Folder Title:	Operational - Development Banks - Meetings - Conference of Development Finance Companies - October 11 - 13, 1965 - Participation Documents - Volume 2
Folder ID:	30132353
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Dates:	10/11/1965 – 10/27/1965
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FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: All Division Chiefs DATE: October 27, 1965

FROM: Roger Chaufournier

SUBJECT: Conference Documents - Development Finance Companies

You will recall that a Conference of Development Finance Companies organized by IFC was held on October 11-13, 1965. The following documents are now available in the Front Office for consultation :

(a) Two volumes of descriptive memoranda on the 21 institutions associated with us.

(b) Two columes of comments by the participants, on the various items of the agenda.

(c) All other documents given to the participants.

I propose to keep them here for the next month in order to give anyone who is interested an opportunity to look at them. They will then be sent to Files.

FORM No. 57A

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

510

OFFICE MEMORANDUM

TO: Messrs. Knapp, Wilson, Aldewereld, Alter, Broches, Cargill, Cavanaugh, Cope, Demuth, El Emary, Graves, Mendels, Stevenson

DATE: October 22, 1965

FROM: William Diamond

SUBJECT: Conference of Development Finance Companies

You might like to have copies of the documents which were distributed to the participants in the Conference. Attached you will find:-

(a) Two volumes of descriptive memoranda on the 21 institutions associated with us.

(b) Two volumes of comments by the participants, on the various items of the agenda.

(c) All other documents given to the participants.

If, when you've seen these, you do not wish to retain some of them, please return them to me. If you want additional copies of the descriptive memoranda, please let me know.

Attachments

cc. Mr. Blondel

WDiamond:lg

Revised
October 8, 1965

SUMMARY OF ARRANGEMENTS FOR
CONFERENCE OF DEVELOPMENT FINANCE COMPANIES
OCTOBER 11-13, 1965

1. Location of Conference

a. The Conference will take place at the International Finance Corporation, 1818 H Street, N.W., in Room 1038, on the 10th Floor. The most direct access is from the 18th Street entrance, at 718 18th Street, N.W. The elevators at that entrance will take participants to within a few yards of the meeting room.

b. A secretary will be available in the ante-chamber of the Conference Room throughout the three days of the Conference.

2. The Conference

c. The Conference will take place on October 11, 12 and 13, from 10:00 a.m. to 12:30 or 1:00 p.m., and from 3:00 p.m. to 5:30 or 6:00 p.m. Each of the sessions will be broken by a short interval for refreshments, which will be served in the lobby of the Eugene R. Black Auditorium, on the 11th Floor, immediately above the Conference Room.

d. Mr. Woods will inaugurate the Conference at 10:00 a.m. Monday, October 11

e. Procedures for the Conference will be discussed at the first meeting, after Mr. Woods' opening statement.

f. Simultaneous interpretation in French and Spanish is available. Headphones may be found at the table. Channel No. 2 will be used for French and Channel No. 3 for Spanish.

3. Board Luncheon and Dinner for Participants

g. Mr. Woods has invited the participants to attend the regular monthly luncheon of the Board of Executive Directors and the senior staff at 1:00 p.m. Tuesday, October 12, in the World Bank's Executive Dining Room.

h. Mr. Rosen will be host at a dinner in honor of the participants in the Conference on Tuesday, October 12, in the Executive Dining Room, at 7:30 p.m. Business dress.

4. Lunches

i. Participants are welcome to use the Bank's Executive Dining Room and Cafeteria.

j. The Executive Dining Room, on the 12th Floor, is open from 12:00 noon until 2:00 p.m. If participants wish to use the Executive Dining Room, they should, if possible, make advance reservations, for seating capacity is limited. (The secretary available at the Conference will make reservations.) If no reservations are made, participants will be accommodated if there is space. For identification purposes, participants are requested to sign, on the reverse of the menu, their names plus the code letters "DFC". All charges incurred will be paid by the International Finance Corporation.

k. The Cafeteria, on the 11th Floor, opens at 11:30 a.m. and closes at 2:00 p.m. Service here is on a cash basis.

5. Offices and Secretarial Facilities

l. A reception room, a conference room and 4 offices are available to participants each working day from 9:00 a.m. to 5:30 p.m. through October 15. These facilities are located in the Bender Building, 1809 G Street (immediately behind the World Bank) in Rooms 1044 to 1049, on the 10th Floor. The telephone number is DUdley 1-3996. Two secretaries are present at all times, prepared to receive and transmit messages, to take dictation and to assist participants in any way they wish.

6. General

m. Mr. Roger Blondel, of the IFC staff, will be available to assist participants in the Conference. Until the Conference begins, he may be reached in Room 952, telephone number DUdley 1-3652. During the period of the Conference, he will be in the Conference Room.

Revised 2
October 8, 1965

PARTICIPANTS IN THE CONFERENCE OF DEVELOPMENT FINANCE COMPANIES

OCTOBER 11-13, 1965

Institution	Name, Title and Official Address
1. BANDESCO	Sr. Don Jose Maria Marzo Churruca Director General Banco del Desarrollo Economico Español Apartado de Correos 50460 Principe 12 Madrid, Spain
2. BIDI	Mr. Paul F. Blanc Managing Director Banque Ivoirienne de Developpement Industriel B. P. 4470 Abidjan, Ivory Coast
3. BNDE	Mr. Mohamed Benkirane Director General Banque Nationale pour le Developpement Economique Boite Postale 407 Rabat, Morocco
4. CAVENDES	Dr. Manuel Delgado Rovati General Manager C. A. Venezolana de Desarrollo Apartado 11341 Chacao, Caracas Venezuela
5. CDC	Mr. Felix S. Y. Chang President China Development Corporation 181-5 Chung Shan Road N., Section 2 Taipei, Taiwan Republic of China
6. CFC - Bogota	Dr. Guillermo Herrera Carrizosa President Corporacion Financiera Colombiana Edificio Banco de Bogota, Carrera 10 Bogota, Colombia

7. CFC - Caldas	Dr. Guillermo Sanint Botero Vice President Corporacion Financiera de Caldas Apartado Aereo 460 Manizales, Colombia
8. CFN - Medellin	Dr. Jose Gutierrez Gomez President Corporacion Financiera Nacional Apartado Aereo 1039 Medellin, Colombia
9. DBE	His Excellency Ato Araya Ogbagzy Managing Director Development Bank of Ethiopia P.O. Box 1900 Addis Ababa, Ethiopia
10. ICICI	Mr. H. T. Parekh General Manager Industrial Credit and Investment Corporation of India Limited 163 Backbay Reclamation Bombay 1, India
11. IDBI	Dr. A. Neaman Managing Director Industrial Development Bank of Israel Limited 113 Allenby Road Tel Aviv, Israel
12. IMDBI	Mr. A. Gasem Kheradjou Managing Director Industrial and Mining Development Bank of Iran P. O. Box 1801 Tehran, Iran
13. IVK	Dr. Wilhelm Teufenstein Member of Managing Board Oesterreichische Investitionskredit, A.G. Am Hof 4 Vienna 1, Austria

14.	LBIDI	Mr. P. Clarence Parker General Manager Liberian Bank for Industrial Development and Investment P.O. Box 547 Monrovia, Liberia
15.	NIDB	Mr. James S. Raj General Manager Nigerian Industrial Development Bank Limited M & K House 96/102 Broad Street P.O. Box 2357 Lagos, Nigeria and
16.		Mr. S. B. Daniyan Deputy General Manager Nigerian Industrial Development Bank Limited M & K House 96/102 Broad Street P.O. Box 2357 Lagos, Nigeria
17.	PICIC	Mr. N. M. Uquaili Managing Director Pakistan Industrial Credit and Investment Corporation Limited P.O. Box 5080 Karachi, Pakistan
18.	PDCP	Mr. Vicente R. Jayme Executive Vice President Private Development Corporation of the Philippines CBTC Building Ayala Avenue, Makati, Rizal Manila, The Philippines
19.	TR	Mr. Seppo Konttinen General Manager Teollistamisrahasto Oy Lonnrotinkatu 13 Helsinki, Finland

20. TSKB

Mr. Bahaeddin Kayalioglu
Assistant General Manager
Industrial Development Bank of Turkey
P. O. Box 17
Galata
Istanbul, Turkey

21.

Mr. A. G. Arango
IFC Representative on Board of
CAVENDES

22.

Mr. John G. Beevor
IFC Representative on Boards of
NIDB, BNDE, TSKB

23.

Mr. E. T. Kuiper
IFC Consultant

24.

Mr. Virgil C. Sullivan
IFC Representative on Boards of
PICIC, IFCT, MIDFL

Revised 2
October 8, 1965

PARTICIPANTS IN THE CONFERENCE OF DEVELOPMENT FINANCE COMPANIES

OCTOBER 11-13, 1965

Institution	Name, Title and Washington Address
1. BANDESCO	Sr. Don Jose Maria Marzo Churruca Director General Banco del Desarrollo Economico Español c/o Sheraton-Park Hotel 2660 Connecticut Avenue, N.W. Washington, D.C.
2. BIDI	Mr. Paul F. Blanc Managing Director Banque Ivoirienne de Developpement Industriel c/o Mrs. Bucknell 3550 Williamsburg Lane, N.W. Washington, D.C.
3. BNDE	Mr. Mohamed Benkirane Director General Banque Nationale pour le Developpement Economique c/o Sheraton-Park Hotel 2660 Connecticut Avenue, N.W. Washington, D.C.
4. CAVENDES	Dr. Manuel Delgado Rovati General Manager C. A. Venezolana de Desarrollo c/o Roger Smith Hotel 18th and Pennsylvania Ave. N.W. Washington, D.C.
5. CDC	Mr. Felix S. Y. Chang President China Development Corporation c/o Roger Smith Hotel 18th and Pennsylvania Ave. N.W. Washington, D.C.
6. CFC - Bogota	Dr. Guillermo Herrera Carrizosa President Corporacion Financiera Colombiana c/o Mayflower Hotel Connecticut Avenue & De Sales, N.W. Washington, D.C.

7. CFC - Caldas	Dr. Guillermo Sanint Botero Vice President Corporacion Financiera de Caldas c/o Sheraton-Park Hotel 2660 Connecticut Avenue, N.W. Washington, D.C.
8. CFN - Medellin	Dr. Jose Gutierrez Gomez President Corporacion Financiera Nacional c/o Mayflower Hotel Connecticut Avenue & De Sales, N.W. Washington, D.C.
9. DBE	His Excellency Ato Araya Ogbagzy Managing Director Development Bank of Ethiopia c/o Sheraton-Park Hotel 2660 Connecticut Avenue, N.W. Washington, D.C.
10. ICICI	Mr. H. T. Parekh General Manager Industrial Credit and Investment Corporation of India Limited c/o Mr. N. A. Sarma 4440 Brandywine Street Washington, D.C.
11. IDBI	Dr. A. Neaman Managing Director Industrial Development Bank of Israel Limited c/o Washington Hilton Hotel 1919 Connecticut Ave. N.W. Washington, D.C.
12. IMDBI	Mr. A. Gasem Kheradjou Managing Director Industrial and Mining Development Bank of Iran c/o Windsor-Park Hotel 2300 Connecticut Avenue, N.W. Washington, D.C.

13.	IVK	Dr. Wilhelm Teufenstein Member of Managing Board Oesterreichische Investitionskredit, A. G. c/o Hay Adams Hotel 800 16th Street, N.W. Washington, D.C.
14.	LBIDI	Mr. P. Clarence Parker General Manager Liberian Bank for Industrial Development and Investment c/o Sheraton-Park Hotel 2660 Connecticut Ave. N.W. Washington, D.C.
15.	NIDB	Mr. James S. Raj General Manager Nigerian Industrial Development Bank Limited c/o The Channel House, Apt. 105 824 New Hampshire Avenue Washington, D.C. and
16.		Mr. S. B. Daniyan Deputy General Manager Nigerian Industrial Development Bank Limited c/o Park-Central Hotel 705 18th Street, N.W. Washington, D.C.
17.	PICIC	Mr. N. M. Uquaili Managing Director Pakistan Industrial Credit and Investment Corporation Limited c/o Sheraton-Park Hotel 2660 Connecticut Avenue, N.W. Washington, D.C.
18.	PDCP	Mr. Vicente R. Jayme Executive Vice President Private Development Corporation of the Philippines c/o Washington Hilton Hotel 1919 Connecticut Avenue, N.W. Washington, D.C.

19. TR

Mr. Seppo Konttinen
General Manager
Teollistamisrahasto Oy
c/o Sheraton-Park Hotel
2660 Connecticut Avenue, N.W.
Washington, D.C.

20. TSKB

Mr. Bahaeddin Kayalioglu
Assistant General Manager
Industrial Development Bank of Turkey
c/o Dupont Plaza Hotel
Dupont Circle
Washington, D.C.

21.

Mr. A. G. Arango
IFC Representative on Board of
CAVENDES
International Finance Corporation
1818 H Street, N.W.
Washington, D.C.

22.

Mr. John G. Beevor
IFC Representative on Boards of
NIDB, BNDE, TSKB
c/o IFC, Room 950
1818 H Street, N.W.
Washington, D.C.

23.

Mr. E. T. Kuiper
IFC Consultant
c/o Roger Smith Hotel
18th and Pennsylvania Avenue
Washington, D.C.

24.

Mr. Virgil C. Sullivan
IFC Representative on Boards of
PICIC, IFCT, MIDFL
International Finance Corporation
1818 H Street, N.W.
Washington, D.C.

October 8, 1965

PARTICIPANTS IN THE CONFERENCE OF DEVELOPMENT FINANCE COMPANIES

OCTOBER 11-13, 1965

Mr. A. G. ARANGO
IFC Representative on Board of CAVENDES

Mr. John G. BEEVOR
IFC Representative on Boards of NIDB, BNDE, TSKB

Mr. Mohamed BENKIRANE
Director General, BNDE

Mr. Paul F. BLANC
Managing Director, BIDI

Mr. Felix S. Y. CHANG
President, CDC

Mr. S. B. DANIYAN
Deputy General Manager, NIDB

Dr. Manuel DELGADO Rovati
General Manager, CAVENDES

Dr. Jose GUTIERREZ Gomez
President, CFN-Medellin

Dr. Guillermo HERRERA Carrizosa
President, CFC-Bogota

Mr. Vicente R. JAYME
Executive Vice President, PDCP

Mr. Bahaeddin KAYALIOGLU
Assistant General Manager, TSKB

Mr. A. Gasem KHERADJOU
Managing Director, IMDBI

Mr. Seppo KONTTINEN
General Manager, TR

Mr. E. T. KUIPER
IFC Consultant

Sr. Don Jose Maria MARZO Churruca
Director General, BANDESCO

Dr. A. NEAMAN
Managing Director, IDBI

His Excellency Araya OGBAGZY
General Manager, DBE

Mr. H. T. PAREKH
General Manager, ICICI

Mr. P. Clarence PARKER
General Manager, LBIDI

Mr. James S. RAJ
General Manager, NIDB

Dr. Guillermo SANINT Botero
Vice President, CFC-Caldas

Mr. Virgil C. SULLIVAN
IFC Representative on Boards of PICIC, IFCT, MIDFL

Dr. Wilhelm TEUFENSTEIN
Member of Managing Board, IVK

Mr. N. M. UQUAILI
Managing Director, PICIC

October 8, 1965

AGENDA FOR CONFERENCE OF
DEVELOPMENT FINANCE COMPANIES

OCTOBER 11-13, 1965

A. Promotional activity

(a) Ways in which a development finance company can appropriately and prudently assist in formulating proposals for, and promoting new enterprises

(b) Costs and risks of promotion

B. Relationship with the management of the enterprises promoted, sponsored or financed

(a) Responsibility for, or participation in, management

(b) Representation on boards of directors

C. Promoting expanded ownership of private securities

(a) Creating attractive types of securities

(b) Acting as temporary holder for shares subsequently to be more widely sold

(c) Underwriting

D. Aspects of financial policy

(a) Prudent level of debt for an investment company, in relation to equity

(b) Appropriate levels of protective reserves

(c) Surplus accumulation versus dividends

(d) Tax treatment (of both current income and capital gains) in relationship to dividend and reserves policy

(e) Interest spreads

E. Relationship with government

(a) Relations with government to assure smooth operation within the framework of national development policy

(b) Living side-by-side with government-owned or controlled development banks

(c) Appropriate and acceptable types of government assistance (share participations, loans, guarantees, tax exemptions, discount facilities, subventions, etc.) and their consequences

F. Expanding and improving training facilities and obtaining staff from abroad

(a) Resources available in and from advanced countries

(b) Resources available in and from development finance companies

G. Joint financing of specific enterprises with the Wrold Bank group

October 8, 1965

CONFERENCE OF DEVELOPMENT FINANCE COMPANIES

OCTOBER 11 - 13, 1965

Order of Discussion

Monday, October 11, 1965, 10 a.m.

