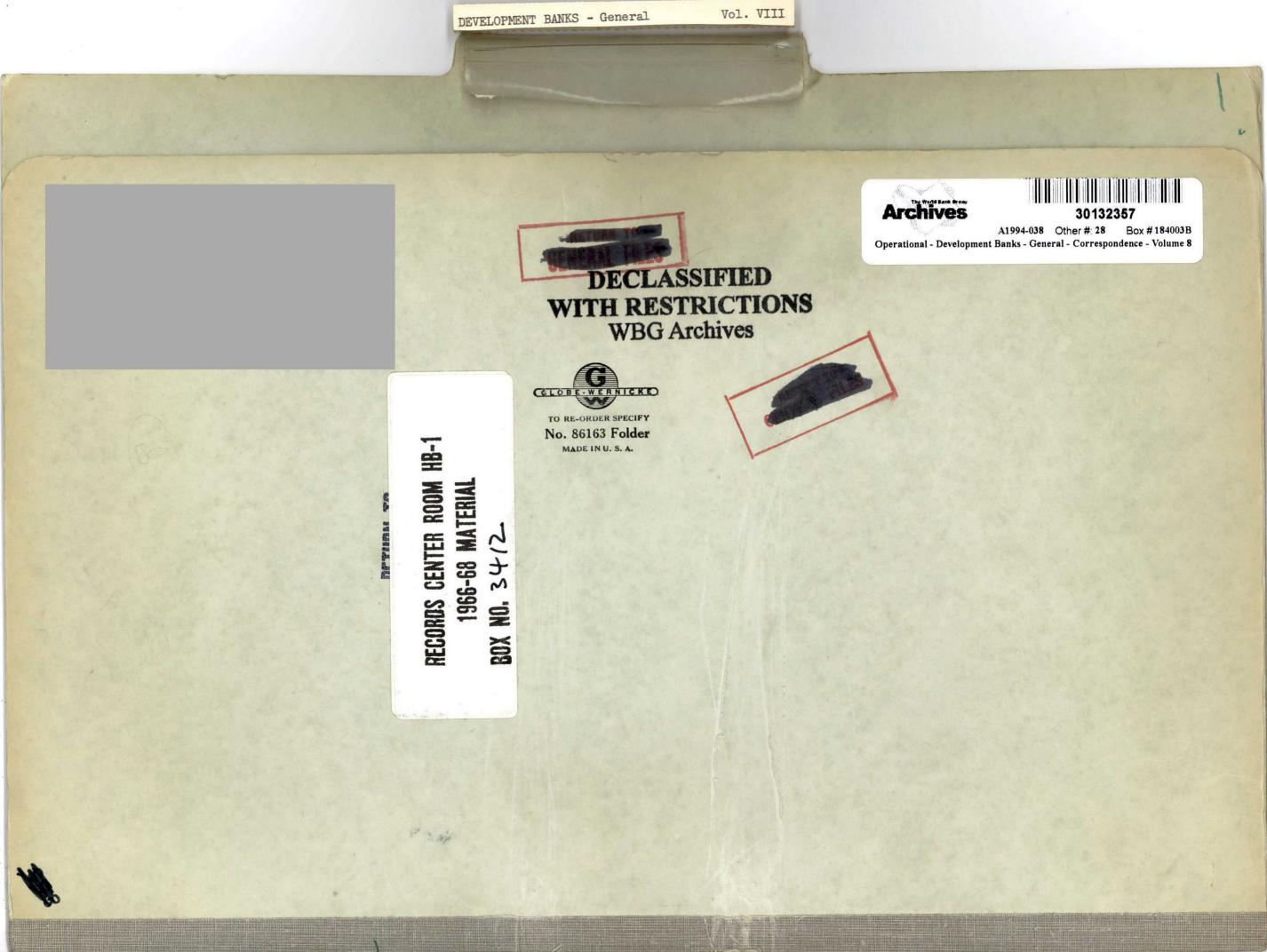
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PUBLIC DISCLOSURE AUTHORIZED



THIS FILE IS CLOSED AS OF June 1966 FOR FURTHER CORRESPONDENCE PLEASE SEE Vol.

RECORDS MANAGEMENT SECTION

June 27, 1966

Deo. Banks - fen.

Mr.	R.	B.	J.	Richards
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Representation and Voting at Shareholders' Meetings

Attached is a record of our representation and voting at shareholders' meetings. The book is kept in my office. Would you like a duplicate, which will be kept up to date with mine? Or is it enough for you to know that you can always refer to mine?

Attachment

WDiamond :vmv

Rev. Banks-gen

CROSS REFERENCE SHEET

COMMUNICATION: Memo

DATED: June 20, 1966

TO: Mr. Diamond

FROM: Mr. Jeffries

Currencies - Local Expenditure losas

FILED UNDER: Policy and Procedure - Local Currency

SUMMARY:

R": Domestic currency requirements and resources of DFCs

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June 3, 1966

p.B-Pan.

Mr. Robert F. Skillings R. L. Powell

Forecast of Income for the Period July 1, 1966 to June 30, 1967

With reference to your memorandum of June 1, I give below the desired information:-

		Par Value		Dividend	
Company	No. of Shares	per Share	Rate % p.a.	Amount	US\$ equivalent
	-				
LEIDI	24,978	\$10	Nil.	Nil	N11
the strength of the strength of the	100 000		67.8 T	97.5 %	
NTDB	499,027	LIN J.	1921	NIT	NIL
PICP	80,000	P10	10	P80,000	20,513
LEIDI NIDB	24,978 499,827	\$10 £N1	Nil Nil	Nil Nil	Nil Nil

RLPowell:lvr

Messrs. Jeffries, Sekse, Powell and Mejia

June 1, 1966

William Diamond (

Domestic Currency Requirements and Resources of Development Finance Companies

Would you be good enough to let me have your reactions to the following questions with regard to each of the development finance companies for which you are responsible? I would like a paragraph or two of text supported, if possible, by a statistical tabulation, in the case of each company.

Question one is: To what extent are financing demands for expenditures in domestic currency and to what extent for expenditures in foreign currency? In answering this question, I would appreciate your judgment concerning the degree to which foreign goods are available "on the shelf" in the country concerned.

Question number two is: Are domestic currency resources available to the extent necessary to meet requirements in domestic currency? In answering this question, please note particularly the volume of domestic resources which come from the government concerned. I would also appreciate your judgment on the government's attitude with regard to providing such resources to a private development finance company.

Most of the appraisal reports which we prepare in support of a Bank loan or an IFC investment (except in the case of brand new institutions) contain a section and some statistical appendices which in effect answer the foregoing questions. For such companies, the foregoing should be very easily and quickly answerable. So far as the others are concerned, please do not spend a great deal of time; simply give me your quick (though thoughtful) judgment.

The object of the foregoing questions is to give us a basis for making a judgment on our companies' needs for domestic currency financing, and the degree to which those needs can be met on reasonable terms and without exposing them to undue government influence.

20

CABLE ADDRESS - "WHITEWELD"

TELEPHONE - WHITEHALL 4-4900

WHITE, WELD & CO.

300 PARK AVENUE, NEW YORK 22, N.Y.

NEW YORK BOSTON CHICAGO PHILADELPHIA LOS ANGELES SAN FRANCISCO LONDON ZURICH

May 20, 1966

Certel Files

Mr. William Diamond Director International Finance Corporation 1818 H Street, N. W. Washington, D. C.

Dear Mr. Diamond:

I hasten to apologize for my untimely mention of my March expenses, as the check arrived this morning.

Please accept my best thanks and believe me,

Very sincerely,

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TELEPHONE - WHITEHALL 4-4900

CABLE ADDRESS - "WHITEWELD"

WHITE, WELD & CO.

300 PARK AVENUE, NEW YORK 22, N.Y.

NEW YORK BOSTON CHICAGO PHILADELPHIA LOS ANGELES SAN FRANCISCO LONDON ZURICH

May 17, 1966

Mr. William Diamond Director International Finance Corporation 1818 H Street, N. W. Washington D.C.

Dear Mr. Diamond:

I am enclosing two stubs for air transportation and one bill to the airport covering expenses of my last visit on May 5th, amounting to \$44.50.

Why it costs more one way than the other is a mystery.

A propos, I haven't yet received reimbursement for expenses incurred during my visit on March 28th and 29th, for which I sent you an accounting early in April. If because of my not taking on the assignment these expenses were no longer refundable, please let me know.

Amongst the few things I shall regret is not to carry on in close contact with you, of which I have such pleasant memories.

Please let me know when you intend to come to New York; will you give me the pleasure of reserving your luncheon for me?

With best regards,

KERO

Very sincerely,

annthi

D. Yassukovich

DY mfb

ERO

Enclosures

"TOP HAT"

1789

May 16, 1966

White, Weld, & Company 300 Park Avenue New York, N. Y.

White, Weld, & Company Limousines of London, Inc.

137-10 Fran klin Ave., Flushing, N. Y.

-251-23-71st-ROAD, BELLEROSE 26, L. I., N. Y.

Attention: Mr. D. M. Yassukovitch

Telephone Fieldstone 3-5183-

762-2140 A. ROTHMAN

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FORM NO. 59 (2-55)

CROSS REFERENCE SHEET

Deu Banks gera

COMMUNICATION: Senior Staff Meeting Minutes SSM/M/66-19

May 20, 1966

DATED:

TO:

FROM:

FILED UNDER:

Committeesa - Senior Staff Meeting

SUMMARY:

ACCEPTANCE OF DEPOSITS BY DEVELOPMENT FINANCE COMPANIES

The Bank and IFC recently provided loan and share capital to the Societe Nationale d'Investissement (SNI), a privately controlled development finance company in Tunisia. Noting that the SNI has sizeable deposits which it employs in the domestic short-term money market to enhance SNI income, an Executive Director queried the appropriateness of this activity for a development finance company. In reply, it was pointed out, first, that the deposits in question come mainly from government agencies, rather than from private savers. This special arrangement was proposed by the Tunisian Government, as one of several ways of compensating for the fact that it was not in a position to provide the development finance company with as much of a "subsidy" (long-term funds on easy terms) as most development finance companies assisted by the Bank and IFC have received. Second, the deposits in question are partly time, not demand, deposits. A number of the development finance companies which have been financed by the Bank group accept time deposits from the public generally; the income realized by rolling over those funds is an important element in the company's viability. However, Mr. Rosen said, and Mr. Woods concurred, it is the staff's view that a development finance company should not allow itself to be diverted from its basic objective of mobilizing and providing long-term finance, should take deposits (if at all) only on a term basis, and should be sure that the form of these deposits is adequately matched by the term of the Company's assets so as to safeguard its liquidity. It was noted that the commercial banks which were normally the principal shareholders of development finance companies are likely, in any event, to exercise restraining influence on the latter's activities in this field.

Der Banks gen

Messrs. Jeffries, Mejia, Powell and Sekse Robert F. Skillings WV Descriptive Memoranda on DFCs May 17, 1966

Would you please update the descriptive memoranda on the DFCs in your shop, and prepare similar memoranda for new institutions that have joined us. These should be in Mr. Shin's hands by the end of June.



D.B-Pen.

Mr. William Diamond

D. W. Jeffries

Reporting

Austria - IVK: No problem. We only receive annual reports, however.

Finland - IFF: No problem.

Greece - NIBID: No regular reporting requirement.

India - ICICI; Should be no problem with the newly agreed reporting requirement.

Malaysia - MIDFL: Submission has been irregular; will be discussed during the mission.

Spain - BANDESCO: We receive information regularly.

- Thailand IFCT: We have received the annual report but no reports on projects. The quarterly resume has evidently been discontinued. We will discuss this with Kraisri during his forthcoming visit.
- Turkey TSKB: Has been unsatisfactory until the past quarter; will need to be followed closely.

ies:tk

Messrs. Jeffries, Sekse, Mejia, Powell May 16, 1966 William Diamond

REPORTING

May I have, right away, a brief (a few lines are enough) report on whether or not each of the companies for which you have responsibility, is up-to-date on its reporting. If not, on which items is the company in default and what are we doing about it?

WDiamond:us

P.B.- Pen

Mr. David Wall United Nations Conference on Trade and Development New York, N. Y.

Dear Mr. Wall:

Pursuant to our telephone conversation of last week, and in order to supply you with more information for the purpose of the work on development banks that you are carrying out at the United Nations, I am pleased to enclose a descriptive summary of the following private development finance companies in Latin America:

C. A. Venezolana de Desarrollo (CAVENDES)(Venezuela) Corporación Financiera de Caldas (Colombia) Corporación Financiera Colombiana (Colombia) Corporación Financiera Nacional (Colombia

With my best personal regards, I am

Sincerely yours,

A. Hernan Mejía Development Finance Companies

Mr. Ezvid Wall United Nations Conference an Trade and Development New York, N. Y.

Dear Mr. Wall:

Pursuant to our telephone conversation of last week, and in order to supply you with more information for the purpose of the work on development banks that you are carrying out at the United Mations, I am pleased to enclose a descriptive summary of the following private development finance companies in Latin America:

C. A. Venerolana de Desarrollo (CAVENDES)(Veneruela) Corporación Minanciera de Caldas (Colombia) Corporación Minanciera Colombiana (Colombia) Corporación Minanciera Nacional (Colombia)

With my best personal regards, I am

Sincerely yours,

A. Hernán Mejia Development Finance Companies

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Dev. Banks - Pen

Mr. William Diamond

A. Hernán Mejía

Reporting

All of the three Colombian financieras in which we have invested send us monthly information in a regular manner. The reports are different, however. They range from monthly financial statements and a very detailed account of operations in the case of Caldas, to a summary of monthly loan operations in the case of Nacional. Colombiana, which sends monthly financial statements and a list of investments in securities is somewhat in the middle.

The Colombian financieras, with the exception of Caldas and Norte, have informed us that they accept the proposed reporting requirements under the Bank Loan. We have already suggested to Mr. Wiese that he write to Caldas asking for their comments on the subject. Norte sent us some comments on our proposal, to which we have already replied.

We could ask the financieras to start sending us their reports according to the proposed guidelines, should you agree. I believe that the sconer we do this, the better, because undoubtedly some time will elapse before they are all doing what we want.

I am writing today to remind Caldas, Colombiana and Nacional that we have not yet received the audited financial statements as of December 31, 1965, which should be ready by now.

CAVENDES sends us regularly their monthly financial statements, and with less regularity a summary of the most important business transacted by the Board. However, since Mr. Arango is attending the Board meetings approximately once every month, we fill the gaps with the data that he brings back after the visits.

cc Division

May 12, 1966

Dear Mr. van Ravesteijn:

Many thanks for your letter of May 3. I have passed it on to the Treasurer's office who will proceed promptly to settle your account.

I was also sorry to have missed you in Paris, and hope to have better luck next time. The Chilean project, as we understand, is undergoing some stresses and strains. We will certainly let you know whether anything further seems likely to develop.

With warm regards,

Yours sincerely,

Robert F. Skillings Deputy Director Development Finance Companies

Mr. Willem van Ravesteijn Lazard Freres Cia. 5, Rue Pillet-Will Paris 9^e, France

Cleared with and cc: Mr. Reamy cc: Mr. Mejia

RFSkillings :vmv

Des-B-Pan.

Mr. Robert F. Skillings R. L. Powell R. L. J. U.B.

May 11, 1966

Projects Submitted by Development Finance Companies

With reference to your memorandum of April 28, 1966, attached is a table giving the desired information.

RLPowell:lvr

DEVELOPMENT FINANCE COMPANY PROJECTS

Colu	m 1	-	Projects financed (approved)
Colu	mn 2	-	Submitted to Bank/IDA
Colu	man 3	3	Of which requiring approval
Colu	mn 4	1	Projects approved which required further
			information prior to approval
Colu	m 5	-	Projects approved on which comments made or
			questions asked at the time of approval
Colu	mn 6	-	Projects approved without comment
Colu	mn 7	-	
Colu	an 8	-	Of which financed by dfc with own resources

Amounts shown are in U.S. dollars.million.

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China (CDC)	No.	Amt.	No.	Amti	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1963 1964 1965	69 41	5.83 8.69 8.39	18 8 14	3.97 1.31 7.43	11 5 6	3.41 1.06 5.88	2 2 4	0.62 0.30 4.73	332	1.23 0.76 1.15	6 0 0	1.56 0 0	000	000	000	000
Israel (IIBI)														-45		
1965 Long Philippines (PDCP)	190	32.77	52	10.56/1	4	4.77	0	0	4	4.77	0	0	0	0	0	0
1963 n 1964 1965	4 16 14	0.28 9.30 11.90	0 13 13	0 7.05 7.45	0 8 10	0 6.71 7.22	033	0 1.91 2.25	0 4 4	0 4.63 1.20	0 1 3	0 0:17 3.78	0/2	000	000	000

1 Gross total amount, i.e., does not take into account subsequent cancellations.

12 One project withdrawn (and not subsequently financed by PDCP) after Bank had requested further information. Hay 11, 1966

May 11,1966

D.B - Peri

Dr. Pieter Lieftinck

William Diamond

Taking of Deposits by Development Finance Companies

You raised a very interesting point at yesterday's meeting of the Joint Boards, concerning the taking of deposits by development finance companies. Mr. Rosen described his philosophy on this subject. However, you might be interested to see the views we expressed when the same issue was raised by BANDESCO 16 months ago.

I enclose BANDESCO's letter of December 15, 1964 to us, our reply of January 7, 1965, and a relevant extract from my letter of March 17, 1965.

Attachments

cc Mr. Jeffries

WDiamond:us

Der. Banks - Pen .

May 5, 1966

Dear Miss Philpotts:

Referring to your telephone conversation with Mr. Mathew on May 3, I enclose a copy of our report, "Taxation Affecting Development Finance Companies with which the World Bank Group is Associated".

Yours sincerely,

Tore Hedberg Development Finance Companies

Miss Beverly Philpotts Jamaican Embassy 1666 Connecticut Avenue, N.W. Washington, D.C.

Enclosure cc. Mr. P. M. Mathew Powell/File

THedberg: spm

Du Bunks gen CC: Herens. Ac.

S, RUE PILLET-WILL, 9

770-71-11

Paris, May 3, 1966.

2000 5/12

Mr. Robert F. Skillings Development Finance Companies Department International Finance Corporation 1818 H Street Washington DC 20.433

Dear Skillings,

I have been so much travelling since I was in Wasington in February, that I had completely forgotten to send you my statement of expenses and had to be reminded of it by my secretary. Please find my statement enclosed with my apologies for this late submission. With my letter of December 13, 1965 I have sent to Bill Diamond my account of my trip to Chili in November, which showed a balance in favour of IFC. Bill had indicated to me not to transfer any amount, untill I was invited to do so. This might be a good occasion to settle the whole account, the balance being booked to the credit of my account with the Algemene Bank Nederland, 62 William Street, New York N.Y. 10.005.

I was very soory I missed you when you were in Paris early March. As your Paris office probably told you I was away to the Ivory Coast combined with a few other visits. For quite some time I had no further news about our Chilean project. Is still anything happening there? It would be a pity if we could not go ahead with what basically looked a good project.

With best regards,

Yours faithfully,

WILLEN VAN RAVESTEIJN

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STRUCTURE

Some attachment

Messrs. Jeffries, Powell and Sekse

April 28, 1966

Robert F. Skillings

Projects Submitted by Development Finance Companies

The attached table summarizes the statistics on projects which we have been collecting. I should be grateful if, in the next few days, you would ask your fellows to collect some supplementary information:

- (1) Statistics of the amounts of money involved, in the same breakdown as the statistics for the number of projects.
- (2) A further breakdown of projects submitted to the Bank/IDA requiring approval, showing for projects which we approved:
 - (a) the number and money amount of projects on which we requested further information prior to approval; and,
 - (b) the number and money amount of projects on which we made comments
 or asked questions at the time of approval.

Attachment

RFSkillings :vmv

April 28, 1966

Mr. S. R. Cope

Robert F. Skillings

Projects Submitted by Development Finance Companies

I am attaching a table showing the information you requested about projects submitted by development finance companies to the Bank and IDA, those which were rejected, and of the rejected ones those which the development finance company went on to finance anyway.

The bare figures do not, of course, indicate to what extent the development finance companies were more rigorous in their project appraisal than they would have otherwise have been, if they had not been required to submit projects to the Bank.

On a substantial number of projects which the Bank or IDA approved, we made comments or asked questions either at the time we approved, or before we approved. I am collecting some additional numbers on this subject and will forward them to you.

Attachment

cc: Mr. Diamond

RFSkillings:vmv

DEVELOPMENT FINANCE COMPANY PROJECTS

	Projects Financed (Approved)	Submitted to Bank/IDA	Of Which Requiring Approval	Of Which Rejected	Of Which Financed by DFC with Own Resources
China (CDC) 1963 1964 1965	69 41 44	18 8 1);	11 5 6	0 0	0 0 0
Ethiopia (DBE) 1963 1964 1965 (6 months)	n.a. 136 27	3 1 0	3 1 0	000	0 0
Finland (IFF) 1963 1964 1965	14 105 103	0 43 83	17 7	000	0 0
India (ICICI) 1963 1964 1965	73 88 69	57 61 46	1 0 0	0 0	0 0
Iran (IMDBI) 1963 1964 1965 (9 months)	25 33 24	1 6 11	1 4 10	000	0 0
Israel (IDBI) 1965	190	52	14	0	0
Malaysia (MIDFL) - (1	Excludes small	hire purchase	loans)		
1963 1964 1965	5 17 23	2 2 10	2 2 7	1 <u>1</u> / 0	
Morocco (BNDE) 1963 1964 1965	29 22 21	10 21 25	8 12 11	0 2 0	0 2 0
Pakistan (PICIC) 1963 1964 1965	70 49 54	55 18 14	11 9 1	0 0	0 0 0
Philippines (PDCP) 1963 1964 1965	4 16 14	0 13 13	0 8 10	0 0 2/	0 0
Thailand (IFCT) 1964 1965	9 13	0 3	0 3	0 1	0 1
Turkey (TSKB) 1963 1964 1965	158 122 151	16 36 78	6 12 6	0 0	0 0

1/ This project had doubtful aspects which we asked MIDFL to reconsider. MIDFL withdrew its request that the project be financed from the Bank loan and instead financed it from its own resources.

2/ One project withdrawn (and not subsequently financed by PDCP) after Bank had requested further information.

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April 28, 1966

Deo Banko.

Mr. William Diamond I. L. Chang Development Finance Companies: Dividends

Dividends of Development Finance Companies as shown below have been received by the Treasurer's Department.

Development Finance Companies	Date Received	Currency	Conversion Rate	U.S. Dollar Equivalent	Number of Shares
Caldas	4/11/66		-	4,900	
TSKB	4/22/66	TL 900,000	9.0800	\$ 99,118.94	-
TR	4/26/66	Fmk 25,100	3.2192	\$ 7,796.97	
PDCP	4/27/66	₽ 20 , 000	3.9043	\$ 5,122.56	-

cc: Mr. Y.L. Chang Mr. Rutland Mr. Gray Mr. Matthews Mrs. Manion

DWG/VManion/nwd FILE: R-2 Miscellaneous Reports



Mr. Robert F. Skillings

April 25, 1966

D.W. Jeffries

Projects financed by IFF (Finland), ICICI (India), MIDFL (Malaysia), IFCT (Thailand), and TSKB (Turkey).

The attached table has been prepared in accordance with your memorandum of April 21, 1966.

Attachment cc: (Circ. 2)

ECHSu:bda PU

		1963	1964	1965	TOTAL
FINI	AND - IFF				
1.	Total number of projects the DFC has financed.	14*	105	103	222
2.	Total number of projects which have been submitted to the Bank or IDA. (Free Limit: \$ 100,000 from 6/15/64 to 6/15/64; \$ 250,000 since 6/30/65).	0*	17	7	24
3.	Number of projects which the Bank or IDA have rejected of those submitted.	0*	0	0	0
4.	Number of rejected projects which the DFC has nevertheless, proceeded to finance with other resources.	0*	0	0	0
	* October - December, 1963.				
INDIA - ICICI					
1.	Total number of projects the DFC has financed.	68	67	69	204
2.	Total number of projects which have been submitted to the Bank of IDA. (Free Limit: \$ 500,000 from 4/24/61 to 6/4/63; \$ 2 million since 6/5/63.)	1	0	0	1
3.	Number of projects which the Bank or IDA have rejected of those submitted.	0	0	0	0
4.	Number of rejected projects which the DFC has nevertheless, proceeded to finance with other resources.	0	0	0	0

		1963	1964	1965	TOTAL
MAL	YSIA - MIDFL				
1.	Total number of projects the DFC has financed	5	17	7	29
2.	Total number of projects which have been submitted to the Bank or IDA (Free Limit: \$ 30,000 from 7/15/63 to 9/1/65; \$ 200,000 since 9/2/65).	2	2	3	7
3.	Number of projects which the Bank or IDA have rejected of those submitted.	1	0	0	1
4.	Number of rejected projects which the DFC has nevertheless, proceeded to finance with other resources.	1	0	0	1
THAILAND - IFCT					
1.	Total number of projects the DFC has finenced.	0	9	13	22
2.	Total number of projects which have been submitted to the Bank or IDA (Free Limit: \$ 50,000).	0	0	3	3
3.	Number of projects which the Bank or IDA have rejected of those submitted.	0	0	1	1
4.	Number of rejected projects which the DFC has nevertheless, proceeded to finance with other resources.	0	0	1	1

2 -

		1963	1964	1965	TOTAL	
TURKEY - TSKB						
1.	Total number of projects the DFC has financed.	158	122	151	431	
2.	Total number of projects which have been submitted to the Bank or IDA. (Free Limit: \$ 50,000 from 4/8/55 to 3/16/64; \$ 200,000 since 3/17/64).	6	12	6	24	
3.	Number of projects which the Bank or IDA have rejected of those submitted.	0	0	0	0	
h.	Number of rejected projects which the DFC has nevertheless, proceeded to finance with other resources.	0	0	0	0	

ECHSu:bda April 25, 1966 - 3 -

Mesers. Jeffries, Mejia, Powell, Sekse

April 21, 1966

Dec, Banks yen

Robert F. Skillings WS

Development Finance Companies

Would you please let me have by the close of business on Monday, April 25, for each of the development finance companies in your group which have received Bank loans or IDA credits, a table showing:

- (1) the total number of projects each has financed in the last three fiscal years;
- (2) the total number of projects they have submitted to the Bank or IDA in those years;
- (3) the number of projects which the Bank or IDA have rejected of those submitted in each year; and,
- (h) the number of rejected projects which the development finance company has, nevertheless, proceeded to finance with other resources.

cc: Messrs. Cope Diamond o/r

RFSkillings :vmv

April 18, 1966

Devidantos

Mr. Y. L. Chang William Diamond

Development Finance Companies: Dividends

Please see the attached memorandum. I hope it will result, among others, in your hearing more promptly about dividend <u>declarations</u>.

1/

In order to enable our records to be complete, I'd be grateful if you would let me know as soon as possible when you receive a dividend payment.

Thanks.

cc Messrs. Skillings Jeffries Mejia Powell Sekse

WDiamond:us

l/ April 13 to all division
 chiefs.

FORM No. 59 (2-55)

CROSS REFERENCE SHEET

Rev Banks

COMMUNICATION:	Letter
DATED:	April 13, 1966
TO:	Mr. Martin ^K osen

FROM: William Diamond

FILED UNDER: Operational Memo

SUMMARY:

Re Operational Memorandum on Development Finance Companies.

Messrs. Mejia, Sekse, Powell, Jeffries

April 13, 1966

Der: Tiname Congranda

William Diamond 49

Dividends from Development Finance Companies

In July 1964 I sent to all members of the professional staff of this Department a memo from Mr. Rosen asking for prompt notification to the Treasurer of dividends declared and dividends received on investments in development finance companies. Subsequently, on November 16, 1964, I sent each of the Divisions a memo asking that entries be made in the file in my office whenever a dividend is declared and a dividend is paid by one of the development finance companies in which we have an investment.

On March 18, 1965, Mr. Skillings wrote a memo to each of the divisions reminding them, of the need to keep the dividend record up to date. In May 1965, he reminded two of the divisions that the records of companies under their jurisdiction were not up to date, and once again on August 31 he wrote to each division with the same reminder, and enclosed copies of Mr. Rosen's memo of July 7, 1964, 31.57

I find that our records still are not up to date. There are, I believe, missing entries with respect to the Medellin financiera, the Caldas financiera, the Turkish development bank, the Philippines development bank, and perhaps others. Moreover, the Treasurer's Department has several times complained, justly, that it is not being kept promptly informed of dividends declarations.

I cannot impress upon you too strongly the importance of letting Mr. Chang know immediately, repeat immediately, when we hear of a dividend declaration, and to enter in the records in my office (to say nothing of your own) the information required concerning both declaration and payment of dividends.

Would you please give this matter your prompt attention.

cc Mr. Skillings

FORM No. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL FINANCE CORPORATION E.m.S.

N

13 -

400

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: April 12, 1966

FROM: William Diamond

SUBJECT: Operational Memorandum on Development Finance Companies

Attached is my draft, and a covering note raising certain questions.

Copies are available in the Secretary's Department for distribution to the Senior Staff when you give the signal.

MEMORANDUM

FROM: William Diamond

SUBJECT: Operational Memorandum on Development Finance Companies

The attached draft of Operational Memorandum 5.10 on development finance companies reflects current policy and practice. Since there has been a fair amount of confusion on that subject lately, the memo is much more detailed than, perhaps, it needs to be.

Some aspects of current policy and practice have been the subject of considerable discussion in the past year or so. Following is a list of the principal questions that have been raised.

1. Link between the Bank and the ultimate beneficiaries of its funds

Should there be specific links between the Bank and those clients of the company which get the use of the Bank's funds? Several reflections of the link may be considered separately:

- a. Committing and disbursing the Bank loan by specific projects. (See para 25 27.)
- Pre-approving only those large projects which are financed by the Bank loan. (See para 28 - 30.)
- c. Giving the Bank direct and independent rights vis-a-vis those enterprises. (See para 43.)
- d. Tying amortization of the Bank loan to repayments from specific enterprises financed from the proceeds of the loan. (See para 31 32.)

2. Domestic expenditure

Should general Bank policy be applicable to development finance companies thus making it possible to use Bank loans to such companies for domestic expenditures in certain circumstances? (See para 36.)

3. Relationship to government

- a. Should the Bank consider loans to a company in which the government has a voting majority, if management and policy are satisfactory? (See para 7.)
- b. Should we insist on "quasi-equity"? (See para 11.)

4. Debt/Equity ratio

The ratio we use is related to the safety of the Bank's loan, for it concerns the ratio of senior debt to all junior capital (whether equity or debt). The law under which a development finance company operates, its charter or its policy statement usually applies a different ratio (a ratio of true equity to all debt of no matter what rank). Should we make use of the second ratio, which is a better test of the company's financial prudence and which indicates its true leverage? (See para 44.)

5. Technical assistance

Should the Bank cover part of the cost of managers, senior staff or advisors of development finance companies in certain cases? (See para 21.)

- 6. <u>Simplification of proceedure</u> for administration of loans to development finance companies (See para 14 18.)
 - a. Messrs. Knapp and Rosen have agreed that working party consideration of sub-projects is not needed unless, in the opinion of the Development Finance Companies Department, a policy issue is involved. Para 18, the only <u>new</u> element in the draft memorandum, reflects that decision, which has not yet gone into effect.
 - b. Should routine correspondence with development finance company borrowers (receipt, acknowledgement and questioning of sub-projects, receipt of and correspondence on end-use reports, crediting the loan account for sub-projects, etc.) be dealt with by the Development Finance Companies Department?

7. Adjustability of "free limits"

Should the Bank be free to raise or lower the free-limit unilaterally, in the light of its continuing assessment of the company? (See para 26.)

OPERATIONAL MEMORANDUM 5.10

Development Finance Companies

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

2. There are a variety of institutions which may be called development finance companies and which have in common the objective of formulating, promoting and providing medium- and long-term finance and technical assistance for productive investments. However, the Bank's interest is in companies which are private or predominantly private institutions designed to promote private industrial and other investment on business principles in the interest of the sound economic growth of the country. Such institutions can perform a valuable function by identifying promising fields for investment and helping to bring together the factors of production. By becoming active elements in a country's capital market, they can help to mobilize domestic savings and, in combination with technical know-how, channel them into productive activities. At the same time, they can become channels through which foreign and international capital and skills can flow into the country, reaching enterprises too small to be able alone to attract foreign capital and technology. Because they are themselves private, these finance companies can play a unique role in helping the growth of the private sector.

1/ There are, however, occasional special cases when the Bank's primary, if not sole, interest is the final user of its finance, and the intermediary institution is simply a vehicle. This has been the case of the Bank's loans to the Japan Development Bank, for the benefit of particular coal, steel and power enterprises, or the Bank's loans to CORFO and Nacional Financiera for various public projects. Here circumstances peculiar to the member country require the use of an intermediary, but the intermediary is only an incidental object of the Bank's interest.

Conditions for Assistance to Development Finance Companies

3. In looking at requests to help establish, finance or otherwise assist a development finance company, the Bank is governed by the following considerations:

- (a) The development of a strong private sector must be consistent with the member country's over-all aims, and there must exist a climate conducive to the growth of the private sector.
- (b) There must be opportunities for a fairly large volume of private industrial and other productive investment, and hence good prospect for a continuing demand for medium- and long-term loans and for equity capital.
- (c) There must be a clearly defined institutional gap in the capital market which a development finance company will be able to fill.
- (d) The creation or expansion of a development finance company must be a matter of relatively high economic priority in the member country concerned.

4. Where these conditions do not exist, the Bank will not promote or finance development finance companies, but will seek other means to assist such countries in financing their productive sectors. On the other hand, where these conditions do exist, the Bank is prepared to be flexible in applying its policies regarding development finance companies.

Characteristics of Development Finance Companies to be Supported by the Bank

5. In promoting and assisting development finance companies, the Bank prefers a company owned by a broad range of investors, both foreign and domestic, but with a clear domestic majority; having government support in a form which does not give control to the government; providing finance only to privately controlled enterprises, principally but not exclusively in the manufacturing sector; empowered to make medium- and long-term loans, invest in share capital and underwrite securities; committed to act in such a way as to contribute to the growth of the capital market; acting primarily as a financial institution rather than a holding or management company; making its investment decisions after careful appraisal, on the basis of a sound investment criteria and giving due weight to the economic benefits to be obtained; combining financial prudence with a promotional outlook and a willingness to take risks; having both the objective and the prospect of paying a reasonable dividend to its shareholders, while setting aside adequate reserves. It is the developmental orientation of a development finance company, as well as its broadly based ownership, which justify the company's being considered a national institution, and which justify a government in assisting the company. They are also the basic justification for Bank assistance.

6. The Bank prefers these characteristics. However, it is concerned with establishing and supporting in a member country, not an institution with pre-devised characteristics, but rather an institution which fits the needs and suits the conditions of the country. Hence the capital structure, the distribution of ownership, the scope of operations, the policy orientation and other characteristics of development finance companies may differ widely, depending on the interests of their sponsors and the conditions and needs of the member countries in which they are located, while still qualifying for Bank assistance. But several characteristics are essential for Bank assistance.

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

8. <u>Domestic Control</u>. The Bank seeks to encourage foreign as well as domestic investors to participate in the ownership of a development finance company, so as to facilitate the introduction of experience in investment banking and contacts with foreign business, both technical and financial. However, domestic investors must hold a majority of the voting capital, in order to assure that the company is identified with the member country and to facilitate the governmental support which it is likely to need.

9. The Corporation has been regarded as national, rather than foreign, in some member countries so that a majority made up of holdings by genuinely domestic investors (including the government) and the Corporation can give the company the requisite image of a national institution. The Corporation is willing, when circumstances justify, to restrict its sales of shares of a development finance company to private investors within the country concerned. The participation by the Corporation can thus help, not only to provide the capital needed to create a development finance company, but also to assure private control and domestic control.

10. Profitability. The development finance company must be potentially profitable. The company should have prospects of paying, in due course, a dividend reasonable in terms of investor expectations in the country concerned. Profitability is a measure of the company's effectiveness and efficiency. And only if it pays appropriate dividends, can the company look forward to increasing its share capital as needed, borrowing ultimately from private sources at home and abroad, and encouraging (by demonstration) others to go into the field of private investment banking. 11. Adequate profitability is sometimes difficult to achieve, especially in the early years, because of the inability of the company to obtain sufficient leverage and a wide enough spread between its borrowing and lending rates. Accordingly, interest-free long-term and subordinated loans, which serve to increase both leverage and spread, are desirable in some circumstances. Such funds, which are called "quasi-equity", serve in various ways to increase the interest of investors in the share capital of the institution. There are, of course, other devices which may be used to achieve the goal of adequate profitability. But, in general, quasiequity is sought; and, in its absence, there is a preference to wait for concrete results of operation before participating in financing a development finance company.

Statement of Operational Policies

12. On the occasion of a first loan to a development finance company which has not had a long operational record, the Bank normally requires that its sponsors and directors draw up and formally approve a statement setting forth the company's policy orientation. The object of this statement is to assure the Bank that the company's objectives are, and that its behavior will be, consistent with the Bank's own objectives and with the developmental objectives of the member country in which the company is located. The statement is expected to spell out, more precisely and clearly than its charter will, the scope of operations of the company, its investment policies, its general intentions regarding reserves and dividends, and its plans concerning development of a staff.

13. The Bank attributes considerable importance to this statement of policies. The behavior of the company will be continuously judged, in part, for conformity with it. However, the statement is intended to provide, not inflexible regulations, but general guidelines, from which departures may be made in exceptional circumstances, after due deliberation. Additions to, or changes in, the statement may from time to time be required, in the light of the development of the company and the changing conditions of the country. Such amendments require the approval of the Bank.

Organization and Responsibility

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

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

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

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

18. In approving projects requiring Bank approval before the Loan Account may be credited, the Bank Area Department Director acts on the advice of the Development Finance Companies Department. The Working Party is not consulted unless, in the opinion of the latter Department, a policy issue is involved.

Types of Assistance Available from the Bank

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

20. The Corporation advises on the organization or reorganization of a development finance company in a form suitable for Bank assistance, if the conditions referred to in Paragraph 3 prevail.

21. The Corporation is willing to assist a private development finance company in finding management, advisors and senior staff. Neither the Bank nor the Corporation will share the cost of managers, staff or advisors of development finance companies.

22. The Bank and the Corporation arrange training for the senior staff of development finance companies, in modest numbers, in the EDI, the Corporation and other development finance institutions.

23. Financial. The Bank provides loans to help meet the capital requirements of a development finance company. Normally the amount provided at any one time is the sum which (together with other available funds) the company needs, within the limits of prudent borrowing policy, to meet the expected demand for capital over a period of about two years. (The decision as to the amount may be modified in the light of the country's creditworthiness and, in the case of countries eligible for Association funds, by the amount of such funds that can be made available to the country, not earmarked for higher priority projects within that country.) However, the size of a particular loan is not usually a matter of importance since the Bank stands ready, other conditions being favorable, to provide successive loans when the need for fresh funds becomes apparent.

Special Terms of Loans to Development Finance Companies

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

25. <u>Commitment of Funds</u>. The commitment and disbursement of the proceeds of the loan are related to the specific investment projects for which they are to be used. A commitment fee is charged only when a commitment is made for a specific investment project, and is applicable only to the amount credited to the loan account for that investment project./1

 $[\]frac{1}{1}$ In the case of an IDA credit, the entire amount of the credit is credited to the credit account on the effective date and no commitment fee is charged, either by the Association to the government-borrower or by the government borrower to the development finance company. In such a case, the Company does not request a credit to the credit account; it asks for permission to withdraw from the credit account.

26. The Bank expects a development finance company to apply high standards in the appraisal of its investment projects. Nevertheless, the Bank takes the right to approve all investment projects before portions of the proceeds of the loan are committed for them. The degree to which the Bank exercises this right depends on its experience with the company; it normally allows a certain degree of freedom. In general, the Bank starts with a new development finance company by allowing it to request commitment of funds for an individual project up to a limit of about \$50,000, without prior approval by the Bank. As the company's staff and experience develop, and as the Bank's confidence in the company grows, the degree of freedom is increased until, in practice, no projects need to be submitted for prior approval.

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

Approval of Investment Projects. The requirement of approval 28. is a device for introducing development finance companies to the methods and practices of investment banking, raising their appraisal standards and familiarizing the Bank and the company with each other. It is not primarily designed to assure that particular projects and investment decisions are sound and that the Bank's funds are being properly used in particular projects, or to remove decision-making on particular investment projects from the company to the Bank. In a sense, therefore, the Bank's review constitutes an appraisal of the appraisal rather than an appraisal of the investment project, a check to see that the company has considered all factors relevant to a sound decision. The responsibility for the investment decision remains firmly with the company. Only in unusual circumstances would the Bank substitute its own judgment for that of the company.

^{1/}In the case of an IDA credit, the entire amount of the credit is credited to the credit account on the effective date and no commitment fee is charged, either by the Association to the government-borrower or by the government-borrower to the development finance company. In such a case, the Company does not request accredit to the credit account; it asks for permission to withdraw from the credit account.

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

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

Amortization. A Bank loan to a development finance company 31. is repaid in approximate symmetry with the repayments received by the The amortization schedule of the Bank's company from its own borrowers. loan is the composite of the amortization schedules agreed with the company for all the investment projects it has financed with the proceeds In order to simplify the administration of this policy, of the loan. a single amortization schedule is agreed during negotiations, which reflects the estimated composite of repayment schedules of loans to be made with This prepared schedule is modified from time the proceeds of the loan. to time as needed, to bring it into approximate conformity with the amortization schedule of the loans actually made by the company. If the company receives a prepayment from one of the enterprises it has financed from the proceeds of the Bank loan, it must repay the Bank correspondingly.

32. The loan contract specifies a maximum period (usually 15 years) within which repayment of the loan will be completed. The period relates to the individual investment projects financed with its proceeds.

33. <u>Interest Rate</u>. A loan to a development finance company does not fix an interest rate. When a part of the loan is committed with respect to an investment project, the rate applicable to that part of the loan is the Bank's lending rate when the commitment is made.

34. <u>Scope of Operations</u>. The fields of enterprise for which the proceeds of the loan may be used are all those in which the development finance company is allowed by its charter and its policy to operate. If public law or the charter of the company allows operations considered inappropriate for the use of a Bank loan, this fact will be dealt with in the policy statement, which would require withdrawal from such activity. 35. Use of Loan for Share Capital. The loan may be used to finance the company's investments in share capital as well as its loans. However, this is permitted only within the framework of an agreed prudent policy with respect to the aggregate of the company's exposure in equity investments and every such project requires prior Bank approval no matter what its size. When the loan is used to finance an investment in share capital, an arbitrary amortization schedule is agreed with the company for the part of the loan used in this fashion, spread over the maximum number of years allowed in the loan contract.

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

37. Use of Loan for Imports. As an exception to normal Bank policy described in 2.03, the proceeds of a loan to a development finance company may be used only for imported goods (whether paid for abroad or purchased from the shelf at home, and including the import component of domestic goods).

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

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

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

41. Period of Commitment and Disbursement of Loan. The Bank sets a time limit for the submission of investment projects for crediting to the Loan Account. Since the amount of the Bank's loan is normally determined by the expected demand on the company over a period of about two years, the time limit is usually set at two years, subject to extension by mutual agreement. An additional one to two years is allowed for completion of disbursements.

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

43. The Bank also requires that the company obtain from its clients who receive finance from the proceeds of a Bank loan, certain contractual rights on behalf of the Bank, including the right of independent access to the individual investment projects. In practice, the Bank carries out its inspections of investment projects in the presence of the company's representatives.

44. <u>Debt/Equity Ratio</u>. The loan contract carries a limit on the debt which any company may incur. The limit used is an agreed multiple of the equity of the company plus any other sums which, for purposes of the calculation, the Bank is prepared to consider as equity. The agreement reached reflects a compromise between the Bank, which seeks security for its loan, and the company, which seeks maximum leverage. The Bank normally fixes the ratio at three, at the beginning of its experience with a development finance company. It is prepared to increase that ratio in the light of its assessment of the company's loss record, of its portfolio and prospects, of the economic outlook of the country, and of other relevant factors.

45. Audit. The development finance company must retain a firm of independent public accountants acceptable to the Bank, to audit the company's accounts annually.

46. Procurement. It is not practicable to require international competitive bidding of the clients of a development finance company. The Bank does expect, however, that the company, in appraising investment projects, will satisfy itself that the goods and services to be purchased are suitable to the projects and are reasonably priced. In the case of unusually large investment projects, the company is expected to go further and ensure that its clients have canvassed the main sources of supply and are purchasing from the most advantageous source or, if the expense is not prohibitive, are basing procurement on international bidding. 47. <u>General</u>. The Bank relies fundamentally on the Board and management of a development finance company to act in accordance with sound investment banking practices within the framework of a body of policy agreed before the loan is made. The quality of management and performance remain under continuing review. Arrangements must be made for adequate and timely discussion of any intention to change the management or to change substantially the policies agreed upon.

W. Diamond

April 11, 1966

Messrs. N.J. Paterson and L. von Hoffmann April 7, 1966 William Diamond

1200.13 - Per.

Joint Operations with Development Finance Companies

The attached draft purports to be a list of projects (a) presented to us by development finance companies and (b) in which we have joined with development finance companies. Is it correct? I'd be grateful if you would have your staff correct it.

Attachment

cc. Messrs. Richards Skillings Shin

WD:lg

ps

Projects Presented to IFC by DFCs and Projects Jointly Financed by IFC and DFCs

I. Projects Presented

A. By DFCs in which IFC or the Pank has an interest:

Colombia

1. Compania Colombiana de Tejidos, S.A. (1962) - (CF-Macional)

2. Porjas de Colombia, 3.4. (1964) - (CF Colombiana)

3. Industria Ganadera Colombiana, S.A. (1966) - (OF Colombiana)

Oreece

h. "Titan" Cement Company (1964) - (NIBID) 5. General Cement Co. (1966) - (NIBID)

India

6. Precision Bearings India, Ltd. (1962) - (ICICI)

Malaysia

7. Tasek Cement Ltd. (1966) - (MIDFL)

Pakistan

Ismail Coment Industries, Ltd. (1961) - (PICIC)
 Packages, Ltd. (1965) - (PICIC)
 Crescent Jute Products, Ltd. (1965) - (PICIC)

Venezuela

11. Demingues y Cia., Caracas, S.A. (1966) - (CAVENDES)

B. By other DFCa:

None

II. Projects Jointly Financed with DFCs:

A. With DFCs in which IFC or the Bank has an interest

Colombia

1. Forjas de Colombia, S.A. (1964) - (CF-Colombiana, CF-Macional) 2. Industria Ganadera Colombiana, S.A. (1966) - (CF-Colombiana)

Sthiopia

3. Ethiopian Pulp and Paper, S.C. - (DBE)

1/ Approved by the Board and not yet signed.

Finland

h. Huhtamaki-yhtyma Oy (1965) - (IFF)

Greece

5. "Titan" Company, S.A. (1964) - (NIBID) 6. General Company Co. (1966) - (NIBID)

India

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    Precision Bearings, India, Ltd. (1962, 1965) - (ICICI)
    Mahindra Ugine Steel Co., Ltd. (1963) - (ICICI)
    Lakshmi Machine Works, Ltd. (1963) - (ICICI)
    Fort Gloster Industries, Ltd. (1963) - (ICICI)
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Malaysia

11. Tasek Coment, Ltd. (1966) - (HIDFL)

Morocco

12. Compania Industriel Lukus (1966) - (BNDE)

Pakistan

Ismail Cement Industries, Ltd. (1961, 1964) - (PICIC)
 Crescent Jute Products, Ltd. (1965) - (PICIC)
 Packages, Ltd. (1965) - (PICIC)

Turkey

16. Sentetik Iplik Fabrikalari, S.A. (1966) - (TSKB)

Venesuela

17. Dominguez y Cia., Caracas, S.A. (1966) - (CAVENDES)

B. With other DFCa:

Scuador

1. La International, S.A. (1965) - (Corporacion Financiera Nacional)

Mexico

- 2. Cia. Fundidora de Fierro y Acero de Honterrey, S.A. (1962, 1964) -(Credito Bursatil)
- 3. Tubos de Acero de Mexico, 3.A. (1962) (Corporacion Financiera Nacional)
- h. Industria del Mierro, S.A. (1964, 1966) (Corporacion Financiera Nacional)

1/ Approved by the Board and not yet signed.

Migeria

5. Arewa Textiles, Ltd. (1963) - (Northern Nigerian Development Corporation) Venezuela

6. Siderurgica Venezolana "Sivensa", S.A. (1963) - (Corporacion Venezolana de Fomento)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

3/30

Mr Woods

Here is Pranond's paper which is meant to represent his views, It does take some account of the discussion I have

had with him on his

earlier druft.

FORM NO. 5	7	NTERNATIONAL DEVELC .NT INTERNATIONAL BANK FOR INTERNATIONAL FINANCE ASSOCIATION RECONSTRUCTION AND DEVELOPMENT CORPORATION
		OFFICE MEMORANDUM
	TO:	Mr. Martin M. Rosen DATE: March 30, 1966
FF	ROM:	William Diamond W
SUBJ	ECT:	Policies relating to Development Finance Companies

In November 1964 I submitted to Mr. Wilson a draft Operational Memorandum on development finance companies, based primarily but not entirely on then current practice. In due course, it was decided not to consider this draft, which had served to point up certain anomalies in practice and certain unsettled questions of policy. Instead, a review of policy was requested.

Attached is a rough draft of a paper on my personal views on many of these outstanding issues. There may be other issues in the minds of others.

It will not be difficult to present a revised Operational Memorandum, based entirely on current practice, or based on a revision of that practice in the light of decisions taken on such issues as those discussed in the attachment.

Attachment WDiamond:us 1. Various aspects of the policy and practice of the World Bank family towards development finance companies need review. This memorandum sums up my views and recommendations regarding some of them.

Our Model

2. Although there are important differences among the development finance companies we have supported, we tend to think of them in terms of a model, of which ICICI is the prototype. Almost every company we have helped to promote has substantially adhered to the principal characteristics of that model. The few companies we are associated with which depart substantially from it were promoted by others; we tend to involve ourselves with these only reluctantly. Rather than looking at situations in terms of how they fit the model, we should give more attention to the circumstances of the country concerned, and to the condition of its capital market. In particular:

3. Characteristics to stick to

Among the characteristics of the model are (a) concentration on financing the private sector; (b) mixed ownership (both foreign and domestic); (c) domestic control (if necessary counting IFC's holdings as domestic); (d) a business-like and non-political orientation; and (e) a potential level of profitability adequate to make the company self-sustaining, that is, capable of increasing its resources (both equity and loan) as needed to provide for the demands upon it, from conventional sources, in due course. We should continue to insist on these characteristics.

4. Government Ownership

We have sought to assure a non-political orientation by insisting that private shareholders (foreign and domestic, and IFC) hold a majority of the voting shares and by keeping government in a minority position, preferably keeping it entirely out as a shareholder. This device, which has proven of uncertain value, is discussed in paragraphs 16-22 below.

5. Functions

Our typical promotions are engaged primarily in lending for new fixed industrial assets. While this may be suitable in some circumstances, it may not be so in others. More careful examination of the needs of the country concerned and the wishes of the sponsoring shareholders might lead to a term-lending institution; or to a promotion, underwriting and issue house; or to an equity-investing company; or to some other type of institution; or to a combination of these in the same institution; or to two or more separate institutions in the same country. Circumstances might call for an institution which is primarily a financier of the enterprises of others; or they might call for a promoter and creator of enterprises. Industry is not the only source of demand for funds for productive private investment, and in many cases may not be the most important. We tend to frown on refinancing and on financing working capital; yet these may be needed in particular circumstances. In short, we should cease to push a particular, limited type of development finance company. We should try to find out what kind of company, with what functions, would be most useful to the particular country. These could be of considerable diversity, and this could lead to important differences in the structure of ownership, capitalization, management, staff, etc.

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6. Government Subsidy

Our model leans heavily for profitability and for the security of its shareholders on government subsidy in the form of a long-term, low-interest subordinated loan. Among the consequences are a close relationship with government and a ground for government influence. Such funds are not often available; they are not always desirable; they are not always needed. Without relaxing insistence on profitability, we ought not to require such funds as a <u>sine qua non</u> for a development finance company; we should indeed avoid them, unless an effective institution cannot be set up without them.

7. Where subsidy seems necessary and desirable, alternatives to the usual device should be sought. For instance:

- (a) agency arrangements.
- (b) tax concessions.
- (c) 90% IDA resources. These could be made available to development finance companies on concessional terms. The amounts involved are too small either to have an inflationary impact or to lay a basis for large-scale pressure for broader divergency from IDA policy, and yet large enough in a few cases to be important.
- (d) IFC concessions. IFC might (i) accept a position subordinate to other shareholders, or (ii) defer its dividends, or (iii) limit its dividends (concessions which would lapse when IFC sold its shares to others).

(e) rediscounting privileges.

There are no doubt other devices which could be used to give a development finance company a fillip without indebting it to the government.

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8. The justification for IFC concessions (which must obviously be limited to a reasonable and prudent part of its portfolio) is that (a) the promotion of development finance companies is one of its principal objectives (and of the objectives of the World Bank); (b) such companies are a national extension of its international objectives; and (c) IFC looks to them for new direct investment business. In any event, I doubt that the subordination of IFC's investment in the event of liquidation would often, if ever, be asked or needed. The deferment of its dividends or their limitation could, however, be a very useful device.

It has not been subsidies alone which have created a tie between 9. most of our development finance companies and government, of a kind which has effectively made government the dominant party in them. Most of the institutions depend on government as a continuing source of domestic currency resources and for guarantees of external loans. So long as such dependence continues, very strong government influence is inevitable. It is vital to seek an alternative to government as a source of domestic resources. In practice, the only important alternative sources of medium and long-term capital are foreign governments and international institutiona. Their reluctance to provide funds for domestic expenditure has hanks. thrown development finance companies into the hands of government. A change in the policy of those external sources of finance could do much to strengthen development finance companies.

10. Another aspect of our model is that no single shareholder or group of affiliated shareholders must be allowed to get control of the company. Where this has been achieved, the dominating interest has inevitably been, in effect, the government (ICICI, PICIC, IFF, CDC,

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IFCT, MIDFL, IMDBI, are examples), largely because government and the Bank family are the only parties with a large financial interest. In any event, I am not sure we ought to seek so wide a dispersal of interest that no one private group is effectively responsible for the success of the development finance company. It is possible to achieve effective management with broad ownership, in cases where a first-class board is agreed at the start, where that board has, or develops, a common outlook, and where the tradition is to allow the board, in effect, to perpetuate itself. (ICICI is such a case, although in that case much depends on the fact that the Chief Executive is, above all, a public servant of great prestige.) Where these circumstances do not exist, I believe one shareholder or a group of them should have enough interest to be responsible for, and capable of assuring, success.

11. Who controls the show has considerable effect on what can be asked of government or what IFC, IDA and the Bank can do. For instance, the IDA arrangement mentioned in 7 (c) is inappropriate in the case of an interest-dominated company. Certain types of government subsidies are also inappropriate in such cases.

12. I believe we should (a) no longer prevent domination by a particular interest so long as that interest shares our outlook; (b) try to get a board with diverse experience and outlook; (c) take particular care that the first board shares our conception of the company and of its role; and (d) try to avoid a company whose board is dominated by commercial bankers.

13. Another aspect of our model is that we tend to think in terms of a "chosen instrument": one development finance company per country.

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I know of no sound basis for this view, if we consider such companies, not as channels for World Bank assistance to the private sector, but as a contribution to the strengthening of capital markets. In such countries as India, Pakistan, the Philippines, the prospects of business are such as to justify more than one development finance company, and there is no reason for us to concentrate our interest on one. Moreover, in these and in other countries, development finance companies could concentrate on quite different and noncompetitive activities. In Colombia we have already invested in (and are about to lend to) several institutions which are partly competitive. We should be ready to do so elsewhere.

Profitability

14. As noted in paragraph 3, the prospect of profitability has been a condition for our financing a development finance company. However:

- (a) We have tended to want a satisfactory level of profitability, and of dividends, too early. Many foreign investors seem willing to wait longer than we for a return, no doubt because they receive collateral benefits. We should take advantage of this fact, and be prepared to accept a satisfactory return after a longer period of gestation (even to accept losses in the first year or two), if by doing so we are filling an important need in a member country.
- (b) We have been placing too much emphasis, in our initial explorations of profit prospects, on statistical forecasts of business which at best can be only very tenuous, and we thus have been unnecessarily conservative in judging profit prospects. We ought to rely more heavily on qualitative

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judgments regarding the economic prospects of the country, the existence of investment opportunities, the policy of government towards private investment, the quality of entrepreneurship, and on the knowledge that if these factors are favorable a vigorous management can create business.

(c) We should encourage the kind of fringe business which a development finance company can do and which, without diverting it from its main course, can be very profitable. I have in mind conventional banking business for its own clients. Such business, incidentally, enables a finance company to keep its fingers on the pulse of its clients in a fashion which is otherwise not possible.

15. In suggesting a more liberal approach to profitability :

(a) I do not propose any relaxation of the long-run objective of designing the company to be able in due course to obtain resources from conventional sources. I simply put greater stress than usual on the long-run prospects of the country, and hence of the company.

(b) Acceptability of a year or two of losses does not mean the company would not be expected to service debt. To the contrary. There can be no questioning that obligation, or relaxing of insistence on performing living up to it.

(c) It is the shareholder who will feel the effect of the proposal. Most shareholders (and most creditors) are more willing to wait than we are. We ought to be ready to do so, too. Our justification is the same as that suggested in paragraph 8,

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in support of IFC's giving concessions.

Relation to Government

16. We have so far refused (except in Ethiopia) to do business with a development finance company in which government has a majority of the voting shares. For IFC, this is a statutory requirement; for the Bank, it is a matter of policy. We have sought to reconcile our position with the facts of life in some countries by partially substituting IFC for government, keeping the holdings of the latter to 25% or less and obtaining from government a commitment to sell its shares to the private sector when it can. We have felt that, with not more than 25%, government would be unable to run the show.

17. Our experience suggests that having the government in a minority position secures the form but not the substance of our policy. In most of our member countries, it makes little difference whether the Government has huß (Morocco) or 2h% (Nigeria) or 20% (in Malaysia); in a showdown, the Government will have its way. So also will the government have its way in India and Pakistan, where government has no shares at all of ICICI and PICIC; for in those cases, it has provided a substantial amount of subsidies, conventional loans and guarantees. Private foreign investors have more important interests to push or to protect and rarely if ever take a position against the government and the World Bank family too has usually behaved as though its interest in a development finance company was not its most important in the country concerned. Both the private investors and we have been right in so behaving.

18. The best assurance of a non-political orientation lies in relying on non-government funds, and I believe we should seek ways of substituting the Bank, IDA and IFC for the government to the greatest extent possible. But this is not possible in many cases. And in such circumstances, what counts is, not the percentage of government participation, but the policy of government towards the private sector and towards the development finance company itself. If government is determined to encourage private investment; if it considers itself only a temporary investor in a company, prepared to sell its shares to private investors when it can; if it believes the company can make its greatest contribution by making its investment decisions on sound financial and economic grounds; if it is abstemious in its relations with the development finance company; then I would be prepared

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to accept government as an important minority or even in a position of voting control. If none of these prevail, we ought not to accept government as a minority shareholder.

19. Making a judgment on these matters is difficult, but not more so than other judgments we are called on to make. We might make a valid judgment today, only to have tomorrow's government upset the apple-cart; we run the same risk with the government in a minority position. Our present position allows us to make fewer mistakes, but only because we are involved in fewer development finance companies.

20. I do not recommend abandonment of our policy of <u>seeking</u> privately controlled development finance companies. <u>I do recommend</u> that the Bank be prepared to finance one with a government majority if, in our judgment, a development finance company can clearly make a contribution of importance to the country, if a private majority cannot be obtained and if the situation mentioned in paragraph 18 obtains.

21. A development finance company which has government funds, whether as equity or loan, or government guarantees of external loans, must have a management acceptable to government. (It must also be acceptable to us, if we have invested in or loaned to it.) Other shareholders, whether in a majority or a minority, must give heed to the government's views on this matter. But it appears to me that one fair test of the government's willingness to behave abstemiously towards a development finance company is its willingness to rely on the judgment of the private shareholders with respect to the naming of a chief executive. We should not agree to the government's naming or dismissing the chief executive. This is not insistence on form, while yielding substance; it is a test of the government's policy.

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The IFC cannot, for statutory reasons, invest in a development 22. finance company in which the government has a majority participation. This, among others, should make us keep cases of Bank lending to a government controlled company to a minimum.

Focus of our Interest

23. Our original interest in development finance companies was in providing Bank finance to individual private enterprises in our member countries. The companies were primarily channels for finance to enterprises too small for us to handle directly. This conception was reflected in the Bank's contractual relations with them: in the project description, in the methods of commitment and disbursement, in arrangements for supervision. Today the focus of the Bank's interest is the development finance company itself, rather than the particular enterprises it finances. We try to fill a gap in the capital market, to create a strong and viable institution, able to provide medium- and long-term finance to private enterprise at a profit. Although our interest has changed, many of the policies, contractual arrangements and procedures based on the older view persist. They should be modified to accord with the fact that, in lending to a finance company, we are financing it, not a particular group of individual transactions into which it enters (and also with the fact that there might be large differences among the companies we are financing). Such a new focus of our interest would involve, among other things:

24.

(a) Describing the project as the financing of a development finance company so that it may carry out its corporate purposes. (b) "Supervising" the loan by supervision of the company, rather than of the particular transactions it finances.

(c) Linking commitment and disbursement of the loan to the

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requirements of the company, rather than to the needs of particular enterprises it finances.