Mr. Woods will open the Conference

Item A.

Monday, October 11, 1965, 3 p.m.

Item B.

Tuesday, October 12, 1965, 10 a.m.

Item C.

Tuesday, October 12, 1965, 3 p.m.

Item D.

Wednesday, October 13, 1965, 10 a.m.

Item E.

Wednesday, October 13, 1965, 3 p.m.

Item G.

Item F (if time allows).

CONFERENCE OF DEVELOPMENT FINANCE COMPANIES

Statement by George D. Woods, President of the World Bank, inaugurating the Conference, Monday, October 11, 1965.

Good morning gentlemen!

I am very happy to welcome you.

This is not the first conference to which we have been host in the past several weeks, but I will say to you that this one gives me special pleasure.

This is the first time we have had an opportunity to see in one room, sitting around one table, discussing common problems, the chief executives of almost all the development finance companies associated with us. It is a meeting in which I have a personal interest, because I have been directly involved in the initial promotion of several of your companies, and I have given continuous support to strengthen all your institutions

You know already, but I should like nevertheless to tell you again, of the importance which the World Bank family attributes to development finance companies. It is now 15 years since we first became identified with them. In those 15 years we have committed close to $500 million to the institutions represented around this table. The extent of our financial commitment and the depth of our moral involvement in promotion, in technical assistance and in joint financing of important projects are the best evidence of the fact that we consider your companies as institutions of primary importance to the development of productive enterprises in your countries. We in the World Bank are engaged in helping to provide the underpinning -- the underlying support -- of economic growth. Development companies like yours are more directly engaged in production -- in financing the output of shoes and cement, of machine tools and textiles, which are the stuff which give real meaning to that high-wounding phrase "economic development".

I expect this conference to be of value, not only to you, but also to us. There have been quite a few conferences of representatives of development finance companies in past years. We held one in 1958. (Incidentally, two of you were participants in that conference -- my good friends Esgo Kuiper, in his capacity as General Manager of PICIC, and Jack Beevor, who was an observer on behalf of IFC at that conference.) One by-product of that meeting was our own Shirley Boskey's study of development finance companies, which has been so valuable to many of you and to many others. Since then, the Asian development banks have met twice, once in Bombay and once in Tehran. The Latin American development banks have met once, last December here in Washington, under the auspices of the Inter-American Development Bank. These three meetings brought together a widely diverse group of institutions which varied considerably in character, in objectives and ownership, in policies and problems. Meetings of the Latin American and the Asian institutions, and probably one day of African development finance companies, will of course continue and will be increasingly useful and worthwhile.

But I think that we have here, in this family of institutions closely associated with the World Bank, a unique group of companies. They share a common philosophy and have a relatively similar structure, policy and organization. One needs only to look through the extensive and interesting descriptive memoranda which have been prepared as background material for this conference, to note the similarities of outlook, and to conclude that a group like this, sitting at the same table for a few days, should enjoy a stimulating and fruitful experience. Your common outlook rests on two fundamental facts: all your institutions are designed to promote and to finance the expansion of private economic activity; and, with but one exception, your institutions are doing this through shareholder-owned and controlled finance companies. These facts impose upon each of your institutions the necessity of operating on the basis of financial, economic and technical criteria rather than on political criteria. And they impose upon you the discipline of having to operate in a prudent and profitable way, so as to promise your shareholders a reasonable return on their investment. This is a vitally important discipline which, more than any other single factor, I believe, is responsible for such success as your institutions have had--and it has been not inconsiderable.

Looking through your agenda, I am struck by the fact that the first items on the agenda concern the promotional and entrepreneurial role of a development finance company, rather than its more narrow banking functions.

With few exceptions, each of you is working in a country in which an indigenous entrepreneurial community has only just begun to emerge. I believe one primary function of a development finance company, in such circumstances, is to take the role of the entrepreneur, to conceive and to fashion investment proposals, to organize their financing and, if necessary, to help carry them out. These, as I understand it, are the matters involved in items A and B of the agenda.

In all of your countries much needs to be done to strengthen and to expand the capital market: to find ways of mobilizing savings, to facilitate the flow of those savings by devising types of paper which will be suitable for the enterprise that needs financing and at the same time attractive to the investor who has savings, so that the two can be brought together for their mutual benefit. This is the subject of item C on your agenda.

I shall look forward to reading the results of all your discussion, but particularly to your discussion on these subjects.

I say the results of your discussion. What I really mean is, not the result but rather the ideas which I am sure will emerge here. Time is very short; there will be only two to three hours of talk on each of the subjects--not enough, by a long way, to exhaust them. Moreover, none of the subjects is of the kind where discussion can lead to concrete conclusions. We are not expecting, and I imagine you are not either, to close this meeting with resolutions containing clear answers to your problems. But I hope, and I am confident, that the three days of discussion will result in an exchange of ideas which will give each of you food for thought for weeks and months to come. If that exchange of ideas can result in helping any one of you towards a solution of a problem or towards a new approach to a problem, then your trip and this meeting will have been worth the trouble.

I wish I could stay with you through the three days. Unfortunately, I cannot; but I hope you will not mind my walking in from time to time and listening to you.

My best wishes for an interesting and worthwhile few days. I hope they will also prove to be enjoyable.

October 11, 1965
DFC-IFC

THE ROLE OF DEVELOPMENT FINANCE COMPANIES IN THE NEW COUNTRIES

by E.T. Kuiper

1. My experience with development finance companies is, in fact, rather limited, because I have worked in only four of them and studied the situation in respect of the problems connected with industrial finance in a few other countries. Many members of your staff have a much broader field of observation, because IFC and the Bank are now in constant touch with more than 20 development finance companies over the world. Yesterday and today I have been listening to presentations and discussions by my colleagues concerning the various aspects of principles and of techniques of our trade, and if I have learned anything, it is how great the variety of problems and solutions is and how general opinions are influenced by the experience gained under circumstances in specific countries. I do not doubt that, similarly, my own opinions are conditioned by the experience I had in Indonesia, Pakistan, Ethiopia and Malaysia, where I have been acting as Chief executive of development finance companies and by the observations I made in the few Middle-East countries which I visited to investigate the possibilities for industrial finance. My experience is not only limited geographically but also materially, because I have been mainly active in industrial finance and I specially value my term of office in Ethiopia, because as Managing Director of the Development Bank of Ethiopia I have been confronted with the challenge of agricultural development finance. I often wonder why there are not more development finance companies that specialize in the extension of financial assistance to the bigger farmers in African and Asian countries.

2. I do not propose to talk about failures and achievements of the four institutions I have managed, because their present chief executives are better qualified to give information; but, although I do not think I can contribute any new observation to a subject that has, for a number of years, been so thoroughly discussed in this building, I would like to say something about my own thoughts concerning the general role a development bank can play in the economy of the new nations.

3. One can look upon these institutions mainly as vehicles for the transfer of loan capital from the richer to the poorer nations and state that where the services of a development bank are not available, it is difficult to find a proper channel to reach the small entrepreneurs. Development finance companies certainly perform a function in this respect, also because they offer a valuable alternative to suppliers credit which, as we are all aware, often proves a very undesirable form of finance. Because, with only one or two exceptions, all the emerging nations suffer from more or less severe balance-of-payments difficulties, the fact that a development finance company can be a useful source of foreign exchange on reasonable terms will for a long time remain one of the principal attractions of such an institution for the country concerned. It should, however, be realized that against the total amount of loan and investment capital that flows from the richer to the poorer nations the turnover of all the development finance companies combined

is very small indeed, and, if there were no other purpose in the establishment of development finance companies, one could wonder why you here in Washington, and many other people all around the world, spend so much time and effort on the subject.

4. Development finance companies can also perform some useful function in the creation or stimulation of national capital markets, for instance, by offering attractive and diversified investment and thus stimulating saving. There are other institutional devices, however, that offer similar services to the community, and I do not think development finance companies in Asia and Africa have so far made really important contributions in this respect, although some of them have achieved something in channeling non-entrepreneurial saving into privately-managed industrial ventures.

5. The establishment of development finance companies is also advocated on the ground that they could contribute to the flow of private foreign investments into the developing world. A development finance company can, indeed, sometimes, be of some value in this respect; but experience shows that foreign entrepreneurs or international investors, like IFC, can usually find their way, and the necessary local support, also without a national development finance company.

6. In my opinion, the principal object and main function of a development finance company lies in a somewhat different direction and is connected with the general approach to development. It is perhaps inevitable that in the primary period after the end of a colonial era, in the early years of what is often called a "national revolution", governments want to be everything to all people. I think that this is as it should be, because this is -- I am speaking in a general way -- what the majority of the population expects and it is not for us to criticize, although we may have our doubts about the effectiveness of governmental activity in the industrial sector. There are, however, apart from the obvious hazards to government finances, two dangers:-

(i) In the first place, the approach of a government official, or a planning board, or another committee, to the problems of industrial development, is often not commercial; profit motive and capital formation are neglected in favor of consideration of size and prestige. The result is that the country becomes poorer instead of richer.

(ii) Still more important, however, is the reaction of the private entrepreneurs to this over-extension of governmental activity in the economic sector. The men who do not wish to become government officials, who want to be their own boss, who like to take risks and responsibilities, become discouraged and withdraw into traditional pursuits such as trade and real estate speculation.

Now you will, I think, all agree with me that the most important assets of a nation are not in material wealth, but in the genius of the population. And I think that in this context we have to look for the main usefulness of a development finance company as a rallying point for private entrepreneurs. The staff of a development finance company and the friends of such an institution abroad talk the language of the private entrepreneur, a language they may, for some time, not have heard in official quarters at home. I think this is very important because it may save and further stimulate the activity of a very valuable human asset in the country. When you would ask me how many millions of dollars have been invested by the development finance companies I have managed, I would not be able to give you a direct answer, and even if I could I am afraid you would not be impressed. But I do remember vividly that we have put a great number of first-class people in a position to put their ideas into bricks and mortar, and I feel this human element is very important because it has a lasting impact on the social structure.

7. Should a development finance company be active or passive? We spent the better part of yesterday's meeting on the subject of promotional activities, and although there were many different views on how far a development finance company can go in taking responsibility or committing funds for the study or execution of specific projects, we were all agreed that a development finance company should be active in the promotion of ideas for new development and in the stimulation of correct attitudes in matters of research, project appraisal and cost-price calculations; in short, in those fields where, also through contacts with friends in the more developed countries, we have something tangible to offer.

8. I hope I have made it clear that when I talk about "we" and "us", I am referring to chief executives of finance companies in the developing world. As you will observe from the list of participants in our conference, the overwhelming majority of them are now nationals of the country their company serves, and we are looking forward to the time that the same can be said of all the professional staff. International talents in this field should, I think, be concentrated in IFC and other organizations that like to be associated with development finance companies in various parts of the world.

9. If one looks at the impressive list of development finance companies already in business in various countries, one is led to the conclusion that the more promising prospects have all been filled, and that new propositions coming up will mostly be marginal or worse. It is not for me to say which attitude should be adopted toward such propositions, because I will not be responsible for the money that may be lost if the new development finance company is established unwisely or prematurely, but my own inclination would be to err on the side of audacity, taking a calculated risk on a prospect in a country where it looks reasonably probable that government will for some time be willing to stimulate private enterprise.

October 12, 1965
IFC-DFC

ANNEX 5 (II)

INSTITUTIONS PARTICIPATING IN THE CONFERENCE

OF DEVELOPMENT FINANCE COMPANIES

SPONSORED BY THE

INTERNATIONAL FINANCE CORPORATION

OCTOBER 1965

VOLUME II

INSTITUTIONS PARTICIPATING IN THE CONFERENCE

1. BANCO DEL DESARROLLO ECONOMICO ESPANOL (BANDESCO)
2. BANQUE IVOIRIENNE DE DEVELOPPEMENT INDUSTRIEL (BIDI)
3. BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE (BNDE)
4. C. A. VENEZOLANA DE DESARROLLO (CAVENDES)
5. CHINA DEVELOPMENT CORPORATION (CDC)
6. CORPORACION FINANCIERA DE CALDAS (CF Caldas)
7. CORPORACION FINANCIERA COLOMBIANA (CF Colombiana)
8. CORPORACION FINANCIERA NACIONAL (CF Nacional)
9. DEVELOPMENT BANK OF ETHIOPIA (DBE)
10. INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED (ICICI)
11. INDUSTRIAL DEVELOPMENT BANK OF ISRAEL (IDBI)
12. INDUSTRIAL FINANCE CORPORATION OF THAILAND (IFCT)
13. INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN (IMDBI)
14. LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT AND INVESTMENT (LBIDI)
15. MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED (MIDFL)
16. NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED (NIDB)
17. OESTERREICHISCHE INVESTITIONSKREDIT (IVK)
18. PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED (PICIC)
19. PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES (PDCP)
20. TEOLLISTAMISRAHASTO OY (TR)
21. TURKIYE SINAI KALKINMA BANKASI (TSKB)

I N D U S T R I A L D E V E L O P M E N T B A N K O F I S R A E L

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(IDBI)

September 7, 1965

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

I. THE COMPANY

1. The Industrial Development Bank of Israel (IDBI) was established in October 1957 by a group of sponsors representing the Government of Israel, the three largest commercial banks in Israel (Bank Leumi, Discount Bank, and Workers' Bank), the trade union movement (Histadrut) and the Manufacturers' Association of Israel.

Purpose and Powers

2. IDBI is empowered by its charter to undertake all the usual functions of an industrial finance company, including medium- and long-term lending, investing in shares, guaranteeing obligations, underwriting and providing technical assistance. It does not have a formal policy statement.

Resources

3. The main financial resources of IDBI are share capital, loans from the Government of Israel and from the U.S. Agency for International Development, debentures, and funds from the U.S. Export-Import Bank.

Summary of sources of funds, outstanding as at December 31, 1964

		IL million
Share capital, including premiums		319
Reserves		
General reserves and surplus	9	
Linking fund reserves	34	43
Long-term loans		
Debentures	73	
Loans from Government	(25)	
AID loans	47	
AID (counterpart) loans	10	
Minor loans	1	106
Managed funds		47
		515

Currency: Israeli pound (IL)
$1 = IL 3
IL 1 = $0.333
IL 1,000,000 = $333,333

4. Share Capital. IDBI's largest source of funds has been its share capital. As at December 31, 1964, the authorized, issued and paid-in share capital were I£342 million, I£306 million, and I£303 million, respectively. The authorized capital is now divided into 13 classes, 2 voting and 11 non-voting, whose structure reflects successive additions to resources over the years. Each share class has a variety of characteristics as to redeemability, linkage, dividend rights, right of profit participation and rights in liquidation.

5. Debentures. There have been seven issues of debentures so far, aggregating I£65 million. All these debentures are linked to one or both of the U.S. dollar or the cost-of-living index. The interest rates are 6% for the first five issues and 5% for the sixth; for the seventh there is an option between redemption at a higher price without any linkage or at a lower price with index- linkage.

6. Loans from the Government of Israel. The Government had granted loans to IDBI from time to time. In December 1962, the I£59.11 million of such loans then outstanding were consolidated into a single loan bearing interest at 5-1/2% and partly linked to the U.S. dollar. I£38.5 million of the loan had been converted into government shares by December 31, 1964.

7. Loans from AID. IDBI received three loans from the U.S. Agency for International Development (AID) in May 1959, September 1961 and September 1964 respectively. The first two loans were for $10 million each and the third one for I£40 million. The first two loans carry 5% interest and are repayable in dollars over a period of 10 years. The third one is a local currency loan from U.S. counterpart funds in Israel, bearing 3-1/2% interest and repayable half in dollars and half in Israeli pounds, in 45 semi-annual installments, with a grace period of 3 years.

8. Loans from the U.S. Export-Import Bank. By an agreement in October 1958, IDBI acts as an agent for the processing of loans granted to Israeli undertakings by the Export-Import Bank. It executes the loans, in some cases guarantees them and is responsible for their collection. It receives a commission of 0.2% per annum on the value of loans outstanding and is also paid 2% on the guarantees given by it.

9. Other resources. Those at December 31, 1964, were:

(a) two minor loans (I£1.4 million);
(b) general reserves (I£8 million); and
(c) capital linking increments or reserves (I£33.6 million).