(d) Fixing the terms of the loan with regard, not to the terms on which the ultimate beneficiary received its proceeds, but in the light of the agreed general policies and financial requirements of the company which is our borrower. 25. No one objects, I believe, to <u>defining the "project"</u>, as proposed in (a) above. As for <u>supervision</u>, our practice so far has been <u>not</u> to exercise the independent rights to information from, access to, and inspection of, the individual clients of our borrowers which our present loan contracts call for. I doubt that it would have been useful to exercise them or that we could in any event effectively do so. Problems arise only with respect to (c) and (d).

26. Commitment and disbursement of the proceeds of the loan have been tied to specific projects approved in advance. As our borrower has gained experience and as we have gained confidence in it, we have relaxed our requirement for prior project approval until there may be no effective requirement at all (as in the cases of PICIC and ICICI). Once, we allowed no company a "free limit" at the beginning of our experience with it. Today, every company gets a degree of freedom even at the start and we are more lenient in relaxing it because we have learned that prior review is more important as a device for education than for control, and education does not require us to look at many projects and because the granting of approval implies a responsibility for the individual project which we ought not to have and could not in fact experience. Moreover, while we approved of projects using the proceeds of the Bank loan, our borrower was free to use other resources as it wished (subject only to general policy understandings and to end-use review), and could readily run itself into the ground no matter how careful it and we were with the Bank loan.

27. Control over the Bank loan should be based, not on disbursement, but on careful supervision of our borrower and on the establishment of a constructive relationship with it. Prior approval should be required for all large projects only, not to guarantee proper use of the Bank's funds (which in the last analysis can be guaranteed only by the general behaviour of the company) but to provide us with the opportunity to review and comment on the company's appraisal

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methods and to give an extra check on commitments which are large enough to have serious consequences if errors are made.

28. The <u>amortization schedule</u> of a Bank loan has been the composite of the amortization schedules of the individual loans made by the development finance company with the Bank's resources. This link between our funds and our client's relending of those funds was originally established in order to help a development finance company which could not protect itself against the exchange risk except by repaying the Bank when it was repaid by its clients; but the link has become a matter of general policy, applied even when exchange protection is available. I think this is wrong. There should be a fixed amortization schedule determined by the financial requirements of the company and taking account of the average term of its own lendings. An exception should be made only when a development finance company cannot protect itself against risk, except by repaying the Bank when it is repaid.

29. Linking amortization of the Bank loan to the amortization schedules of the individual enterprises financed with the proceeds of the Bank loan supposedly has the effect of keeping the development finance company on a short leash. That is, if the company repays as soon as it has received a repayment, and in the same amount, it cannot use the proceeds of the loan a second time and is forced to return to the Bank for funds more frequently than would otherwise be the case. I do not think this effect is significant. The term for which we would normally make a loan to a development finance company should not be much longer than its average lending term and would thus not be so great as to allow the company to use much of the loan again before repayment to us. On the other side, the administrative inconvenience of the linked amortization schedules is great; and it helps to perpetuate the view that our primary interest is, not the company itself, but its clients.

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(Incidentally, one result of the linking system may be to encourage our borrowers to give longer term loans than would otherwise be the case, so as to help relieve, though marginally, the country's balanceof-payments situation.) 30. The Bank does not charge a <u>commitment fee</u> in the case of a loan to a development finance company until a particular segment of the loan has been credited to the loan account, and its interest rate is usually fixed at that time, and for that segment of the loan. With the breaking of the link between the Bank and the ultimate user of its funds, it would be appropriate to charge for commitment when a commitment is made, and simultaneously to <u>fix</u> an <u>interest rate</u> for the amount committed.

31. The effect of those recommendations regarding the principal terms of a loan to a development finance company would be as follows :

- (a) The object of the loan would be to finance the company's operations.
- (b) The amount of the loan would be determined by the development finance company's requirements of capital over a period of, say, two years.
- (c) During negotiations, agreement would be reached on the timing and amount of crediting of the loan account; the full loan could be credited on the effective date, or tranches of the loan could be credited on an agreed schedule.
- (d) From the day of crediting and for the amount credited, the Bank's current commitment fee and interest rate would apply.
- (e) Disbursement from the loan account would be made on the basis not of particular projects, but of a pre-agreed share of the company's total outlays.

- (f) Prior Bank approval would be required of <u>all</u> loans and investments of the borrower over an agreed size. The size should be set at a level to assure that (i) a reasonable number of projects are presented to us for criticism (education), and
 (ii) large exposures are examined with special care (reduction of risk).
- (g) A repayment schedule would be agreed, taking account of the expected rate of commitment and disbursement of the loan and of the average term of the borrower's lendings.
- (h) Supervision of the loan, and the rights associated with it, would be restricted to our borrower; the Bank would have no independent rights vis-a-vis the company's clients.

These would be the normal provisions, from which we would depart for good reason.

32. One good reason which is bound to arise in certain cases is that the company will have no way of protecting itself against the exchange risk except by passing it on to its borrowers; in which event, it will revert to the company when its borrowers repay, unless the company can repay the Bank simultaneously. It was to meet this situation that the Bank began in 1959 to use a "flexible" amortization schedule; and we

should stick to that procedure in such cases.

Use of Bank Funds for Domestic Expenditures

33. An IFC investment in a development finance company is generally designed to provide it with capital with which to conduct its business. A Bank loan has only that purpose. The IFC does not distinguish between the currencies in which the capital is used. In the case of the Bank, domestic currency financing is permitted in certain circumstances, except for development finance companies. These have been excluded from the general policy.

34. Every effort should be made by the company to mobilize resources other than from the Bank, especially domestic resources. However, to require that the proceeds of a Bank loan be used only for imports in most cases forces the companies to rely on government for domestic resources, thus enhancing government domination of the companies or preventing their growth. Moreover, the present practice often results in diverting the company from its objective, making it primarily a provider of capital, but a dealer in foreign exchange. The business of some development finance companies involves projects with a relatively low import content and hence involves a substantial amount of domestic currency financing. In such cases, and especially where the country's needs for capital and its efforts to meet them justify financing local currency expenditures, the proceeds of a Bank loan should be available for such expenditures to a reasonable extent. We would determine the amount of the loan in relation to the demands on the company and to the availability of other resources. This procedure would be consistent with the Bank's normal practice.

35. Use of the 90% IDA funds for domestic expenditures is no solution, for the amounts available are negligible. Another possible source is the Bank's 9% funds. This, too, is limited. The availability

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for domestic expenditure of normal Bank and IDA funds would be very important in meeting the needs of development finance companies for capital.

Foreign Exchange Risk

36. We have insisted that the foreign exchange risk created by a Bank loan be passed on to the company's clients. When this has not been possible, we have agreed to the government's providing protection. Our concern should be that the company protects itself adequately against the exchange risk by any means at its disposal. I see no reason for preferring one method to another. For instance, passing on an exchange risk to a client is not safe if the client will suffer seriously in a devaluation. On the other hand, investing foreign exchange in share capital is reasonable if the expectations are that the real value of the particular shares will stay ahead of the declining value of the currency in which the shares are denominated.

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Debt-Equity Ratio

37. The three-to-one ratio of debt to equity, was not originally a measure of restricting borrowing to prudent limits. It reflected a Bank promise to match the sum of the funds subscribed by Turkish investors in IDB and the Government's matching loan. Yet it has become a principle, which is relaxed only under pressure, and it is applied inconsistently. I see no objection to this conservative figure at the beginning of a company's career. But we ought willingly to relax it when we judge that the equity cushion is sufficient to enable the company to survive a reasonable period of distress. This means a continuing, careful assessment of (a) the composition and quality of the portfolio in the light of the state of the capital markets; (b) the loss record of the company in normal circumstances; (c) the economic prospects of the country; (d) whether the company needs more share capital because of its expansion into equity or more shareholders in order to diversify participation. 38. We have included in equity, for purposes of calculating the ratio, all subordinated debt. Such action has obscured the real leverage of a development finance company and the fact that quasiequity is generally exhaustable and must be replaced by equity, with the result that profitability may decline. There is justification for a conventional lender to think of the aggregate cushion his loan, whether that cushion consists of share capital, reserves --inferior debt; for that aggregate offers him protection. But in judging the level of debt which a development finance company can prudently carry, the aggregate debt should be counted, without regard to ranking.

39. Accordingly, I suggest that in future we include all debt in the numerator of a debt/equity covenant, and allow a level of leverage to be achieved which reflects a reasonable balance between profitability and safety (the interests of the borrower and of the lender). I see no reason for not starting with a limit of three or four. It should be relaxed as necessary in the light of the factor cited in para 37. I can visualize this ratio going to eight, ten or twelve, in due course, in many (but not all) cases.

40. The Bank's own lending to a development finance company might well be less than the total borrowing allowed to it. For the Bank will wish, for prudence's sake, to take account not only of the equity base of its borrower, but also all of debt subordinated to its own. We need not specify a ratio for this; the Bank can take a decision each time a new loan is under consideration and in the light both of the company's aggregate debt and of the equity and junior debt.

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41. In dealing with debt, we have generally defined it in terms of funds which have been drawn down and not yet repaid. In three cases we have defined debt in terms of commitments: that is, we have included in debt commitments which will have to be met from lines of credit, even though they have not yet been drawn down. The same ratio, with debt defined in terms of disbursements, is somewhat tougher than with debt defined as commitments.

42. We ought to eliminate this inconsistency. I don't think there is much to choose from. My preference, however, would be for the commitment basis because it is safer from both operational and credit points of view and because once a commitment has been made the company must disburse when called upon. The situation is not unlike that of a guarantee.

Procedure

43. The rigidities and bureaucracy that have developed in our working party system have been aggravated, in dealing with development finance companies, by the fact that two separate institutions are involved. Time is needlessly wasted and our clients are needlessly bothered because, where a Bank loan is involved, the Bank Area Department Working Party Chairman is the front of 1818 H Street vis-à-vis our borrower and is the center of all action affecting the loan, no matter how routine, even though no issues may be involved. Consideration should be given to the following:

> a. The joint working party need not be consulted in the routine decisions of approving projects and committing segments of loans. On all such matters, the decision could be taken by the Division Chief of the Development Finance Companies Department (who in any event does the work underlying the decision) or by the Director of that Department. The Working Party need be consulted only

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when a matter of policy is involved; otherwise the Working Party should be simply informed of actions taken.

- b. Correspondence with the Bank borrower on the routine matters of commitment, disbursement, reporting, end-use supervision could be through the Division Chief of the DFC Department. At present, the Working Party Chairman is the channel, with the results both that time is lost and that the development of an intimate relationship between the borrower and the people here most directly concerned with him is inhibited. For instance, in discussing, announcing and arranging for an end-use mission regarding a Bank loan or a mission for reappraisal, the planning is done and the mission is mounted by DFC Department staff. Yet every communication goes through the Bank Area Department.
- c. Is it necessary to have a full-fledged presentation both to SLC and to SIC in preparation for a new Bank loan? Even when the SLC does not meet, there is a loss of time and there is extra paper work. I should think the <u>SLC's</u> review and views are needed only:
 - (a) to decide whether a new loan should be given to the country concerned (this has almost always been decided long before);
 - (b) to consider a new issue of lending policy (these are few and far between).
- d. I think the work would proceed more expeditiously if the Working Party were chaired by the Division Chief of the DFC Department.

- 23 -

44. I think the underlying factor which has caused the situations which the previous suggestions are designed to correct, is the feeling that, in dealing with loans to development finance companies the IFC's position is like that of the Projects Department in dealing with other projects. I do not believe this is so. IFC has a different range of responsibility.

Secondment of Staff, etc.

45. We are sometimes asked to find advisors and managers. Sometimes we insist on naming them. With only two exceptions, we have refused to cover any part of the salary or allowances of such persons, whether or not they are members of our staff. I believe this policy should be reconsidered.

46. Advisors and managers are expensive. The imported product normally requires gross sums which are in excess of domestic standards and a heavy burden on the company. The case of a foreign advisor whose emoluments are far greater than that of the manager (and greater than the governor of the Central Bank) does not make for the best of relations between them. Moreover, while the sending of a manager or an advisor is always done in the best intents of the company concerned, it often is also in the best intent of the Bank or IFC as well. This is certainly the case when a staff member is asked to take the post and is given leave of absence.

47. The arguments against our covering part of the cost are that (a) a private company should pay what is necessary for the top staff it needs; (b) we might be saddled with responsibility for decisions taken or advice given; (c) a conflict of intent might arise; (d) distrust of the import might develop. These same agents are valid for personnel sent to advise governments, yet we are prepared to share their costs. I would urge similar sharing in development finance companies which are recipients of Bank or IFC

- 24 -

resources, and where we feel the foreign manager or advisor is vital to an effective operation. FORM No. 209-IFC (3-66)

INCOMING MAIL Date 4/4/66 ROUTING SLIP NAME ROOM NO. Mr. Dajany 900 Mr. Diamond 950 Mr. Dodd 945 Mr. Paterson 902 Mr. Richards 976 Mr. Rosen 900 Mr. Sullivan 900 Mr. Von Hoffmann 910 Mr. Williams 965 IFC Files 236

INTERNATIONAL FINANCE CORPORATION

Remarks

Central Files

UNITED NATIONS



NEW YORK

CABLE ADDRESS . UNATIONS NEWYORK . ADRESSE TELEGRAPHIQUE

REFERENCE:

30 March 1966

NATIONS UNIES

Dear Bob.

I have your letter of March 22, 1966.

Communications must really have broken down between us, because otherwise I scarcely imagine you would have thought that I would bother you or Bill Diamond about documents which I can get as quickly through existing bureaucratic channels. By the way, if you remember we had all three a talk with regard to these channels.

We are working against a deadline, and, contrary to what you surmise, only those reports we know of and ask for, get here rapidly; the sending of others follows the slow routine of a mailing list, it would seem.

Salut, and have a good Easter.

Ona B. Forrest Economic Affairs Officer Special Studies Section

Mr. Robert F. Skillings Deputy Director Development Finance Companies International Finance Corporation 1818 H. Street, N.W. Washington, D.C., 20433

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Dec. Banks - Per.

Mr. R.B.J. Richards

March 30, 1966

B.H. Shing

Proportions of Government Holdings in the Share Capital of DFCs

In the subject table sent to you on March 28 an error was found regarding BIDI. The following is a revised table to replace the old one.

	Government-owned Shares as % of Total Ordinary Share
Institution	Capital
Colombia CF - Caldas CF - Colombiana CF - Nacional	13.1 4.3 4.9
Finland IFF	10.4
Ivory Coast BIDI	21.1
Liberia LBIDI	25.0
Malaysia MIDFL	20.0
Morocco BNDE	43.6
NIDB	24.5
Thailand IFCT	15.1
Venezuela CAVENDES	16.4

BHS:LG

Mr. R.B.J. Richards

March 28, 1966

B.H. Shin

Proportions of Government Holdings in the Share Capital of DFCs

The following are the proportions of Government holdings (direct and indirect) in the share capital of the development finance companies in which IFC has a shareholding:

Institution	Government-owned Shares as % of Total Ordinary Share Capital
Colombia CF - Caldas CF - Colombiana CF - Nacional	13.1 4.3 4.9
Finland IFF	10.4
Ivory Coast BIDI	42.9
Liberia LBIDI	25.0
Malaysia MIDFL	20.0
Morocco BNDE	43.6
Nigeria NIDB	24.5
Thailand IFCT	15.1
Venezuela CAVENDES	16.4

Mr. R.B.J. Richards

March 28, 1966

Dec. Banks - fen .

B.H. Shing

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Morocco BNDE	43.6
Nigeria NIDB	24.5
Thailand IFCT	15.1

BHS:lg

Per Barles - Pererel

March 28, 1966

Mr. H. S. Hevern 530 Santander Avenue, Apt. #3 Coral Gables Florida, 33134

Dear Mr. Hevern:

Thanks for your letter of March 25. Enclosed are three copies of the requested chart.

Yours sincerely,

D. W. Jeffries Development Finance Companies

Enclosures

Sty

Des. Baulas - Per.

Messrs. Jeffries, Sekse, Mejia, Powell Robert F. Skillings March 25, 1966

Voting of Shares

With further reference to Mr. Diamond's memorandum of March 3, which I circulated to you on March 7 with a request for information, the replies I have received were not complete and the information was not presented uniformly. Would you please incorporate it in the attached forms (one form for each company).

Attachment

RFSkillings:mm

The Industrial Bank of Japan, Limited

(NIPPON KOGYO GINKO)

Marunouchi, Tokyo, Japan

CABLE ADDRESS KOGIN TOKYO

D.B - hyo. Perle ?. Per ?

March 23, 1966 Ann Raword

Mr. William Diamond Director Department of Operations Development Finance Companies International Finance Corporation 1818 H Street, N.W. Washington, D.C. 20433, U.S.A.

Dear Mr. Diamond:

I am very glad to learn that the materials of our Industrial Finance Course are going to receive your attention. I should like to have the opportunity of having your advice and opinions on them in the near future.

I deeply appreciate your consideration in arranging to send the valuable materials concerning the Project Evaluation Course of Economic Development Institute. I received them in early March, for which I have already thanked the Director of Economic Development Institute.

I lost no time in studying them and found them to be very useful and enlightening. I am sure that when we have perused them, they will provide us with helpful and constructive suggestions for planning the future sessions of our Industrial Finance Course.

Last but not least, I should like to express my hearty thanks for your keen interest in our course.

Yours sincerely,

OHatt exau

Hideo Nakayama Project Manager Industrial Finance Course Foreign Department

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SE:8 NA 95 HAN 9961

March 22, 1966

Development - ferr.

Mr. Arthur Karasz Assistant Director European Office International Bank for Reconstruction and Development h, Avenue D'Iena Paris (16e), France

Dear Arthur:

Thank you for your letter of March 17, 1966 reporting the loss of the draft outline on the proposed study of growth in the developed countries. Considering the circumstances, do you suppose that we have finally stumbled on evidence of the anti-matter principle operating in the field of bureaucracy? I suppose it doesn't matter. At any rate, I gladly enclose two copies of the paper to replace the lost one.

May I also take this opportunity to thank Mrs. Karasz and you for your gracious hospitality.

Sincerely yours,

A. J. Macone

Encl.

AJM/ds

P.B - Pereral

March 22, 1966

Dear Ona:

I received your message yesterday morning and later Mr. Spitzer came around inquiring about reports on several other development finance companies. I am sorry to say that we have nothing up-to-date on any of the ones you mentioned, and that Mr. Spitzer will have to, therefore, return empty handed.

For the future, you may be interested to know that the Bank sends copies of its reports regularly to the U.N. This is undoubtedly the quickest way for you to obtain them. They are mailed to Mr. John Guinness, Special Assistant to the Deputy Undersecretary for Economic and Social Affairs.

With best regards,

Yours sincerely.

Robert F. Skillings Deputy Director Development Finance Companies

Mrs. One Forrest United Nations Department of Economic & Social Affairs United Nations New York 17, New York

cc: Mr. Rasmussen

RFSkillings:mm

Ach. Harch 30

Messrs. Powell, Mejia, Jeffries, Sekse, Arango

March 21, 1966

D. B - Pen.

Robert F. Skillings

Participants in the Industrial Projects Course, 1966

I am attaching a list of participants in the Economic Development's Industrial Projects Course which is due to begin on April h. There will be 16 participants from development finance institutions. At the end of the Course, most of them will be proceeding for a short stay with one of the companies with which we are affiliated.

I hope very much that we shall get to know them all, and make them feel at home. You will be able to make contact with any of them through Mrs. Carroll in EDI, Room G-1020, Ext. 347h. Everything you can do, both professionally and socially, will be appreciated.

Attachment

RFSkillings:mm

Mesars. Jeffries, Sekse, Mejia William Diamond

March 21,1966

E Marcin 9th + 15th Promotional activities of development finance companies

Please see the attached correspondence with 1. Mr. Antonin Basch of the United Nations.

May I have, by May 1, a short paper (2-5 pages) 2. on the "promotional" activities of -

Pakistan - cement, et al

Iran - general studies, steel, glass, et al.

Turkey - general, including the fish plant in the Marmara.

Morocco - the work of the Development Department, especially regarding tourism.

Ethiopia - the coffee program

Venezuela.

Colombia - the "promotional companies", etc.

ce Messrs. Skillings Grenier Shin WDiamond:us

March 18, 1966

Dr. Antonin A. Basch United Nations New York

Dear Antonin:

letter 3/15/66

O.K. We shall do our best, with best

regards,

Sincerely yours,

William Diemond

March 18, 1966

Des. Banks -

Can.

Mr. Hideo Nakayama Project Manager Industrial Finance Course Foreign Department Industrial Bank of Japan Limited Marunouchi Tokyo, Japan

Dear Mr. Nakayamas

Your letter of December 13, which arrived in my absence, has already been acknowledged. However, I want myself to thank you for it and for the extensive materials used in your 7th Session of the Industrial Finance Seminar, which you were good enough to send me. On my return to Washington I found them waiting for me and I am now reviewing them. They appear to be a valuable collection of documents. You must be congratulated on devising so interesting and useful a seminar, and on providing it with such stimulating materials. When we have had an opportunity to review them, I shall be writing to you again.

I hope that you received the documentation of our own Economic Development Institute, which I arranged to send to you after my return from Japan last November.

With best personal regards,

Sincerely yours,

20

William Diamond Director Development Finance Companies

cc: Messrs. Nishihara (Wilt copy of incomp)

Circ (2)

WDiamond

HEADQUARTERS: WASHINGTON 25, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD



INTERNATIONAL DEVELOPMENT ASSOCIATION



Press - Para .

EUROPEAN OFFICE: 4, AVENUE D'IÉNA PARIS (16^e) - FRANCE Telephone: KLEBER 25-10

March 17, 1966

Dear Anthony,

An unfortunate thing happened to the draft paper you left with me on the absorptive capacity of developed markets.

We needed some more copies of the paper to discuss it with Yager and his people and, under circumstances we do not yet understand, it got lost in our duplicating service. Someone must have made a clerical error.

In any case, I am sorry and would like to ask you to let me have another copy of the paper.

It was nice seeing you in Paris and I hope the rest of your trip was smooth and interesting.

With best wishes.

Sincerely yours,

Ditta

Arthur Karasz Assistant Director, European Office

Mr. Antonio J. Macone Economics Department International Bank for Reconstruction and Development Washington, D.C. 20433

ask- Anon 2 2/66

HEADQUARTERS: WASHINGTON 25, D.C.

INTERNATIONAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CABLE ADDRESS-INTBAFRAD

INTERNATIONAL DEVELOPMENT ASSOCIATION



ask. Wer a also

EUROPEAN OFFICE: 4, AVENUE D'IÉNA PARIS (168) - FRANCE Telephone: Kleber 25-10

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With best wishes.

Sincerely yours,

A Star

Arthur Karasz Assistant Director, European Office

> Mr. Antonio J. Macone Economics Department International Bank for Reconstruction and Development Washington, D.C. 20433 [300 WWS] WW10:52

SNOLLADINAMMOR

University of East Anglia

School of Social Studies

Wilberforce Road, Norwich, NOR 77H England

15th March, 1966

Richard H. Demuth, Esq., World Bank, International Development Association, 1818 H. Street N.W., Washington D.C. 20433, U.S.A.

Dear Mr. Demuth,

Many thanks for your letter of March 3rd. I shall let you know how things develop.

Yours sincerely,

Athole S. Mackintosh

Sender's name and address: University of East Anglia

To onen cut here.

Wilberforce Koad, Norwich, England

AN AIR LETTER SHOULD NOT CONTAIN ANY ENCLOSURE; IF IT DOES IT WILL BE SURCHARGED OR SENT BY ORDINARY MAIL.

The 'APSLEY' Air Letter

A John Dickinson Product

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1966 NAR 18



Mr. R. H. Demuth,

World Bank,

International Development Association.

1818 H. Street N.W.,

WASHINGTON D.C. 20433,

U.S.A.

March 15, 1966

Der Bankes - Per.

Mr. B. H. Shin

William Diamond

Further Studies

Would you please prepare :

1. A paper on "agency funds" in our development finance companies. That is, we should have a summary description of each such arrangement and its principal terms. The paper should also include an assessment of the effectiveness of the arrangements, their economic impact, and their contribution to the development finance company's profitability and underlying objectives.

2. A review of the experience of our development finance companies in dealing with small-scale enterprise. This will involve a description of what they do (small lending, industrial estates, hire-purchase for equipment and factories, etc.), and its cost. I would like also some assessment of its value, and its profitability (or lack of it) to the development finance company.

cc Messrs. Mathew, Jeffries, Sekse, Mejia

WDiamond:us

Des. Banks Br.

UNITED NATIONS



NATIONS UNIES

NEW YORK

CABLE ADDRESS · UNATIONS NEWYORK · ADRESSE TELEGRAPHIQUE

15 March 1966

Dear Bill,

REFERENCE

Many thanks for your letter of March 9. The outline of your paper on the role and effectiveness of development finance companies and your approach suits very well our purpose. As the paper will be based on the experience obtained in the field, it will represent a real contribution to the Symposium. When dealing with the results of the promotion activities, the paper might perhaps touch indirectly upon the performance of some of the development finance companies.

Knowing how busy you are, we appreciate the more your efforts and your assistance. Dr. Hans Singer asked me to convey to you his greetings and to tell you how pleased he is that you agreed to prepare or to have prepared this report.

With best regards.

Sincerely yours,

Antonin Basch

Mr. William Diamond, Director Development Finance Companies International Finance Corporation Washington, D.C. 20433

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March 14, 1966

Mr. J.E. Twining, Jr.

W.D.S. Fraser Wt.

I.F.C. Procedures - Development Finance Companies Department

The proposed new procedure for handling sub-projects of development finance companies will affect three documents:

(a) Operational Memorandum No. 5.10

This 0.M., while not yet issued, has been under consideration by a special committee under Mr. Cope's chairmanship for several months. The committee has recently completed its work, and it is now up to Mr. Diamond to prepare a revised draft for consideration by SSM.

(b) IFC Organization Bulletin No. 7

Issuance of a new draft has been held up for several months because of IFC's unwillingness to revise all their organization bulletins for the new Organizational Manual. The attached version was originally prepared by Mr. Diamond. I have changed the nomenclature and have added a new section (9) to cover the subject point. I have sent a copy of the bulletin to Mr. Diamond for approval. We could issue it in the old format for the time being.

(c) Signature of Written Instruments - Bank

Currently a new version of this is being prepared in Legal for inclusion in the "Basic Documents" instead of the Administrative Manual. I have informed Mr. Clark of the proposed change in procedure and he is making the necessary insertions. The revised "Signature of Written Instruments" will shortly be submitted for Mr. Broches' consideration by Mr. Clark. I have suggested to Mr. Clark that Mr. Lejeune ought to have a sight of it. Obviously the fact of Mr. Crowley and Mr. Rasmussen signing certain things should be incorporated. Something may also need to be included about the powers of Chiefs of Resident Missions.

If and when IFC makes loans to development finance companies, a parallel change will have to be made to IFC's "Signature of Written Instruments".

As they are now drafted there is no need to change the existing 0.M. on "Country Working Parties" No. 1.04, or the proposed organization bulletins for Bank area departments. Attachment WDSF:eg



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WBG ARCHIVES

March 11, 1966

Mr. W.D.S. Fraser J. E. Twining, Jr

IFC PROCEDURES - DEVELOPMENT FINANCE COMPANIES DEPARTMENT

As you will see from the two memos attached Messrs. Rosen and Knapp have been discussing a new procedure for the handling of subprojects of development finance companies and Mr. Rosen at least thinks that agreement has been reached on part of the arrangements. Mr. Knapp called me about this early last month and Mr. Lejeune and I have been patiently waiting for a memorandum Mr. Knapp said he was preparing which would apparently give his version of the kind and amount of agreement reached. So far I have not been able to get my hands on Mr. Knapp's memorandum - if he ever produced one - although I have called his office about it on several occasions.

In any case, we now have Mr. Rosen's views and must consider the implications of the proposed procedure. Will you please review this memorandum and let me have your comments at least on the question of an Administrative Circular (and what it should say) and on the question of signing authority.

Mr. Lejeune has made a note or two on my memorandum to him of February 4 one of which indicates that Mr. Broches may have contrary views on the recommended procedure. This we will want to discuss with Mr. Lejeune on his return unless Mr. Diamond presses for some action in the meantime.

Attachments: Mr. Twining's memo of February 4 to Mr. Lejeune; Copy of Mr. Rosen's handwritten note of February 20 to Mr. Diamond.

scGeneral Files (Without allachments)

Mr. Robert F. Skillings

March 11, 1966

DB-Revenue C

A. Herhán Mejía

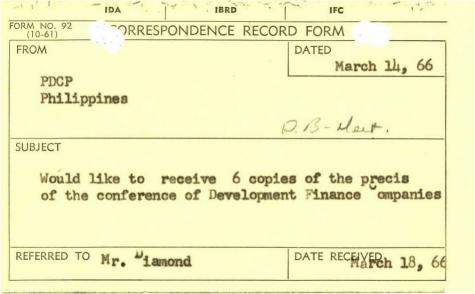
Participation in Shareholders Meetings

1. In answer to your note of March 1, I would like to report on IFC's participations in shareholders meetings of the DFCs in our Division:

DFC	DATE	PURPOSE	PRO	KY TO
CF-Nacional	9/2/65 2/28/66	Goodwill Goodwill		Arango Arango
CAVENDES	3/31/64 9/30/64 3/18/65	Making quorum Making quorum Electing		Natts Armondáriz
	9/23/65	director Electing directo and first	10000	Watts
		alternate	Mr.	Armendáriz

2. On the shareholders meetings of CAVENDES of 3/18/65 and 9/23/65 IFC's representatives elected the Director to which IFC is entitled by virtue of its present holdings of more than 15% of the outstanding shares. This, according to the law the the Company's statutes, is an election that takes place without actually voting the shares but rather by expressing the desire of the shareholder who owns the required percentage of the shares.

cc: Messrs. Navarrete Franco-Holguin



Mr. Robert F. Skillings

March 11, 1966

JB General

A. Herhán Mejía

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	9/23/65	director Electing directo and first		Watts		
		alternate	Mr.	Armondáris		

2. On the shareholders meetings of CAVENDES of 3/18/65 and 9/23/65 IFC's representatives elected the Director to which IFC is entitled by virtue of its present holdings of more than 15% of the outstanding shares. This, according to the law the the Company's statutes, is an election that takes place without actually voting the shares but rather by expressing the desire of the shareholder who owns the required percentage of the shares.

AFMejia:gn

cc: Messrs. Navarrete Franco-Holguin

DB General

March 11, 1966

Mr. R. Skillings

Tore Hedberg

Cases in which IFC has voted its shares in development finance companies

PDCP

1. Occasion: Annual stockholders' meeting March 17, 1964

Reason: Mr. Ortigas (who was retiring as chairman for health reasons) requested IFC's proxy to ensure the election of a group of directors who would support the objectives of PDCP as conceived by the Steering Committee.

Who voted: Mr. Ortigas

Instructions given: Instructions by Mr. Woods to "vote the shares in your discretion for yourself or for other candidates thereof in such manner as in your opinion will best ensure that PDCP will continue to operate on the basis that you and I had in mind when PDCP was established."²/

2. Occasion: Annual stockholders' meeting March 16, 1965

Reason: Due to possible disagreement on slate of directors, Mr. Cargill (then in Manila) recommended that we give our proxy to Mr. Montinola, the Chairman.2/

Who voted: Mr. Montinola.

Instructions given: Mr. Montinola was instructed to vote IFC's shares only if a unanimous slate of directors was not agreed upon before stockholders' meeting. If a single slate was agreed upon and a proxy fight avoided IFC did not want its shares voted. If IFC's shares were to be voted, they should be voted in a manner to support the philosophy and views of the sponsors of PDCP. A single slate of directors was put forward at the meeting and no proxy fight took place. According to the instructions Mr. Montinola should then not vote our shares. However the IFC proxy were registered with the Secretary on March 12, and apparently were represented at the meeting. (79,136 shares were not represented at the meeting.)

cc. Mathew/File

THedberg: spm

^{1/} Mr. Ortigas' request not in file

^{2/} Mr. Woods' cable to Mr. Ortigas March 16, 1964

^{3/} Mr. Cargill's cable from Manila to Mr. Diamond, March 4, 1965

^{4/} Mr. Diamond's letter of March 4 and cable of March 11, 1965 to Mr. Montinola

March 9, 1966

D.B - Jeneral

Dr. Antonin Basch United Nations Nev York, N.Y.

Dear Antonin:

First of all, let me thank you for sending me, and so promptly, the UN paper on WPIDC. It is very interesting.

I've given some more thought to our talk last week, during which you asked for a paper on the role and effectiveness of development finance companies in promotion. You said you would need it by November.

I think we can do something for you on the following lines. We would describe some typical promotional activities, of various kinds, of several of the development finance companies associated with us. I have particularly in mind Pakistan, Iran, Turkey, Morocco, Ethiopia, Venezuela and Colombia. In those cases where the result of the promotion had already emerged, we would tell what it is, with reasons for success or failure. Finally, we would make some general observations on the subject.

As you see, this would not be drawn from a large sample of experience, only from several cases of private companies associated with us. Nor would we try to draw general conclusions from them.

acten March 15,1966 If this approach suits your purposes, we'll be glad to help. Please let me know.

It was good to see you last week.

With best regards.

Sincerely yours,

William Diamond Director Development Finance Companies March 9, 1966

Dr. Artonin Basel United Nations New York, N.Y.

intmodula vesta:

First of all, let us thank you for sending ms, and so prospily, the WM paper on WTHO. It is very interesting.

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If this approach suits your purposes, will be glad to help. Flease lot me know.

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Sincerely yours.

1966 MARIO PHIS: 06

SHELLIN SHELLIN Director Director Development Finance Compenies FORM NO. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

12.13 - Ken 1 INTERNATIONAL FINANCE CORPORATION glas-11CT

DATE: March 8, 1966

OFFICE MEMORANDUM

TO: Files

FROM: William Diamond

XX

WITTIGH DIGWOND W

SUBJECT: The Executive Peace Corps and IFCT

1. I spoke Friday afternoon to Frank Pace, of the International Executive Service Corps. I brought him up-to-date on our understanding with respect to IFCT's approach to AID for a top level assistant general manager. Mr. Pace was already aware of this and said that he did not consider that an active IFCT application is before him; nor, he said, is he engaged in searching for a person to recommend to AID for the post in Bangkok.

2. I took occasion to tell Mr. Pace once again that I thought the policy he was pursuing with respect to short-term assistantee was not suitable for development finance companies. He said that he had come to the same conclusion. He said that he had been blinded by the success of the short-term assistance given by one of his people to the IMDBI. I said that the success of that venture had stemmed from the fact that IMDBI was a relatively experienced institution and has a first-class managing director. Mr. Pace agreed with this and said that he had concluded that such situations were likely to be relatively rare; certainly they would be rare in the early days of a development bank. Consequently he would be prepared where circumstances warranted it, to make available persons for a year or more. He said he would not like to go as long as two years but would be prepared to think in terms of about eighteen months. I told him I was glad about this shift in the direction of his policy.

cc: Mr. Rosen Mr. Jeffries Circ. (2)

WDiamond:mbc





NATIONS UNIES

NEW YORK

CABLE ADDRESS . UNATIONS NEWYORK . ADRESSE TELEGRAPHIQUE

Me fiamand Acen by and i amon Acen by and i amon when by the fill by the My DFC. Pakistan 4 March 1966

Dear Bill,

I am sending as promised a paper prepared by the Pakistan Industrial Development Corporation for the meeting in Prague. Will you please return it at your convenience.

I greatly enjoyed our meeting with you yesterday and I hope that you will find time to send me the brief outline we talked about. I hope to see you on your next visit to New York.

With best regards.

UNITED NATIONS

Cordially yours,

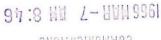
Antonin Basch

Mr. William Diamond, Director Development Finance Corporation Department T.F.C. 1818 H Street, N.W. Washington, D.C. 20433

V Enc.

REFERENCE

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Development - fer.

March 3, 1966

Mr. Athole S. Mackintosh University of East Anglia School of Social Studies Wilberforce Road Norwich NOR 77H, England

Dear Mr. Mackintosh:

Thank you for your letter of February 18, enclosing a copy of the proposals which you and Professor Ross have worked out for the establishment of an "Overseas Development Group" within the University of East Anglia.

I have discussed these proposals with two or three of my colleagues on the economic side of the Bank and we are all agreed that your idea is a good one and we hope that you can bring it to fruition. If you do succeed, we will certainly want to keep in touch with this Group.

If I understand your proposals correctly, they have been framed with the experience of the Harvard Development Advisory Service very much in mind. I may say that we in the Bank have found that Service to be exceedingly useful in the development task and have remained closely associated with its operation. I only wish that more universities would follow a similar course.

It was nice to hear from you and I wish you well in your endeavors.

Sincerely yours, Richard H. Demuth Director

Development Services Department

RHD:tf

cc: Messrs. Wilson, Friedman and Kamarck

March 3, 1966

Der Boules - Pen.

Mr. Skillings

William Diamond

Voting of Shares

1. Would you arrange to have put together a list all cases in which we have voted shares. This should include :

- (a) occasion
- (b) reason
- (c) who voted (d) instructions given

Also, a reference to the documents (letter, memo, etc.) which give evidence of the foregoing.

2. Incidentally, my recollection is that we have had our votes cast three times: PDCP in 1964 and 1965 and TSKB in 1966.

3. Please add also a list of occasions on which our shares have been represented for some purpose, though not voted (such as BANDESCO in October 1963).

ce Mr. Richards

WDiamond:us

OFFICE MEMORANDUM

TO: Mr. Richard H. Demuth

DATE: March 2, 1966

FROM: Irving S. Friedman

SUBJECT: "Overseas Development Group"

I would go along with your reaction and Kamarck's to this. How about encouraging existing institutes like Marquez's C.E.M.L.A. to **jein** extend their activities somewhat so that you could include subjects more directly pertinent to economic development. In this way, perhaps with small amount of additional financial expenditure we may make a considerable contribution to our encouragement of teaching activities. What do you think?

NF

Attachment

February 28, 1966.

Dear Har Hackie tosh.

Many thanks for your letter of February 18th about your new programme on development. I see that you have also sent a copy to Mr. Demuth and I believe that he is talking about it with various people in the Bank. The comments which follow are purely personal to myself.

Let me say at once that your general scheme seems to me to be quite excellent and should prove extremely useful provided of course that you can get hold of the right people. This kind of combined operation is long overdue and arrangements along these lines will be needed increasingly for the long haul that is ahead of us. The points that I have in mind are therefore suggestions, not criticisms, and I have no doubt that most of them, if not all, have occurred to you already. They are:-

There is always a risk in this kind of thing of spreading 1. oneself too thin and, given the numbers that you have in mind, you might like to consider concentrating on a limited number of countries. There is an increasing amount of specialization and expertise in this general subject, more particularly perhaps in the United States, and it seems to me that you should think of your activities not only in relation to what is happening in other British institutions but also to what is happening over here. With your knowledge of the Harvard programme, this of course will not come as anything new to you, but you might also like to take a look at what M.I.T. and no doubt others are doing in this field. Another reason for concentration is that, while there is much that is common to development in general, the nearer you come to the heart of the matter the more you find that each country is unique and has its own particular set of problems. This too will be nothing new to you but I think it may affect the way in which you set yourselves up.

2. Following a similar line of thought you might think of entering into some kind of arrangement with some American institution, to the mutual advantage of both.

A. S. Mackintosh, Esq.

3. If you do decide on a certain amount of concentration, there would be a good deal to be said for having some kind of working arrangement with a university or research institute or similar institution in two or three developing countries. These would provide a base overseas for your staff, their people could help you from time to time in Norwich, and you could help to build them up and so leave something permanent to show on the ground.

4. I was particularly glad to note your emphasis on sociological studies in connection with economic development. There has been some tendency to neglect this aspect, not least in the developing countries themselves, and I am sure that you are right to make it an integral part of your programme.

If there is any further help I can give you do please let me know. In the meantime, all good wishes to you and I hope that you will in any case let me know from time to time how you are getting on.

Toms sincerely (Signed) G. M. Wilson

G. M. Wilson

Athole S. Mackintosh, Esq. University of East Anglia School of Social Studies Wilberforce Road Norwich, NOR 77H ENGLAND.

Di3- Pers.

Messrs. Sekse, Jeffries, Mathew

February 25, 1966

William Diamond Q

Pakistan, Thailand, Malaysia

You are aware of Mr. Sullivan's plans re PICIC, IFCT and MIDFL. What is your schedule for briefs :

ee Mr. Sullivan

Diamond:us

Form	No.	27	
(7	-61)		
	INT	ERNATIONAL	DEVELOPMENT
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE

D.B - ference

CORPORATION

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TEXT: Cable No.:

> REOURLET JANUARY TWENTYSIX HOPE WE WILL HAVE YOUR COMMENTS ON DFC CONFERENCE PRECIS BY MARCH FIRST REGARDS

> > DIAMOND

NOT TO BE TRANSMITTED							
MESSAGE AUTH	ORIZED BY:	CLEARANCES AND COPY DISTRIBUTION:					
NAME	William Diamond, Director Development Finance Cos. IFC	cc Mr. Blondel					
DEPT.	WDiamond:us						
		For Use by Archives Division					
(IMPORTA	ORIGINAL (File Copy) NT: See Secretaries Guide for preparing form)	Checked for Dispatch:					

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D.B - Penenal

INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: All Professional DFC Staff DATE: February 24, 1966

FROM: B. H. Shin

SUBJECT: Profitability of Development Finance Companies

1. Attached is a new table showing profitability of development finance companies. Please file it as Item 11 of your Data Book II.

2. Attached also is the revised version of the Table of Contents of Data Book II. Please destroy the older issue.

Attachments (2)

DATA BOOK II

GENERAL ISSUES AND STUDIES INVOLVING DEVELOPMENT FINANCE COMPANIES

Table of Contents

1.	Policy Statements	1/18/65
2.	Summary of sections of development finance companies' statements dealing with limitation on maximum size of investments in any single enterprise.	6/22/65
3.	Status of counterpart fund loans and U.S. AID local currency loans to development finance companies.	8/31/64
4.	Status of equity, quasi-equity, debt and debt-borrowing base ratio of development finance companies.	9/3/64
5.	Long-term subordinated loan capital of development finance companies.	1/7/66
6.	Most frequently used lending rates of development finance companies.	10/19/65
7.	Development finance companies' administrative expenses (7 Tables)	8/4/65
8.	Repayment schedules of long-term subordinated loan capital and IBRD/IDA loans to DFCs.	9/30/65
9.	Net profit after tax and dividend rate.	10/19/65
10.	Taxation affecting development finance companies with which the World Bank Group is associated.	1/5/66
11.	Profitability of development finance companies	2/24/66

PROFITABILITY OF DEVELOPMENT FINANCE COMPANIES (in percentage)

Country & Institutions	lst Yr. 2nd Yr.	3rd Yr.	<u>uth Yr</u> .	5th Yr.	6th Yr.	7th Yr.	8th Yr.	9th Yr.	10th Yr.	llth Yr.	12th Yr.	<u>13th Yr</u> .	lith Yr	
Austria IVK	(1958) (1959) -10.01 21.05	(1960) 15.91	(1961) 18.13	(1962) 21.95	(1963) 21.54	(1964) 25.15								
China CDC	(1960) (1961) 12.42 ^{3/} 20.87 <u>3</u> /	(1962) 22.31 <u>3</u> /	(1963) 16.75 <u>3</u> /	(1964) 17.06										

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- 1/ By profitability is meant net profits before tax divided by average net worth, an average of paid-in capital plus retained earnings at the end of two financial years.
- 2/ The first year indicates the first full or nearly full business year in which a DFC operated, except IFF (see 5), MIDFL (see 10), and NIDB (see 11).
- 3/ The net worth used includes provision for taxation. As a result the profitability is somewhat understated.
- $\underline{4}$ The net worth used is at year-end.
- 5/ IFF was established in 1954 and reorganized in the latter part of 1963. The year 1964 is the first full business year after the reorganization.
- 6/ The first year covers a period from December 10, 1963 to December 31, 1964.
- 7/ Including capital gains realized from sale of investments which do not appear on profit and loss statement.
- $\frac{8}{100}$ IMDBI's financial year ends on March 20 each year.
- 9/ The first year covers a 17 months period from October 14, 1959 to March 20, 1961.
- 10/ MIDFL's financial year ends on March 31, each year. The year 1965 is the first full business year since its reorganization that took place in October 1963.
- 11/ NIDB was reconstructed in January 1964 from the Investment Company of Nigeria (ICON) which had been established in 1959.
- 12/ The first year covers a 13 months period to December 31, 1958.

February 24, 1966

ay 2/2F. D. B - Ber . copy the Blondel

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES **GBTG BUILDING** AYALA AVENUE, MAKATI, RIZAL

VICENTE R. JAYME FYECUTIVE /ICE PRESIDENT

February 21, 1966

M. Glordel

Mr. Robert F. Skillings Deputy Director **Development Finance Companies** International Finance Corporation 1818 H Street, N. W. Washington, D. C. 20433 U. S. A.

Dear Mr. Skillings:

Thank you for providing me with a draft of the precis of the discussion which took place during the development finance companies conference held in Washington in October 1965. I have gone over the draft with respect to the portions summarizing my statements and would want to congratulate the staff on the excellent work done. I am sure that the precis in final form will be of very great value to all of us who participated in the conference.

I would only want to request a slight modification as follows:

1) Page 15 Paragraph 64

The first sentence should read as follows: Mr. Jayme said that at the risk of discussing the obvious he believed that a development bank whether lending or investing had very real responsibilities with respect to the competence of the management of a firm for which financial assistance was being considered.

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Mr. Robert F. Skillings

2) Page 19 Paragraph 83

The second sentence should read as follows: PDCP's first underwriting experience was not too successful in that PDCP ended up holding about 36% of its underwriting commitment and was unable to market this unless it were willing to sell at a price way below par value.

Sincerely yours,

VICENTE R. JAYME

VRJ:mrl

D.B - Permanel

February 21, 1966

Mr. P.M. Mathew

William Diamond

Small-Scale Industrial Financing

Some time, at your convenience, I should like to have a note from you on the pros and cons of, as well as your thoughts on, the proposal to allow our development finance companies to finance governmental development banks which are devoted to the financing of <u>small-scale enterprise</u>. You have no doubt discussed this idea with James Raj and know his own thoughts on the subject.

WD:lg





File Title Operational - Development Banks - C	eneral - Volume 8		Barcode No.	
operational - Development Danks - C			3013	2357
Document Date	Document Type			
18 February 1966	Letter and attached proposal			
Correspondents / Participants Athole Mackintosh (University of East	st Anglia) to Richard Demuth			
Subject / Title Proposal to create an "Overseas Deve	lopment Group			
Exception(s) Information Provided by Member Co	untries or Third Parties in Confidence			
Additional Comments				
		r F	he item(s) identified ab emoved in accordance w olicy on Access to li isclosure policies of the Wo	rith The World Bank nformation or other
			Withdrawn by	Date
		ŀ	pril Miller	Aug 30, 2011

INTERNATIONAL FINANCE CORPORATION

Office Memorandum

To: DFC Professional Staff

February 17, 1966

From: William Diamond

Subject: Bank Loans to Development Finance Companies

In order to "make the present situation crystal clear", Mr. Woods has written a memorandum containing the following three instructions : $4 \pm 15/66$

- "(a) We will follow the 'variable' interest rate procedure. With our interest rate now at 6%, the probabilities favor that it can go further on the lower side than on the higher side and I expect some development finance company members will think this is a favorable development.
 - (b) Our loan contracts will be drawn on the theory that repayments to the Bank will be approximately in symmetry with repayments by the ultimate borrowers to the development finance companies.
 - (c) Proceeds of Bank loans are to be used by development finance companies exclusively to defray foreign exchange expenditures".

WDiamond:us

Feb. 16, 1966

D. 13 - Per.

Mr. William Diamond

H. J. Williams

DFCs and Auditing

In instances in which IFC has only an equity investment (i.e., no loan) in a DFC and the Bank has no loan, auditing is usually provided for by a declaration included in a policy statement formally adopted by the Board of Directors of the DFC.

Heretofore such policy statement required the appointment of independent public accountants satisfactory to IFC. Presently, the phrase, "satisfactory to IFC," is being omitted.

I strongly urge that either the phrase be reinstated in the policy statement or that the matter be covered in a side letter.

HJW:mln Nr

February 15, 1966

D.B - Per.

Mr. J. Burke Knapp

G. D. Woods

Bank Loans to the Development Finance Companies

For a combination of reasons I think it best to reduce to writing what I understand to be the result of our recent conversation on the subject of "Bank Loans to the Development Finance Companies":

> (a) We will follow the "variable" interest rate procedure. With our interest rate now at 6% the probabilities favor that it can go further on the lower side than on the higher side and I expect some development finance company members will think this is a favorable development.

(b) Our loan contracts will be drawn on the theory that repayments to the Bank will be approximately in symmetry with repayments by the ultimate borrowers to the development finance companies.

(c) Proceeds of Bank loans are to be used by development finance companies exclusively to defray foreign exchange expenditures.

I have understood that a committee of Messrs. Cope, Nurick and Diamond has been working for some time on an Operational Memorandum on development finance companies and I now understand that in advance of the preparation of such a document Mr. Diamond is engaged in writing a memorandum setting forth his views on various aspects of development finance company loans. When drafts of these documents are available for consideration and discussion, you and I may be persuaded to modify the practices set forth in (a), (b) and (c) above but in view of continuing delays and the fact that finance company loans are continuously being processed I thought it best to make the present situation crystal clear.

GDW:lgn cc: Mr. Cope Mr. Rosen Mr. Diamond

Feb. 15, 1966

12. 13 - Pen.

Mr. William Diamond

H. J. Williams

DFC - Policy Statement on Auditing

The policy statements of development finance companies generally state that the corporation will retain independent public accountants to conduct an annual audit of its books and accounts.

This statement of policy raises the following questions:

(1) Will not the statement that "the corporation will" be interpreted in some instances to mean the management of the corporation-to be more specific, the president or even the treasurer, and what in this sense could be worse than having auditors, of whose independence and integrity IFC may have no knowledge, responsible to the holder of the purse strings of the corporation to be audited?

(2) Should not the policy statement read, "The Corporation will, through its Board of Directors, retain independent public accountants to conduct an annual audit of its accounts. Such independent public accountants shall render their report on their audit to the Board of Directors."?

hjw:mln

INTERNATIONAL BANK FOR FORM NO. 75 RECONSTRUCTION AND DEVELOPMENT (2 - 60)INTERNATIONAL FINANCE CORPORATION INTERNATIONAL DEVELOPMENT ASSOCIATION Date ROUTING SLIP tab 15.1966 NAME ROOM NO. nel 6 10 perind in Au ,6 To Handle Note and File Appropriate Disposition Note and Return Prepare Reply Approval Per Our Conversation Comment Full Report Recommendation Information Signature Initial Send On REMARKS 1. I have compt la a thong to why I ash . . Plum Talk 5 m, in front, home though ? 81 From

FORM NO. 57

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL FINANCE CORPORATION

Pul-gen

OFFICE MEMORANDUM

TO: Mr. Harry Williams

DATE: January 27, 1966

FROM: Robert F. Skillings

SUBJECT: Illustrative Form of Audit Report (Development Finance Companies): BNDE Translation into French.

> I am attaching a French translation made by BNDE of your pamphlet, in case you would like to use it as a basis for a French version of the pamphlet.

It should probably be looked over for accuracy by someone who knows both French and English well.

Attachment

cc Mr. Sekse

RobertFSkillings:us

In Coodia

OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen

DATE: January 12, 1966

DED. B- SEN,

FROM: Robert F. Skillings

SUBJECT: Taxation Affecting DFCs with which the World Bank Group is Associated

We have recently compiled data on the taxation affecting the development finance companies with which the World Bank Group is associated, and on special tax advantages accorded to them. We have distributed this document to all of the companies (at the request of many of them). Attached is a copy for your information.

Attachment

RFSkillings:phm

cc: Messrs. Alter

Arango Beevor Cargill Cope Demuth El Emary Kamarck Kuiper Nishihara Paterson Richards Stevenson Sullivan Von Hoffman Williams All DFC Staff

INTERNATIONAL FINANCE CORPORATION

TAXATION AFFECTING

DEVELOPMENT FINANCE COMPANIES

WITH WHICH THE WORLD BANK GROUP IS ASSOCIATED

Development Finance Companies Department January 5, 1966

NOTE

This document contains descriptions of (a) the tax advantages which have been accorded to the development finance companies with which the World Bank Group is associated and (b) those parts of the tax systems in the countries concerned which are important to the operations of the companies. Only income tax, turnover tax, capital gains tax and other taxes imposed on net profits or gross income are covered. They are known to have, or likely to have, a relatively high incidence on the development finance companies while other taxes such as real estate tax, payroll tax, licence tax are insensitive to both the net profits and business volume, and are insignificant in terms of their incidence.

The taxation dealt with here is effective for 1965 and in some cases for fiscal year 1965-66.

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OESTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT (AUSTRIA)

I. Tax Advantages Accorded to IVK

- (a) All physical or corporate persons may carry forward losses incurred in previous years for a number of years. For companies situated in Vienna this may be done for five years. This is the reason why during the first three years of operations of IVK no corporate (Körperschaftssteuer) and trade taxes (Gewerbesteuer) accrued because accumulated losses compensated accumulated net profits during this period.
- (b) IVK is permitted to accumulate tax-free reserves under the Banking Reconstruction Act of 1955 in two ways:
 - (i) a reserve equivalent to 3% of the outstanding credits at the end of a business year must be maintained. The reserve has to be made even when the allocations to this reserve results in a loss to the Company;
 - (ii) in 1955 and in the following nine business years 20% of gross income before taxes can be placed in reserves until the equity equals 10% of the total debt.
- II. Corporate Income Tax (Körperschaftssteuer)

Net profits of IVK are subject to corporation tax. The tax rates are:

	Tax Rate %
Net profits up to S 50,000	24
On next S 50,000	30
On next S400,000	40
Over S500,000	加

These rates are increased by a surtax of 18% of the tax levied, thus making 28.32% up to S 50,000 and graduating to 51.92% over S 500,000.

III. Trade Tax (Gewerbesteuer)

All business enterprises in Austria (including IVK) are liable to pay a trade tax, which is a mixture of federal and municipal tax with rates varying by municipalities. The tax is calculated on three elements, trade proceeds (as defined by law, approximately equivalent to net profits), trade

Currency: Schilling S 1 = US\$ 0.03846 US\$ 1 = S 26 capital and wages. The trade tax in most urban areas amounts to 15% of the trade proceeds plus 1 - 2\% of the trade capital and at the most 2\% of the total amount of wages paid.

IV. Capital Tax (Vermögenssteuer)

A tax of $\frac{1}{5\%}$ has to be paid on the net worth of the company (excluding the reserves, described I, b, i). In the case of IVK this means that the total share capital plus general reserves are subject to this tax. This tax is increased up to 1% for that portion of the share capital which is held by corporations (inheritance tax equivalent). Furthermore the tax authorities decided that the capital tax has to be paid also on 25% of the ERP Loans accorded to IVK because they are regarded as of quasi equity nature. Expenditure arising from this tax cannot be deducted from profits for calculation of the taxes mentioned under II and III. The tax has to be paid whether profits have been made or not.

V. Capital Returns Tax (Kapitalertragsteuer)

A capital returns tax which is a special form of income tax is levied on dividends, interest and other receipts from participation in domestic companies. This tax is deducted at the source. The tax rate is 15% plus surtax of 18% of the tax, thus making a total of 17.7%.

CHINA DEVELOFMENT CORPORATION

I. Tax Advantages Accorded to CDC

Like banking institutions CDC is permitted to set aside as reserve for bad debts free of tax an amount equal to 2% of outstanding loans (not outstanding investments) at the close of accounts.

II. Business Income Tax

CDC, like other business enterprises, is subject to a business income tax on net profits. Tax rates for 1965 are as follows:

Net Profits	Tax Rate %
NT\$10,000 or under	exempt
NT\$50,000 or under	8%
Between NT\$50,001 and NT\$100,000	14%
NT\$100,001 and over	18%

Interest on short-term government bonds and dividends received from domestic companies having paid business income tax are tax-free.

There is no capital gains tax. Capital gains resulting from sale of securities, debentures or bonds held more than one year are exempt from tax. Such gains resulting from sale of securities, debentures or bonds held less than one year are subject to the regular income taxes.

III. Business Tax and Defense Surtax

The business tax, a turnover tax, is levied on monthly gross business receipts. The tax rate varies from 0.6 to 4% according to the industrial classification of taxpayers. CDC is subject to the 3%business tax which is applicable to banking and warehousing.

There is a surtax called Defense Tax which is payable on the business tax levied. The surtax for 1964 is 30% of the business tax due. Thus CDC is subject to a total tax of 3.9% on its gross income.

In recent years the amount of the business tax plus defense surtax paid by CDC has been greater than that of the business income tax.

Currency: New Taiwan Dollars NT\$ 1 = U.S.\$0.025 U.S.\$1 = NT\$40



COLOMBIA

CORPORACION FINANCIERA COLOMBIANA CORPORACION FINANCIERA DE CALDAS CORPORACION FINANCIERA NACIONAL

I. Tax Advantages Accorded to All Corporations

All corporations in Colombia including financieras are exempt from income tax and supplementary taxes on the following:

- (a) that part of gross earnings which is set aside as reserves for protection of the loan portfolio until they equal 10% of the loan portfolio;
- (b) up to 5% of net profits, provided that it is set aside as "Economic Development Reserve" and effectively invested in enterprises whose development is beneficial to the production of particular raw materials or merchandise in the opinion of the National Council of Economic Policy and Planning.

II. Corporate Income Tax

Corporations in Colombia are subject to corporate income tax, namely the basic income tax at special rates and to the excess profits tax.

(a) The Basic Income Tax at Special Rates

The basic income tax is levied on net taxable income of the corporation. Dividends received from other companies and interest received on government bonds are exempt from all taxes.

The income tax rate for corporations is as follows: 12% on the first Col.\$100,000, 24% on the next Col.\$900,000 and 36% in excess of Col.\$1,000,000.

Pursuant to Decrees 2323 and 2324 of 1965 all taxpayers including financieras are required to pay in 1965 an extra 15% on the income tax paid in 1964 and to pay in 1966 an extra 10% on the income tax paid in 1965.

Furthermore in 1966 a subscription equivalent to 5% of their income tax will have to be made to Government bonds.

(b) Excess Profits Tax

The excess profits tax is levied on the portion of "basic income which is in excess of given percentage of the "basic patrimony". The "basic income" is net income less certain kinds of income, tax payments and exemptions which are specified in the Law 81 of December 22, 1960. The "basic patrimony" is aggregate assets less borrowed funds on the last day of a tax period minus patrimonial exemptions permitted by law. When the basic patrimony is over Col.\$ 200,000, the basic income in excess of 12% of the basic patrimony is subject to the excess profits tax according to the following tax schedule.

> 20% of excess profits representing 6% or less of basic patrimony. 26% " " " over 6% but less than 12% of

- basic patrimony.
- 32% of excess profits representing over 12% but less than 18% of basic patrimony.
- 38% of excess profits representing over 18% but less than 24% of basic patrimony.
- 44% of excess profits representing over 24% but less than 30% of basic patrimony.
- 50% of excess profits representing over 30% but less than 36% of basic patrimony.
- 56% of excess profits representing over 36% of basic patrimony.

Illustration Suppose a DFC with the basic patrimony of Col.\$10,000,000 has earned the net taxable income of Col.\$2,000,000 during the tax year.

1. Corporate Income Tax The DFC pays Col.\$588,000 as a corporate income tax.

Income tax - 12% of its first Col.\$100,000 Col.\$ 12,000 24% of the next Col.\$ 900,000 Col.\$216,000 36% of the excess

Col.\$1,000,000 Col.\$360,000

Col.\$2,000,000 Col.\$588,000

2. Excess Profit Tax If it is assumed that the basic income of the DFC is Col.\$ 1,412,000 (the net income minus the income tax paid) which is in excess of the 12% of the basic patrimony of Col.\$10,000,000, the DFC has to pay the excess profits tax. According to the above schedule, the excess of the basic income over the 12% of the basic patrimony is Col.\$ 212,000, and as the amount represents less than 6% of the latter, it is subject to a 20% of excess profits tax, that is, Col.\$ 42,400.

III. Special Housing Tax

Corporations are liable to pay a special tax for the construction of workers' housing amounting to 6% of net taxable income in excess of Col.\$ 20,000 after deduction of the income tax.

66% of the housing tax may be paid by investing one half (i.e. 33%) in mortgage bonds of the Banco Central Hipotecario and the other half in securities of non-profit housing development associations (since at present there are no securities of the latter type available, all of the 66% can be subscribed in mortgage bonds.) The bonds so subscribed must be retained for five years.

IV. Special Tax for Electricity and Steel Development

Natural persons, undivided estates, corporations and stockissuing, limited partnerships and limited liability companies are subject to a special tax of 3% of their net taxable income for the development of electricity and steel in the country. The taxpayer is given the option to subscribe one third of the tax in bonds or shares of Paz del Rio, (S.A.). The special tax is allowed as a deduction in computing gross income for income tax purposes in the year paid.

I. Tax Advantages Accorded to DBE

The Proclamation for the Establishment of the DBE provides that DBE is exempt from all taxes, duties and customs.

TEOLLISTAMISRAHASTO OY (THE INDUSTRIALIZATION FUND OF FINLAND)

I. Tax Advantages Accorded to IFF

(a) Under special legislation IFF has been authorized to deduct annually from its taxable income an amount equivalent to the annual redemption (Fmk 300,000) of series B shares, which are the shares held by the Bank of Finland.