Organization

10. Ownership. Of IDBI's present authorized capital of I£342 million, I£16 million or 4.7% is voting stock, which is held by institutions or persons representative of the entire financial community of Israel and of foreign investors interested in Israel. The distribution by category of

ownership of the I£13.68 million issued voting shares, as at December 31, 1964, was as follows:

	% of Total
Foreign shareholders	23.9
Government of Israel	23.7
Two largest commercial banks and subsidiaries	17.6
Workers' Bank and the trade union movement	17.1
Other banks	7.3
Manufacturers' Association	3.7
Others	6.6
	99.9

The Government usually holds about 26% of these shares. At the end of December 1964, the I£292 million issued non-voting shares were held as follows: Government of Israel (65%), foreign shareholders (20%), and private domestic shareholders (15%).

11. Board of Directors. IDBI's Board of Directors is appointed by the principal voting shareholders. At present, the Board consists of 55 members whose organizational affiliations are as follows:

Organization of Group Represented	Number
Foreign shareholders	15
Government of Israel	11
Workers' Bank and the trade union movement	7
Bank Leumi and subsidiaries	5
Discount Bank and subsidiaries	3
Manufacturers' Association and associated bank	4
Smaller banks	3
Miscellaneous	6
The Managing Director	1
Total	55

The Chairman of the Board, Dr. Y. Foerder, is also Chairman of Bank Leumi Le-Israel B.M., the largest commercial bank in the country. Of the five Vice-Chairmen, two are representatives of the larger commercial banks and the other three are government representatives. The Managing Director is Dr. A. Neaman, formerly the Accountant General of Israel.

12. Working Committees. There are two working committees comprised of Board members or their alternates: (a) the Executive Committee (17 members, December 31, 1964), a supervisory body in which are vested most of the powers of the Board; and (b) the Loan Committee (13 members, December 31, 1964), which processes loan applications and is empowered to take decisions on loans not exceeding I£300,000 each.

13. Management and Staff. The Managing Director is the chief operative executive. Under him there is an "Assistant Manager and General Secretary" who is in charge of the various departments and guides the three advisers (economic/financial, legal and building). The organization includes engineering and economic departments and the secretariat. There are the usual offices of the comptroller and internal auditor. The professional staff numbers 32 (November 1964) and is made up as follows: executives and advisers (including the Managing Director) - 9; engineers - 5; economists - 7; legal staff - 4; accounts - 3; collections - 2; implementation (disbursement) - 1; secretariat - 1. There are about 55 other staff members.

II. OPERATIONS

Operating Policies

14. As mentioned above, IDBI does not have a formal policy statement but certain definite policies have evolved in the course of its operations. IDBI works within the framework of the Government's policy for industrial development and the related programs, but considers applications for assistance on their own merits and does not allocate parts of its portfolio to particular sectors. Financial assistance is granted to enterprises controlled by private interests, as distinct from government enterprises. The operations have been mainly in the field of lending, primarily to finance fixed capital assets. There are no specified restrictions in regard to the maximum size of loans or to IDBI's total commitment to a single enterprise. The maximum proportion which IDBI loans bear to total fixed investment in projects varies from region to region - from 25% for projects in the coastal plain to 75% for projects in development areas. During the last two years IDBI has required its borrowers to contribute a minimum of one-third of the total investments in the projects.

Lending Activity

15. Summary. From its inception up to December 31, 1964, IDBI approved 1,317 loans amounting to I£495.4 million, of which I£440.8 million were disbursed. During the past five years its operations have developed as follows:

	I£ million			
Approvals in	Loans	Managed Loans and Guarantees	Investments in Shares	Total
1960	59.9	5.7	5.0	70.6
1961	58.1	9.6	1.6	69.3
1962	80.1	25.5	3.6	109.2
1963	55.9	8.4	1.0	65.3
1964	124.7	6.0	16.2	146.9
Total	378.7	55.2	27.4	461.3

Disbursements in	Loans	IL million Managed Loans and Guarantees	Investments in Shares
1960	52.2	16.7	n.a.
1961	61.8	7.7	n.a.
1962	70.6	3.1	n.a.
1963	78.5	3.3	n.a.
1964	106.6	15.1	n.a.
Total	369.7	45.9	

IDBI does not distinguish between local currency and foreign currency operations. There have been no underwriting operations.

16. Interest Rate. The charge for loans consists of three elements:

(a) the rate of interest, which is equal to the legal maximum rate of 8% on linked loans or 12% on unlinked loans;

(b) a one-time commission of 1% of the amounts disbursed; and

(c) additional escalation payments arising out of linking of loans to the U.S. dollar or to the cost-of-living index. Since the February 1962 devaluation of the Israeli pound, linkage has been only to the cost-of-living index. About half the loans now outstanding are linked.

17. Duration of Loans. Loans of less than four years are generally not granted. The average grace period for loan repayments is two years. As at the end of 1964, 55% of loans approved were reapayble within periods from 6-8 years, the value of such loans as a proportion of total approvals being 26% as against 44% for loans granted for periods from 9-13 years.

18. Size of loans. With certain exceptions such as for loans out of the two first AID loans, IDBI does not usually consider loans for amounts less than IL25,000 each. Numerically, the largest proportion (21%) of loans approved up to December 31, 1964, were in the range of IL100,001 to IL250,000 each. However, 57% of the total value of loans approved were IL1 million each or over. The largest loan is about 8% of IDBI's equity or 4% of gross assets. The average size of loans since the beginning of operations is about IL375,000.

19. Geographical Location. Geographically, loans have been widely dispersed. Of the loans approved up to the end of 1964, the highest proportions went to Negev (18%) and Haifa (17%) and the lowest to the

Sharon, Shomron and Jerusalem (4% to 5% each). Since 1962 the relative importance of the development areas, particularly Negev, has been growing.

20. Distribution of Loans by Industry. IDBI has been most active in the field of textiles and leather, for which approved loans total I£177 million, or 36% (in numbers 21%) of all loans approved to December 31, 1964. This is followed by metals (I£75.3 million, or 15%) and non-metallic minerals (I£63.2 million, or 13%). The textiles and chemicals and rubber branches led all others in respect of loans approved during 1964, receiving about 40% and 12% of total loans, respectively, by value.

21. Loans on Special Terms. If so requested by the Government, IDBI considers loan applications from enterprises in special circumstances such as those in development areas, export industries, enterprises which fulfill employment functions or supply basic goods. Such loans are granted on relatively easier terms provided IDBI is appropriately compensated by the Government. On unlinked loans, these special terms may be expressed as a lower interest and/or a lower rate of premium, the interest subsidy generally amounting to 2%. On linked loans, the interest rates are 6% or 6-1/2%. In both cases, the one-time commission charged is often lower than the standard 1%. About a third of IDBI's present outstanding loan portfolio is the beneficiary of some form of Government subsidy.

22. Government Guarantees. The Government guarantees certain IDBI loans which IDBI would not otherwise consider to be bankable, and also all the loans made on special terms, including those which IDBI considers to be bankable. As at December 31, 1964, about 43% of IDBI's outstanding loans were covered by such Government guarantees. These guarantees are additional to the usual securities obtained on the loans.

Equity Investments

23. At December 31, 1964, IDBI's equity investments amounted to I£16.4 million. In addition there was an investment of about I£11 million in a subsidiary investment company. There are no explicit policies in regard to limits of equity investment in a single enterprise or on total investment in equities. IDBI's Articles require the disposal of acquired shares within limited periods.

24. The Investment Company of IDBI. In December 1962, IDBI established an investment subsidiary jointly with the Government, with almost equal participation. The basic purpose of the company is investment in equity capital of industrial enterprises. Its operating policies are being formulated. Its initial share capital of I£20 million was comprised of shares held by the Government and IDBI in various industrial enterprises, which were transferred to the company and thus formed its first portfolio. The portfolio at the end of 1964 consisted of shares in 14 companies, valued at about I£18 million (at cost). The company has over 25% control in three of these, one of which is a wholly owned subsidiary. Recently IDBI has acquired 70% interest in the company by buying a part of the Government shares.

25. Underwriting and Stock Market Activity - Promotion. IDBI has not engaged itself in any of these activities.

26. Other Activities. These include: (a) management of the AID (Cooley) loans and (b) guarantee operations, which are of two types: firstly, letters of credit for the finance of industrial equipment purchased abroad by IDBI's clients, and secondly, guarantees on AID (Cooley) loans. The cumulative value of AID (Cooley) loans and guarantees approved as at December 31, 1964 was IL78.4 million.

III. FINANCIAL RESULTS

27. Balance Sheets. IDBI's balance sheets for 1958-64 are given in Annex 1 and those for 1962, 1963 and 1964 are summarized below:

	As at December 31 (in IL million)		
	1962	1963	1964
Current assets	14.6	18.0	16.4
Securities held, and investments	23.5	29.7	47.2
Deposits with Government	84.4	71.3	66.2
Loans	336.0	393.3	480.4
Loans from managed and other funds	25.9	41.3	48.5
Fixed assets	0.9	0.8	0.7
Total	485.3	554.4	659.4
Current liabilities and provisions	13.6	20.2	29.3
Managed loans including participations	35.3	50.0	65.0
Loans from Government	109.3	82.7	41.4
Debt	104.2	110.7	131.7
Capital linking increments	55.1	58.6	64.1
Capital and reserves	168.0	232.2	327.9
Total	485.5	554.4	659.4

Loans outstanding increased almost 20 times during the period 1958-64, capital and reserves increased more than tenfold, and debt increased sevenfold during this period.

28. IDBI has dollar and index-linked assets as well as liabilities. Devaluations of the Israeli pound and changes in the cost-of-living index thus affect its balance sheet in many ways. As at the end of 1964, linking increments on assets exceeded linking increments on liabilities by almost IL50 million. The main reason for this was the contribution from the dollar-linking of IDBI loans prior to the February 1962 devaluation. Loans can now only be index-linked or an interest premium of 4% charged instead. In recognition of the problem which may be caused by possible devaluations in the future, the Government has recently entered into an agreement with

IDBI to insure the latter's foreign exchange risks on all its borrowers and on future issues of foreign currency-denominated shares. In consideration for this, IDBI will turn over to the Government the 4% interest premium it receives on its loans, with the exception of interest premiums on loans of a value equal to the value of outstanding non-linked Government investment in IDBI.

29. The first AID loan agreement provided that IDBI cannot incur any indebtedness which will cause the ratio of its consolidated indebtedness to its capital and surplus to exceed two. Debt/equity ratios in 1962 and 1964 were 1.1 and 0.7, respectively.

Profit and Loss Accounts

30. IDBI's two profit and loss accounts, namely, the usual profit and loss account and the profits-linking fund account, for 1958-1964 are given in Annex 2. The profit and loss accounts for 1962 through 1964 are summarized below:

	In IL thousands		
	1962	1963	1964
Gross income	21,385	26,836	33,551
Expenses	9,282	11,099	12,469
Net income before tax	12,103	15,737	21,082
Net income after tax	9,180	12,487	16,522
Net balance of profit-linking fund, before tax	2,686	4,756	8,835
Total net income before tax	14,789	20,493	29,917
Average share capital, paid-in (IL million)	139.9	194.2	264.2
Income before tax as percentage of average share capital	10.6	10.6	11.3

Net income increased at the rates of 101%, 39% and 46% in 1962, 1963 and 1964, respectively. The ratio of net income to average capital has in recent years been over 10.5%.

31. The average cost of all share capital to IDBI has been around 8% and the overall cost of resources 6.5%. Returns on loans have been slightly less than 8% on linked loans which is also equivalent to 12% gross interest on unlinked loans since, under the recent agreement with the Government, the 4% interest premium is payable to the Government. Thus, IDBI's margin on operations has been about 1.5% of committed resources in recent years.

Dividends and Reserves

32. Allocation of Net Income. The allocation to dividends has ranged between 67% and 84% of net income after tax, to the general reserves from 9% to 39%, and the provision for bad debts from 4% to 9%.

33. Reserves. According to the IDBI Articles, a sum not exceeding 10% of its ordinary profits must be credited to a reserve fund after meeting its obligations on its preference shares. Further unspecified amounts may be credited to the reserve fund at two stages: after payment of fixed non-cumulative dividends on ordinary shares and after the distribution of a certain quota of participating dividends. The reserve fund may also be credited with amounts from the surplus of the profits-linked fund account. The following table shows the overall reserve position in the last two years:

Type of reserves	In I£ million At December 31, 1963	At December 31, 1964
General reserves	6.5	8.0
Share premiums	6.3	6.3
Capital linking increments	31.1	33.6
Total	43.9	47.9

The general reserves at I£8 million represent 16% of the sums of net income after tax (including undistributed income) each year since 1958.

34. Dividends. In 1964, the total dividends paid from ordinary profits was I£14.2 million, equivalent to 84% of net income after tax for the year. The cumulative dividends paid out of ordinary profits up to the end of 1964 was I£36.6 million, which is 74% of the sum of net income after tax each year since 1958.

35. Provision for Bad Debts. The cumulative provision for bad debts up to the end of 1964 was I£3 million. Of the loans in default not guaranteed by the Government, only I£0.12 million has been written off so far. As at December 31, 1964, the total sum in arrears was I£ 9.7 million of which I£6.4 million are covered by Government guarantees.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

Balance Sheets

(in millions of I£)

	1958		1959		1960		1961		1962		1963		1964	
ASSETS														
Cash and due from banks 3/		28.43		17.69		8.31		14.78		13.77		16.23		8.74
Accounts receivable, accrued interest, etc.		0.31		0.42		0.16		0.62		0.78		1.79		7.71
Securities owned:														
State of Israel Dollar Bonds							3.63		13.38		18.49		19.79	
Other Securities - at cost		--		--	5.00	5.00	6.56	10.19	10.14	23.52	1.56	20.05	16.39 4/	36.18
Investment in subsidiary company - at cost		--		--		--		--		--		9.62		11.01
Long-term deposits with the Treasury 5/		n.a. 4/		24.00		49.41		47.70		84.83		71.33		66.16
Long-term loans to industry:														
Loans including advances	27.25		66.17		129.37		187.79		336.03		393.26		480.42	
Loans from special deposits of AID	--		5.57		16.73		23.21		23.58		23.56		35.28	
Loans from other special deposits	--	27.25	--	71.74	0.58	146.68	2.82	213.82	2.37	361.98	17.76	434.58	13.21	528.91
Freehold property & equipment, etc- at cost less amounts written off 6/		1.18		1.46		0.28		1.95		0.90		0.80		0.67
TOTAL		57.17		115.31		209.84		289.06		485.33		554.40		659.38
LIABILITIES														
Accounts payable and accrued expenses (excluding provision for contingencies from capital linking increments)		2.35		5.77		7.23		11.77		13.56		20.24		29.25
Special deposits for the grant of loans:														
AID	--		10.90		26.07		34.88		32.11		25.70		35.62	
Participations in loans granted	--		--		--		--		0.76		7.04		17.51	
Other	--	--	--	10.90	0.58	26.65	2.82	37.70	2.38	35.25	17.24	49.98	11.88	65.01
Deposits (long-term loans) from the State of Israel 5/		8.30 4/		35.07		70.73		63.80		109.27		82.68		40.40
Long-term debt:														
Debentures, secured	15.00		30.29 7/		34.89 7/		46.45 7/		77.70		78.21		73.17	
Loans from the AID, linked to price of US$	--		--		5.11		9.88		25.09		30.91		46.74	
Loans from the AID, counterpart funds	--		--		--		--		--		--		10.37	
Sundry loans, linked to price of foreign currencies	--	15.00	--	30.29	0.93	40.93	0.94	57.27	1.39	104.18	1.58	110.70	1.39	131.67
Capital linking increments:														
Amount provided to adjust par value of share capital linked to U.S. dollar @ I£ 1.8 to present rate of I£ 3.	--		--		--		--		18.50		22.53		23.73	
Provision for contingencies	--		--		--		--		23.78		23.78		26.80	
Balance	--		--		--		--		9.42		13.61		26.21	
Capital linking fund	--	--	--	--	--		--	0.01	3.41	55.11	(1.50)	58.62	(12.57)	64.17
Capital and reserves:														
Share capital, paid up	31.18		32.25		62.71		115.64		157.89		198.90		303.26	
Premium on shares, net of expenses	--		--		--		--		3.54		6.26		6.26	
Receipts on account of shares not yet allotted	0.10		0.32		0.32		0.68		1.94		19.89		9.71	
General reserve	0.10		0.60		1.20		2.00		4.00		6.50		8.00	
Profits linking fund a/c	--		--		--		0.10		0.28		0.30		0.30	
Profit and Loss a/c, unappropriated balance	0.16	31.54	0.11	33.28	0.07	64.30	0.17	118.50	0.32	167.97	0.33	232.18	0.34	327.87
TOTAL		57.19		115.31		209.84		289.05		485.34		554.40		659.37

NOTES

1/ The published balance sheets for 1958-64 also include accounts relating to transactions (credits, guarantees, acceptances) in respect of the purchase of imported industrial equipment by IDBI's clients. These are contingent liabilities, appearing both on the assets and liabilities sides as contra accounts and have been omitted.