(b) Like other Finnish financial institutions, IFF is permitted to set aside each year as contingency reserve free of tax from its net profits an amount equal to 0.6% of the aggregate amount of outstanding loans and guarantees as at the closing of accounts, until the total amount of the unused contingency reserve reaches 8% of the aggregate amount of outstanding loans and guarantees.

II. Corporate Income Tax

Like other companies in Finland IFF is assessed three income taxes: state income tax, municipal income tax and church income tax.

- (a) State Income Tax 42% on distributed profits and 48% on undistributed profits, both effective as of January 1965.
- (b) Municipal Income Tax about 12% on net profits. The rate varies from 8 to 14% by each municipality. The rate in Helsinki where IFF is located was 11.75% in 1964.
- (c) Church Income Tax about 1% 2% on net profits. The rate is determined annually by each congregation. The rate for IFF was 0.95% in 1964.

Interest received by corporations including IFF on both government bonds and bank deposits are treated as ordinary income. 15% of dividends received by IFF is credited against the income taxes.

Capital gains from sale of securities by companies normally dealing in securities are treated as ordinary income regardless of the period of holding such securities prior to their sale. Capital gains by IFF are treated in this way.

III. Other

(a) Net Wealth (Property) Tax

According to Finnish legislation, long-term financing institutions which in their Articles of Association limit the distribution of dividends to no more than 5% of the paid-in capital shall be exempt from 1% property tax payable on their net worth. Having met this condition, IFF is not subject to the property tax.

Currency: Markka Fmk 1 = US\$ 0.31 US\$ 1 = Fmk 3.2

(b) Stamp Duty

The stamp duty on share dealings is 1% on the Exchange and 1.2%elsewhere. The buyer pays half. The same charge applies to debentures and other long-term certificates but bonds are exempt from stamp duties when they are resold. No stamp duty is levied on long-term deposits. A stamp tax usually of 2% of the share value is levied when a company is founded and on any share capital increase by means of a publis issue, while the stamp duty on new bond issues and on loans or promissory notes of more than six months duration is 0.6% and for three or six month bills, 0.8%per annum. The relative disadvantage of share dealings and long-term borrowing in respect to the stamp duty has constituted one of the important factors making these forms of capital raising unattractive in Finland.

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A. (GREECE)

I. Tax Advantages Accorded to NIBID

None.

II. Corporation Tax

Undistributed net profits of NIBID like all corporations are subject to a flat 35% corporation tax (income tax) plus a 15% surtax, or a total of 40%. Since the surtax paid is allowed to be deducted from taxable income, the actual effective rate comes to 38%. Corporations distributing dividends are required to withhold a 25% tax on the dividends.

Interest on government bonds, bank deposits, bonds, loans to certain public utilities as well as to limited liability companies are exempt from income tax. Dividends from limited liability companies or certain government corporations are treated as ordinary income but the 25% tax withheld at the source may be claimed for tax credit.

Capital gains derived from financial assets are subject to income tax.

III. Turnover Tax

Enterprises are subject to a turnover tax on gross income. The rate applied to banks including NIBID is 3% on the gross income.

A stamp duty of 1.2% on the gross income is also charged.

I. Tax Advantages Accorded to ICICI

Section 36(1) (viii) of the Income Tax Act, 1961 provides that a long-term development finance institution such as ICICI may carry a maximum of 10% of net income to a special reserve free of corporate income tax. This provision was made effective with income earned during 1960.

II. Corporate Income Tax

ICICI belongs to the category of companies which on their business income are subject to a 25% income tax plus a 25% super tax, thus making a total of 50% of taxable income.

In addition, Indian public companies are subject to the surtax of a flat rate of 40% on the excess when profits after certain adjustments and as reduced by income tax and super-tax payable on them, exceed 10% of the"capital base"of a company or a sum of Rs.200,000, whichever is higher. ICICI, however, has not, and probably will not ever pay this tax since its capital base as defined below has grown to a considerable size. The capital base for the purpose of this tax comprise the net worth of a company, debentures, loans from Government to approved financial institutions, loans from banking institutions for a minimum 7-year period and money borrowed from abroad for creating capital assets in India. As a corrolary to the inclusion of the loan capital in the capital base, the interest payable on the loan capital will be added back to the profits.

Dividend income* of ICICI is subject to only the income tax of 25%. The super tax referred to above and surtax are not applicable to dividend income.

III. Dividend Tax

Dividend tax is levied on a company at the rate of 7.5% on the amount of dividends distributed by it.

IV. Capital Gains Tax

Capital gains realized at least a year after acquisition of the investment are taxable at the rate of 30%. Capital gains are not subject to the surtax.

Currency: Rupee Rs. 1 = US\$ 0.21 US\$ 1 = Rs. 4.7619

* Dividends derived from new industrial undertakings or hotels specified in Section 84, Income Tax Act, 1961, are exempt from income tax.

INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

I. Tax Advantages Accorded to IMDBI

Under the provision of the Special Law of May 10, 1959, the net profits of IMDBI in any one year are exempt from income tax up to 6% of the sum of the paid-up capital and the Rls. 600 million Government advance to it, or up to Rls. 64.8 million. (Paid up capital is now Rls. 480 million).

II. Corporate Income Tax

Companies are subject to income tax on net profits. The rate starts from 12% on net profits between Rls. 48,000 and Rls. 100,000, graduating to 50% over Rls. 6,000,000. In addition a 16.50% of income tax is paid to cover municipality and Chamber of Commerce tax.

Interest received on bank deposits is exempt from tax but no reserves for future losses are deductible from taxable income. Dividends received by IMDBI from which a flat rate of 6.99% tax are deducted at the source are deductible from taxable income.

Currenc	y:	Rial		
1 Rial	=	US\$ 0.013		
US\$ 1	=	Rls. 75.75		

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

I. Tax Advantages Accorded to IDBI

Part of IDBI's share capital represents "approved investments" under the Law for Encouragement of Capital Investments of 1959 and IDBI therefore is recognized partly as an "Approved Enterprise". About 30% of its net profits (decided upon from year to year in relation to new capital issued) after company profits tax, is exempt from income tax of 25% for a period of five years.

II. Company Profits Tax

On its chargeable income, IDBI, like other companies, is subject to a flat 28% company profits tax and to a 25% income tax (except for the exemption referred to above) on the remainder after deducting the company profits tax.

In calculation of the chargeable income for purpose of the company profits tax, dividends received by IDBI from other companies are deductible from its income, and for purpose of the income tax, all dividends which IDBI has declared are deductible from its income in order to prevent double taxation.

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BANQUE IVOIRIENNE DE DEVELOPPEMENT INDUSTRIEL (IVCRY COAST)

I. Tax Advantages Accorded to BIDI

It is provided in Article 6 of the Foundation Agreement between the Government and BIDI that:

"The Government undertakes to accord the following tax treatment to BIDI:

For a period of 10 years from the date of this Agreement, BIDI (A) shall be entirely exempt from the following taxes:

(1) All taxes arising out of the establishment of the Corporation, including registration duties, the tax on initial capital and all taxes or duties relating to capital increases, the foregoing enumeration being nonlimitative.

(2) Taxes on turnover, including any tax or duty on the volume of operations of BIDI, any tax on value added and any tax on the performance of services, the foregoing enumeration being non-limitative.

(3) All customs or other duties on any materials, equipment, machinery, goods and parts imported by BIDI for its own account, irrespective of the country or origin.

For a period of 5 years from the date of this Agreement, BIDI (B) shall be entirely exempt from:

- (1) licence tax;
- (2) the real estate tax on developed and undeveloped real property;
- (3) the tax on industrial and commercial profits;
 (4) all other taxes and duties of whatever nature collected or imposed by the Republic of the Ivory Coast or by any other public, local administrative or other institution or by any other fiscal authority, with the exception of the tax on wages and salaries and of the national contribution relating thereto.

(C) For a period of 5 years from the date of this Agreement, the shareholders of BIDI shall be exempt from the payment of the tax on the Revenu des Valeurs Mobilieres (IRVM) (Tax on income from securities).

(D) Except as otherwise provided in the preceding paragraphs of this Article 6, the taxation system applicable to BIDI shall be that in force in the Republic of the Ivory Coast at the date of signature of this Agreement and shall remain unchanged for a period of 25 years from that date, which period shall be extended by a maximum of 5 years in order to take account of the time required by BIDI for its establishment.

If at any time during the period indicated in the foregoing paragraph (E)(C) the general fiscal legislation applicable to industrial, commercial or financial enterprises in the Republic of the Ivory Coast is amended, BIDI shall have the right to require that such amendments be applied to BIDI."

THE LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT & INVESTMENT

I. Tax Advantages Accorded to LBIDI

LBIDI's Charter, an Act to Amend the Executive Law to Create LBIDI, dated March 22, 1965, provides that it shall be immune from all taxes and custom duties, and that all interest or dividends paid by it shall also be exempt from taxation.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

I. Tax Advantages Accorded to MIDFL

None.

II. Company Text

Under the Income Tax Ordinance 1947 and its later amendments, MIDFL like all companies is subject to a flat 40% company tax on taxable income.

Dividends received from domestic companies are treated as ordinary income and any tax thereon deducted at source is claimable for credit. Dividends received from Pioneer Status Companies are not taxed at source, but the recipient must pay tax on them, in MIDFL's case, the company tax.

BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE (MOROCCO)

I. Tax Advantages Accorded to BNDE

(a) BNDE has been authorized by the Ministry of Finance to create the following tax-free reserves: (i) a reserve to cover the risks on its discounting operations up to a maximum of 0.15% of the new rediscountable credits opened each year, provided this does not cause the total of this reserve to exceed 0.5% of its combined discounting commitments; (ii) a fund to cover the risks on direct loans made: to this fund is transferred an amount equal to one-seventh of the interest collected on direct loans in each financial year. Allocations shall be made to this fund before any dividends are distributed to shareholders. The fund may be distributed in whole or in part only after payment of the professional profits tax up to an equivalent amount.

(b) BNDE is also exempt from all fees and taxes on its capital and changes therein (increases or decreases), on issues of bonds, debentures and securities, and on instruments and agreements relating to its credit transactions. This exemption includes fees and taxes of all kinds, namely registration fees, duties on the registration of mortgage guarantees or collateral, duties on the cancellation of such guarantees, court costs (frais de justice), etc.

II. Professional Profits Tax

As a company, BNDE is subject to a flat profits tax of 36%; it is also liable to pay a National Solidarity Tax in the form of a 20% surtax on the professional profits tax. Thus, BNDE is subject to a total effective profit tax of 43.2%. Capital gains and dividends received are treated as ordinary income.

III. Goods and Services Taxes

These taxes are imposed on all goods and services at rates varying from 4 to 8%. BNDE pays a 4.17% tax on interest and other charges received.

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

I. Tax Advantages Accorded to NIDB

In accordance with the Companies Income Tax (Authorized Deductions) (Nigerian Industrial Development Bank Rules 1964), NIDB is specifically permitted to set aside reserves free of tax until they equal the government loan of £N2 million to NIDB.

II. Corporate Income Tax

Like all corporations in Nigeria, NIDB is subject to a flat 40% income tax on taxable income.

Currency: Pound $\pounds N 1 = US\$ 2.80$ $US\$ 1 = \pounds N 0.357$

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LTD.

I. Tax Advantages Accorded to PICIC

(a) According to the Income-tax Act, as amended by the Finance Ordinance of 1960, a sum equivalent to 10% of total income of development financial institutions is tax free if it is carried to a special reserve. This exemption is granted until such tax free reserve equals paid up capital. Only two institutions have been so far recognized for this purpose - PICIC and the Industrial Development Bank of Pakistan.

(b) Under a notification issued on January 30, 1959 by the Central Government, PICIC is recognized as an Investment Company so that dividends received by it as owner of equity shares are excluded from PICIC's taxable income.l/ This concession is also extended to other investment companies.

II. Income Tax and Super Tax

PICIC, as a "public limited company" declaring and paying dividends in Pakistan, pays a 30% income tax and a 15% super tax, thus making a total of 45% on taxable income.

III. Capital Gains Tax

There is a capital gains tax of 20% when capital gains result from the disposal of capital assets after six months but within five years of acquisition. Capital gains resulting from the disposal of capital assets after five years of acquisition are subject to a 10% tax. Capital gains on the disposal of capital assets within six months of acquisition are considered ordinary income.

Currency: Rupee PRs. 1 = US\$ 0.21 US\$ 1 = PRs. 4.7619

1/ Normally a public limited company receiving dividends pays a 15% supertax on dividends received on shares issued in Pakistan after August 14, 1947 and a 20% supertax in other cases. Corporations issuing bonus shares are subject to a 12½% supertax on the par value of bonus shares.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

I. Tax Advantages Accorded to FDCP

None.

II. Corporate Income Tax

PDCP is subject to a corporate income tax. Capital gains are treated as ordinary income. Dividends received from a domestic corporation which is itself subject to income tax are treated for income tax purposes as ordinary income only to the extent of 25% of the dividends received.

The tax rate is 22% on net taxable income up to the first P100,000 and 30% on the excess.

Currency: Peso P1 = US\$ 0.254 US\$ 1 = P 3.925

BANCO DEL DESARROLLO ECONOMICO ESPANOL (SPAIN)

I. Tax Advantages Accorded to BANDESCO

According to Decree Law 53/1962 of November 29 on Industrial and Affairs Banks, capital gains obtained by development financing institutions such as BANDESCO in selling industrial securities from their portfolio are wholly exempt from taxation, provided such sales take place within a four-year period after such securities have been acquired; if such sales are effected within the fifth year 75% is exempt; if within the sixth year, 50%; if within the seventh year, 25% and no exemption thereafter. At least 50% of the capital gains exempt from taxation is required to set aside as special reserve.

Deposits received by such institutions as well as the bonds and debentures they issue are exempt from tax on the yield of capital, stamp tax and tax on issuance and negotiation of securities.

II. Corporate Income Tax1/

Like all commercial and industrial enterprises, BANDESCO is subject to a flat tax of $34\%^2$ / on net profits. In addition there is a surcharge of 15% for the provinces. A 2% Chamber of Commerce Tax and a provincial tax varying up to a maximum of 1.87% depending upon the locality are also imposed. If the net profits is 4% or more of capital, a 25% municipal surcharge is also levied.3/

Most types of investment income are withheld at source. There is a 15% tax on dividends; a 24% on loan interest; and a 20% on Spanish Government bonds, 24% on private bonds and 26.4% on foreign government bonds. Interest on loans made by banks including BANDESCO is not subject to this tax but to the regular corporate income tax.

1/ A thorough fiscal reform is being implemented in Spain. The reform is based on the law of December 28, 1963, and on the reform law of June 11, 1964 which is to take effect gradually through 1966. The information provided herein is concerning the new tax system which began to be put into effect on July 1, 1964.

2/ All commercial and industrial activities carried on by companies are subject to an industrial tax at the rate of 20% of taxable income, payable semi-annually. This tax is however deductible for the purpose of corporate income tax. For this reason, it is treated here as a footnote.

3/ When profits after taxes in any one year exceed 6% of the nominal capital, then 10% of the profits must be carried to the legal reserve until it equals one-fifth of paid-up capital. This reserve may only be used to offset future losses.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

I. Tax Advantages Accorded to IFCT

In accordance with Royal Decree on Revenue Code, Ministerial Regulation and the interpretation by the Revenue Department of the legal status of IFCT, IFCT is exempt from stamp duty, business tax and corporate income tax.

TURKIYE SINAI KALKINMA BANKASI A.S. (TURKEY)

I. Tax Advantages Accorded to TSKB

None.

II. Corporation Tax

TSKB is subject to corporation tax which is a flat rate of 20% on taxable income, and also to a 20% income (withholding) tax of the net profits after deduction of corporation tax and legal reserves. This tax must be paid to the fiscal authorities whether or not dividends are distributed. Corporations which hold 10% or more shares of another corporation and shares which are held more than one year, dividends received for these shares are not subject to corporation tax for the holding corporation.

Interest income from Government bonds held by Corporations is subject to specially favorable Corporation Tax rates. The rates are 1/2%on bonds held against legal reserves, $1\frac{1}{2\%}$ on free holdings and 1/2% on Savings Bonds which are applied on the nominal value of average monthly holdings.

Capital gains from the sale of securities are treated as ordinary income.

II. Transaction Tax

Interest, commissions and other fees charged by banks and insurance companies in return for their services rendered, are subject to a 20% transaction tax. In practice incidence of this tax is passed over to the clients. The transaction tax on fees received on Administered Funds are however borne by TSKB.

Dividends received on equity participations are also subject to the transaction tax, the incidence of which is borne by TSKB.

IV. Other

(a) Stamp Duty

According to a law, all the loan agreements and sub-loan agreements signed between the international finance institutions and TSKB, the government and TSKB or TSKB and the sub-borrowers are subject to a 0.4% stamp duty on the amount of the loan or sub-loan agreements or the highest amount mentioned in the loan or sub-loan agreements. Both the lender and the borrower are subject to this duty at the same percentage. In practice incidence of this duty is passed over to the sub-borrowers in case of sub-loans. But the duty on any loan agreement signed between TSKB and the international finance institutions or the Turkish Government is borne by TSKB.

(b) Civil Defence Participation Fund

According to law 7126, the taxable income of corporations is subject to civil defence participation fund at 1/2% flat rate.

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C.A. VENEZOLANA DE DESARROLLO (VENEZUELA)

I. Tax Advantages Accorded to CAVENDES

None.

II. Corporate Income Tax

Financial corporations like CAVENDES are subject to a 5% basic tax on taxable income. In addition, there is levied a complementary tax, the rate of which is 10% up to Bs 100,000 graduating to 45% on income over Bs 28,000,000.*

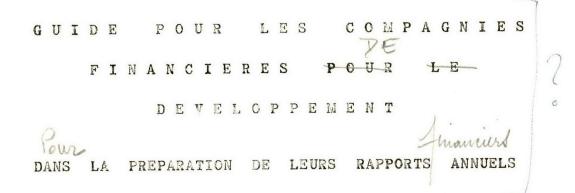
Dividends received from corporations are exempt from both the basic tax and the complementary tax. Interest on many government bonds is exempt from tax under special government decrees.

Currency: Bolivar Bs 1 = US\$ 0.2985 US\$ 1 = Bs 3.35

* Complementary tax rate schedule:

All Income	Tax Rate
Up to Bs 100,000	10%
100,000 to 1,400,000	20%
1,400,000 to 3,800,000	25%
3,800,000 to 6,400,000	30%
6,400,000 to 10,000,000	35%
10,000,000 to 20,000,000	40%
20,000,000 to 28,000,000	42 ¹ ≥%
Over 28,000,000	45%

1/27/66 - recd. bilt hawrenke leter from On Droamd (1/22/66)



Compaque CORPORATION FINANCIERE

INTERNATIONALE

Octobre 1965

PREFACE

presentous La brochure que nous vous proposons est conçue dans l'intention de servir de guide pour les compagnies financières pour le développement dans la préparation de de leurs rapports financiers, compagnies dans lesquelles la Corporation Financière Internationale (C. F. I) a effectué des investissements ou auxquelles la Banque Internationale pour la Reconstruction et le Développement (B. I. R. D) ou l'Association Internationale pour le Développement (A. I. D) ont accordé des prêts.

MO: IPA

Cette brochure fut préparée et publiée dans le but de répondre au désir de bon nombre de firmes compd'avoir une idée claire et nette des opinions de la CFI Conceptioned tables et de compagnies financières de par le monde, concernant le contenu, la forme et l'allure générale des puseutalian rapports financiers qu'elles sont tenues de préparer et des données supplémentaires qui les accompagnent.

Néanmoins, l'objectif de ce guide n'est point une standardisation des rapports financiers. Au contraire, il n'entend nullement supplanter les rapports règlementaires. On espère plutôt qu'il serve de complément à ces derniers. Il convient par conséquent de le consulter parallèlement avec la brochure de la C.F.I intitulée "Accounting and Financial Reporting". one paragraph missing.

Companing Le nom de notre compagnie imaginaire est la Corporation Financière Ruritanienne pour le Développement et ses comptes sont entretenus suivant une devise fictive le PR. enus en

denormance

neformation

Mamort DECLARATION des EXPERTS-COMPTABLES

LE CONSEIL d'ADMINISTRATION de la

AV

Corporation FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

et le relevé des revenus et des bénéfices réalisés au cours de l'année qui vient de s'écouler. Pour ce faire, nous avons appliqué les règles de révision des comptes les plus connues, à savoir : analyse des documents et des comptes et toutes autre procédure qui nous a paru nécessaire.

A notre avis, le bilan et le relevé des revenus et des bénéfices ci-joints, indiquent d'une façon conche effective la situation financière du Ruritania au 31 Décembre 1964 et les résultats des opérations effectuées au cours de l'année qui vient de s'écouler, et sont conformes aux principes de comptabilité qui ont été appliqués pour l'exercice précédent.

Les données et les tableaux supplémentaires, s'ils ne sont pas nécessaires pour un compte-rendu satisfaisant de la situation financière et des résultats des opérations, constituent cependant une source de renseignements supplémentaires intéressants en cas d'une analyse plus poussée, et donnent une idée claire et complète du champ d'activités.

Tandis que notre examen des rapports financiers de la fait nous a donné le possibilité de donner notre avis sur les exposés A et B, notre révision des données annexes nous permet d'affirmer qu'elles sont exposées d'une façon aussi effective et correcte et qu'elles constituent une sorte de complément de ces rapports.

Les Spirito Deuptables Compagnie de Vérification

.../...

X.Y.Z

(lieu) (date)

Au cas où une partie assez importante des investissements serait encore au stade de développement ou de fondation et entrerait dans la détermination de la situation financière ; il est fort possible que les experts comptables ne l'acceptent que sous certaines réserves. Dans ce cas, la déclaration de ces cerniers prendra une autre forme comme suit :

> ler paragraphe : le même que celui de la page précédente.

2ème paragraphe: comme suit :

lancument intervientrait precessaire

(à ajouter) sont effectués dans des compagnies dont les rapports financiers indiqueront qu'ils sont au stade de développement ou de fondation. En conséquence les réalisations ultimes de ces investissements dépendent de certaines circonstances qui ne peuvent être évaluées d'une achuelleure façon générale".

Paragraphe concernant l'avis : "à notre avis, vues les réalisations des valeurs des investissements mentionnés ci-dessus....(continuer comme à la page précédente)".

Bien entendu, il se peut que la situation financière ne nécessite pas l'avis des experts, il se peut aussi que ces derniers préfèrent doser leurs opinions. Ce sont là des questions qui dépendent de chacun des des experts. experts en par/ticulier.

≠ Ехрове́ А

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

BILAN

31 Décembre 1964 + chiffres comparatifs du 31 Décembre 1963

	3]	Décembre
	1964	1963
Actifs		(PR)
- Caisse et Couples boucaures à vue	1.373.020	2.050.237
	4.000.000	3.750.000
dans 6 mois	4.000.000	3,100,000
du Ruritania (montant nemi-		
nale: 16.109.000 PR) - au prix de revient ou au prix A		
de revient amorti	16.110.000	25.600.000
- Revenus accumulés provenant des prêts, des obligations du		
Gouvernement ou des dépôts.	1.808.230	738.56
- Montant à recevoir après la	400.250	_
vente des participations - Fluctuations des devises étran-	-100.400	_
gères que les emprunteurs	400.000	407.50
ont à recouvrer	400.000	407.00
pations (assurance en parti-		49 03
culier)	50.825	48.92
	24.142.325	32.595.22
- Prêts et participations (re-		
marque 1) : <u>redenues</u> Prêts moins indemnité pour		
les prêts doûteux : 716.000PR	79.700.000	68.832.00
Participations cotées au		
prix de revient (bourse 2.115.502)	2.050.000	1.550.00
Non cotées :		
Négociées (prix demandé : 3.147.000 PR)	3.150.000	2.355.00
Non négociées (valeur	PAP 000	1 705 00
estimative : 765.000)	745.000	1.795.00
Prêts et pa rticipations	85.645.000	74.532.00
- Biens et équipement - au prix		
de revient moins déprécia-		0.00 000
tion - :1137.825	935.020	952.52
		<i>,</i>
	n an	
	110.722.345	108.079.74
- Fonds gérés pour le compte		
du Gouvernement Ruritanien (Remarque 5)	65.000.000	80.000.00

(voir commentaire,)

vor notes et stats explicatifs annexes

Exposé A

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

31 Décembre 1964 + chiffres comparatifs du 31 Décembre 1963

	31 Décembre	
	1964	1963
Passifs et depunes	(PR)
accumulées.	792.000	730.000
 Dette couvrant les fonds en gestion (remarque 5) Impôt sur le revenu (estima- 	350.000	400.000
tif) moins paiements anti- cipés (remarque 4)	400.000	180.000
- Dette à long terme (remarques	1,042.000	1,010,000
 1 et 2) : Banque Internationale pour la Reconstruction et le Développement. Gouvernement du Ruritania: Crédit accordé par l'As- sociation Internationale 	22 .2 20 .00 0	22.977.560
pour le Développement et "reprêté" à la CFRD - Prêts subordonnés à une	18.180.000	18.180.000
autre dette à long terme	42.000.000	42.000.000
Dette à long terme		
 Capital actions : De priorité : cumulatives à 7%. Autorisées : 15.000 actions d'une valeur au pair de 100 PR chacune, amortis-sables à 105 PR. Dividendes accumulés (dividendes payés 		
 jusqu'au 31 Décembre 1964). Emises et échues (entièrement payées) : 10.000 actions. Ordinaires : autorisées : 200.000 actions d'une valeur au pair de 100 PR 	1.000.000	1.000.000
chacune. Emises et échues (entièrement payées) : 180.000 actions	<u>18.000.000</u> 19.000.000	<u>17.500.000</u> 18.500.000
	180.000	130.000

 Capitaux supplémentaires payés à partir des bénéfi- ces non distribués : Réserve légale (remarque 3) Réserve spéciale (remarque 3) 	1.500.000	1. 000.000 1. 545.000
- Disponibles	4.100.345	2.437.241
Quote-part des action- naires	26.780. 3 45	23.612.241
 Frais imprévus et engage- ments comprenant les garan- ties des prêts et les balan- ces non déboursées des enga- gements de prêts (note 4) 		
	110.722.345	108.079.741
Dette du gouvernement pour		

(voir commentaire)

Exposé B

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

RELEVE DES REVENUS pour l'année écoulée le 31 Décembre 1964 + chiffres comparatifs de l'année 1963

พระหมายสมาย และกลระบบเป็นของสมายสารสมาย และการสมายสมายสมายสารสมาย (มหายสารสมาย) และสมาชสมาย และสมายสมาย เหม่าสม	1964	1963
	n na	na nangan yanan kata antan katan
 Revenus : Intérêt sur les prêts Dividendes reçus Revenu provenant des fonds en gestion, des garanties, 	6.795.500 525.000	5.715.150 500.000
souscriptions et engage- ments. - Intérêt sur les investis-	140.000	150.000
sements de garantie tempo- raires et sur les dépôts . - Autres	785.000 15.000	1.125.000 16. 2 75
Total des revenus	8.260.500	7.506.525
- Dépenses : - Intérêt sur l'endettement.	2.343.750	2.380.250
- Administratives et Géné- rales	712.146	693.645
- Indemnité pour les prêts doûteux	125.000	125.000
- Dépréciation des biens et de l'équipement.	85.400	57.600
- Perte enregistrée sur la vente de l'équipement	2.000	2.000
Total des dépenses 🐁 🔹	3.241.396	3.258.495
Bénéfices réalisés avant déduction de la taxe sur le revenu.	5,019.104	4.248.030
- Impôts sur le revenu (esti- matif)	1.551.000	1.322.000
Bénéfices net s - Profits réalisés sur la vente des investissements moins	3.468.104	2,926.030
l'impôt sur le revenu	300.000	2 0.04 0.00
Profits nets	3.768.104	2.926.030

				Contraction of the
	Disponibles	Réserve spéciale (note 3)	Régerve légale (note 3)	TOTAL
- Bénéfices nets réalisés pendant l'année ajouter : Dividendes :	3.768.104	-	-	3.768.104
-sur actions de priorité (7 PR l'une) -sur actions or	(70.000)		-	(70.000)
dinaires (6 PR l'une) Prélévemen ts. .	(1.080.000) (955.000)	455.000	500.000	(1.080.000)
Balance des bénéfices nets	1.663.104	455.000	500.000	2.618.104
- Bénéfices non distribués du 31.Déc. 1963	2.437.241	1.545.000	1.000.000	4.982.241
- Bénéfices non distribués du 31 Déc. 1964	4.100.345	2.000.000	1.500.000	7.600.345

RELEVE DES BENEFICES NON DISTRIBUES

(voir commentaire)

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

COMMENTAIRE DES RELEVES FINANCIERS 31 Décembre 1964

1 - Monnaie :

La devise qui représente le Ruritania est le PR. Les devises étrangères ont été traduites en terme de PR au taux*en cours au 31 décembre 1964. Aucune spécification n'a été faite concernant la convertibilité de cette devise en une autre.

Le principal du prêt ou des participations déboursé ou échu le 31 Décembre 1964 et les revenus accumulés à la même date sont comptés en PR à l'exception des montants suivants qui sont comptés en devises équivalentes:

	0			•	39.500.000	PR
•	•	•	•		710.205	
					40.210.205	PR
•	•••	•••	• • • •	•••••	•••••	

En Janvier 1965 le PR fut réévalué de 1,5 PR = 1 dollar américain à 2 PR = 1 dollar. Depuis lors, sa cote a fluctué d'une façon marginale : En décembre 1964 et 1963 la valeur du PR était de 2,02 PR = 1 dollar américain.

Les conventions de prêts en devises étrangères spécifient que les pertes résultant des fluctuations du taux de change applicable à la devise étrangère empruntée, doivent être compensées par les emprunteurs avant que la CFRD ne procède à aucun paiement. Celles enregistrées sur les dettes en devises étrangères s'élèvent en 1964 à 400.000 PR. Ce montant est porté sur le bilan comme devant être réglé par les emprunteurs.

2 - Dette à long terme :

La dette à l'ong terme fut au 31 Décembre 1964 comme suit :

* Spécifier les taux utilisés à ce propos, les taux d'achat ou de vente de la Banque Centrale, leur moyenne, etc...

Banque Internationale pour la Reconstruction et le Développement (garantie par le Gouvernement du Ruritania), 11.000.000 \$, 5½%, échéable en montants		
semestriels variables le 15 sept. 1979 (428.000 en 1965)		22.220.000 PR
Gouvernement du Ruritania: Crédit de 9.000.000 \$ ac- cordé par l'A.I.D. au gou- vernement du Ruritania, "reprêté" à la C.F.R.D. à		
51%, échéable en montants semestriels variables du 30 Avril 1970 au 31 octo- bre 1999 Prêts subordonnés à une		18.180.000
autre dette à long terme : 0%, échéance annuelle de 1.800.000 PR du ler no- vembre 1975 au ler novem- bre 1989	27.000.000 PR	
3%, échéance annuelle de 1.000.000 du ler sept. 1977 au ler sept. 1991		42.000.000 82.400.000 PR

L'endettement vis-à-vis de la BIRD (Banque Mondiale) se compose des prêts RU 6 (5.000.000 \$) et RU 10 (6.000.000 \$). Le prêt RU 6 a été entièrement déboursé, mais le prêt RU 10 représente un engagement primitif de 10.000.000 \$ dont 4.000.000 n'ont pas encore été déboursés le 31 Décembre 1964.

Les débours de la Banque Mondiale sont effectués conformément aux conventions de prêts signées avec elle. Les sous-prêts sont proposés par la CFRD et approuvés par la Banque Mondiale. Les remboursements de cette dernière sont effectués suivant un tableau d'amortissement se composant de ceux des sous-prêts.

La convention de prêt signée avec le Gouvernement du Ruritania touchant le crédit consenti par l'AID spécifie que la GFRD doit rembourser le principal de chaque tranche de ce prêt conformément au tableau d'amortissement applicable au projet en question.

- 10

3 - Réserves :

A la suite d'une mesure prise par le Conseil d'Administration, la réserve légale a été élevée à 1.500.000 PR, soit un accroissement de 500.000 PR, ce qui équivaut en quelque sorte, à plus du minimum légalement requis qui est de l'ordre de 12½% des bénéfices nets réalisés dans l'année. En même temps, 455.000 PR des bénéfices non distribués ont été alloués à la réserve spéciale l'élevant à 2.000.000 PR. Il n'y a pas eu de pertes autres que celles concernant les prêts à recevoir, contre lesquels il y eut le 31 Décembre 1964 une **indemnité** apropriée de 750.000 PR, et celles concernant les frais imprévus mentionnés ci-après.

4 - Engagements et frais imprévus :

La CFRD a entamé un procès pour l'obtention d'un montant substantiel en cas de rupture de contract. Son Conseiller Général rapporte qu'à son avis, aucune responsabilité n'est engagée.

La CFRD est tenue de garantir d'une façon aléatoire les prêts consentis par les "Finances Industrielles du Ruritania :

Produits de	Fi	1	de)]	Fei	r (du			
Ruritania.									750.000	PR
Corporation	de	s	Ec	ju:	ip	eme	ent	s		
ménagers .	•	•	٥		•	•	•	•	250.000	
									1.000.000	PR

Ces prêts sont échéables en deux séries (en 1970 et en 1975) dans l'ordre de la liste, et sont garantis par une charge générale sur tous les actifs des compagnies financières respectives. La CFRD prélève ses droits annuels - de l'ordre de 1% - du principal échu de ces prêts.

Les revenus réalisés par le biais de l'impôt sur le revenu ont été examinés par les autorités fiscales pendant les années qui ont précédé 1962 et tous les impôts supplémentaires ont été payés.

La balance des **engage**ments de prêts non déboursés par la CFRD s'élève à 500.000 PR le 31 Décembre 1964, contre 650.000 le 31 Décembre 1963. Les Prêts sont portés sur le bilan après déduction de ces montants.

Toutes les souscriptions et tous les engagements ont été réglés avant le 31 Décembre 1964. Un contrat a été conclu pour l'élargissement et l'aménagement des bureaux de la C.FRD supposant des frais de l'ordre de 500.000 PR. Les travaux seront terminés aux environs de Mars 1966. L'équipement supplémentaire requis est estimé à 750.000 PR, mais aucun contrat d'achat n'a encore été conclu.

5 - Les fonds en gestion :

Les fonds sont gérés par la CFRD pour le compte du Gouvernement Ruritanien. Ce sont :

- Le fonds de participation (en capitaux) (FPC) : 45.000.000 PR,

- le fonds de prêts pour l'exportation industrielle : (FPEI) 20.000,000 PR.

Le premier est chargé des participations, l'autre du financement des exportations à court terme. Les situations de ces fonds furent au 31 Décembre 1964 comme suit :

	F.P.C	F.P.E.I	Total	
Caisse	2.000.000	1.000.000	3.000.000	PR
Prêts à court terme	42.750.000	18.900.000	18.900.000 42.750.000	
Participations. Dettes de la		-		
CFRD	250,000	100.000	350.000	
Total	45.000.000	20.000.000	65.000.000	PR

Les capitaux de ces fonds sont entretenus séparément de ceux de la CFRD. Les pertes et les profits qu'ils enregistrent sont à leur compte. Ils sont gérés par la CFRD qui reçoit des honoraires pour ses services. Les engagements de la corporation vis à vis de ces fonds viennent - comme le montre le bilan - des profits réalisés après déduction des honoraires.

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

DONNEES SUPPLEMENTAIRES

31 Décembre 1964

A - OPERATIONS

Les relevés comparatifs du revenu et des bénéfices non distribués sont présentés à l'exposé B.

I - Intérêt sur les prêts :

Les transactions de prêts de l'année 1964 et les résultats qui s'en suivent sont comparés avec celles de l'année précédente comme suit :

		Année	1964		Année 1963					
(en milliers de 32)	Court terme	Moyen terme	Long terme	Total	Court terme	Moyen terme	Long terme	Total		
Engagements de prêt : nombre	3 450 200 75	4 1,800 750 250	22 14,325 2,250 350	29 16.575 2,250 75	4 525 175 50	4 1,250 675 225	25 13.475 2.175 325	33 15,250 2,175 50		
nent des engagements dé- boursés	450 (600)	1.800 (517)	(250) 14.075 (4.215)	(250) 16.325 (5.332)	525 (500)	1,250 (1.000)	125 13.600 (5.125)	125 15,375 (6,625)		
Principal échu : début de l'année fin de l'année moyenne (13 mois) Intérêts reçus	500 350 395 40	12,188 13,371 12,395 1,239	56.869 66.729 61.980 5.516	69.557 80.450 74.770 6.795	475 500 420 42	11.939 12.188 11.410 1.141	48.394 56.869 51.860 4.532	60.807 69.757 63.690 5.715		
Taux moyen des revenus	% 10,00	10,0	8,9	9,1	10,0	10,0	8,7	9,0		

2 - Dividendes reçus :

Les engagements et les débours des participations, les dividendes reçus et le taux des revenus de l'année 1964 sont comparés avec ceux de l'année précédente comme suit :

(en milliers de PR)	<u>1964</u> <u>1963</u>
Engagements 1	. 295 600
Débours 1	.395 500
Participations (pour une moyenne	
de 13 mois) 5	5.822 5.500
Dividendes reçus	525 500
Revenus	9,0 9,1

3 - Revenus provenant des fonds en gestion, des garanties des souscriptions et des engagements :

Tous ces revenus pour les deux années sont comme suit :

(er	n millier de PR)				1964	1963
Rev	venus provenant de :			×.		
	fonds en gestion	0	0	0	101	96
	garanties				10	10
	souscriptions et engagements				29	44
					140	150

Le revenu provenant des fonds en gestion est basé sur le pourcentage convenu recueillis à partir de ces fonds. Le revenu recueilli à partir des garanties représente des droits annuels de l'ordre de 1% des garanties mentionnées à l'annexe 4.

Le revenu recueilli à partir des souscriptions et des obligations provient d'engagements faits en 1964 et avant et apurés comme suit :

	Total :	contractés par								
	des en- gage-	19	64 :	9	63	: Avant				
	iments i		CFRD	;Autres;	CFRD	Autres	Autres			
Usines du tex- tile : 7500 actions ordinaires d'une valeur			(en mi	lliers	de PR)					
au pair égale 100 PR l'une	à • 950	250	500	-		-				

CEM STAN Ltd : 8.500 actions ordinaires d'une valeur au pair					
égale à 100 PR l'une	250	160	-	400	-
General chenicals Ltd : actions ordinai- res d'une valeur au pair égale à					
100 PR	Antipue Rando, Calificati Proceeding and	artak Belizitetan artan aitar	500	1.220	200
	500	660	500	1.660	
Revenu $(2\frac{1}{2}\%)$	2	9 PR	5	4 PR	

4 - Profits réalisés sur la vente des participations :

Durant l'année 1964 un profit de 300.000 PR fut réalisé sur la vente des participations comme suit :

Bénéf	ic	es		•	•	•	0	•	•	0	0	•	•	1.000.000	PR
Frais		0	•	•	•	•	0		•	0	0	0	٥	1.050.000	
Profi	t	av	an	t	t	axe	0	0	٥	0	0	0	•	333.000	
Taxe	•			0	0	•	0	0	•	•	0	0	•	33.000	
Profi	t	•		•	0	0	0	•	•	•	•	•	• .	300.000	
													-		

5 - Gains et dividendes :

Après déduction des dividendes sur les actions, les gains enregistrés en 1964 pour ce qui est des actions ordinaires furent de l'ordre de 14,4% des quotes-parts des actionnaires ordinaires (déduction faite de la prime d'amortissement pour les actions de priorité) et de 20,55 l'action contre 11,6% et 15,87% en 1963. Les paiements des dividendes sur les actions ordinaires furent pour les deux années respectivement de 6 PR et 5 PR.

B - EMPLOI DES FONDS PROVENANT DES OPERATIONS ET DES AUTRES SOURCES :

Le tableau qui suit indique les sources des fonds autres que les fonds en gestion, mis à la disposition de la CFRD pendant l'année 1964, et la manière dont ils furent utilisés :

.../...

- charge ne comprenant pas les dépenses	
de caisse :	
- indemnité pour les prêts non recouv- rables.	125.000
- indemnité pour la dépréciation du bâtiment et de l'équipement	58.400
- perte sur la vente de l'équipement.	2.000
	2.803.504
Fonds provenant des opérations .	2.000.001
- vente de 5.000 actions ordinaires à	550,000
110 PR l'une	1.000
- vente de l'équipement	Economic wavegendenest come methods control and a testing and the
Total des fonds	3.354.104
Ces fonds sont utilisés comme suit :	
The second	
- augmentation des prêts et des parti- cipations :	
- débours des prêts moins recouvre-	
ments : 5.332.000 PR	10.892,999
- Participations moins ventes	
1.050.000	245.000
	11.137.999
- Prêts déduits de l'indemnité pour	
les prêts non recouvrables	100.000
- Paiement des échéances de la dette	757.500
à long terme vis-à-vis de la BIRD	43.900
- Achat d'équipement.	STREAM - RED HILD WILL A THE INVESTIGATION OF CONCERNMENT OF THE RED OF THE R
	12.039.399
- noins décroissement de caisse, in-	
vestissements de gerantie temporai-	
res, montant à recevoir, accroisse-	
ment du revenu etc moins accrois- sement des montants à payer et des	
dépenses	684.895PR 3.354.504PR
a openne of the second s	an Bir da sana da balan da ang ang ang ang ang ang ang ang ang an

SITUATION FINANCIERE

LES BILANS COMPARATIFS SONT PRESENTES A L'EXPOSE A

1 - Caisse :

Les balances de caisse du 31 décembre 1964 furent comme suit :

Les montants déposés au département du change de la Banque Centrale du Ruritania servent à couvrir les paiements des lettres de crédits ouverts aux emprunteurs. Les devises étrangères en dépôt à la Banque Centrale pour le compte de la CFDR viennent des emprunts effectués auprès de la BIRD qui attendent d'être remboursés à cette dernière. Aucun intérêt n'est imposé aux balances de la Banque Centrale. Les autres banques imposent un intérêt de 2 % par an.

2 - Investissements temporaires :

Les investissements temporaires furent le 31 Décembre 1964 comme suit :

	Montant	Frais
	nominal	ENTERTROPIC - COST 4- SECTION
Obligations du gouvernement du Ruritania :		
3% - 4% parvenant à échéance le 15 Mai 1966 3 1 % parvenant à échéance le	7.104.500	7.105.500
$3\frac{1}{2}$ % parvenant a echeance re 30 septembre 1966	8.604.500	8.605.500
	16.109.000	16.140.000
Dépôts à terme (4%) de la Ban- que Centrale du Ruritania parvenant à échéance dans		
6 mois	4.000.000	4.000.000
	20.109.000	20,110.000

Les changements qui survinrent dans les obligations du gouvernement ruritanien pendant l'année furent comme suit :

- 17

	Montant nominal	Frais amortis
Montant - 31 Décembre 1963 Achats	25.599.000 1.510.000	25.600.000 1.510.500
	27.109.000	27.110.500
Echéances Amortissement des primes	11.000.000	11,000.000
Montant - 31 Décembre 1964	16.109.000	16.110.000

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Les dépôts à terme (4.000.000 PR) sont effectués à la Banque Centrale du Ruritania, ils comportent un intérêt annuel de 4% et quoiqu'ils p**uissent** être retirés normalement sur demande, ils sont sujets à un préavis de 6 mois.

3 - Montant: à recevoir :

Le montant à recevoir des acheteurs de participations fut recueilli en janvier 1965.

4 - Prêts et participations :

Les prêts, les participations et les garanties du 31 Décembre 1964 sont classés dans le tableau (2) selon les fins qu'ils se proposent et dans le tableau (3) les participations le sont selon leur genre et indiquées en comparaison avec celles de CFI et avec les prêts de la CFRD et la IELF à la même compagnie. Sont indiqués également les pourcentages des possessions et les dividendes de 1964.

a - Les prêts :

Le portefeuille des prêts de la CFRD se composait le 31 Décembre 1964 :

en gygnan haf yn annan gynan yn yn yn annan yn gynan yn	TOTAL	ECHEANCES			
		moins d'unamun an et plus			
	:N° :Principal	:N°:Principal:N°:Principal			
Court terme	: 5: 350.000	5: 550.000:- :			
Moyen terme	: 23: 2.371.000 : 83:77.729.000	4: 185.000:19: 2.186.000 38:6.600,000:45:71.129.000			
	111 80.450.000	47 7.135.000 64 73.315.000			

Les prêts à court à moyen et à long terme sont classés selon leurs échéances d'origine respective, à savoir : moins d'un an, l à 5 ans et plus de 5 ans. Les prêts à court terme sont remboursables suivant un préavis de 15 jours. Ils sont pratiquement exploités en tant que crédits rotatifs renouvelables dans les limites fixées par la CFRD pour les emprunteurs individuels. Les prêts à moyen et à long terme font l'objet de conventions particulières, spécifiant leurs réglements, l'utilisation de leur montant et exigeant une protection par le biais d'une assurance, d'une comptabilité rigoureuse, et des vérifications annuelles par des experts comptables etc... Ces prêts sont généralement remboursés en versements semi-annuels.

Le taux d'intérêt imposé aux prêts à court et à moyen terme est le maximum légal (10% par an). En plus de cela, la C.F.R.D. impose une commission de 1 à 2% suivant la nature de la garantie accordée.

L'intérêt sur les prêts à long terme est de 9 % par an. Cet intérêt fait partie du revenu à un taux croissant, mais si des mesures légales sont prises pour son recouvrement, l'accroissement s'arrête et l'intérêt est compté dans les revenus aussitôt qu'il est perçu.

Le prêt à court terme, 1.776.000 PR du prêt à moyen terme et le montant total du prêt à long terme, tous sont garantis par la Banque ou par des capitaux en gage. La garantie des prêts à court terme et à moyen terme fut comme suit :

Garantie	Nombre d'emprunteurs	Montant du prêt échu
Prêts à court terme : actions et obligations	5	350,000
Prêts à moyen terme : actions et obligations billets et effets (valeur	12	1.175.000
nominale = 300.000 PR)	2	250.000
garanties diverses	5	256.000
autres	2	115.000
Prêts à moyen terme	21	1.796.000

•••/•••

Les échéances du principal et de l'intérêt sont résunées ainsi :

	: Princi	pal	Intérêt échu et non payé			
Date	Montant : Montant échu et : Total non payé :		Montant	Date		
Court terme : 15 Décembre 1964 Moyen terme : 15 Décembre 1964 1 Décembre 1964	500,000	125.000 2.050.000	6.250 102.500	15 Déc.1964 15 Déc.1964 1 Déc.1964		
Long terme : 15 Décembre 1964 30 Novembre 1964 15 Novembre 1964 Total	100.000 212.500 187.500 500.000	850.000	45,000 54,000 38,250 51,750 189,000	15 Déc.1964 15 Déc.1964 30 Nov.1964 15 Nov.1964		

Compte tenu de notre examen, du portefeuille des prêts et des renseignements qui nous ont été fournis par la C.F.R.D. à propos des échéances et des prêts doûteux. Nous estimons que l'indemnité de 750.000 PR accordée pour les prêts doûteux est raisonnable.

L'orientation des transactions de prêteest indiquée ici sous la rubrique "opérations".

b - Participations :

Le tableau suivant indique la situation des participations et les changements qui y sont survenus pendant l'année :

	Total :	cotés	négociés au gui- chet	non négo- ciés
Investissement : 31 : décembre 1963 : offre ou valeur cotées:	an ann ann ann ann ann ann ann ann ann			
estimées par la di- : rection	and the same and the	1.582.601	an about a start to deplate a deplate and a starter to the	
acquisitions	1.295.000	1.550.000 500.000 2.050.000	795.000	BANK Bar and a constraint of the constraint of t
	1.050.000:		0 suca di Manuncar distanti danga dan	1.050.000

Investissement : 31	\$	•	:	
Décembre 1964	:	•	: :	
frais	:5.945.000	2.050.000	: 3.150.000:	745.000
offre qu valeur cotées estimées par	0 0	0 0	° °	energie granten derengie de damen
la direction	6.027.000	2.115.502	3.147.000	765.000

Les revenus réalisés à partir des participations et les profits tirés de la vente des garanties sont mentionnés sous la rubrique "opérations".

5 - Biens et équipement :

Les biens et l'équipement se composaient le 31 Décembre 1964 des bureaux nationaux (terrain, bâtiments, ameublement) situés au 25 Avenue Nationale Zénith, Ruritania, et de l'équipement automobile :

	0	Indemnité en cas de déprécia- tion	Net
Terrain Bâtiments	: 100.000 : 350.000		100.000 336.000
Meubles et équipement de bureaux Equipement automobile	570.844 52.001	: 108.135 : 15.690	462.709 36.311
Total	1.072.845	137,825	935.020

Les Changements survenus dans le compte des biens et de l'équipement sont comme suit :

	: Prix appro- :xinatifs :	Indennité en cas de déprécia- tiop	Net	
Balance : 31 Décembre 1963 Agmentation Indemnité en cas de dépré-	: 143.900 ;	79.925 -	912.520 43.900	
ciation		58.400	(58,400)	
moins équipement vendu	1.076.345	138.325 500	938.020 <u>3.000</u>	
Balance : 31 Décembre 1964	: 1.072.845	137.825	935.000	

D'après une évaluation faite par des experts indépendants le 31 Décembre 1963, la valeur exacte (frais de reproduction moins dépréciation) a exédé le montant net des biens d'environ 400.000 PR. Le montant de 43.900 PR ajouté en 1964 au compte des biens représente surtout les frais d'acquisition et d'installation d'un équipement de classement électronique moderne. En 1964, l'équipement estimé à 3.000 PR, déduction faite de la dépréciation, fut vendu à 1.000 PR, entraînant une perte de 2.000 PR.

L'indemnité accordée en cas de dépréciation était au 31 Décembre 1964 de 16,5% du montant approximatif des biens dépréciables (terrain non compris : 100.000 PR), L'indemnité pour toute l'année équivaut à un taux d'ensemble de 6,3% applicable au montant approximatif des comptes des biens, terrains non compris.

6 - Quote-part des actionnaires

Déduction faite des actions préférentielles à valeur d'amortissement, la valeur nette des actions ordinaires échues le 31 Décembre 1964 s'élevait à 137,46 PR l'action contro 128,72 on décembre 1963.

D - GENERALITES

Les polices d'assurance que nous avons examinées indiquent que l'assurance contre le feu couvre les **bâti**ments et leurs contenus (conformément aux polices générales) et équivaut à 900.000 PR avec un avenant égal à 80 %.

Puisque le montant de l'assurance est resté le même pendant 3 ans et qu'on envisage d'augmenter le volume des biens et partant les frais de replacement, nous estimons qu'il serait bon de penser à augmenter ce montant.

E – PROCEDURE

Ainsi que nous l'avons mentionné dans le premier paragraphe du présent rapport, notre examen a été effectué conformément aux règles de vérification universellement connues et selon une procédure que nous avons jugée nécessaire en pareilles circonstances. Nous vous proposons cidessous quelques brèves observations à propos de l'application de cette procédure.

Le numéraire en banques nous a été confirmé par des certificats fournis par les dépositaires. L'encaisse a été également confirmée ou comptée

Les garanties représentant les obligations du gouvernement du Ruritania furent examinées ainsi que les certificats représentant les participations, les bons, les conventions de prêt **et** toutes les garanties correspondantes que nous avons eus en main furent examinés, ceux qui sont à l'extérieur nous furent confirmés par une

- 22

correspondance directe avec les porteurs. Nous avons distribué des demandes aux emprunteurs pour confirmation des prêts échus le (mettre la fin du mois le plus proche de la date de la demande) et des garanties correspondantes. La réponse pour les prêts fut de 56.365.000 PR, à savoir 70 % du montant pour lequel la confirmation a été demandée, les différences furent si minimes, qu'elles furent facilement justifiées.

Nous avons examiné les retards dans **les** paiements du principal et de l'intérêt, l'indemnité pour les prêts doûteux et obtenu des renseignements et des explications de la part des représentants de la CFRD en ce qui concerne le recouvrement de l'ensemble des prêts et de chacun en particulier.

Les données à l'appui des dépenses engagées pour le compte des biens et de l'équipement furent examinées ainsi que les indemnités de dépréciation.

Toutes les dettes dont nous avons pris connaissance au cours de notre examen furent reconnues. Nous avons obtenu des renseignements directs de la part des prêteurs touchant la dette à long terme échéant le 31 Décembre 1964. Nous avons examiné le montant de la dette de l'impôt sur le revenu et obtenu du trésorier (ou tout autre fonctionnaire approprié) des certificats concernant les dettes directes et imprévues.

Nous avons également obtenu une confirmation des actions préférentielles et ordinaires échues, de la part des officiers et des agents de transfert respectifs de ces actions.

Nous avons expérimenté des transactions que nous avons jugérs nécessaires touchant l'intérêt, les dividendes, les engagements et tout autre revenu, et d'autres se rapportant à l'intérêt, et à toute autre dépense, nous conformant ce faisant au système de vérification et de contrôle existant.

TABLEAU Nº 1

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

Dépenses administratives et générales pour l'année écoulée le 31 Décembre 1964 avec les chiffres comparatifs de l'année 1963

	1964	1963
Indemnité pour les cadres et les employés	495,291	486.127
Dépenses et honoraires des directeurs	6.000	5.000
Services rendus par des experts	20.200	19.850
Représentants	12.501	11.862
Voyages	42.122	40.602
Fournitures	12.106	11.721
Service des communications	25.022	24.256
Livres et bibliothèque	15.005	14.872
Impression	18.952	17.822
Assurance	11.223	10.105
Divers	1.323	1.225
	712.246 PR	693.645 PR

Tableau 2

CORPORATION FINANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

PRETS ECHUS, PARTICIPATIONS ET GARANTIES

31 Décembre 1964

	-		alandray summary such cost			and the second	an and a state of the	an a	a second a s
	:(moins	d'un an)	(1 à	5 ans)	(plus	ie 5 ans)	Participat (frais)	0 0	Garanties de prêts
	Nombre	Montant	Nombre	Montant	Nombre	Montant	Nombre Mon	tant Nombre Montant	Nombre Montant
· · ·		PR	, in the second s	PR	No. and a construction of the second s	PR	PR	PR	PR
Agriculture									
Industries : Alimentaire									
Tabac							Remarque	: Ce relevé doit êt au client à la fi année financière	n de chaque pour être
Papier et produits en p apie Imprimerie et édition Cuir et produits en cuir. Chimique	•							vérifié par les c des co mptes. Les vent correspondre figurant dans le	totaux doi- aux chiffres
Verre, argile et pierre . Métallurgique (base) Machines	•							Décembre.	
Machines électriques Equipement de transport .	•								
Diverses Nines	•								
autres (spécifier) Total (déduction faite de balances non déboursées		· ***	and sign division of spectrum and states. The	 b.r.e.damendikationalen beford der regeleren: 	 Possible discontent address music 		n vandenderstellingen officiert	namen andere an en andere a	
des conventions de prêts ou des participations signées par la CFRD)		PR		PR		PR	PR	PR	PR

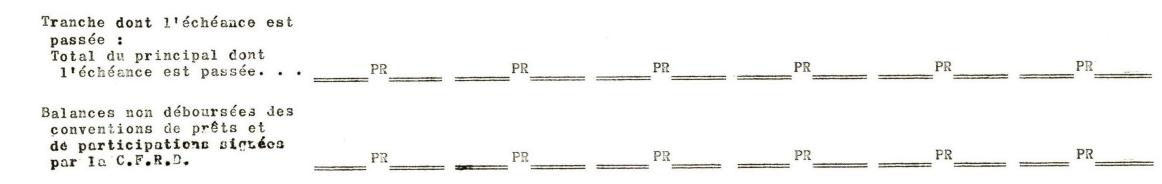


Tableau 3

.../...

CORPORATION FINANANCIERE RURITANIENNE POUR LE DEVELOPPEMENT

PARTICIPATIONS

31 Décembre 1964

						The commentation of the second states of the second states and the second states and the second states of the second states and the second states	NATURAL AND AND AND A SHORE AND A SHORE AND A SHORE AND	Name and a state of the state of the	a concentration transmission of a construction of	Lange Land Process of This and A from 1 of the activity of the	WELDER & MANAGEMENT AND A SUB-
	nannaðinna kunstnín den stænder stænder að svæðinnaðin stærnaðin stærnaðin stærnaðinn s F 1	·	articip	ations de	la CFRD(a)		:		cipations la CFI	Prê	t s
Compagnies	Industries	:part: : à : :100%:	actions:	Valeur au pair	Frais :	Valeur	:Dividen-: :des reçus: :en 1964:	à :	Frais :	C.F.R.D	IELF
Usine du textile:	Ciment Tissu en coton	:10,0 :20,0	2.500: 2.500:	250.000: 250.000:			6.500 6.000			725.000	350.000 300.000
Corporation du : Toumbouctou	: Sucre	:20,0:	8.000:	800.000:	800.000	816.000	: 80.000;	40,0:	1.600.000:	500.000	225.000
Actions de priorité	5 6 9	•	2.000:	• •	200.000	200.000	: 14.000:	4,0:	400.000	-	: _
Claimal abort	Distillerie d'acide	: :15,0:	5.500;	550.000:	550.000	555.500	: 39.875:	- 00		1.000.000	475.000
					2.050.000	2.115.502(b)	145.375				
Non inscrites (négociés au gui- chet) :	×										
77	:	: ;		1 000 000.	1 000 000		:100.000:		· - ·	500.000	:500.000
E	: Pièces détachées			3		:			;		•
Equipement agri- cole	Tracteurs etc	: 8,2	5.000:	500.000:	500.000	: 500.625	: 50.000:		· - ·	-	:750.000
Draduatours	: :Papier					701.750	70.000	7,5	1.050.000	633	250.000
Actions de priorité	:		3.500;	•	350.000	346.500	: 24.500	10,0	700.000	-	: -
Cininal Stool			• •	:	600.000	596.875	50.000	; - ;	: - :	900.000	:325.000
Corporation		,			REALINER COLORED AND AN ADDRESS CONTRACTORS OF MICH. COMMING.	3.147.000(c)	294.500				

Non inscrites (non négociées au guichet) : Engrais chi- : migues : En	ngrais		5.0:	7.450	•••••••••••••••••••••••••••••••••••••••	745.000:	745.000	:	765.000(d):	74.5	;	:	_	°	 : :250.000
Dividendes sur:	- 0	•	•		:	•			ő		0				
les investis-:		•	:		•	:		•	:		:			*	
sements de- :		•	:		0	•			0		:				
puis leur :		•	:		•	:			•						
vonte	~	:	-	-	:		-	•	- :	10.6	25:				
		•			Cult	discussion and the second discussion of the se	5.945.000	6	.027.502	525.0	00				

Remarques :

a - Tous les engagements ont été réglés le 31 Décembre 1964

b - Bourse

c - Prix au Guichet

d - Evaluation estimée par la direction de la C.F.R.D.

January 25, 1966

D.B - for .

Dear Professor Mikesell:

Thank you for your letter of January 18 enclosing a copy of your later draft than the one previously sent to us.

I am glad to learn that you are going to incorporate our comments. With respect to IFC's equity investments in development finance companies, we have no objection to your using the number 14. It has now become apparent where our disagreement arose.

With kind regards,

Yours sincerely,

B. H. Shin Development Finance Companies

Professor Raymond F. Mikesell W. E. Miner Professor of Economics University of Oregon Department of Economics Eugene, Oregon 97403

BHShin:phm

COMMUNICATIONS 1966 JAN 26 PM 1:06 January 25, 1966

0.13- for .

Bear Professor Micesell:

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Professor Raymond F. Mikesell W. E. Miner Professor of Economics University of Gregon Department of Economics Eugene, Oregon 97403

BHShin:phm

1966 JAN 26 PM 1:06

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DR. WILHELM TEUFENSTEIN

GENERALDIREKTOR – STELLV. UND VORSTANDSMITGLIED DER Österreichischen investitionskredit aktiengesellschaft

January 19, 1966

Mr. Stim BS

Mr. Robert F. SKILLINGS Deputy Director Development Finance Companies International Finance Corporation 1818 H Street, N.W. Washington, D.C. 20433

Dear Mr. Skillings,

Thank you very much for handing me the compilation of the statements on taxation affecting the development finance companies with which the World Bank Group is associated. I am very much looking forward to the study of this compilation and I trust that the results of this study will help us in many respects.

I remain,

Very sincerely yours,

CONMUNICATIONS 1966 JAN 21 PM 3: 40

DR.WILHELM TEUFENSTEIN

GENERALDIREKTOR-STELLV. UND VORSTANDSMITGLIED DER Österreichischen investitionskredit aktiengesellschaft

January 19, 1966

Ma Slim B

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Deputy Director
Development Finance Companies
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433

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Very sincerely yours,

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UNIVERSITY OF OREGON



Department of Economics COLLEGE OF LIBERAL ARTS

EUGENE, OREGON 97403 telephone (code 503) 342-1411

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January 18, 1966

Mr. B. H. Shin International Bank for Reconstruction & Development 1818 H Street Washington, D. C.

Dear Mr. Shin:

I am most grateful for your assistance on my paper and I am taking into account all of your recommended changes in my revisions. The enclosed draft, which I promised to send you, has not been corrected, but I think it is a later draft than the one which you have seen.

There is one point on which we still seem to disagree. I count 14 IFC investments in development finance companies as of the end of 1964, as against your 13. In the IFC publication entitled <u>Private Development Finance Companies</u> (pp. 14-15), you will note 13 such investments listed as of June 30, 1964. However, in August 1964, there was a second investment of \$.3 million in Bandesco, which I counted as a separate investment. This is how I arrived at my figure of 14.

Thanking you again for your generous assistance, I am

7 M/Kenl Sincerely yours,

Raymond F. Mikesell W. E. Miner Professor of Economics

RFM/dt

encl.