2/ The assets and liabilities do not balance exactly due to "rounding off", and "grossing" as explained in note 4 below.

3/ Including short-term deposits with the Treasury and with banks.

4/ Includes payments on account of shares, I₤ 4.49 million.

5/ The published balance sheets show a "net" figure for the "special deposits of the State of Israel", whereas here the two "gross" accounts are shown. The separate "gross" amounts for 1958 are not available, but in this year the long-term deposits with the Treasury are estimated to be negligible.

6/ Including amounts written off as expenses in connection with the issue of shares and debentures.

7/ Including receipts on account of debentures not issued at the time.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

a. Profit and Loss Accounts
(in thousands of I£)

	1958		1959		1960		1961		1962		1963		1964	
Gross income		1,470		6,073		10,716		15,082		21,385		26,836		33,551
Expenses														
Administrative	179		416		687		579		1,168		1,385		1,725	
Debenture interest	50		1,153		2,001		2,527		2,874		3,128		3,383	
Other interest	425		1,048		3,105		4,277		5,140		6,315		6,778	
For issue of debentures	227	881	163	2,780	574	6,367	450	7,833	100	9,282	271	11,099	583	12,469
Net income before tax		589		3,293		4,349		7,249		12,103		15,737		21,082
Income (net) relating to preceding years		-		-		-		-		2,477		-		-
Provision for income tax		333		1,319		1,700		2,302		5,400		3,250		4,560
Net income after tax		256		1,974		2,649		4,947		9,180		12,487		16,522
						I£ million								
Paid-up capital, as on December 31		31.28		32.57		63.03		116.32		163.37		255.05		303.26
Average capital (paid-up) during year		-		31.92		47.80		89.68		139.85		194.21		264.15

b. Profit-Linking Fund Account
(in thousands of I£)

Receipts	1958-59	1960	1961	1962	1963	1964
Amounts received as increment to interest on loans, deposits, etc. pursuant to linking terms	-	3	112	4,064	11,796	8,835
Payments						
Amounts paid as increment to interest on debentures, deposits, loans, etc. pursuant to linking terms		0	101	1,378	7,040	2,705
Excess of receipt over payments before income tax		3	11	2,686	4,756	6,130
Income tax			-	1,050*	1,654	4,690
Income tax provided for ordinary profits of the profit and loss account				-	1,750	-
Excess of receipts over payments after tax		3	11	1,636	1,352	1,440
Balance from previous year		0	3	14	280	301
		3	14	1,650	1,632	1,741
Linking increments on dividends		-	-	1,370**	1,331	1,436
Balance carried forward		3	14	280	301	305
		3	14	1,650	1,632	1,741

* Includes income tax for the previous year
** Includes I£ 391,000 for 1961

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I N D U S T R I A L F I N A N C E C O R P O R A T I O N O F T H A I L A N D

INDUSTRIAL FINANCE CORPORATION OF THAILAND

(IFCT)

September 7, 1965

INDUSTRIAL FINANCE CORPORATION OF THAILAND

I. THE COMPANY

1. The Industrial Finance Corporation of Thailand (IFCT) was incorporated in 1959 by the "Industrial Finance Corporation of Thailand Act B.E. 2502 (1959)". It is organized as a limited corporation whose shareholders are financial institutions and individuals.

Purpose and Powers

2. The objects of IFCT are: (a) to assist in the establishment, expansion or modernization of private industrial enterprise; and (b) to encourage the participation of private capital both internal and external in such enterprise. The Act defines "industrial enterprise" as meaning "engaging in industrial activity and includes the manufacture, processing and repair of goods, mining, generation and distribution of electricity or other kind of power, transportation, tourist industry, construction and site clearing and commercial agriculture" and private enterprises as those in which government ownership is less than 10%.

3. The Act authorizes IFCT to provide finance in the form of medium-term or long-term loans with or without security; to purchase or underwrite shares or other securities; to guarantee loans from other private sources; to sell investments of the corporation; to acquire, hold, take or give on lease, mortgage or pledge, and sell or otherwise dispose of immovable or movable property; to furnish administrative, managerial and technical advice and assist in obtaining administrative, managerial and technical services for private industrial enterprise; and to do all such other things as may be conducive to the attainment of its objectives. It may, in short, undertake the full range of activities normally associated with an industrial finance company.

4. In 1962, plans began being laid for the expansion and reorganization of IFCT and this was carried out in early 1964. Participating in this reorganization were not only the existing shareholders but also new foreign shareholders, the International Finance Corporation, the World Bank and the Kreditanstalt fur Weideraufbau.

Resources

5. Share Capital and Reserves. IFCT's present paid-in share capital amounts to ฿ 30 million and is distributed among about 80 shareholders.

Currency Unit: Baht (฿)

฿ 1 = US$ 0.048
US$ 1 = ฿ 20.8
฿ 1,000,000 = US$ 48,000

About 45% is held by Thai individuals; 13% by IFC and the balance by 16 foreign-owned financial institutions. Government, as such, holds no IFCT shares, but the government-owned Agricultural Bank holds about 13.4%. IFCT has only one class of shares; however, the corporation's regulations provide that directors may refuse to register a transfer of shares if, by so doing, the result would be that the control of the company would pass into the hands of one individual group or into the control of non-Thai citizens and organizations ("non-Thai" meaning citizens of a foreign country or a company which is controlled by foreign citizens). For purposes of this provision, IFC is considered a Thai institution.

6. In addition to the paid-in share capital, IFCT's reserves totalled ฿ 4.9 million at the end of 1964 and thus shareholders' net worth was ฿ 34.9 million at the end of the year.

7. Loans. IFCT has secured three loans from the Government of Thailand totalling ฿ 48.1 million. The first loan, for ฿ 13.1 million, represents the proceeds of the liquidation of IFCT's predecessor, the Industrial Bank of Thailand. It is for 50 years, including 30 years of grace, and is interest-free. The second loan, for ฿ 15 million from U.S. counterpart funds, is repayable in 30 years, including 15 years of grace, and it is also interest-free. The third loan is for ฿ 20 million, repayable in 50 years, including 30 years of grace. This loan is interest-free for the first 20 years. During the next 20 years, the rate of interest is 3%, and during the final 10 years, the rate of interest is 5%. All three loans are subordinated to paid-in share capital in the event of liquidation.

8. IFCT also obtained two foreign currency loans at the time of the reorganization: the first, a DM 11 million loan from Kreditanstalt für Wiederaufbau at 5-1/2% for 15 years maximum, but with repayments linked to IFCT's collections; and the second, a $2.5 million loan from IBRD with an interest rate equivalent to the Bank's rate at the time of each credit and with an amortization schedule linked to the repayment schedules of individual projects utilizing the loan. Both loans are drawn down on a project by project basis and all individual loans using KfW funds of more than $100,000 or IBRD funds of more than $50,000 require prior approval of KfW and IBRD respectively. To recapitulate, IFCT's present resources are as follows: (millions)

	฿	฿
Local Currency		
Paid-in share capital	30.0	
Reserves	4.9	34.9
First government loan)	13.1	
Second " ") paid-in	15.0	
Third " ")	20.0	48.1
		฿ 83.0
Foreign Currency		
KfW loan ($2.8 million equiv.)		DM 11.0
IBRD loan		$ 2.5

9. The Thai Government has given IFCT considerable support. In addition to the three subordinated loans mentioned above, it has exempted the corporation from all taxes, guaranteed the foreign loans incurred by IFCT, assisted in the financing of IFCT's foreign adviser as noted above, and agreed to assume the foreign exchange risk, for a nominal charge, in those cases where IFCT's borrowers are unwilling to do so.

Organization

10. Ownership. Of the 30,000 shares of stock outstanding, 9,388 shares (31.3%) are held by Thai institutions and individuals; 4,027 shares (13.4%) are held by the Thai Government; 4,000 shares (13.3%) are held by IFCT and 12,585 shares (42%) are held by foreign financial institutions.

11. Board of Directors. IFCT's regulations provide for a Board of eight shareholder directors, with terms of four years. In addition, the Act provides for a government-appointed director as long as any loan or guarantee of a loan by the Government is outstanding.

IFCT's foreign shareholders have organized themselves into three groups and the directorship of each group is rotated annually within each group. IFC was asked to appoint a director and has done so. IFCT's full Board meets monthly to carry out the corporation's business. There are no permanently constituted sub-committees.

12. Management and Staff. Several months after its opening, IFCT suffered a severe loss in the death of Prince Vivat, its sponsor and first Chairman. His successor was M.L. Dej Snitwongse, and Phya Srivisar Vacha succeeded to the chairmanship in June 1961. The General Manager is Mr. Kraisri Nimmanahaeminda, formerly of the Bangkok Bank of Commerce, Ltd.

13. The General Manager is assisted by a professional staff of 23 people. When IFCT was originally established, it had the services of two advisers financed by AID. At the time of the reorganization, it secured the assistance of a German technical adviser financed by the German Government, and an additional adviser on general matters financed partly by IFCT and partly by a Thai Government agency.

II. OPERATIONS

Operating Policies

14. IFCT's principal operating policies are set forth in a statement approved by its Board on December 23, 1963. A copy of this statement is given in Annex 1. According to this statement, IFCT will finance only soundly-managed undertakings after careful appraisal of their economic, financial and technical merits. Financial assistance will be granted in diversified ways, ranging from equity participations to loans, including underwritings and guarantees. IFCT will observe prudent restrictions as

to its equity participations and the size of its commitments to particular enterprises. Aggregate assistance to one firm is limited to 20% of net worth or 10% of net worth plus the three government loans. It will conduct its operations in such manner as to contribute to the development of a capital market. IFCT will not take the foreign exchange risk on its borrowings from abroad, either passing that risk on to its borrowers or otherwise covering itself. (The Government is authorized by IFCT's Act to take the exchange risk and contractual arrangements have been made for the Government to do so, when necessary, for a nominal fee.)

15. The policy statement also commits IFCT to a conservative reserve policy; it calls for an adequate reserve for bad debts and investments, and additional special reserves to build up equity. The policy statement also includes a restraint on borrowing beyond three times its paid-in share capital, reserves and the three government loans which are subordinated to paid-in share capital.

Lending Activity

16. Summary. The following table summarizes IFCT's operating activity during the last four years.

APPROVALS
(in millions of Baht)

	Domestic Currency Loans	Foreign Currency Loans	Investments	Total
1960	2.0	-	-	2.0
1961	12.3	-	-	12.3
1962	13.9	-	-	13.9
1963	21.0	-	-	21.0
1964	31.0	7.0	1.5	39.5
1st quarter of 1965	1.0	-	-	1.0

DISBURSEMENTS
(in millions of Baht)

	Domestic Currency Loans	Foreign Currency Loans	Investments	Total
1960	2.0	-	-	2.0
1961	6.0	-	-	6.0
1962	12.0	-	-	12.0
1963	14.8	-	-	14.8
1964	11.5	1.3	1.5	14.3
1st quarter of 1965	7.7	5.4	-	13.1

Loans have ranged in size from Ƀ 200,000 ($10,000) to Ƀ 8 million ($400,000). IFCT's policy statement states that it will not normally make loans of less than ฿ 500,000 or more than 10% of its paid-in share capital, reserves and quasi-equity (or at present about ฿ 8 million).

17. In 1964, the first year IFCT had direct access to foreign exchange, about 50% of its total loan approvals of about $2 million equivalent were foreign exchange loans.

18. Interest Rates. IFCT charges an interest rate of 9% per annum on its local currency loans, while a reduced rate is charged on loans made in foreign currency. The interest on loans denominated in foreign currencies, for which the beneficiaries assume the foreign exchange risk, is now 7-1/2%.

19. Duration of Loans. IFCT loans are made with repayment periods ranging from two to ten years.

20. Size of Loans. Of the 41 loans up to the end of 1964, only 16 were over $100,000 equivalent. However, the summary table in paragraph 15 clearly indicates a distinct increase in the average size of operations in the last three years, and in 1964 the average size loan was $230,000 equivalent.

21. Geographical Location. Assistance to industries has been provided throughout the country, on a widely diversified geographical basis.

22. Distribution of Loans by Industry. The range of projects financed by IFCT is quite wide and includes ceramics, chemicals, batteries, auto parts, textiles, food storage and processing, plastic products, appliances, metal products, paper and tourist hotels.

Equity Investments

23. IFCT has so far made only one direct equity investment. This was in the share capital of an existing loan client whose firm had run into trouble. IFCT also became active in the management of this firm and, as a result of its financial and managerial assistance, the company is getting back on its feet.

Underwriting

24. No underwriting activities have as yet been undertaken.

III. FINANCIAL RESULTS

Balance Sheet

25. IFCT's operating results and financial condition are summarized in Annexes 2 and 3. Total assets have increased from Ø 57 million to Ø 86 million in the last three years, largely as a result of the increases in the paid-in share capital. As at the end of 1964, IFCT had not yet drawn down any part of the IBRD loan and had only drawn down a small amount of the KfW loan. Consequently, at the end of 1964, leverage on share capital and reserves was only about 1.5 and the ratio of long-term debt to net worth plus the three government loans, the ratio upon which IFCT's borrowing limit is defined, was almost nil. Even if the entire amounts of the KfW and IBRD loans were drawn down, this latter ratio would still be only 1.3:1.

26. On the asset side, at the end of 1964 approximately 50% of IFCT's drawn-down resources were held in temporary forms of investments, mainly time deposits. These deposits currently yield about 7% as against 5% for Treasury Bills and 7% to 8% on government bonds. The amount of loans outstanding has not increased appreciably in the 1962-64 period although the rate of approvals has increased significantly, particularly in 1964. This results from the time interval between approval and disbursement; the bulk of the 1964 approvals had yet to be disbursed at the end of the year.

Profit and Loss Accounts

27. Gross income has increased from 5.3% of average total assets in 1962 to 6.8% in 1964. During this period, IFCT did not have any financial expenses to speak of as all of its funds were free of interest and other charges. Administrative expenses have doubled since 1962 and as a percentage of average total assets have increased from 3.0% in 1962 to 3.6% in 1964. The increase in administrative expenses was almost entirely accounted for by increased personnel costs as IFCT enlarged its staff and also assumed responsibilities for 50% of the cost of a foreign adviser. The combined effect of income and expenses has been an increase in the net spread from 2.3% in 1962 to 3.2% in 1964. The returns on net worth were 12% in 1963 and 7% in 1964. The decline is attributed to a significant decrease in leverage as a result of the increase in the corporation's paid-in share capital from Ø 6 million to Ø 30 million.

Dividends and Reserves

28. IFCT commenced paying dividends out of earnings in 1962 when a 5% dividend was paid. This dividend was maintained in 1963 and 1964 and, even with the increase in share capital resulting in larger dividend payments, dividends have absorbed only about 45% of the corporation's earnings. The fact that earnings are tax-free has, of course, been very

helpful in allowing the corporation to pay a moderate dividend while, at the same time, building reserves.

29. IFCT's shares had a book value of Ø 1,160 (par value Ø 1,000) at the end of 1964. The shares are listed on the Bangkok Stock Exchange, but there has not been trading of any significant volume since the reorganization in early 1964.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Statement of Operating Policies Adopted by the Board on December 23, 1963

The Board adopts the following policies to guide IFCT operations.

1. IFCT is an investment institution designed to assist in the expansion of industry in Thailand. To this end, it will pursue an aggressive policy to promote, finance and otherwise assist private industry.

2. IFCT will invest in enterprises which are expected to make a contribution to the economic development of Thailand.

3. It will make its investment decisions only on the basis of sound investment criteria and standards.

4. Subject to such criteria, it will select projects on as broad a geographical basis as possible.

5. IFCT Articles empower it to provide finance in any form it considers appropriate to its clients and in its own interest. IFCT will, as appropriate, make use of the entire range of forms of investment. It will give particular attention to its clients' needs for equity financing and will provide such equity to the extent consistent with sound financial practice.

6. It will not incur any debt (not including as debt the loans to IFCT from the Ministry of Finance referred to in the Loan Agreement dated 16th September 2506 between the Ministry of Finance and IFCT, and sometimes called "the quasi-equity") in excess of three times IFCT's equity (including paid-in share capital, reserves and the quasi-equity) determined in accordance with sound accounting practices. Debt in foreign currency will be valued in Baht at the rate of exchange at which IFCT could then obtain such foreign currency.

7. It will diversify its financing (except for temporary investment of liquid funds in short-term securities) among different types of industries and different types of financing.

(a) It will not commit to any single enterprise (in whatever form) an amount greater than 20% of its paid-up share capital and reserves, or 10% of its paid-in capital and reserves plus quasi-equity.

(b) It will not commit to any single enterprise in the form of equity more than 10% of its paid-in share capital and reserves.

(c) The total of its equity investments will not exceed its paid-in share capital and reserves.

(d) It will not normally make a loan of less than ฿ 500,000

8. It will not seek to take a controlling interest in an enterprise or any other interest which would give it primary responsibility for management of an enterprise; and it will not take up more than 25% of the shares of any single enterprise. Notwithstanding the foregoing limitation, in any case of jeopardy, it may take such action as it thinks fit to protect its investment.

9. It will conduct its operations in such manner as to assist in the growth of a capital market in Thailand and to improve facilities for marketing shares and securities, and will revolve its own portfolio whenever it can do so on satisfactory terms. In selling an investment, it will pay due regard not only to its own interests, but also to the interests of other participants in such investment, and to the interests of the others who have directly invested in the enterprise in which it has invested.

10. It will finance undertakings which are soundly managed and which appear, on careful economic, financial and engineering investigation, to be economically viable; and it will carefully watch the operation of the enterprises it finances and it will promptly make available to them constructive and remedial advice wherever requisite.

11. To build and strengthen its own management and staff as well as to assist clients in the formulation and execution of their projects, it will rapidly build an effective organization and develop an adequate staff, including financial and economic analysis, engineering, accountancy and legal services.

12. In accordance with normal business practice, IFCT will endeavor to obtain adequate security for the loans it provides. However, its decisions to invest will be based on its judgment regarding the prospective profitability of its clients' enterprises.

13. It will levy charges for its loan financing and services which together with earnings on investments, will allow the accumulation of reserves and the payment to its shareholders, in due course, of a satisfactory return on their investment. It will build and maintain reserves consistent with sound financial practice; these will include reserves for bad debts and investments and, in addition, supplementary reserves to strengthen its equity. To this end, it will set aside at least 50% of its annual profits until (a) the former reserves have been built up to 15% of its loan and investment portfolio (at which percentage they will be maintained) and (b) the supplementary reserves have been built up to not less than ฿ 5,000,000.

14. IFCT will not carry the foreign exchange risk on external borrowings, which it must repay in foreign exchange. It will pass that risk to its clients or find other suitable means to cover it.

15. The Board of Directors will use its best efforts to prevent any one person or company, a group of affiliated persons or companies from gaining effective control of IFCT.

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Balance Sheets
(in millions of Baht)

	1960	1961	1962	1963	1964
Assets					
Cash	0.04	0.46	0.34	37.25	0.19
Fixed Deposits	6.26	6.26	0.92	-	33.00
Government Securities	27.05	22.10	35.00	2.10	7.68
Project Loans	3.50	8.99	20.20	31.21	40.56
Fixed Assets	0.11	0.07	0.24	0.22	2.20
Customer's Liabilities under Guarantees	-	-	-	-	0.79
Other Assets	0.13	0.21	0.62	1.42	3.12
Total Assets	37.09	38.09	57.32	72.20	87.54
Liabilities and Capital					
Current Liabilities	0.27	0.24	0.46	1.16	1.80
Subordinated Government Loans					
(a) Govt. "counterpart" Loan	15.00	15.00	15.00	15.00	15.00
(b) Govt. "Industrial Bank" Loan	14.96	14.89	13.13	13.66	13.73
(c) Govt. Loan of 1962	-	-	20.00	20.00	20.00
KfW Loan	-	-	-	-	1.35
Share capital, paid-in	6.10	6.10	6.10	18.69	30.00
Reserves	-	1.70	2.35	2.85	3.00
Provision for possible losses	-	-	0.20	0.70	1.85
Unallocated profits	0.76	0.16	0.08	0.14	0.02
Liability on Guarantees	-	-	-	-	0.79
	37.09	38.09	57.32	72.20	87.54

INDUSTRIAL FINANCE CORPORATION OF THAILAND

Statements of Income and Profits
(in millions of Baht)

	1960	1961	1962	1963	1964
Income					
Interest on loans	0.16	0.50	1.29	2.32	3.21
Government securities	0.96	1.15	0.90	1.83	1.91
Bank deposits	0.23	0.35	0.30	0.02	0.32
Liquidation fee - Industrial Bank	0.33	0.17	0.03	0.02	-
Other income	-	-	0.02	0.01	0.01
Total Income	1.68	2.17	2.54	4.20	5.45
Expenses					
Personnel expenses	0.62	0.76	1.01	1.45	2.21
Directors' fees and expenses	0.09	0.10	0.10	0.11	0.12
Rent	0.05	0.05	0.06	0.09	0.13
General expenses	0.12	0.12	0.22	0.54	0.38
Depreciation	0.04	0.04	0.08	0.08	0.10
Total Expenses	0.92	1.07	1.47	2.27	2.94
Net Profit	0.76	1.10	1.07	1.93	2.51
Dividends	-	-	0.31	0.87	1.34
Reserves	0.76	1.10	0.56	0.56	0.02
Provision for possible losses	-	-	0.20	0.50	1.15
	0.76	1.10	1.07	1.93	2.51

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I N D U S T R I A L   A N D   M I N I N G   D E V E L O P M E N T

B A N K   O F   I R A N

THE INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

(IMDBI)

September 7, 1965

THE INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

I. THE COMPANY

1. IMDBI officially began operations on October 14, 1959, following two years of discussions and negotiations between the sponsors (Lazard Freres & Co. and Chase International Investment Corporation) and the Government of Iran. The World Bank acted, by invitation, as an adviser to the parties during this period.

Purpose and Powers

2. The primary objective of IMDBI is the stimulation of private industrial development within Iran. Its Memorandum of Association states that it is "to develop, encourage and stimulate private industrial, productive, mining and transportation enterprises in Iran" and to encourage, sponsor and facilitate the participation of domestic and foreign private capital in such enterprises. Emphasis is also given in the Memorandum of Association to the promotion and development of a capital market.

3. IMDBI may carry out these objectives in a variety of ways. It may make long- and medium-term loans, invest in equity capital, sponsor and underwrite new issues of securities and guarantee loans and commitments of other investors. It may make its funds available for reinvestment through sales from its own portfolio. It is designed to offer advice and guidance to Iranian industry on technical, financial, managerial and administrative matters. IMDBI may not, however, engage in purely commercial banking activities.

Resources

4. Share Capital. IMDBI's authorized and fully paid share capital is Rls.400 million (US$5.3 million), divided into 400,000 shares of Rls.1,000 par value each. The capital stock is divided into two classes: Class A shares, which must at all times be owned by Iranian nationals and represent not less than 60% of the total capital, and Class B shares, which may be held by nationals of any country.

5. Government Advance. Under an Agreement dated March 1, 1959, the Iranian Government advanced Rls.600 million (US$8.0 million) to IMDBI. The Advance is interest-free, repayable in fifteen equal annual installments after a fifteen-year grace period, and is subordinated to all other debt. In case of liquidation it would rank *pari passu* with the share capital of the bank. The Government has the right, as long as the Advance is outstanding, to appoint an observer to IMDBI's Board of Directors who has the rights of a Director with the exception of the right to vote.

Currency Unit: rial (Rls.)
1 rial = U.S.$ 0.013
1 U.S.$ = Rls. 75
1 million rials = U.S.$ 13,300

6. Plan Organization Loan. Under an Agreement dated January 12, 1964, the Plan Organization of the Iranian Government made a loan to IMDBI of a minimum of Rls.400 million (US$5.3 million) with a further Rls.350 million (US$4.7 million) to be made available if needed by IMDBI. The loan is to be paid over to IMDBI in three yearly installments beginning in 1964 and repaid in ten equal annual installments after a five-year grace period. The interest rate is 3.5% less than the interest rate to be charged by IMDBI on loans from these funds. It is subordinated to any loan guaranteed by the Government.

7. AID Loan. Soon after IMDBI began operations, under an Agreement dated November 19, 1959, the U.S. Development Loan Fund (now administered by the Agency for International Development) lent IMDBI US$5.2 million equivalent to finance the foreign exchange cost of projects with a foreign exchange component equivalent to US$100,000 or more. In 1962 the uncredited portion of the loan, amounting to US$3.2 million, became tied to purchases in the United States. Previously it was available for expenditure anywhere. The term of the loan is fifteen years with a grace period of three years. It bears 5-3/4% interest and is to be repaid in U.S. dollars. The Government of Iran has guaranteed the availability of foreign exchange to service the loan. Sub-loans under US$250,000 do not need the prior approval of the U.S. Government.

8. IBRD Loan. Under an Agreement dated November 23, 1959, the Bank lent IMDBI US$5.2 million equivalent to finance the foreign exchange cost of projects with a foreign exchange component equivalent to US$100,000 or more. The term of the loan is fifteen years with a grace period of five years. Though the loan has a fixed amortization schedule, IMDBI has followed the practice of prepaying in order to avoid carrying an exchange risk. The interest rate is determined separately for each part of the loan credited to the loan account at the time such part is credited. The Government of Iran has guaranteed the repayment of the loan. All sub-loans require the prior approval of the Bank. The Loan Agreement limits IMDBI's borrowing power to three times the sum of its unimpaired capital, surplus, free reserves and the outstanding amount of the Government Advance.

9. Managed Loans. Under an Agency Agreement dated November 8, 1959, the Government of Iran transferred to IMDBI 83 loans with an aggregate face value of Rls.1,400 million (US$18.7 million) for IMDBI to manage as agent on behalf of and for the account of the Government. These loans had been made to private industry by two Government agencies, the Industrial Credit Bank of the Plan Organization and Bank Melli Iran, the Government-owned commercial bank. IMDBI receives a fee of 3% per annum on the outstanding amount of the loans administered by it which have not been in default for three months or more. It does not carry any of the risk of these loans. It is obliged to relend repayments of these loans, the agency concerned receiving the interest less the 3% fee which is retained by IMDBI.

10. The principal amount of the managed funds is to be returned to the Government over a seven-year period starting in 1967.

11. Special Equity Fund. Under an Agreement with the Plan Organization, which became effective on March 21, 1964, Rls.900 Million (US$12.0 million) has been made available to IMDBI as a Special Equity Fund for the purpose of taking up equity participations in private Iranian enterprises on behalf of the Government. An amount of Rls.500 million (US$6.7 million) has also been made available to the Industrial Credit Bank for the same purposes. The Government, as a matter of policy, will no longer take equity participations in private companies.

12. Proposed investments are presented to the Executive Board of the Plan Organization for approval. However, only IMDBI can propose to the Plan Organization a participation involving its portion of the funds. There are no restrictions as to the type of enterprise eligible for investment from this Fund. Rls.200 million of IMDBI's portion of the Fund is to be used for existing enterprises which are experiencing trouble due to their equity being insufficient to support their current loan capital; the remaining Rls.700 million is to be directed towards new projects.

13. IMDBI will hold the Fund's share holdings in the name of the Government but will exercise all rights and powers itself. It will receive a yearly fee of 1-1/2% of the total capital invested which will be paid it from dividends received and capital gains realized. When sufficient funds do not accrue from these two sources to pay this fee, arrears will be carried forward until funds are available to pay them.

14. IMDBI will be expected to sell equity participations acquired with this Fund to private investors whenever there is an opportunity to do so. This activity will help to support a capital market in the country and is in line with the Government's policy to divest itself of equity holdings in private companies. Repayment of the Fund to the Government will be made from proceeds of such sales.

15. The Government expects that commitments will be made, and the Fund drawn down, fairly evenly over four years.

16. Summary. The following is a summary of the total resources which have been made available to IMDBI.

	Rls. million		US$ million	
Equity and Quasi-Equity				
Share Capital	400		5.3	
Government Advance	600		8.0	
Subtotal		1,000		13.3

Loans	Rls. million		US$ million	
Plan Organization Loan	750		10.0	
IBRD	390		5.2	
AID	390		5.2	
Subtotal		1,530		20.4
Managed Funds		1,400		18.7
Special Equity Fund		900		12.0
TOTAL		4,830		64.4

17. Borrowing Power. Under the IBRD Loan Agreement, the borrowing power of IMDBI is limited to three times the net worth plus the outstanding amount of the Government Advance. As the present actually incurred debt is less than the net worth and Government Advance, IMDBI has ample borrowing power.

Organization

18. Ownership. Article 62 of the Monetary and Banking Law of Iran, which applies to IMDBI, requires that no more than 40% of the share capital of Iranian banks may be held by non-Iranian nationals. Class A shares account for exactly 60% of the capital of IMDBI. It has the widest distribution of shares of any company in Iran with about 85% of the almost 1,700 Class A shareholders holding less than 100 shares each. However, one group of shareholders controls a block of 39,484 shares, or 16.5% of the total Class A votes.

19. The Class B shares, which make up the remaining 40% of the share capital, are held by twenty non-Iranian private investors, mostly banking and investment institutions, from seven countries.

20. IMDBI stands ready to act as a middleman for buyers and sellers of its shares. Though these activities and its efforts to keep its shareholders informed of the Bank's activities are very time-consuming, IMDBI feels that they are worthwhile, especially when seen in the larger context of developing a capital market in Iran.

21. Board of Directors. The Board of Directors is vested with all the powers and responsibilities of managing the affairs of IMDBI. The Directors are elected annually. As a result of the Memorandum of Agreement between the sponsors and the Government of Iran, and as provided in its Articles of Association, control of IMDBI was vested with the non-Iranian shareholder group for an initial period of five years. Accordingly, the Class B shareholders have held eight of the fifteen seats on the Board.

At the Annual General Meeting held on June 18, 1964, however, about 4-1/2 years from the formation of IMDBI, control passed to the Iranian shareholders who elected eight of the fifteen Directors, since the sponsors did not want to wait for the full five years to relinquish control. To enable this change, the Articles of Association of IMDBI were altered at an Extraordinary Meeting of the Company also held on June 18, 1964.

22. The Chairman of the Board is chosen by the Board annually from those Directors representing Class A shareholders. The present Chairman is Eng. Jaafar Sharif Emami, former Prime Minister, the President of the Iranian Senate, Head of the Chamber of Industry & Mines, Deputy Head of the Pahlavi Foundation and the holder of several other prominent positions. The Managing Director is a full member of the Board.

23. The position of Government Observer, created by the Government Advance Agreement, is presently held by Dr. Mohamed Yeganeh, an Undersecretary in the Ministry of Economics.

24. Loans Committee. All applications are given a preliminary appraisal by a Loans Committee consisting of senior professional staff, which advises the Managing Director whether to reject an application immediately or proceed with a full appraisal. Rejections at this stage are either because the project is too small or is unsuitable for IMDBI's assistance for other policy reasons.

25. The Loans Department is responsible for the full appraisal. A joint financial/technical team, drawn from its staff and the staff of the Technical Department, prepares a report independently of the separate report, if required, prepared by the Economics Department. This latter report is mainly concerned with the marketing aspects of the project.

26. When these two reports have been prepared, the Loans Committee again considers the application. If it approves the application, and Management agrees with its recommendation, a summary report, condensing the findings of the various departments, is prepared by the Loans Department and the case is submitted by Management to the Executive Committee of the Board. The Executive Committee does not receive any of the detailed reports, questions it may have on matters of detail being left to be answered by staff members invited to the meeting.

27. The above procedure, from receipt of an application to its final approval by the Executive Committee, takes an average of six months. Most of this time, however, appears to be spent in obtaining further information from the applicant on questions put by IMDBI. A further three weeks to a month is often required after approval for the borrower to attend to legal details necessary before signing the loan documents.

28. This appraisal procedure is followed for equity investments as well as for loans.

29. End-use Supervision. Besides annual financial statements, each borrower is asked to submit a monthly report to IMDBI. As might be expected, the frequency with which these reports are received varies between borrowers, as does their content and usefulness. Normally every project is visited once a year by a financial officer and by an engineer, with more frequent visits in the cases of projects in trouble or when the monthly reports are especially poor.

30. On the basis of the monthly reports submitted by borrowers and the reports prepared after staff visits, appropriate action is decided upon by Management. This action is normally carried out by a special "team" within the Loans Department which has the responsibility of follow-up work.

31. Working Committees. As the Board meets only once or twice a year, the Executive Committee exercises substantially all its functions as provided in the Statutes. This includes the power to approve or reject projects. Its membership is currently made up of three Class A Directors and two Class B Directors. Under the Articles of Association the Government Observer has the right to attend Executive Committee meetings, but without the right to vote. This Committee meets about once every three weeks at present.