Ach is a president

Mr. H. M. Shita A. Emarciared Real For North Action Constant Sover Const and a Stress Neurinian Const. St. C.

Degr. Er. Shin:

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C.A. VENEZOLANA DE DESARROLLO

(SOCIEDAD FINANCIERA)

CAPITAL SOCIAL: Bs. 36.503.500 CAPITAL PAGADO: Bs. 30.297.905 APARTADO 11341-CHACAO-CARACAS CABLES: CAVENDES-TELFS, 32.72.36, 32.66.36

January 13th, 1966

the BS

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

Dear Mr. Shin:

Thank you for the four documents you sent together with your letter of December 27.

I have not had time, unfortunately, for a thorough look at these publications, because my return from the United States this week has coincided with a period of unusually heavy activity in our Company. I look forward to reading them very soon and wish to thank you for your interest in sending them.

Yours very truly,

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Luis Vallenilla President

LV/eda.-



C.A. VENEZOLANA DE DESARROLLO

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CAPTER PROVES IN ALTON DURING CAPTER

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January 13th, 1966

Mar. Pain -STH

Development Finance Companies International Finance Corporatio 1816 H. Street, N.W. Washington, D.C. 20433

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Yours very huly,

Luis Vallenilla President

-. obs/VJ

1966 JAN SI PM 1:22

FORM NO. 57

OFFICE MEMORANDUM

TO: Files

DATE: January 13, 1966

FROM: B. H. Shin

SUBJECT: Professor Mikesell's Draft Paper

1. Professor Raymond Mikesell came yesterday to see me regarding his draft paper entitled "Public Foreign Capital for Private Enterprise in Developing Countries", a copy of which he had sent to Mr. Diamond for his review and comments on December 14.

2. Since Mr. Diamond was away, he asked whether we could give him quick comments on the draft. The draft would soon become due for publication and he did not feel like publishing it without our review. After consulting with Mr. Skillings, I gave him several comments based on the review I had previously made on the draft. The following are major points covered in my comments.

3. In his draft Professor Mikesell gave the impression that the reason why the World Bank had not made a single loan thus far to an industrial development bank in Latin America was because of its adherence to the principle that development banks must be predominantly privately owned. It was explained that there were more reasons than that. One of the main reasons the Bank has found is in the difficulty of getting quasi-equity for development finance companies to tide over financial difficulties envisaged during their initial years. The difficulty may have arisen from the reluctance of both the Government to provide it and the development banks fearing government intervention over their affairs as a result.

4. The second point concerns the statement in the draft, "But external financing agencies generally prohibit the use of their funds for sub-loans for working capital purposes." It was explained that as far as the World Bank Group was concerned, sub-loans for the permanent element of working capital were not prohibited. On the contrary we have been trying to encourage the development finance companies associated with us to adopt more flexible lending policies so that a firm in an expansion program may have access to working capital loans on a long-term basis.

5. Finally it was brought to Professor Mikesell's attention that in his draft he used the term "quasi-equity capital" to mean long-term, low interest, soft currency loans. It was pointed out that our usage of the term is different from his and that the most important attribute of the term in our usage is that loans must be subordinated to other debts and share capital in case the company has to be dissolved. Only in this sense could such loans be understood to reinforce the capital base for borrowing purposes and thus it could be truly called quasi-equity.

6. Professor Mikesell promised to send us a new draft copy incorporating the comments made above.

OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen

. . . .

DATE: January 12, 1966

12. B - Pen.

FROM: Robert F. Skillings

SUBJECT: Taxation Affecting DFCs with which the World Bank Group is Associated

We have recently compiled data on the taxation affecting the development finance companies with which the World Bank Group is associated, and on special tax advantages accorded to them. We have distributed this document to all of the companies (at the request of many of them). Attached is a copy for your information.

Attachment

RFSkillings:phm

cc: Messrs. Alter Arango Beevor Cargill Cope Demuth El Emary Kamarck Kuiper Nishihara Paterson Richards Stevenson Sullivan Von Hoffman Williams All DFC Staff

INTERNATIONAL FINANCE CORPORATION

TAXATION AFFECTING

DEVELOPMENT FINANCE COMPANIES

WITH WHICH THE WORLD BANK GROUP IS ASSOCIATED

Development Finance Companies Department January 5, 1966

NOTE

This document contains descriptions of (a) the tax advantages which have been accorded to the development finance companies with which the World Bank Group is associated and (b) those parts of the tax systems in the countries concerned which are important to the operations of the companies. Only income tax, turnover tax, capital gains tax and other taxes imposed on net profits or gross income are covered. They are known to have, or likely to have, a relatively high incidence on the development finance companies while other taxes such as real estate tax, payroll tax, licence tax are insensitive to both the net profits and business volume, and are insignificant in terms of their incidence.

The taxation dealt with here is effective for 1965 and in some cases for fiscal year 1965-66.

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PAGE NO.

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OESTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT (AUSTRIA)

I. Tax Advantages Accorded to IVK

- (a) All physical or corporate persons may carry forward losses incurred in previous years for a number of years. For companies situated in Vienna this may be done for five years. This is the reason why during the first three years of operations of IVK no corporate (Körperschaftssteuer) and trade taxes (Gewerbesteuer) accrued because accumulated losses compensated accumulated net profits during this period.
- (b) IVK is permitted to accumulate tax-free reserves under the Banking Reconstruction Act of 1955 in two ways:
 - (i) a reserve equivalent to 3% of the outstanding credits at the end of a business year must be maintained. The reserve has to be made even when the allocations to this reserve results in a loss to the Company;
 - (ii) in 1955 and in the following nine business years 20% of gross income before taxes can be placed in reserves until the equity equals 10% of the total debt.
- II. Corporate Income Tax (Körperschaftssteuer)

Net profits of IVK are subject to corporation tax. The tax rates are:

	Tax Rate %
Net profits up to S 50,000	214
On next S 50,000	30
On next S400,000	140
Over S500,000	144

These rates are increased by a surtax of 18% of the tax levied, thus making 28.32% up to S 50,000 and graduating to 51.92% over S 500,000.

III. Trade Tax (Gewerbesteuer)

All business enterprises in Austria (including IVK) are liable to pay a trade tax, which is a mixture of federal and municipal tax with rates varying by municipalities. The tax is calculated on three elements, trade proceeds (as defined by law, approximately equivalent to net profits), trade

Currency: Schilling S 1 = US\$ 0.03846 US\$ 1 = S 26 capital and wages. The trade tax in most urban areas amounts to 15% of the trade proceeds plus 1 - 2% of the trade capital and at the most 2% of the total amount of wages paid.

IV. Capital Tax (Vermögenssteuer)

A tax of $\frac{1}{20}$ has to be paid on the net worth of the company (excluding the reserves, described I, b, i). In the case of IVK this means that the total share capital plus general reserves are subject to this tax. This tax is increased up to 1% for that portion of the share capital which is held by corporations (inheritance tax equivalent). Furthermore the tax authorities decided that the capital tax has to be paid also on 25% of the ERP Loans accorded to IVK because they are regarded as of quasi equity nature. Expenditure arising from this tax cannot be deducted from profits for calculation of the taxes mentioned under II and III. The tax has to be paid whether profits have been made or not.

V. Capital Returns Tax (Kapitalertragsteuer)

A capital returns tax which is a special form of income tax is levied on dividends, interest and other receipts from participation in domestic companies. This tax is deducted at the source. The tax rate is 15% plus surtax of 18% of the tax, thus making a total of 17.7%.

CHINA DEVELOFMENT CORPORATION

I. Tax Advantages Accorded to CDC

Like banking institutions CDC is permitted to set aside as reserve for bad debts free of tax an amount equal to 2% of outstanding loans (not outstanding investments) at the close of accounts.

II. Business Income Tax

CDC, like other business enterprises, is subject to a business income tax on net profits. Tax rates for 1965 are as follows:

Net Profits	Tax Rate %
NT\$10,000 or under	exempt
NT\$50,000 or under	8%
Between NT\$50,001 and NT\$100,000	14%
NT\$100,001 and over	18%

Interest on short-term government bonds and dividends received from domestic companies having paid business income tax are tax-free.

There is no capital gains tax. Capital gains resulting from sale of securities, debentures or bonds held more than one year are exempt from tax. Such gains resulting from sale of securities, debentures or bonds held less than one year are subject to the regular income taxes.

III. Business Tax and Defense Surtax

The business tax, a turnover tax, is levied on monthly gross business receipts. The tax rate varies from 0.6 to 4% according to the industrial classification of taxpayers. CDC is subject to the 3% business tax which is applicable to banking and warehousing.

There is a surtax called Defense Tax which is payable on the business tax levied. The surtax for 1964 is 30% of the business tax due. Thus CDC is subject to a total tax of 3.9% on its gross income.

In recent years the amount of the business tax plus defense surtax paid by CDC has been greater than that of the business income tax.

Currency: New Taiwan Dollars NT\$ 1 = U.S.\$0.025 U.S.\$1 = NT\$40



COLOMBIA

CORPORACION FINANCIERA COLOMBIANA CORPOPACION FINANCIERA DE CALDAS CORPORACION FINANCIERA NÁCIONAL

I. Tax Advantages Accorded to All Corporations

All corporations in Colombia including financieras are exempt from income tax and supplementary taxes on the following:

- (a) that part of gross earnings which is set aside as reserves for protection of the loan portfolio until they equal 10% of the loan portfolio;
- (b) up to 5% of net profits, provided that it is set aside as "Economic Development Reserve" and effectively invested in enterprises whose development is beneficial to the production of particular raw materials or merchandise in the opinion of the National Council of Economic Policy and Planning.

II. Corporate Income Tax

Corporations in Colombia are subject to corporate income tax, namely the basic income tax at special rates and to the excess profits tax.

(a) The Basic Income Tax at Special Rates

The basic income tax is levied on net taxable income of the corporation. Dividends received from other companies and interest received on government bonds are exempt from all taxes.

The income tax rate for corporations is as follows: 12% on the first Col.\$100,000, 24% on the next Col.\$900,000 and 36% in excess of Col.\$1,000,000.

Pursuant to Decrees 2323 and 2324 of 1965 all taxpayers including financieras are required to pay in 1965 an extra 15% on the income tax paid in 1964 and to pay in 1966 an extra 10% on the income tax paid in 1965.

Furthermore in 1966 a subscription equivalent to 5% of their income tax will have to be made to Government bonds.

(b) Excess Profits Tax

The excess profits tax is levied on the portion of "basic income which is in excess of given percentage of the "basic patrimony". The "basic income" is net income less certain kinds of income, tax payments and exemptions which are specified in the Law 81 of December 22, 1960. The "basic patrimony" is aggregate assets less borrowed funds on the last day of a tax period minus patrimonial exemptions permitted by law. When the basic patrimony is over Col.\$ 200,000, the basic income in excess of 12% of the basic patrimony is subject to the excess profits tax according to the following tax schedule.

> 20% of excess profits representing 6% or less of basic patrimony. 26% " " " over 6% but less than 12% of

- basic patrimony.
- 32% of excess profits representing over 12% but less than 18% of basic patrimony.
- 38% of excess profits representing over 18% but less than 24% of basic patrimony.
- 44% of excess profits representing over 24% but less than 30% of basic patrimony.
- 50% of excess profits representing over 30% but less than 36% of basic patrimony.
- 56% of excess profits representing over 36% of basic patrimony.

Illustration Suppose a DFC with the basic patrimony of Col.\$10,000,000 has earned the net taxable income of Col.\$2,000,000 during the tax year.

1. Corporate Income Tax The DFC pays Col.\$588,000 as a corporate income tax.

Income tax - 12% of its first Col.\$100,000 Col.\$ 12,000 24% of the next Col.\$ 900,000 Col.\$216,000 36% of the excess Col.\$1,000,000 Col.\$360,000

Col.\$2,000,000 Col.\$588,000

2. Excess Profit Tax If it is assumed that the basic income of the DFC is Col.\$ 1,412,000 (the net income minus the income tax paid) which is in excess of the 12% of the basic patrimony of Col.\$10,000,000, the DFC has to pay the excess profits tax. According to the above schedule, the excess of the basic income over the 12% of the basic patrimony is Col.\$ 212,000, and as the amount represents less than 6% of the latter, it is subject to a 20% of excess profits tax, that is, Col.\$ 42,400.

III. Special Housing Tax

Corporations are liable to pay a special tax for the construction of workers' housing amounting to 6% of net taxable income in excess of Col.\$ 20,000 after deduction of the income tax.

66% of the housing tax may be paid by investing one half (i.e. 33%) in mortgage bonds of the Banco Central Hipotecario and the other half in securities of non-profit housing development associations (since at present there are no securities of the latter type available, all of the 66% can be subscribed in mortgage bonds.) The bonds so subscribed must be retained for five years.

IV. Special Tax for Electricity and Steel Development

Natural persons, undivided estates, corporations and stockissuing, limited partnerships and limited liability companies are subject to a special tax of 3% of their net taxable income for the development of electricity and steel in the country. The taxpayer is given the option to subscribe one third of the tax in bonds or shares of Paz del Rio, (S.A.). The special tax is allowed as a deduction in computing gross income for income tax purposes in the year paid.

I. Tax Advantages Accorded to DBE

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The Proclamation for the Establishment of the DBE provides that DBE is exempt from all taxes, duties and customs.

TEOLLISTAMISRAHASTO OY (THE INDUSTRIALIZATION FUND OF FINLAND)

I. Tax Advantages Accorded to IFF

(a) Under special legislation IFF has been authorized to deduct annually from its taxable income an amount equivalent to the annual redemption (Fmk 300,000) of series B shares, which are the shares held by the Bank of Finland.

(b) Like other Finnish financial institutions, IFF is permitted to set aside each year as contingency reserve free of tax from its net profits an amount equal to 0.6% of the aggregate amount of outstanding loans and guarantees as at the closing of accounts, until the total amount of the unused contingency reserve reaches 8% of the aggregate amount of outstanding loans and guarantees.

II. Corporate Income Tax

Like other companies in Finland IFF is assessed three income taxes: state income tax, municipal income tax and church income tax.

- (a) State Income Tax 42% on distributed profits and 48% on undistributed profits, both effective as of January 1965.
- (b) Municipal Income Tax about 12% on net profits. The rate varies from 8 to 14% by each municipality. The rate in Helsinki where IFF is located was 11.75% in 1964.
- (c) Church Income Tax about 1% 2% on net profits. The rate is determined annually by each congregation. The rate for IFF was 0.95% in 1964.

Interest received by corporations including IFF on both government bonds and bank deposits are treated as ordinary income. 15% of dividends received by IFF is credited against the income taxes.

Capital gains from sale of securities by companies normally dealing in securities are treated as ordinary income regardless of the period of holding such securities prior to their sale. Capital gains by IFF are treated in this way.

III. Other

(a) Net Wealth (Property) Tax

According to Finnish legislation, long-term financing institutions which in their Articles of Association limit the distribution of dividends to no more than 5% of the paid-in capital shall be exempt from 1% property tax payable on their net worth. Having met this condition, IFF is not subject to the property tax.

Currency: Markka Fmk 1 = US\$ 0.31 US\$ 1 = Fmk 3.2

(b) Stamp Duty

The stamp duty on share dealings is 1% on the Exchange and 1.2%elsewhere. The buyer pays half. The same charge applies to debentures and other long-term certificates but bonds are exempt from stamp duties when they are resold. No stamp duty is levied on long-term deposits. A stamp tax usually of 2% of the share value is levied when a company is founded and on any share capital increase by means of a publis issue, while the stamp duty on new bond issues and on loans or promissory notes of more than six months duration is 0.6% and for three or six month bills, 0.8%per annum. The relative disadvantage of share dealings and long-term borrowing in respect to the stamp duty has constituted one of the important factors making these forms of capital raising unattractive in Finland.

NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT S.A. (GREECE)

I. Tax Advantages Accorded to NIBID

None.

II. Corporation Tax

Undistributed net profits of NIBID like all corporations are subject to a flat 35% corporation tax (income tax) plus a 15% surtax, or a total of 40%. Since the surtax paid is allowed to be deducted from taxable income, the actual effective rate comes to 38%. Corporations distributing dividends are required to withhold a 25% tax on the dividends.

Interest on government bonds, bank deposits, bonds, loans to certain public utilities as well as to limited liability companies are exempt from income tax. Dividends from limited liability companies or certain government corporations are treated as ordinary income but the 25% tax withheld at the source may be claimed for tax credit.

Capital gains derived from financial assets are subject to income tax.

III. Turnover Tax

Enterprises are subject to a turnover tax on gross income. The rate applied to banks including NIBID is 3% on the gross income.

A stamp duty of 1.2% on the gross income is also charged.

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I. Tax Advantages Accorded to ICICI

Section 36(1) (viii) of the Income Tax Act, 1961 provides that a long-term development finance institution such as ICICI may carry a maximum of 10% of net income to a special reserve free of corporate income tax. This provision was made effective with income earned during 1960.

II. Corporate Income Tax

ICICI belongs to the category of companies which on their business income are subject to a 25% income tax plus a 25% super tax, thus making a total of 50% of taxable income.

In addition, Indian public companies are subject to the surtax of a flat rate of 40% on the excess when profits after certain adjustments and as reduced by income tax and super-tax payable on them, exceed 10% of the"capital base"of a company or a sum of Rs.200,000, whichever is higher. ICICI, however, has not, and probably will not ever pay this tax since its capital base as defined below has grown to a considerable size. The capital base for the purpose of this tax comprise the net worth of a company, debentures, loans from Government to approved financial institutions, loans from banking institutions for a minimum 7-year period and money borrowed from abroad for creating capital assets in India. As a corrolary to the inclusion of the loan capital in the capital base, the interest payable on the loan capital will be added back to the profits.

Dividend income* of ICICI is subject to only the income tax of 25%. The super tax referred to above and surtax are not applicable to dividend income.

III. Dividend Tax

Dividend tax is levied on a company at the rate of 7.5% on the amount of dividends distributed by it.

IV. Capital Gains Tax

Capital gains realized at least a year after acquisition of the investment are taxable at the rate of 30%. Capital gains are not subject to the surtax.

Currency: Rupee Rs. 1 = US\$ 0.21 US\$ 1 = Rs. 4.7619

* Dividends derived from new industrial undertakings or hotels specified in Section 84, Income Tax Act, 1961, are exempt from income tax.

INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

I. Tax Advantages Accorded to IMDBI

Under the provision of the Special Law of May 10, 1959, the net profits of IMDBI in any one year are exempt from income tax up to 6% of the sum of the paid-up capital and the Rls. 600 million Government advance to it, or up to Rls. 64.8 million. (Paid up capital is now Rls. 480 million).

II. Corporate Income Tax

Companies are subject to income tax on net profits. The rate starts from 12% on net profits between Rls. 48,000 and Rls. 100,000, graduating to 50% over Rls. 6,000,000. In addition a 16.50% of income tax is paid to cover municipality and Chamber of Commerce tax.

Interest received on bank deposits is exempt from tax but no reserves for future losses are deductible from taxable income. Dividends received by IMDBI from which a flat rate of 6.99% tax are deducted at the source are deductible from taxable income.

Currency:	Rial
1 Rial =	US\$ 0.013
US\$ 1 =	Rls. 75.75

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

I. Tax Advantages Accorded to IDBI

Part of IDBI's share capital represents "approved investments" under the Law for Encouragement of Capital Investments of 1959 and IDBI therefore is recognized partly as an "Approved Enterprise". About 30% of its net profits (decided upon from year to year in relation to new capital issued) after company profits tax, is exempt from income tax of 25% for a period of five years.

II. Company Profits Tax

On its chargeable income, IDBI, like other companies, is subject to a flat 28% company profits tax and to a 25% income tax (except for the exemption referred to above) on the remainder after deducting the company profits tax.

In calculation of the chargeable income for purpose of the company profits tax, dividends received by IDBI from other companies are deductible from its income, and for purpose of the income tax, all dividends which IDBI has declared are deductible from its income in order to prevent double taxation.

BANQUE IVOIRIENNE DE DEVELOPPEMENT INDUSTRIEL (IVCRY COAST)

Tax Advantages Accorded to BIDI I.

It is provided in Article 6 of the Foundation Agreement between the Government and BIDI that:

"The Government undertakes to accord the following tax treatment to BIDI:

For a period of 10 years from the date of this Agreement, BIDI (A) shall be entirely exempt from the following taxes:

(1) All taxes arising out of the establishment of the Corporation, including registration duties, the tax on initial capital and all taxes or duties relating to capital increases, the foregoing enumeration being nonlimitative.

(2) Taxes on turnover, including any tax or duty on the volume of operations of BIDI, any tax on value added and any tax on the performance of services, the foregoing enumeration being non-limitative.

(3) All customs or other duties on any materials, equipment, machinery, goods and parts imported by BIDI for its own account, irrespective of the country or origin.

For a period of 5 years from the date of this Agreement, BIDI (B) shall be entirely exempt from:

- (1) licence tax;
- (2) the real estate tax on developed and undeveloped real property;
- (3) the tax on industrial and commercial profits;
 (4) all other taxes and duties of whatever nature collected or imposed by the Republic of the Ivory Coast or by any other public, local administrative or other institution or by any other fiscal authority, with the exception of the tax on wages and salaries and of the national contribution relating thereto.

(C) For a period of 5 years from the date of this Agreement, the shareholders of BIDI shall be exempt from the payment of the tax on the Revenu des Valeurs Mobilieres (IRVM) (Tax on income from securities).

(D) Except as otherwise provided in the preceding paragraphs of this Article 6, the taxation system applicable to BIDI shall be that in force in the Republic of the Ivory Coast at the date of signature of this Agreement and shall remain unchanged for a period of 25 years from that date, which period shall be extended by a maximum of 5 years in order to take account of the time required by BIDI for its establishment.

If at any time during the period indicated in the foregoing paragraph (E) (C) the general fiscal legislation applicable to industrial, commercial or financial enterprises in the Republic of the Ivory Coast is amended, BIDI shall have the right to require that such amendments be applied to BIDI."

THE LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT & INVESTMENT

I. Tax Advantages Accorded to LBIDI

LBIDI's Charter, an Act to Amend the Executive Law to Create LBIDI, dated March 22, 1965, provides that it shall be immune from all taxes and custom duties, and that all interest or dividends paid by it shall also be exempt from taxation.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

I. Tax Advantages Accorded to MIDFL

None.

II. Company Tax

Under the Income Tax Ordinance 1947 and its later amendments, MIDFL like all companies is subject to a flat 40% company tax on taxable income.

Dividends received from domestic companies are treated as ordinary income and any tax thereon deducted at source is claimable for credit. Dividends received from Pioneer Status Companies are not taxed at source, but the recipient must pay tax on them, in MIDFL's case, the company tax.

BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE (MOROCCO)

I. Tax Advantages Accorded to BNDE

(a) BNDE has been authorized by the Ministry of Finance to create the following tax-free reserves: (i) a reserve to cover the risks on its discounting operations up to a maximum of 0.15% of the new rediscountable credits opened each year, provided this does not cause the total of this reserve to exceed 0.5% of its combined discounting commitments; (ii) a fund to cover the risks on direct loans made: to this fund is transferred an amount equal to one-seventh of the interest collected on direct loans in each financial year. Allocations shall be made to this fund before any dividends are distributed to shareholders. The fund may be distributed in whole or in part only after payment of the professional profits tax up to an equivalent amount.

(b) BNDE is also exempt from all fees and taxes on its capital and changes therein (increases or decreases), on issues of bonds, debentures and securities, and on instruments and agreements relating to its credit transactions. This exemption includes fees and taxes of all kinds, namely registration fees, duties on the registration of mortgage guarantees or collateral, duties on the cancellation of such guarantees, court costs (frais de justice), etc.

II. Professional Profits Tax

As a company, BNDE is subject to a flat profits tax of 36%; it is also liable to pay a National Solidarity Tax in the form of a 20% surtax on the professional profits tax. Thus, BNDE is subject to a total effective profit tax of 43.2%. Capital gains and dividends received are treated as ordinary income.

III. Goods and Services Taxes

These taxes are imposed on all goods and services at rates varying from 4 to 8%. BNDE pays a 4.17% tax on interest and other charges received.

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED

I. Tax Advantages Accorded to NIDB

In accordance with the Companies Income Tax (Authorized Deductions) (Nigerian Industrial Development Bank Rules 1964), NIDB is specifically permitted to set aside reserves free of tax until they equal the government loan of £N2 million to NIDB.

II. Corporate Income Tax

Like all corporations in Nigeria, NIDB is subject to a flat 40% income tax on taxable income.

Currency: Pound £N 1 = US\$ 2.80 US\$ 1 = £N 0.357

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LTD.

I. Tax Advantages Accorded to PICIC

(a) According to the Income-tax Act, as amended by the Finance Ordinance of 1960, a sum equivalent to 10% of total income of development financial institutions is tax free if it is carried to a special reserve. This exemption is granted until such tax free reserve equals paid up capital. Only two institutions have been so far recognized for this purpose - PICIC and the Industrial Development Bank of Pakistan.

(b) Under a notification issued on January 30, 1959 by the Central Government, PICIC is recognized as an Investment Company so that dividends received by it as owner of equity shares are excluded from PICIC's taxable income.l/ This concession is also extended to other investment companies.

II. Income Tax and Super Tax

PICIC, as a "public limited company" declaring and paying dividends in Pakistan, pays a 30% income tax and a 15% super tax, thus making a total of 45% on taxable income.

III. Capital Gains Tax

There is a capital gains tax of 20% when capital gains result from the disposal of capital assets after six months but within five years of acquisition. Capital gains resulting from the disposal of capital assets after five years of acquisition are subject to a 10% tax. Capital gains on the disposal of capital assets within six months of acquisition are considered ordinary income.

Currency: Rupee PRs. 1 = US\$ 0.21 US\$ 1 = PRs. 4.7619

1/ Normally a public limited company receiving dividends pays a 15% supertax on dividends received on shares issued in Pakistan after August 14, 1947 and a 20% supertax in other cases. Corporations issuing bonus shares are subject to a 12½% supertax on the par value of bonus shares.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

I. Tax Advantages Accorded to FDCP

None.

II. Corporate Income Tax

PDCP is subject to a corporate income tax. Capital gains are treated as ordinary income. Dividends received from a domestic corporation which is itself subject to income tax are treated for income tax purposes as ordinary income only to the extent of 25% of the dividends received.

The tax rate is 22% on net taxable income up to the first P100,000 and 30% on the excess.

Currency: Peso P1 = US\$ 0.254 US\$ 1 = P 3.925

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BANCO DEL DESARROLLO ECONOMICO ESPANOL (SPAIN)

I. Tax Advantages Accorded to BANDESCO

According to Decree Law 53/1962 of November 29 on Industrial and Affairs Banks, capital gains obtained by development financing institutions such as BANDESCO in selling industrial securities from their portfolio are wholly exempt from taxation, provided such sales take place within a four-year period after such securities have been acquired; if such sales are effected within the fifth year 75% is exempt; if within the sixth year, 50%; if within the seventh year, 25% and no exemption thereafter. At least 50% of the capital gains exempt from taxation is required to set aside as special reserve.

Deposits received by such institutions as well as the bonds and debentures they issue are exempt from tax on the yield of capital, stamp tax and tax on issuance and negotiation of securities.

II. Corporate Income Tax1/

Like all commercial and industrial enterprises, BANDESCO is subject to a flat tax of $34\%^2/$ on net profits. In addition there is a surcharge of 15% for the provinces. A 2% Chamber of Commerce Tax and a provincial tax varying up to a maximum of 1.87% depending upon the locality are also imposed. If the net profits is 4% or more of capital, a 25% municipal surcharge is also levied.3/

Most types of investment income are withheld at source. There is a 15% tax on dividends; a 24% on loan interest; and a 20% on Spanish Government bonds, 24% on private bonds and 26.4% on foreign government bonds. Interest on loans made by banks including BANDESCO is not subject to this tax but to the regular corporate income tax.

1/ A thorough fiscal reform is being implemented in Spain. The reform is based on the law of December 28, 1963, and on the reform law of June 11, 1964 which is to take effect gradually through 1966. The information provided herein is concerning the new tax system which began to be put into effect on July 1, 1964.

2/ All commercial and industrial activities carried on by companies are subject to an industrial tax at the rate of 20% of taxable income, payable semi-annually. This tax is however deductible for the purpose of corporate income tax. For this reason, it is treated here as a footnote.

3/ When profits after taxes in any one year exceed 6% of the nominal capital, then 10% of the profits must be carried to the legal reserve until it equals one-fifth of paid-up capital. This reserve may only be used to offset future losses.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

I. Tax Advantages Accorded to IFCT

In accordance with Royal Decree on Revenue Code, Ministerial Regulation and the interpretation by the Revenue Department of the legal status of IFCT, IFCT is exempt from stamp duty, business tax and corporate income tax.

TURKIYE SINAI KALKINMA BANKASI A.S. (TURKEY)

I. Tax Advantages Accorded to TSKB

None.

II. Corporation Tax

TSKB is subject to corporation tax which is a flat rate of 20% on taxable income, and also to a 20% income (withholding) tax of the net profits after deduction of corporation tax and legal reserves. This tax must be paid to the fiscal authorities whether or not dividends are distributed. Corporations which hold 10% or more shares of another corporation and shares which are held more than one year, dividends received for these shares are not subject to corporation tax for the holding corporation.

Interest income from Government bonds held by Corporations is subject to specially favorable Corporation Tax rates. The rates are 1/2%on bonds held against legal reserves, $1^{1}\%$ on free holdings and 1/2% on Savings Bonds which are applied on the nominal value of average monthly holdings.

Capital gains from the sale of securities are treated as ordinary income.

II. Transaction Tax

Interest, commissions and other fees charged by banks and insurance companies in return for their services rendered, are subject to a 20% transaction tax. In practice incidence of this tax is passed over to the clients. The transaction tax on fees received on Administered Funds are however borne by TSKB.

Dividends received on equity participations are also subject to the transaction tax, the incidence of which is borne by TSKB.

IV. Other

(a) Stamp Duty

According to a law, all the loan agreements and sub-loan agreements signed between the international finance institutions and TSKB, the government and TSKB or TSKB and the sub-borrowers are subject to a 0.4% stamp duty on the amount of the loan or sub-loan agreements or the highest amount mentioned in the loan or sub-loan agreements. Both the lender and the borrower are subject to this duty at the same percentage. In practice incidence of this duty is passed over to the sub-borrowers in case of sub-loans. But the duty on any loan agreement signed between TSKB and the international finance institutions or the Turkish Government is borne by TSKB. (b) <u>Civil Defence Participation Fund</u>

According to law 7126, the taxable income of corporations is subject to civil defence participation fund at 1/2% flat rate.

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C.A. VENEZOLANA DE DESARROLLO (VENEZUELA)

Tax Advantages Accorded to CAVENDES I.

None.

II. Corporate Income Tax

Financial corporations like CAVENDES are subject to a 5% basic tax on taxable income. In addition, there is levied a complementary tax, the rate of which is 10% up to Bs 100,000 graduating to 45% on income over Bs 28,000,000.*

Dividends received from corporations are exempt from both the basic tax and the complementary tax. Interest on many government bonds is exempt from tax under special government decrees.

Currency: Bolivar Bs 1 = US\$ 0.2985US\$ 1 = Bs 3.35

Complementary tax rate schedule: *

All Income	Tax Rate
Up to Bs 100,000	10%
100,000 to 1,400,000	20%
1,400,000 to 3,800,000	25%
3,800,000 to 6,400,000	30%
6,400,000 to 10,000,000	35%
10,000,000 to 20,000,000	40%
20,000,000 to 28,000,000	42 ¹ 2 %
Over 28,000,000	45%

P.B - Pen



INTERNATIONAL FINANCE CORPORATION

1818 H Street, N.W., Washington, D. C. 20433, U.S.A. Area Code 202 · Telephone - EXecutive 3:6360 · Cable Address - CORINTFIN

> January 11, 1966 (typed from tape sent by Mr. Diamond from Nairobi and not seen by him in final form)

Mr. Robert F. Skillings Development Finance Companies IFC - Room 950

Dear Bob:

Would you be good enough to put together a packet of material on the IFC and the Bank, with particular reference to investing in, and lending to, industrial enterprises. The packet should also contain all the public documentation we have regarding development banks. This should be sent to Mr. C.M. Southall, Manager of the DFCK here in Nairobi. (Incidentally, Mathew will remember Southall as the Manager of the small CDC subsidiary in Sierra Leone. He came to take over this job only about five weeks ago.) Include in the packet the Boskey and Diamond books and all the circulatable speeches and articles on development banks. Include also the IFC Policy Statement and some of the talks which Marty and others have made on IFC operations.

Many thanks.

Sincerely yours,

Billopus

William Diamond

Robert F. Skillings

January 10, 1965

R.B.

Roberto M. Fernandes Runt

Development Finance Companies Project - Revision of Policy Statements

1. The following principal matters should be reviewed with the representatives of the financieras:

- a) devotion of an increasing proportion of resources to medium- and long-term financing;
- b) protection of the financieras' equity against inflation;
- c) limitation on maximum commitments to individual enterprises;
- d) limitation on maximum participation in the capital of individual enterprises;
- e) limitation on total aggregate amount of equity investments;
- f) minimum size of individual operations;
- g) establishment of satisfactory reserves policy;
- h) limitation on debt;
- 1) liquidity;
- j) development of adequate staff;
- k) operations with Government-controlled enterprises.

2. While the financieras will be encouraged to put forth their views with respect to these matters, it is proposed that the attitude of IFC towards each of the above items be as outlined below:

a) <u>Devotion of an increasing proportion of resources to</u> <u>medium and long-term financing</u>. This should be clarified to mean that the financieras will normally make only equity investments, and, loans of a duration greater than 1 year. Short-term loans, as well as acceptance and guarantee operations of 1 year or less, would be made only to enterprises in which the financieras have an equity participation or to which they have granted medium or long-term loans. b) Protection of the financieras' equity against inflation. Equity resources of the financieras should be invested, as far as possible, in the equity of enterprises, in loans with equity features and in loans denominated in foreign exchange. The financieras should study the feasibility of extending loans with provision for periodic readjustment of principal amounts in terms of an index of prices or foreign exchange.

c) Limitation on maximum commitments to individual enterprises. The total amount of equity investments in loans to acceptances and guarantees in favour of, an individual enterprise, should not exceed (1557 of the paid-in capital and free reserves of the financiera.

d) Limitation on maximum participation in the capital of individual enterprises. Except in duly justified circumstances of a temporary nature, a financiera's equity participation in an individual enterprise should not exceed /30%/ of the enterprise's subscribed capital. As a general rule, the financiera's participation should not give it primary responsibility for management of an enterprise.

e) Limitation on total amount of equity investments. The total amount of equity investments held by a financiera should not exceed the value of the financiera's paid-in capital and free reserves.

f) Minimum size of individual operations. The minimum size of individual commitments (projects) should be no less than /Col.\$500,000/ except in the case of short-term operations in which it would be /Col.\$300,000/.

g) Establishment of satisfactory reserves policy. The financieras should make periodic provisions for bad debts and for capital losses on their equity portfolio by means of deductions from income before determination of gross profits. Such valuation reserves, similar to the reserve for depreciation of fixed assets, should be established in the light of the financieras' actual estimates of future losses in the value of assets.

The financieras should allocate a minimum of 50% of net profits after taxes to reserves, until the latter attain at least 15% of the total loan and equity portfolio. For the purposes of this computation, allocation to the reserve for protection of loan portfolio should be considered as part of retained earnings, and, said reserve should be considered part of net worth.

h) Limitation on debt. The total amount of debt incurred by a financiera (including long and short-term borrowings, acceptances and guarantees) should not exceed h times the aggregate of the financiera's paid-in capital and free reserves. i) Liquidity. The maturities of the financieras! liabilities should be at least matched by those of its assets.

j) <u>Development of adequate staff</u>. The financieras should engage staff, adequate in quantity and quality, to ensure the proper appraisal of all projects submitted to the financieras as well as the follow-up of investments made by the financieras. This staff should include personnel skilled in engineering, financial and economic analysis. Whenever necessary, the financieras should also employ the services of outside experts.

k) Operations with Government-controlled enterprises. The financieras should not make operations with enterprises the management of which is controlled by the public authorities.

3. Following are transcriptions of the relevant provisions contained in the policy statements (or proposed policy statements) of the five financieras.

a) Devotion of an increasing proportion of resources to medium- and long-term financing.

<u>CF-Colombiana</u> (Memorandum of Understanding - Side Letter to IFC). To apply all funds supplied to the Corporación by IFC to long-term investments. The Corporación will adopt flexible patterns for long-term investments in private enterprise in Colombia (i) in the form of share capital subscriptions, or (ii) in the form of long-term loans (the major portion of which matures more than five years after the date of disbursements) which, in addition to or in substitution for fixed interest, shall have, or be combined with, some features of venture capital, such as profit participations, conversion rights, stock options, contingent interest or other terms which confer on the investor a right to share in the profits of the borrower, or (iii) in such other form or forms as IFC shall from time to time approve. In special cases, after consulting with IFC, simple long-term loans at fixed interest may be made when the Corporación and IFC consider it appropriate.

In addition to the medium-term loans which it has been making, and to which funds derived from the discount of obligations at Banco de la República must be applied, the Corporación intends to use a progressively larger proportion of its other funds for the types of investments described above in this paragraph. CF-Nacional - identical to CF-Colombiana.

<u>CF-Caldas.</u> CFC will increasingly provide long-term financing to Colombian private enterprises under a flexible policy which would cover the following types of operations: (a) equity investments; (b) long-term loans, 5 years or more, under contracts that in addition to the fixed interest rate will include provisions characteristic of risk capital investment, such as convertibility, income participations, option to subscribe shares, etc.; and (c) othersforms of long-term financing.

the subject. <u>CF-Valle</u> (draft). There is no special reference to

the subject. <u>CF-Norte</u> (draft). There is no special reference to

b) Protection of the financieras' equity against inflation. None of the policy statements specifically deal with the subject.

c) Limitation on maximum commitments to individual enter-

prises.

<u>CF-Colombiana</u>. To diversify its financing (except for temporary investment of its liquid funds in short-term securities) as among types of enterprises, and not to commit to any single enterprise more than 10% of the total of (a) its share capital and free surplus and (b) the Convertible Income Notes.

<u>CF-Nacional.</u> - identical to CF-Colombiana. The provision has been interpreted to mean that (a) long-term loans are limited to 10% of share capital and free surplus; (b) the aggregate of long-term and short-term operations will not exceed 15% of said total (Gutiérrez's letter to Rosen of November 9, 1961).

CF-Caldas. Except for temporary investments of its liquid assets, CFC will distribute the use of all its funds in such a way that no single enterprise would have received at any time more than 15% of the value of the capital and surplus of the Corporación.

<u>CF-Valle</u>. To continue to diversify the portfolio of the Corporación so that it continually reflects a financial activity extended to the various types of business and economic activities carried out in Colombia, and, by means of such extensive diversification, to protect the Corporación from a concentration of risks.

To limit the amount that the Corporación may invest in any one company or concern to 15% of the Corporación's paid-in capital and reserves. <u>CF-Norte</u>. As regards the extent of its participation in investments, loans and guarantees, made or given in respect of a single enterprise, Cofinorte will not devote to any one concern more than 20% of the value of its own paid-in capital and reserves to that purpose. In the case of companies that have been promoted by Cofinorte, however, the maximum extent of total operations in respect of a single company may amount to 25% of the Corporación's paid-in capital and reserves.

d) Limitation on maximum participation in the capital of individual enterprises.

<u>CF-Colombiana and CF-Nacional</u>. To refrain from taking a controlling interest in any enterprise or any other interest which would give it primary responsibility for the management of such enterprise.

<u>CF-Caldas</u>. Save for temporary and exceptional circumstances, CFC will not take control of any enterprise, nor will it take shares in a proportion that would give it primary responsibility for the management of the enterprise.

<u>CF-Valle</u>. Also to refrain from all operations that might lead to the Corporación's obtaining control of the concerns with which it does business, except in cases where very special circumstances may make this advisable in the interests of the Corporación.

<u>CF-Norte</u>. It will not be Cofinorte's permanent policy to acquire and/or retain control of any enterprise in which it has made an investment of capital. In the special case of any companies that Cofinorte may have promoted and in which it may, exceptionally, have been called upon initially to participate to the extent of becoming a majority shareholder, Cofinorte shall retain that status during the time required to enable the company thus promoted to achieve financial stability. When such stability has been attained by the company, Cofinorte shall sell part on all of its shares, so as to recover its funds and use them for the purpose of promoting new enterprises. This policy shall be varied only in cases where its application would endanger the stability of the company promoted.

e) Limitation on total amount of equity investments.

<u>CF-Colombiana and CF-Nacional</u>. There is no limitation. <u>CF-Caldas</u>. There is no limitation.

CF-Valle. There is no limitation.

<u>CF-Norte</u>. Cofinorte's total investments in other companies may not be greater than the amount of its own paid-up capital and reserves at the same date.

f) Minimum size of individual operations.

CF-Colombiana and CF-Nacional. There is no reference to this matter.

<u>CF-Caldas</u>. Looking forward to improving the profitability of its operations, CFC will not, ordinarily, make short-term loans under Col.\$100,000 and medium- and long-term loans under Col.\$200,000.

<u>CF-Valle</u>. In order to protect the policy of higher returns, to discard anything contributing to higher administrative costs, such as the administration and control of loans or investments of less than Col.\$200,000, except in cases that can be regarded as exceptional.

<u>CF-Norte</u>. Bearing in mind the fact that small firms predominate on the Atlantic Coast, Cofinorte has not laid down any minimum amount for its transactions in the field of financing. Having regard to the level of operating costs, however, an attempt will be made in practice to make the minimum amount per transaction the sum of \$50,000.

g) Establishment of satisfactory reserves policy.

<u>CF-Colombiana and CF-Macional</u>. So far as is consistent with the accomplishment of the policy set forth above (periodic capital increases), the Corporación agrees with IFC as to the advisability of pursuing a prudent dividend policy under which generally not more than 50% of net profits would be distributed in cash. It is recognized that sound accounting practice requires the allocation from gross income, before net profits, of reasonable sums to investment reserves and to require the building up of such reserves to a level of not less than 15% of the book value of the Corporación's investments. It is further recognized that allocations may be made out of surplus to such investment reserves, to any extent which the Corporación may deem proper in order to accelerate the building up of such reserves to the level mentioned above.

<u>CF-Caldas</u>. The Corporación intends to pursue a prudent dividend policy under which generally not more than 50% of net profits would be distributed. It is recognized that sound accounting practice requires the allocation from gross income, before net profits, of reasonable sums to investment reserves and to require the building up of such reserves to a level of not less than 15% of the book value of the Corporación's investments. It is further recognized that allocations may be made out of surplus to such investment reserves, to any extent which the Corporación may deem proper in order to accelerate the building up of such reserves to the level mentioned above.

<u>CF-Valle</u>. To form reserves out of profits as a form of cover and insurance for the financial stability of the Corporación, and to make sure that the total value of such reserves is not less than 15% of the total portfolio of the Corporación; and to form these reserves by means of a prudent policy in the distribution of dividends, whereby not more than half the net profits earned during each fiscal year may be distributed among the shareholders.

<u>CF-Norte.</u> It will be the policy of Cofinerte to build up the reserves required to provide it with a sound capital foundation, protection for its assets and future stability. As part of this policy, the Board of Directors will recommend the General Meeting of Shareholders not to distribute dividends exceeding 50% of the annual net profits until such time as the Reserve for the Protection of the Portfolio of Loans and Investments has reached 15% of the book value of these latter.

As regards the cash distribution of profits, Cofinorte will follow a prudent policy and pay due regard both to the interests of the Corporación itself and to those of its present and future shareholders.

h) Limitation on debt.

<u>CF-Colombiana and CF-Nacional</u>. To observe reasonable and prudent limits for the exercise of its borrowing powers, in any case not exceeding four times its share capital and free surplus. For the purpose of this paragraph, the IFC Notes shall be treated as share capital and any evidence of indebtedness discounted with banks or otherwise shall be included in the guaranteed indebtedness of the Corporación.

<u>CF-Caldas</u>. CFC will follow a prudent policy as far as debt acquisition is concerned. Under no circumstances total debt will exceed four times the amount of the capital and surplus accounts. CF-Valle. To limit the Corporación's debt capacity to an amount equivalent to four times that of its capital, surplus and reserves.

CF-Norte. There is no reference to this matter.

1) Liquidity.

CF-Colombiana and CF-Nacional. There is no reference to this matter.

CF-Caldas. Short-term loans received by CFC will be invested in assets readily convertible into cash.

<u>CP-Valle</u>. To try to maintain a ratio between the value of the Corporación's current assets and liabilities that will invariably reflect its liquidity. In its policy of attracting funds to continue to avoid such monies as require to be returned in the short term unless they can be invested on the market at a considerable profit and with the assurance that they can rapidly be recovered.

CF-Norte. There is no reference to this matter.

j) Development of adequate staff.

<u>CF-Colombiana and CF-Nacional</u>. To build and strengthen the management and staff of the Corporación so as to achieve a well-ballanced organization, including financial and economic analysis, technical, accountancy and legal services, and supervision of previously concluded investments.

<u>CF-Caldas.</u> CFC will endeavor to have an efficient and balanced internal organization; and from time to time will strengthen its staff in order to have personnel readily available to supervise its investments and to provide the economic, financial, technical, legal and accounting services that a sound operation may require.

<u>CF-Valle</u>. The Corporación will take continual care to staff its evaluation and supervision offices with personnel whom are academically qualified and can thereby ensure the effectiveness of the credit operations and the security of investments.

<u>CF-Norte</u>. It is Cofinorte's intention to undertake the present and future training of an administrative and technical body of staff qualified and skilled in each of the specialized tasks that are required in order that the Corporación may function normally and efficiently, such as the detailed examination of loans, investments and projects from the economic, financial, and technical points of view. The number of established or permanent staff will not exceed that called for by the volume of business and the staff will be confined to the most usual categories, additional technical consultants being engaged, as is done at present, when required in any particular case.

k) Operations with Government-controlled enterprises.

CF-Colombiana and CF-Nacional. There is no reference to this matter.

CF-Caldas. CFC will continue to concentrate its financing in the private sector ...

financing the private sector of the Colombian economy ...

<u>CF-Norte</u>. It is hereby laid down as a general rule that only enterprises of a private-capital type or, in exceptional cases, enterprises with more than 50% of their capital stock in private hands, may be beneficiaries of the Corporación's financing, investments and guarantees. As an exception to the foregoing, transactions submitted by State or mixed-type enterprises may be studied by the Board of Directors, and a favourable decision adopted by a majority of the votes cast, if such a course of action is deemed to be desirable in the interests of national or regional development, or in the interests of the Corporación itself.

Rifernandes/va

cc: Messrs. Wiese, Grayson, Navarrete, Fligler, Keltie, Williams, Arango/Mejia/Lausny

OFFICE MEMORANDUM

TO: All Professional DFC Staff

DATE: January 7, 1966

FROM: B. H. Shin

SUBJECT: Long-term Subordinated Loan Capital of Development Finance Companies

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1. Attached are updated revisions of the table under the subject heading as Item 5 in your Data Book II. Please replace the older one.

2. Attached also is the revised version of the Table of Contents of Data Eook II. Please destroy the older issue.

Attachments (2)

LONG-TERM SUBORDINATED LOAN CAPITAL OF DEVELOPMENT FINANCE COMPANIES

Country and <u>Institution</u> <u>Austria</u>		Long-term Subordinated Loan Capital (in millions) S 80 S 40 S 34 S 34 S 34 S 188	Duration and Grace Period (Years) 60 - 20 50 - 16 50 - 16 50 - 16	Interest 1%) 2%) 2%) 2%)	Subordination Ranked pari passu with share capital and subordinated to debt.
China	- CDC	NT\$ 100 NT\$ 100 NT\$ 100 NT\$ 300	30 - 15 30 - 15 30 - 15	6%*) 6%*) 6%*)	Subordinated to debt but not to share capital.
		* The interest spread of at	rate may be set to least 6% from these	give CDC a e loans.	2.8
Finland	- IFF*	Fmk 4.5 Fmk 5.5 Fmk10.0 Fmk20.0	45 - 44 40 - 30 25 - 15	6% 5%) 5%)	Subordinated to all debts other than the 1963 debentures, but not to share capital. Subordinated to all debts but not to share capital.
		IFF has the j million held original juni million and i	e debentures of Fmk unior share capital by the Bank of Finl or share capital wa s redeemed at the r the share capital e	l of Fmk 8.7 and. The as Fmk 9 ate of one-	2

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Country and Instituti on India -	Sul	ong-term bordinated an Capital n millions) Rs 75 Rs100 [*] Rs100 [*]	(Years) 30 - 15 20 - 10 15 - 5 5% for f:	Interest 0% Li% irst Rs90 next Rs10	Subordination Subordinated to share capital and debt.) Subordinated only to foreign debt.)
		Rs275			
* This loan is not regarded by the Bank as part of ICICI's borrowing base.					
Iran -	· IMDBI	R1s 600	30 - 15	0%	Ranked pari passu with share capital and sub-
x		Rls 500* Rls1100	15 - 5	4-28**	ordinated to debt. Subordinated to any debt guaranteed by the Government.
* The Plan Organization of the Iranian Govern- ment has agreed to make a loan to IMDBI of Rls 750 million in three yearly installments beginning in 1964. This loan is not regarded by the Bank as part of IMDBI's borrowing base.					
** The Government allows IMDBI to have a 3.5% spread from this loan.					
Ivory Coast -	BIDI	CFA 1250	30 - 15	0%	Subordinated to share capital and debt.

Country an Institutio Liberia	nd Si on Lo	Long-term ubordinated an Capital in millions) US\$ 1*	Duration and Grace Period (Years) 30 - 20	Interest 0%	Subordination Subordinated to share capital and debt.	
* The loan takes the form of promissory notes bearing interest at 6 ¹ % and redeemable for cash to LBIDI in 10 equal yearly install- ments beginning in 1975.						
Malaysia	- MIDFL	M\$ 22.5 [*]	30 - 15	0%	Subordinated to share capital and debt.	
* The Malaysian Government has agreed to advance a long-term loan equal to l ¹ 2 times the paid-in share capital of MIDFL. When the share capital is fully paid up, the advance will be M\$37.5 million.						
Moracco	- BNDE	DH 20	30 - 15	4%	Ranked pari passu with share capital and sub- ordinated to debt.	
Nigeria	- NIDB	EN 2	30 - 15	0%	Subordinated to debt and share capital.	

Country and Sub Institution Loa	ng-term ordinated n Capital millions)	Duration and Grace Period (Years)	Interest		Subordination
<u>Pakistan</u> - PICIC	PRs 30 PRs 30 PRs 30 PRs 90	30 - 15 40 - 4 not yet determined	0%) 4%) 55%)	Subordinated to	share capital and debt.
Philippines - PDCP	₽ 27.5	30 - 15	15%	Subordinated to	share capital and debt.
Thailand - IFCT	Ø 15 Ø 13.7 Ø 20 Ø 48.7		0%)	Subordinated to	share capital and debt.

January 7, 1966

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DATA BOOK II

GENERAL ISSUES AND STUDIES INVOLVING DEVELOPMENT FINANCE COMPANIES

Table of Contents

1.	Policy Statements	1/18/65
2.	Summary of sections of development finance companies' statements dealing with limitation on maximum size of investments in any single enterprise.	6/22/65
3.	Status of counterpart fund loans and U.S. AID local currency loans to development finance companies.	8/31/64
4.	Status of equity, quasi-equity, debt and debt-borrowing base ratio of development finance companies.	9/3/64
5.	Long-term subordinated loan capital of development finance companies.	1/7/66
6.	Most frequently used lending rates of development finance companies.	10/19/65
7.	Development finance companies' administrative expenses (7 Tables)	8/4/65
8.	Repayment schedules of long-term subordinated loan capital and IBRD/IDA loans to DFCs.	9/30/65
9.	Net profit after tax and dividend rate.	10/19/65

January 7, 1966 (Letter No. 3)

D. B - Pan.

Mr. William Diamond Hotel Kilimanjaro Dar-es-Salaam Tanzania

Dear Bill:

Here are the week's highlights.

Venezuela

SIC met this afternoon and concluded that CAVENDES had done a good job in getting started; that, in principle, IFC should be prepared to lend to it; that, however, the company's long-run orientation was still not clear -- this was one of the major questions at last June's investment review; and that problems of the relationship between an IFC loan and a cheaper IADB loan still had to be explored. It was agreed that Vallenilla would be invited up here to discuss with us the fundamental question of orientation, and also the exact contribution which he expected from an IFC loan.

Colombia

We have agreed on separate project agreements. We have also agreed that the minimum term on sub-loans should be deleted. Thank you very much for your cable on this point. Yesterday a Colombian Central Bank man, who was here in Washington with the Minister of Finance, told Wiese informally that he had doubts on whether the Government had the power to back up a Central Bank assumption of the exchange risk, and that, in the middle of next week, we might have a cable from Colombia suggesting that the loan be made to the Government itself rather than to the Central Bank. If this happens, I plan to argue that it should be done only if it can be set up <u>exactly</u> like the IDA credits in China and Turkey, with all our loan administration handled directly with the financieras. If this happens, we will, of course, have to ask for some time, both to consider the principle and, if the principle is acceptable, to revise the draft loan documents; but it may not happen at all, I gather.

Morocco

I hope that by now you have received the major portion of the brief. Lyell Ritchie will be passing through Paris over the weekend of January 15-16, and will either give you, or see that the Paris Office delivers to you at Orly, the account of Mr. Woods' discussions in Morocco and your brief on BANDESCO, which Jeffries is now preparing.

and a state

Liberia

The AID candidate, a former First National City and Northern Trust Company banker, about 50 years of age, looks almost too good to be true. I am checking on him with our contacts in First National City, and if he proves out will launch a campaign to get him accepted quickly.

Philippines

Mathew's report is not too bad, and I hope it will go to SIC next week. Jayme has cabled asking for a \$5 million IFC loan, instead of the \$5 million Bank loan which he had discussed with Mathew.

Tunisia

The Germans have said 'yes' in principle. We now await word from the Swedes and the French, and from the Tunisian Government about the proposed profitability side letter.

Jamaica

Mr. Ashenheim has written saying that he hears that James may be available, and asking us to press James to accept and to press the Canadian Government to release him. He says that Sangster will be writing us in a day or two to ask the same thing. As soon as we have heard from Sangster I will write James and Marty will get in touch with Rasminsky.

Jordan

Expect Powell's draft report any day. The Jordanians have asked us what we think of Richard Quandt as a senior adviser. I am gathering some opinions and Cherif Hassan has contacted a friend in Khartoum to get the flavor of his performance there.

Thailand

A meeting between Rosen, Cargill, Sullivan, Jeffries and myself this week concluded that the main problem was Kraisri; that Peter and Virgil, who will be in Thailand around March 1, talk again with Puey about getting him replaced. In the meantime, we will not send anyone to advise IFCT; we will also inform Bachem of our position, and suggest that whatever help they extend not be at the senior advisory level.

Ivory Coast

William Miller, Eugene Black, Jr., and Dawson Martin came to see Marty today. They have decided that BIDI is going hopelessly wrong and that Blanc is a failure. Marty sympathized, reminded them that this was their responsibility, said that IFC would do whatever it could to help, and would bide by their

- 2 -

solution, and suggested that if they concluded that the company should be liquidated, IFC would not object. (Personal opinion: The last thing the banks would dare to do would be to liquidate BIDI.)

Henry Thomas

He is moving to the Africa Department. I have agreed with Abdel that he will not transfer until about May 15, after he and Mathew have come back from the Sudan. (By that time Muramatsu should be here.)

So you see, life is not uneventful, though we accomplish very much less than when you are here.

I hope you and Lois are still holding up and that the big game was worth going after.

Warmly,

Iga Bob

Robert F. Skillings Deputy Director Development Finance Companies

Enclosures

RFSkillings:us

P.S. We have received your tapes from Nairobi, and I have just seen the draft transcriptions. Unfortunately, the c.v. of J.B.Morgan was not attached.

Enclosures to letter to Mr. Diamond - January 7, 1965

Copy of memo Goodman to Files re Asian Devbank January 3, 1966

Copy of letter Rosen to Deleitosa December 30, 1965

Copy of letter Mirghani (Sudan) to Diamond December 22, 1965 and copy of Mr. Mathew's reply December 30.

Copy of memo Jeffries to Files re Thailand January 5, 1966

Copy of memo: Tunisia : Bank loan to SNI Morton to Files January 6, 1966.

personal letter Moodi Burney to Mr. Diamond December 25, 1965 (sorry to miss him)

envelope: letter Mrs. Parekh to Mrs. Diamond

January 7, 1965

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January 5, 1966 M. Aramend Con return Man Aram B

COPY

Mr. Paul G. Hoffman The Special Fund United Nations United Nations Plaza New York, New York

Dear Mr. Hoffman:

A few weeks ago, Bill Diamond related to me by phone a conversation he had had with you regarding the prospective interest of the new Capital Development Fund in development finance institutions. I understand that he told you about the global directory of development finance institutions that I have undertaken (with Edmond Janssens of the OECD Development Centre, who was formerly with the U.N. Secretariat), and you expressed an interest in obtaining a list of the development finance institutions that have grown out of the compilation for the Directory. The week following Bill's telephone call, I was in the Secretariat building and telephone your office to say that I had anticipated returning during this current week and looked forward to bringing the lists with me. Unfortunately, an invitation to spend a week with the management of the Banco Nacional do Desenvolvimento Economico in Brazil caused me to postpone the visit to New York and so I am enclosing lists with this letter.

I am sending two lists. The first is compiled from several sources: a list put together by Diamond's office in the IFC, another compiled by DAC, still another from the Inter-American Development Bank, a record of the file titles from AID, and so on. The resulting compilation, the March 1965 list, is not an accurate representation of the situation today. Many institutions included on our original list were found to be non-existent or to have been merged with other organizations. The second list, included as an appendix in the September 10th interim report to the source agencies cooperating in the Directory, reflects some of the needed corrections. However, that list divides up the development finance institutions for the purposes of a status of work report and so all the development banks in one country are not collected together. Hence, neither list reflects the final compilation of institutions that will be reflected in the Directory.

I anticipate that within the coming month we will put together such a list, and I will make sure that you have a copy as soon as it is completed. In the meantime, I hope the enclosures are of value to you.

I understand also that the new development fund may become interested in possibilities of research into the more effective operation of development finance institutions. I have done some preliminary thinking on the need for and feasibility of research and development programs related to the improved effectiveness of these institutions on a global basis. These preliminary thoughts will be partially reflected in a study I am working on which, in addition to analyzing the data arising from the new Directory, will provide a framework for further research and will also take a crack at improvement of managerial policies. In addition, upon completion of the Directory it is anticipated that the OECD Development Centre will continue research in this field. At present, Janssens and I foresee two projects for the coming year. One will be on mobilization of local capital and the other on effective managerial information systems and controls within development banks. I am also working as a consultant to Karl Lachmann in the preparation of a monograph on the role of financial institutions in the mobilization of private capital flowing toward the underdeveloped world. Finally, I hope that my visit this week to Rio may result in an opportunity to work with a national system of development banks in applied research designed to improve both the quality and quantity of management.

I would greatly welcome an opportunity to discuss this whole area with you and to be of help to you if it appears that I might be. Perhaps I might stop in your office when I am next meeting with Karl Lachmann on the work I have undertaken for him. In such case, I would telephone your office prior to coming to New York to see whether an appointment might be convenient.

I hope that I may have the pleasure of meeting you before long.

Sincerely,

J. D. Nyhart Assistant Professor

JDN:n1

cc: Bill Diamond

1966 JAN - 8 PM 12: 17

RECEIVED GENERAL FILES COMMUNICATIONS

Mr. Paul G. Hoffman

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Sincerely,

J. D. Nyhart Assistant Professor

JDN:nl

cc: Bill Diamond

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GOMMUNICATIONS GENERAL FILES RECEIVED

D. B - Pen .

בנק לפתוח התעשיה בישראל בערבוז מוגבל INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

113, ALLENBY ROAD TEL-AVIV TEL. 67636-7 P. O. B. 1462 CABLE ADDRESS: MOSLETAAS רחוב אלנבי 113 תל - אביב 67636-7 .50 1462.Т.Л כתובה למברקים: מוסלתעש

בתשובה נא להזכיר: AN/XJ/1/ 865

3rd January, 1966.

Mr. Robert F. Skillings, Deputy Director, Development Finance Companies, 1818 H Street N.W., WASHINGTON 25. D.C.

1) Mr. Anemand) Mr. Blandel , Reader

Dear Mr. Skillings,

Thank you very much for the draft precis of the discussions at the conference of Development Finance Companies. Reading it aroused in me both fruitful and pleasant memories.

As for the comments on the draft, I have only one comment to make. Page 26, No.113 should read IL.50 million and not \$.50 million.

With kind regards,

Yours sincerely,

Dr. A. Neaman

Managing Director.

1966 FEB - 8 PM 3: 24

COMMUNICATIONS

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בתשובה נא לתוכיר: E 28 /1/1×/MA

3rd January, 1966.

Mr. Robert F. Skillings, Deputy Director, Development Finance Companies, 1818 H Street N.W., WASHINGTON 25. D.C.

Dear Mr. Skillings,

Thank you very much for the draft precis of the discussions at the conference of Development Finance Companies. Reading it aroused in me both fruitful and pleasant memories.

As for the comments on the draft, I have only one comment to make. Page 26, No.113 should read IL.50 million and not \$.50 million.

With kind regards,

Yours sincerely,

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Dr. A. Neaman Managing Director.

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רחוב אלנבי גוו מל. אביב 67636-7. לפ 1462. ה.ת מופת לפברקים: פופרמפו

1) Mr. Greend

D. 13 - Jan .