32. Coordination Committees. The Memorandum of Agreement between the Government and the sponsors, dated March 1, 1959, provides for the establishment of a permanent committee "to bring about the fullest harmony and coordination in the granting of industrial loans and the adoption of a sound industrial policy." It is composed of the Ministers of Finance and of Economics, the Governor of the Central Bank, the Managing Director of the Plan Organization and the Secretary General of the High Economic Council. The Managing Director of IMDBI sits as an observer. This committee coordinates at a high level the activities of various organizations concerned with assistance to private industrial development in Iran.

33. The Plan Organization Loan Agreement provides for the establishment of another committee on a lower level including representatives of the Ministries of Economics and of Finance, the Plan Organization, the Central Bank and IMDBI. This committee was established "for the purpose of creating close cooperation in developing the affairs of private industrial and mining organizations in Iran and in order to study the programs, methods and general policies in encouraging private investment." Its purpose is to function more as a working committee than as a policy-making and planning committee.

34. Management and Staff. The Managing Director since December 10, 1963, has been Mr. A. Gasem Kheradjou, who is on leave from IFC. His replacement of Dr. Willem van Ravesteijn, IMDBI's first Managing Director, was an important step in the assumption of control of IMDBI by the Iranian majority.

35. Dr. Reza Amin, who was at one time on the staff of IMDBI, and later acted as Technical Adviser to IMDBI while managing the Esfahan Cement Company, has recently joined IMDBI's Management as Deputy Managing Director.

36. Staff. IMDBI is organized into six departments -- Secretariat and Legal, Administration and Public Relations, Treasury and Accounts, Economics, Loans, and Technical. The functions of the first three departments are implied in their names. The Economics Department carries out market and allied studies on individual projects and general industrial surveys on specific sectors of the economy. The Loans Department is in charge of appraising all projects from a financial point of view. The Technical Department, which some time ago became a section of the Loans Department, is now again a full-fledged department and carries out engineering and other studies on projects.

37. One and a half years ago, non-Iranians held the senior positions in IMDBI. Now, however, these expatriates have left and, with one exception, their positions have been filled by Iranians. IMDBI is actively looking for a replacement for the last post, which was vacated in March of this year.

38. The present department heads are assisted by a professional staff of thirty. Total staff numbers 69, a reduction of ten from the total two years ago.

II. OPERATIONS

Operating Policies

39. IMDBI's Board has not laid down an exposition of its operating policies. Its loans are typically for the financing of fixed assets though it has no objection to the principle of financing long-term working capital needs. It has shown its willingness to assist new enterprises instead of confining its operations to the more secure field of assistance to established concerns.

40. IMDBI normally insists on a first mortgage over all fixed assets of the borrower, which usually provides a 100% margin, plus the personal guarantee of shareholders owning more than 10% of the project's share capital. It passes on to its borrowers the foreign exchange risks on the relending of the proceeds of its foreign loans.

41. IMDBI has so far taken care to spread its portfolio over several industrial sectors. It is anxious to spread its investments throughout the country but has understandably not been able to go against the prevailing tendency for business to conglomerate in and around Tehran.

42. IMDBI usually limits its assistance to less than 50% of the total costs involved though it has on occasion provided a larger percentage of the finance required.

Lending Activity

43. Summary. Up to March 20, 1965, the end of IMDBI's most recent fiscal year, IMDBI had made 121 loans, totaling Rls.3,262 million (US$43.5 million). The following table indicates the volume of business done each year.

Loans Signed

Period	Number	Amount (Rls. million)	Monthly Average (Rls. million)	Percentage Increase From Year Before
October 14, 1959 to March 20, 1961	31	1,016	60	-
1961/62	17	229	19	-
1962/63	15	369	31	61%
1963/64	25	606	50	64%
1964/65	33	1,042	87	72%
Totals	121	3,262	50	

As can be seen, IMDBI's activities have been growing steadily each year after the drop in 1961 which coincided with the beginning of an economic recession in Iran.

44. Status of the Bank Loan. Thirteen loans had been approved by the Bank by the end of April, 1965, for financing from its loan of US$5.2 million. The amount involved will fully utilize the Bank loan. Ten of these loans have been signed, US$2.2 million having been disbursed by the same date. Three further projects have been received in anticipation of a second loan. The following table indicates the rate this loan has been committed.

	1960	1961	1962	1963	1964	First 4 months of 1965
Number of loans	1	1	1	2	6	2
Amount of loans (US$ millions)	0.5	0.2	0.3	0.8	2.7	0.7
Cumulative amount (US$ millions)	0.5	0.7	1.0	1.8	4.5	5.2

As can be seen, while it took four years to commit the first third of the loan, the remaining two-thirds, equal to US$3.4 million, has been committed in the last 15 months. This is indicative of the growing momentum of IMDBI's activities.

45. <u>Status of the AID Loan</u>. IMDBI's Balance Sheet for March 20, 1965, indicates that US$3.3 million of this loan has been committed, though only US$1.7 million has been disbursed. The cut-off date for the submission of projects to AID has been extended to November 30, 1965. It was IMDBI's original intention, as stated in side letters to both this and the Bank loans, to draw down these loans equally. However, with the tying of the AID funds in 1962 to purchases from the United States, AID no longer expected this intention to be carried out.

46. <u>Interest Rates</u>. IMDBI charges the same interest on all loans it grants, regardless of their purpose or duration. The current rate of 7% per annum plus 1% service charge per annum (to cover the cost of studies, technical and financial assistance and various other types of assistance given to clients) became effective in January 1964. These charges had totaled 9% during the previous year and were 10% before that. The reductions were made in order to keep in line with the general reduction of interest rates in the country sponsored by the Central Bank. IMDBI extended the benefit of these reductions to existing loans as well, as otherwise, it stood in danger of having its better clients prepay their loans through refinancing at cheaper rates from commercial banks or other sources. Its voluntary action to reduce its interest rates has improved its public relations and has enabled it, as a <u>quid pro quo</u>, to obtain from the Government an assurance that the Government-owned Industrial Credit Bank, which wanted to bring interest rates down further, would not go below 8% on loans above Rls.5 million, the lower limit of IMDBI's operations.

47. <u>Duration of Loans</u>. The analysis which follows is based on 100 loans totaling Rls.2,553 million (US$34.0 million) which IMDBI has made up to September 22, 1964, the mid-point of its last fiscal year. Detailed data are available only up to that date. Twelve of the 100 loans have been granted for working capital purposes. These loans, averaging Rls.10 million in size, have all been made to existing customers to assist them through times of temporary difficulty caused by depressed business conditions, and were originally for one-year terms, though some have had to be extended. These loans are made solely from repayments of the managed funds.

48. Over half of the loans, accounting for some 70% of the amount, are for terms over five years. Three loans have been granted for nine years. Loans over three years typically have a grace period of between 18 months and two years.

49. <u>Size of Loans</u>. Slightly less than half of the 100 loans in number and slightly more than half in amount have been for new enterprises. Approximately three-quarters of the total number of loans have been for amounts less than Rls.25 million (US$333,000). The five largest loans account for 22% of the total amount lent.

50. Geographical Location. Tehran, as might be expected, has received the largest number (66) and the largest amount (Rls.1,643 million - US$21.9 million) of loans.[1/] The remaining loans are fairly well spread about the most populated areas of Iran.

51. Distribution of Loans by Industry. The food processing sector has received the largest amount of loans, 21% of the total amount granted, as well as the largest number, 23 in all. Textile manufacturing has received approximately 17% of the total amount of loans granted, followed by rubber products with 15%.

52. Managed Loans. As mentioned earlier, IMDBI manages loans made by the Bank Melli Iran (BMI) and the Industrial Credit Bank of the Plan Organization (ICB) before it was established. These 83 loans were transferred to it when it began operations. The entire portfolio of ICB was so transferred, approximately 60 loans totaling Rls.675 million. The 23 other loans were selected from BMI's portfolio to bring the total amount transferred to the agreed figure of Rls.1,400 million. Of this amount, Rls.815 million was outstanding on September 22, 1964.

53. Of the original 83 loans, 47 had been completely repaid by September 22, 1964. These loans, however, represented only 20% of the total amount transferred. Of the 36 loans still outstanding, most are being repaid regularly or present no serious problems, though some may require extensions. About ten, however, are in serious difficulties, typically because the enterprises are burdened with excessively heavy debt capital.

54. Though IMDBI will not be called upon to repay to ICB and BMI loans which are in default, it has had to spend a considerable amount of time with these managed loans trying to put the repayment schedules on a more appropriate basis and generally advising the enterprise on how to cope with their difficulties. It receives a fee of 3% per annum of the outstanding amount not in default over three months.

55. IMDBI is obliged to reinvest repayments received from these loans in all new rial loans it makes. The percentages of each new loan which represent IMDBI's, ICB's and BMI's shares are calculated on the basis of the amount of uncommitted funds available from each source at the time the new loan is signed. IMDBI may also make working capital loans to existing clients entirely from repaid managed funds.

Equity Investments

56. IMDBI had made six equity investments by September 22, 1964. It also has negotiated option rights with respect to 16 loans, six of which were second loans to the same company. These take the forms of a preferential right to purchase shares if a public issue is made as well as a right to convert part of the loan into shares. Four of these options have been allowed to lapse; none has ever been exercised.

1/ Figures in this paragraph refer to the year ending March 20, 1964.

57. IMDBI had also made by September 22, 1964, two other equity investments totaling Rls.17.5 million out of the Special Equity Fund, and had submitted to the Executive Board of the Plan Organization three further cases involving investments totaling Rls.128 million.

Underwriting

58. IMDBI has not entered into any underwriting operations since it is difficult to find a market for the shares it may be obliged to take up in such an operation. However, its management is aware of its potential role in this field.

Promotional Activities

59. IMDBI is well aware of the useful role it could play in promoting industries. In addition to assisting clients during the appraisal process and after a loan has been made, and to offering advice and services on a fee basis to clients who are not recipients of loans, IMDBI has been instrumental in the bringing together of finance, management and technical know-how in the case of a sugar factory and a bonded warehouse.

60. It intends to be more active in this field in the future, however, particularly in the sugar, paper, steel and glass-making industries. It currently holds government licenses in its own name for several such future projects. It is now engaged in bringing together interested groups of investors, entrepreneurs and technical know-how to get these projects either studied in great detail or started where such studies have already been made. Besides the above-mentioned fields, IMDBI has carried out preliminary feasibility studies of several other industrial sectors, including cheese production, organic fertilizer and viscose rayon.

Other Activities

61. Stock Exchange. IMDBI began studying the possibilities of forming a Stock Exchange early in 1960. With the help and support of the Government, commercial banks and outside experts, IMDBI has now brought this Exchange almost into being. When the Stock Exchange is in operation, IMDBI will initially provide the necessary administrative and secretarial facilities.

III. FINANCIAL RESULTS

Balance Sheets

62. Annex 1 presents IMDBI's Balance Sheets as of March 20, the end of its fiscal year, for the past five years.

Profit and Loss Accounts

63. Annex 2 presents the Profit and Loss Accounts for each year since the establishment of IMDBI. Net profit after taxes has risen in each year,

reaching Rls.62 million for the year ended March 20, 1965, after the allocation of Rls.28 million to "provisions and payables" which included Rls.15 million allocated to the hidden bad and doubtful debt reserve. This profit figure represents a return on share capital of 14.0%, up from 12.7% for the year before. The return on net worth at the beginning of the year also rose, from 11.6% a year ago to 13.4% for the latest year. This high level of return is a result partially of the fees received from managing the transferred loans and of the very low average cost of money, which in 1964/65 amounted to about 1.6%, up from less than 1% in the previous years. This, in turn, is due to the small use, up to now, of borrowed funds which carry an interest rate. At the end of 1964/65 only 36% of the total money used by IMDBI had a direct cost.

64. IMDBI's income is derived from several sources. The largest, as is to be expected, is interest and charges on loans outstanding, amounting to 74% of total income in 1964/65, up from 67% the year earlier. Fees received from managed funds is the second largest category, amounting to 16% of the total for 1964/65, down from 18% in 1963/64. For the first time IMDBI received dividend income from its equity investments, though this source accounted for only 1% of gross income. Equity investments represented about 9% of IMDBI's average portfolio in 1964/65. However, some two-thirds of the total are less than two years old. Their contribution to income can be expected to remain relatively small for several years to come. Other sources, such as interest on deposits, provided the remaining income.

65. The following table presents IMDBI's income and expenses both in absolute terms and as percentages of the average portfolio for 1963/64 and 1964/65.

	1963/64		1964/65	
	Rls. millions	% of Average Portfolio	Rls. millions	% of Average Portfolio
Interest & Dividends Receivable	94.4	8.4	116.4	7.5
Less: Financial Expenses	(11.3)	(1.0)	(24.2)	(1.6)
Administrative Expenses	(52.5)	(4.7)	(40.6)	(2.6)
Depreciation	(1.1)	(0.1)	(1.6)	(0.1)
Total Expenses	64.9	5.8	66.4	4.3
Profit on Portfolio	29.5	2.6	50.0	3.2
Add: Other Income	44.9	4.1	39.5	2.6
Gross Profit	74.4	6.7	89.5	5.8
Less: Tax & Provisions	23.4	2.1	27.7	1.8
Net Profit After Tax & Provisions	51.0	4.6	61.8	4.0

The drop in the percentage figures for interest and dividends receivable is basically due to the reduction in interest charges from 9% to 8% in January 1964. The large drop in expenses as a percent of portfolio, in spite of the increase in the cost of money, is due to the reduction in administrative expenses, both absolutely and relatively. (It might be mentioned that administrative expenses for 1963/64 also were lower than for 1962/63, though the drop was small.) The significant increase in the profit on portfolio figure is due almost entirely to this reduction in administrative expenses.

66. Income from sources other than portfolio decreased in 1964/65 from the total in 1963/64, as it has almost continually during IMDBI's history. However, it still represents an important element of IMDBI's gross profit figure, and will continue to do so as long as IMDBI continues to manage sizeable funds on behalf of the Government.

67. IMDBI's profit in any one year is exempt from income tax up to a maximum of 6% of the sum of IMDBI's paid-up capital and the Government Advance, i.e., net profit is exempt up to Rls.60 million. Because net profit for taxation purposes must include the allocation to the Bad and Doubtful Debt Reserve, IMDBI has been liable for taxes for the past two years.

68. The reduction early in 1964 in interest rates which was applicable to all outstanding loans has, of course, reduced IMDBI's income from the outstanding loans. Part, if not all, of the reduction in income has, however, been offset by increased new business and the holding down of operating expenses.

Reserves and Dividends

69. By the end of IMDBI's fifth full fiscal year, General and Legal Reserves totaled Rls.108.0 million, an increase of Rls.47.2 million from the previous year. The Reserve for Bad and Doubtful Debts and the provision for taxation are included in the Provisions and Payable figure in accordance with European accounting practice, which IMDBI follows. Both of these provisions are made after the taxable income figure is arrived at. The Reserve for Bad and Doubtful Debts stood at Rls.62.6 million at the end of the last fiscal year, representing 3.8% of the outstanding loans. This is considered adequate by Management. Total reserves represented 10.3% of the outstanding loans and 42.6% of the share capital at the end of the last fiscal year; the level should be considered quite satisfactory for an institution which had been in existence for less than six years.

70. IMDBI paid its first dividend at the rate of 4% for the seventeen-month period from its establishment to March 20, 1961. This rate has been increased yearly, being 6% for fiscal 1961/62, 6-1/2% for fiscal 1962/63 and 7% for fiscal 1963/64. A dividend equivalent to 7-1/2% is proposed for fiscal 1964/65.

INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

Balance Sheets
(In thousands of rials)

	March 20, 1961		March 20, 1962		March 20, 1963		March 20, 1964		March 20, 1965	
ASSETS										
Cash and short-term assets		425,302		187,030		287,361		146,726		98,210
Accrued interest and fees receivable		17,858		20,594		37,721		46,507		54,944
Loans in national currency:										
Advances and commitments	760,407		826,869		850,537		975,583		1,472,331	
Less amounts not disbursed	198,256	562,151	18,757	808,112	105,198	745,339	34,091	941,492	79,423	1,392,908
Loans in foreign currency:										
Advances and commitments	147,058		180,081		197,156		300,091		497,375	
Less amounts not disbursed	133,042	14,016	37,130	142,951	33,402	163,754	83,159	216,932	234,724	262,651
Equity praticipations in Iranian companies, at cost		10,000		30,000		57,000		112,000		155,150
Fixed assets (net)		5,560		2,941		-		-		17,230
Deferred charges (net)		11,805		5,902		-		-		-
		1,046,692		1,197,530		1,291,175		1,463,657		1,981,093
LIABILITIES										
Overdraft - Central Bank of Iran		-		-		-		-		115,292
Provisions and payables		26,760		43,091		89,179		115,512		145,845
AID advances and commitments	93,075		127,097		125,090		157,085		246,104	
Less amounts not disbursed	83,025	10,050	42,657	84,440	17,935	107,155	39,099	117,986	115,752	130,352
IBRD advances and commitments	53,383		52,984		72,066		143,006		250,550	
Less amounts not disbursed	49,417	3,966	4,547	48,437	15,467	56,599	44,060	98,947	118,972	131,578
Plan Organization loan		-		-		-		70,000		350,000
Government advance		600,000		600,000		600,000		600,000		600,000
Paid-in capital										
Class A shares	240,000		240,000		240,000		240,000		240,000	
Class B shares	160,000	400,000	160,000	400,000	160,000	400,000	160,000	400,000	160,000	400,000
Legal reserve		3,288		9,235		15,640		23,290		35,000
General reserve		2,500		12,000		22,500		37,500		73,000
Surplus		128		327		102		422		26
		1,046,692		1,197,530		1,291,175		1,463,657		1,981,093

Note: Earlier Balance Sheets have been modified to reflect a change in classification adopted in 1965.

Annex 1

INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

ANNEX 2

Profit and Loss Accounts
(In thousands of rials)

	Oct. 14, 1959 to March 20, 1961		March 21, 1961 to March 20, 1962		March 21, 1962 to March 20, 1963		March 21, 1963 to March 20, 1964		March 21, 1964 to March 20, 1965	
INCOME										
Interest, commitment and service fees on loans to borrowers	22,558		69,191		74,720		94,396		115,067	
Dividends from investments	-		-		-		-		1,391	
Agency fees	48,052		32,531		29,559		24,843		25,314	
Interest on deposits with other Banks and on short term investments	37,700		15,831		21,882		13,217		9,721	
Other income	1,743		3,403		6,272		6,819		4,474	
Gross income		110,052		120,956		132,433		139,275		155,967
EXPENSES										
Interest and commitment fees payable	178		5,546		9,433		11,335		24,206	
Salaries, wages and allowances	52,414		42,059		43,570		41,834		31,508	
Other operating expenses	12,416		9,532		10,491		10,661		9,142	
Sundry provisions including provisions for contingencies and taxation	11,535		15,121		17,255		23,404		27,709	
Depreciation of fixed assets	3,724		3,150		3,020		1,071		1,588	
Amortization of preliminary and pre-operating expenses	7,870		5,903		5,983		-		-	
Total expenses		88,137		81,311		89,752		88,305		94,153
Net profit after taxation		21,916		39,645		42,681		50,970		61,814
Undistributed profits brought forward		-		128		326		102		422
		21,916		39,773		43,007		51,072		62,236
APPROPRIATIONS										
Transfer from miscellaneous reserves (included in "provisions and payables")		-		-		-		-		15,000
Available for distribution		21,916		39,773		43,007		51,072		77,236
Transfer to legal reserve	3,288		5,947		6,405		7,650		11,710	
Transfer to general reserve	2,500		9,500		10,500		15,000		35,500	
Dividend	(4%) 16,000		(6%) 24,000		(6½%) 26,000		(7%) 28,000		(7½%) 30,000	
Total appropriations		21,788		39,447		42,905		50,650		77,210
Undistributed profits carried forward		128		326		102		422		26
Net profit after taxation (and allocation to the reserve for bad and doubtful debts) as percentage of:										
(a) Net worth (at beginning of year)		5.5%		9.8%		10.1%		11.6%		13.4%
(b) Share capital		5.5%		9.9%		10.7%		12.7%		15.5%

LIBERIAN BANK FOR
INDUSTRIAL DEVELOPMENT AND INVESTMENT

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LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT AND INVESTMENT

(LBIDI)

October 7, 1965

LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT AND INVESTMENT

I. THE CORPORATION

1. LBIDI was set up as a statutory corporation under legislation enacted in 1961, amended in 1962 and 1965. The Company has not started operations as yet since its enabling legislation requires that all authorized capital be paid **in** before the Company can open for business. The opening is expected to take place before the middle of November 1965.

Purpose and Powers

2. The broad purpose of LBIDI, according to its statute, is "to assist in the establishment, expansion and the modernization of private productive business and industrial enterprises in Liberia; to encourage and promote the development of internal and external private and public capital availabilities in the financing of such enterprises; to encourage, sponsor and facilitate private establishment, acquisition, or ownership of productive business and industrial investment, share and securities." To achieve these objectives, the Company may make medium- or long-term loans, subscribe to equity capital, act as guarantor, underwrite, revolve its portfolio, supply technical assistance and undertake promotional activities.

Resources

3. Share Capital. The Company's authorized share capital, which is expected to be fully paid in before it opens for business, is $ 1 million, consisting of 100,000 shares of $ 10 each. The share capital is divided into two classes: Class A shares, which will always be a majority of the common stock and which can be held only by Liberian citizens or corporations, the Government of Liberia, international institutions and others qualified under appropriate regulations; and Class B shares which may be owned by any person or entity. The two classes of shares are equal in other respects with each being represented by one-half of the Board of Directors.

4. The Company's share capital is to be subscribed to as follows:

	No. of Shares	
Class A		
Private Liberian Investors	1,210	
Liberian Development Corporation	24,895	
IFC	24,895	51,000
Class B		
International Trust Company	12,500	
Bank of Monrovia	12,000	
Istituto Mobiliare Italiano	12,000	
Firestone Plantations Co.	5,000	
Liberia Mining Co.	5,000	
LAMCO Joint Venture	2,500	49,000
Total		100,000

Currency: United States dollar.

5. Liberian Development Corporation (LDC) is an independent agency of the Liberian Government. All Class B shareholders are foreign institutions, except the LAMCO Joint Venture, which is mixed, and all except the Istituto Mobiliare Italiano are institutions operating in Liberia.

6. It is intended that, as soon as practicable, private Liberian investors, whom IFC and the Liberian Development Corporation are temporarily substituting for, should get an opportunity to own all of LBIDI's Class A shares. The Government has already declared through the LBIDI Act its intention to "encourage and promote actively the widest distribution of ownership of Class A Shares," and, in order to facilitate such distribution, to hold its shares for resale to prospective Class A shareholders. IFC has entered into an agreement with LDC and the Government to do the same.

7. Loan Capital. The Government has provided LBIDI with an interest-free loan of \$ 1 million, subordinated to all debt and paid-up share capital. The loan is for a term of thirty years and is represented by promissory notes bearing interest at 6 1/2%. The Government will redeem the notes for cash in 10 equal yearly installments beginning 1975. It has agreed to consider sympathetically any request by LBIDI for accelerated redemption, should the Company require additional cash resources to carry on its investment activities.

8. Kreditanstalt fur Wiederaufbau has undertaken to make a DM 10 million (US\$ 10 million) loan to LBIDI, which will carry the guarantee of the Liberian Government. The loan is available to finance the foreign exchange needs of LBIDI's clients and can be used for purchases anywhere. The final maturity of the loan is after 15 years. It carries a commitment charge of 1/4% from the date of signing and interest at 4 1/2%.

9. Financial Advantages. The LBIDI Act provides that the shares owned by the Government (the LDC) will not earn any dividend until a 6% cash dividend has been paid to other shareholders. The income of LBIDI, as also all interest or dividends it pays, are tax-exempt under the same law.

10. The U.S. Agency for International Development (AID) has agreed to reimburse the salaries and certain other costs of LBIDI's Chief Executive and one Senior Executive for a period of two years. LBIDI also has the right to use at its discretion and free of cost the services of a group of seven technicians from Checchi and Co., which U.S.-AID has provided to the Liberian Development Corporation.

Organization

11. Board of Directors. The Act provides that LBIDI may have between eight and sixteen directors, provided that the number of directors shall always be even. LDC is not entitled to have more than one director representing it, and not more than two directors may be officers of the Government. IFC will be represented on the Board by one director. Members of the Board are to be elected annually, one-half by each class

through separate ballot under a system of "cumulative voting" within the class. A majority of the Board forms a quorum. Decisions are by simple majority, the Chairman of the Board not having a deciding vote in the event of a tie.

12. An interim Board, as provided in the LBIDI Act, was constituted in February 1965 to transact preliminary business connected with the setting up of LBIDI. It consists of an equal number of representatives of prospective Class A and Class B shareholders. The interim Board will cease to function when the regular Board is elected.

13. Mr. Frank J. Stewart, a Liberian businessman who is also the Inspector General of Liberia's Foreign Service, is expected to be elected Chairman of the Board of Directors.

14. Executive Committee. The Board will appoint an Executive Committee. Pursuant to the By-Laws, it will consist of four members, two representing Class A, and two representing Class B shareholders. It is intended that the Board will delegate to the Executive Committee powers to approve investments up to and including $ 100,000 and to exercise, when the Board is not in session, all its other powers. An affirmative investment decision of the Committee will require a unanimous vote. IFC will not be represented on the Committee.

15. Management and Staff. Mr. Montague W. DeWolfe, an American national, for three years Assistant Vice President of the Federal Land Bank and the Federal Intermediate Credit Bank, Springfield, Massachusetts, has been chosen as the Chief Executive of LBIDI, with the title of President, for two years. The General Manager is Mr. P. Clarence Parker, Jr., a Liberian national who is one of the Executive Directors of the African Development Bank. Mr. Parker has been concerned since 1961 with negotiations connected with the establishment of LBIDI. Another senior executive of LBIDI, with the title of Controller, is Mr. Kenneth Lussier, an American national who has had experience of commercial banking in Liberia and the Far East, and was until recently an employee of AID. LBIDI has already begun recruiting its staff while hoping to use the services of the Checchi team in its technical work and in staff training in the early years.

II. OPERATIONS

Operating Policies

16. At LBIDI's organizational meeting, the Board of Directors is expected to adopt a statement of operating policies. The proposed text is given in the Annex.

17. The policies will prohibit refinancing operations, the financing of export-import trade and other commercial banking activities, but

enables LBIDI to assist not merely industrial enterprises but also "agricultural or service projects associated with or contributing to manufacturing enterprises." Though its assistance is to be available only for enterprises that are privately owned and operated, assistance to enterprises in which the Government's participation is 25% or less is not barred.

18. LBIDI will observe rules of financial prudence through the diversification of its investments and by adopting limitations on the volume of its commitments to any single enterprise or to any particular type of investment. It will not assume management responsibilities. LBIDI will revolve its portfolio whenever it can do so on satisfactory terms. It will establish and maintain adequate reserves. Its policy is not to assume the foreign exchange risk on its foreign loans.

Projected Loan and Investment Operations

19. LBIDI is holding preliminary discussions with several prospective clients and expects to consummate some investment proposals shortly after it opens for business.

LIBERIAN BANK FOR INDUSTRIAL DEVELOPMENT & INVESTMENT

Statement of Operating Policies

(Approved by the Board of Directors on November 24, 1965)

The Liberian Bank for Industrial Development & Investment will carry on its business in accordance with the following policies which the Board of Directors will adopt by resolution at its first meeting.

1. Purposes and Types of Activity

The Liberian Bank for Industrial Development & Investment shall assist in the economic development of Liberia. To this end it will encourage the development of private productive enterprises in the country by providing medium- and long-term loans (up to a maximum of fifteen years) and equity financing. It may also sponsor and underwrite new issues of securities and guarantee loans and commitments of other investors.

While the Liberian Bank for Industrial Development & Investment will consider private investment proposals which are predominantly industrial, it may consider agricultural or service projects associated with or contributing to manufacturing enterprises. It will not engage in operations which are primarily for purposes of refunding, refinancing or direct financing of exports or imports.

2. Diversification of Financing

The Liberian Bank for Industrial Development & Investment will diversify its financing (except for the temporary investment of liquid funds in short-term securities) among different types of enterprises and types of financing. Therefore, it shall observe the following limits.

A. Investment in loans and equity participations in any one enterprise shall not exceed an amount equivalent to 10% of the Liberian Bank for Industrial Development & Investment's total resources. Investment in the equity of any single enterprise s shall not exceed 10% of the Liberian Bank for Industrial Development & Investment's paid-in share capital and free reserves. The aggregate value of all investments, computed at cost, in the equity of all enterprises shall, at no time, exceed the aggregate of the paid-in share capital and free reserves of the Liberian Bank for Industrial Development & Investment.

B. Investment in the form of both loan and equity by the Liberian Bank for Industrial Development & Investment shall normally not exceed 50% of the total assets of the enterprise. In the form of equity alone the Liberian Bank for Industrial Development & Investment's participation shall not exceed 25% of the equity of the enterprise.

3. Definition of Private Enterprise

The Liberian Bank for Industrial Development & Investment shall invest only in enterprises that are privately managed and operated. The existence of a Government or other public interest in an enterprise will, however, not necessarily preclude an investment or loan by the Liberian Bank for Industrial Development & Investment, providing the Government's participation is 25% or less of the capital structure of the enterprise, whether participation is by way of a loan or an equity investment or a combination of both.

4. Management of Enterprises

The Liberian Bank for Industrial Development & Investment shall 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.

5. Promotion of a Capital Market

The Liberian Bank for Industrial Development & Investment shall conduct its operations so as to assist in the investment of both private Liberian and foreign capital in Liberian industry. In order to encourage the development of a capital market, it will revolve its own portfolio whenever it can do so on satisfactory terms.

6. Soundness of Enterprises to be Financed

The Liberian Bank for Industrial Development & Investment will finance undertakings which are soundly managed and which appear, on careful investigation to be economically viable. It will watch the operations of such undertakings and will give technical assistance to management when necessary.

7. Geographical Distribution of Financing

The Liberian Bank for Industrial Development & Investment will select projects, subject to sound investment criteria, on as broad a geographical basis as possible.

8. Liberian Bank for Industrial Development & Investment's Own Management and Staff

The Liberian Bank for Industrial Development & Investment will build and strengthen its own management and staff so as to achieve a well balanced organization, including financial and economic analysis, technical, accountancy and legal services, and supervision of previously concluded investments.

9. Prevention of Control

The Liberian Bank for Industrial Development & Investment will prevent any one person or company or group of affiliated persons or companies from gaining effective control of the organization.

10. Noncompetition with Commercial Banks

The Liberian Bank for Industrial Development & Investment shall not accept deposits nor compete with commercial banks in its loaning activities.

11. Reserve Policy

The Liberian Bank for Industrial Development & Investment will build reserves consistent with sound financial practice, including reserves for bad debts and investments and supplementary reserves.

12. Foreign Exchange Risk

The Liberian Bank for Industrial Development & Investment shall not assume the foreign exchange risk in respect of relending of any non-Liberian monies borrowed by it.

13. Modification or Amendment of this Resolution

Before this Resolution setting out the policies of the Liberian Bank for Industrial Development & Investment shall be modified or amended, any proposed modification or amendment will be circulated among the members of the Board in a manner permitting ample time for the due consideration of such proposal by the individual members, taking into account the desirability of consultation by any member with the shareholders whom he represents.

March 3, 1965

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MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

(MIDFL)

September 7, 1965

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

I. THE COMPANY

Purpose and Powers

1. Malaysian Industrial Finance Limited (MIDFL) was established under the Malayan Companies Ordinances (1940-46) in March 1960 as a joint venture of the Malayan Government together with private capital, both local and foreign, for the following purposes:

> "To carry on the business of assisting enterprises within the private sector of industry in the Federation of Malaya, the State of Singapore, the State of Brunei, Sarawak and North Borneo, 1/ in general by:
>
> (i) assisting in the creation, expansion and modernisation of such enterprises;
>
> (ii) encouraging and promoting the participation of private capital, both internal and external, in such enterprises; and
>
> (iii) encouraging and promoting private ownership of industrial investments and the expansion of investment markets;
>
> and in particular by:
>
> (i) providing finance in the form of long or medium-term loans or equity or preference share capital participations;
>
> (ii) sponsoring and underwriting new issues of shares and securities;
>
> (iii) guaranteeing loans from other private investment sources;

1/ MIDFL's Memorandum of Association was amended to include Singapore, Sarawak, Brunei and North Borneo in 1963 in anticipation of the formation of Malaysia.

Currency Unit:	Malaysian dollar (M$)
1 M$	= US$ 0.327
1 U.S. dollar	= M$ 3.06
M$ 1 million	= US$ 327,000

(iv) making funds available for reinvestment by revolving investments as rapidly as prudent; and

(v) furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to industry."

Resources

2. Share Capital. Before August 1963, MIDFL had an issued and subscribed share capital of 175,000 shares of M$ 100 par value each for a total of M$ 17.5 million, of which 60 per cent or M$ 10.5 million had been paid in, the remainder being on call. As part of its expansion and reorganization in 1963, MIDFL issued an additional 75,000 shares, raising the total number of shares issued and outstanding to 250,000. Malaysian institutions, IFC and a group of foreign shareholders took up the new issue. Again, only 60 per cent of the nominal value subscribed has been called, thus bringing MIDFL's paid-in share capital to a total of M$ 15 million, out of a total subscribed value of M$ 25 million. An additional 250,000 shares are authorized but unissued.

3. MIDFL's shares are not listed on the Stock Exchange, and no market for them has yet developed. Since the reorganization, only 230 shares have changed hands, the transactions having taken place at par.

4. Government Loan. The Federal Government made a loan of M$ 37.5 million to MIDFL on August 6, 1963. The loan is interest-free and is subordinated to the share capital. Repayment is to be made in 15 equal annual installments commencing 15 years from the date of disbursement. Under the terms of the loan agreement, MIDFL drew 60 per cent of the total, or M$ 22.5 million, with the remainder to be made available pari passu as the uncalled share capital is called up, so that the amount of the loan outstanding will at no time exceed 150 per cent of the paid-in share capital. The loan agreement provides, inter alia, that, as long as any part of the Government loan remains outstanding, the Government will have the right to appoint and maintain a director on MIDFL's Board and that MIDFL must obtain the prior approval of the Government for any increase in its issued share capital.

5. World Bank Loan. At the same time as the IFC subscribed 25,000 shares of MIDFL's new capital issue, the Bank agreed to lend MIDFL the equivalent of US$ 8 million for 15 years, with interest and amortization to be determined at the time the loan account is credited for each sub-project. The loan is guaranteed by the Federal Government. The Bank's approval is required for sub-projects requiring US$ 30,000 or more of the loan, and no more than a total of US$ 1 million can be withdrawn for sub-projects requiring less than this amount.

6. Recently, the Bank has indicated its intention to raise the limit on loan credits requiring prior Bank approval from US$ 30,000 to US$ 200,000.

7. Borrowing Limitation. MIDFL's Articles of Association prohibit it from borrowing an amount greater than three times its paid-in share capital, reserves and the amount of the Government loan outstanding. Thus, if the remainder of the subscribed capital and the Government loan was paid in, MIDFL would have a borrowing base of M$ 62.5 million, excluding reserves, enabling it to borrow a total of M$ 187.5 million, or M$ 163.0 million in addition to the existing Bank loan. This would bring its total resources, not counting reserves, to M$ 250 million, or more if reserves were included, which is roughly four times the resources which are currently available to it.

Organization

8. Ownership. Aside from enlarging MIDFL's equity base, the effects of the 1963 share issue were to reduce the proportionate holdings of the Government and of foreign, particularly British, investors, to diversify the foreign interest in MIDFL and to assure that a majority of the shares would be held by domestic interests, both private and public, counting IFC as domestic for this purpose. The present structure of shareholdings in MIDFL is summarized below.

Shareholders in MIDFL

Shareholders		March 31, 1965 No. of Shares	March 31, 1965 Per Cent
I. Domestic			
(a) Public			
1. Government		25,000	10.0
2. Central Bank		25,000	10.0
	Total Public	50,000	20.0
(b) Private		50,727	20.3
(c) IFC		25,000	10.0
	Total Domestic	125,727	50.3
II. Foreign			
(a) British		90,541	36.2
(b) Non-British		33,732	13.5
	Total Foreign	124,273	49.7
	Total Issued Share Capital	250,000	100.0

9. IFC holds 25,000 shares, or 10 per cent of the share capital of MIDFL, and has paid in M$ 1.5 million, 60 per cent of the par value of its subscription, the remainder being on call. IFC, the Government and the Central Bank have agreed that they will dispose of their holdings in a ratio of 2:2:1 to private Malaysian investors, as rapidly as is consistent with good marketing practices and with a view to achieving as wide a distribution as possible within Malaysia. So far, none of these shares have been sold.

10. Board of Directors. As part of the reorganization of MIDFL in 1963, its Board of Directors was expanded and strengthened. As reconstituted, the Board consists of fourteen members, five of whom represent private foreign interests. Of these five, three are nominated by British interests, one by American interests and one by other foreign interests. The Central Bank, IFC and Malaya Developments Ltd., a wholly-owned subsidiary of the Commonwealth Development Corporation, have nominated one director each. Five directors have been nominated by Malaysian private interests. With the exception of the Government director, all the directors are elected.

11. The Board meets about three to four times a year, in consequence of the fact that an Executive Committee of the Board has been appointed to which the Board has delegated most of its powers. Directors have the right to appoint alternates, subject to the approval of the Board, and six of the directors have done so. Some directors, particularly the foreign ones, are represented by their alternates at most of the meetings. The Board is kept informed of the action taken by the Executive Committee through the Committee's minutes and reports made by the General Manager at each Board Meeting.

12. Executive Committee. In November 1963 the Board of Directors passed a resolution setting up an Executive Committee. The Committee consists of the Chairman of the Board, as Chairman, and two other directors or alternates. The Executive Committee meets about twice a month. Except when the Board is in session, it has full jurisdiction to deal with and decide on all matters within the competence of the Board, subject to the declared policies of MIDFL. The Executive Committee is not empowered to borrow money or to make calls on shares, nor is it permitted to formulate new policies for MIDFL. The General Manager must attend all meetings, where he may express his views, but is not entitled to vote.

13. The Executive Committee is a very active body, passing judgment on all applications for financial assistance, making decisions on other substantive matters of business and preparing matters of policy for consideration by the full Board.

14. Management and Staff. MIDFL was without a General Manager for more than a year, from before IFC's first appraisal in 1962 until the appointment of Mr. E. T. Kuiper in October 1963, following the reorganization. During this time, the Secretary acted as General Manager, assisted by some of the directors.

15. Previous to his appointment, Mr. Kuiper had been General Manager of PICIC in Pakistan, and Managing Director of the Development Bank of Ethiopia. His appointment as General Manager of MIDFL on October 15, 1963, marked the final stage in the reorganization begun a year earlier. His immediate task was to reactivate MIDFL and place it on a course consistent with its expanded role as a development finance company. Mr. Kuiper was replaced in October 1964 by Mr. L.M. Svoboda, a Bank staff member who had been serving as adviser to the Arab Development Fund in Kuwait. Mr. Svoboda's appointment, which is for a two-year term, is subject to earlier termination if a Malaysian can be found to fill the post.

16. At present there are 44 employees in MIDFL, including the General Manager, of which 8 are professional administrative staff, 13 are professional operations staff, including 3 expatriates, and 22 are secretarial, clerical and custodial staff. The planned addition of 6 operations, 7 administrative and 8 secretarial and clerical staff has been approved in principle by the Executive Committee. Thus MIDFL's staff is likely to reach 65, including 35 professionals, within the next year or two. The Operational Staff has been expanded considerably in the last eighteen months. Prior to reorganization in 1963, much of the financial analysis, engineering appraisal and legal work was performed by outsiders on a retainer or fee basis. The present staff is now handling virtually all of MIDFL's project appraisal work.

II. OPERATIONS

Operating Policies

17. As one of the conditions of effectiveness of the Bank loan, MIDFL's Board adopted, in August 1963, a Statement of Policies and Procedures, a copy of which is given in Annex 1. Aside from provisions for MIDFL to undertake and for IFC to review, a small loan program and its impact on reserves, both of which are discussed below, the Statement of Policies and Procedures follows closely the policies of similar institutions connected with the World Bank family. It contains the normal provisions for diversification, equity investment and underwriting, assisting the growth of the capital market, refraining from taking control of the enterprises assisted and avoiding the exchange risk on external borrowings. The maximum limit of its commitment to any single enterprise in whatever form is 15% of the total of its paid-in share capital, the proportionate drawal of the Government loans and the reserves. MIDFL has so far operated within the limits of and in accordance with this set of policies.

Lending Activity

18. Summary. During the fiscal year ending March 31, 1965, the company received 41 applications for financial assistance and many more inquiries. Loan commitments during the year amounted to M$ 13.0 million, bringing cumulative commitments since start of operations to M$ 34.1 million. Loan

disbursements during fiscal 1965 amounted to M$ 12.9 million, bringing total disbursements to M$ 28.8 million. Of last year's disbursements, M$ 5.9 million were drawn in various foreign currencies from amounts credited to MIDFL's loan account with the IBRD.

19. Small Loans. Hire-purchase financing for the acquisition of machinery and equipment was introduced in February 1961. The loans cover up to 75 per cent of the purchase price of the equipment, bear an interest rate of 9 per cent on the unpaid balance and are for up to three years, being repaid in monthly installments. The average amount is M$ 23,000. So far MIDFL has made 31 of these loans, for a total amount of M$ 0.7 million. A recent innovation in MIDFL's hire purchase operations is an arrangement with several well-established local suppliers of marine diesel engines, whereby MIDFL finances the purchase of engines by fishermen with the guarantee of the supplier, who submits batches of three or four completely investigated applications at a time. This arrangement reduces MIDFL's administrative cost to a minimum as well as eliminating most of the risk, and results in a small amount of highly profitable business.

20. Factory Mortgage Loans. The first factory mortgage loan, for M$ 80,000 to Selangor Pewter Co. in February 1962, was the only such loan made prior to the reorganization. During 1964, however, seven factory mortgages were approved, six of them since the end of June, bringing the total amount approved to M$ 486,250. With the exception of the one made prior to the reorganization, all factory mortgage loans have borne interest at 8 per cent. The average maturity is almost the same as the regular medium and long-term loans, but the average size is only about M$ 60,000, as against about M$ 690,000 for the latter. Repayments are made monthly on most of the loans, after a grace period of six to twelve months.

21. MIEL. Malaysian Industrial Estates Limited (MIEL) was incorporated in September 1964 as a wholly-owned subsidiary of MIDFL, with initial subscribed capital of M$ 1.0 million, for the purpose of developing industrial sites. MIDFL intends ultimately to channel all the factory mortgage loans through MIEL after MIEL has been firmly established and has built up its staff to required levels.

22. At the time of the reorganization, the Government was very anxious for MIDFL to provide more assistance to small entrepreneurs. As a result, MIDFL agreed to initiate a special program designed to assist small-scale industrial enterprises which require loans in amounts between M$ 50,000 and M$ 150,000. After the program had been in operation for two years, MIDFL and IFC were to review the experience. As of March 31, 1965, MIDFL had made three medium and long-term loans for amounts between M$ 50,000 and M$ 150,000, totalling M$ 355,000. In addition, all but one of the eight factory mortgages have fallen within this range. Experience has shown that in many cases financial assistance in amounts below the M$ 50,000 limit can be of crucial importance to the success of a project, and therefore the lower limit of M$ 50,000 originally envisaged has not

been rigidly applied in justified cases. The total of MIDFL's loans smaller than M$ 150,000, including all the factory mortgages and hire purchase loans, was M$ 1.8 million as at March 31, 1965. Of this amount, M$ 1.2 million was committed between April 1, 1964 and March 31, 1965, representing 6% of total commitments during that period, considerably less than the maximum of 20% of total annual commitments specified in the agreed policy. On the whole, to provide more assistance to small entrepreneurs, MIDFL has considerably extended its assistance to this sector as can be evidenced by the increase in its hire purchase loans. This and the experience gained from the operations of MIEL will enable MIDFL to formulate a comprehensive program in support of small industries.

23. Use of World Bank Funds. By the end of February 1965, MIDFL had submitted for the Bank's approval a total of 5 loans for US$ 3.1 million (M$ 9.4 million) to be financed out of the Bank loan. Of these, 3 loans for a total amount of US$ 2.5 million (M$ 7.5 million) had already been approved by the Bank, and US$ 1.9 million (M$ 5.8 million) had been disbursed.

24. Interest Rates and Other Provisions. Local interest rates have tended to increase during the recent past. In spite of this, MIDFL has held its interest rates for medium and long-term loans at their previous levels, bearing in mind the long-term nature of its financing. Interest chargeable to clients remains at 7% - 8-1/2% for medium and long-term loans; 8% - 8-1/2% for factory mortgage loans; and 9% for hire-purchase contracts.

25. Since November 1964, however, yields of short-term investments have risen by about 1 per cent, in line with a 1 per cent increase in the rate charged by the Central Bank. Moreover, MIDFL has accelerated its use of the World Bank loan which bears interest at 5-1/2 per cent, and consequently tends to increase the average cost to MIDFL of its funds. Finally, the commercial banks' lending rates have also increased as a result of the rise in the Central Bank rate. In response to these movements, the Executive Committee recently decided to make a selective increase in MIDFL's lending rates of up to 1 per cent. MIDFL's lending rates will now vary from 7-1/2 per cent to 8-1/2 per cent. In determining the rate of interest to be charged in each individual case, MIDFL will consider the creditworthiness of the borrower, the degree of risk in the project and any possible collateral benefits to be derived from the loan, such as equity participation, conversion rights or issuing and underwriting income. This flexible policy, though more difficult to apply, would seem to be more appropriate to a development institution.

26. Other standard provisions are: a 1 per cent commitment charge; the right, which is not usually exercised, for MIDFL to appoint a nominee director to the borrower's board; the stipulation that the borrower pay all legal fees, etc.; MIDFL's right to approve the borrower's auditors and insurance coverage; and the usual boiler-plate provisions requiring

the borrower to maintain proper records, submit reports periodically to MIDFL, and grant MIDFL inspection rights on the project.

27. Conversion rights have been obtained on 10 of the 37 loans approved up to the end of 1964, in most cases covering up to 15 per cent of the amount of the loan. Only two conversion rights have been obtained during the current fiscal year however. There has been considerable resistance on the part of some of MIDFL's clients, many of which are private limited companies, to the taking or exercising of such rights but, in any case, MIDFL has not yet had the occasion to exercise any of them. The occasion may arise soon, however, in some cases of private companies which are required by the Government to go public in return for Pioneer status. In these cases, the requirement is usually written into MIDFL's loan agreement as well.

28. Security. Generally, MIDFL takes a first fixed or a floating charge on the existing and future assets of the borrower as security for its loan. In certain cases, it has taken personal guarantees of the directors in addition to a first charge on the assets. MIDFL, in principle, excludes any charge on stocks, stores, and receivables, which can be pledged to commercial banks against overdrafts. The practice of taking a first fixed or a floating charge as security for loans is common in Malaysia.

29. Duration of Loans. Maturities, which have ranged from four to nine years since the reorganization, are primarily determined by the projected rate at which the enterprise will generate sufficient cash to amortize the loan after meeting other expenses. The weighted average maturity of MIDFL's medium and long-term loans since the reorganization is 6.69 years. Most loans involve a one-year grace period and semi-annual repayments.

30. Size of Loans. An analysis of MIDFL's loan and investment portfolio as of March 31, 1965, shows that 44 loans are for less than M$ 100,000 of the factory mortgage and hire purchase type. The balance of the portfolio consists of 41 long and medium-term loans and two equity investments. The largest number of these loans (13) are in the M$ 250,000 to M$ 500,000 category. Only two loans are for more than M$ 3.0 million. The two equity investments are for about M$ 1.0 each.

31. Geographical Location. Before the reorganization of MIDFL in 1963, 7 of the 9 projects which were financed by MIDFL were within a ten-mile radius of MIDFL's office in Kuala Lumpur. Since then, however, MIDFL has entered other areas of Malaysia to an increasing extent and only 10 out of the 28 loans were for projects in the Kuala Lumpur area. Recently, MIDFL approved its first two loans for projects located in Singapore, where it is opening a branch office, and it is considering extending its operations to the Borneo States.

32. Diversification of Loans by Industry. MIDFL's lending is fairly well diversified among different industries. However, the amounts invested in several industries reflect a small number of very large loans. This

is particularly true in the case of rubber goods where the Dunlops' loan of M$ 7 million still accounts alone for 20.6% of total commitments. Nonetheless, the pattern of MIDFL's lending is not inconsistent with the structure of the manufacturing sector of the economy as a whole.

33. Project Appraisals and End-Use Supervision. Project appraisal procedure is set forth in an instruction circular recently issued by the General Manager. However, the actual practice is necessarily flexible, depending upon the individuals available for the work to be done and upon the project itself. Generally speaking, project appraisal work is done as follows:

(a) Preliminary review of the project with the sponsors.

(b) Submission to MIDFL of financial, technical and other information as requested in the preliminary meeting.

(c) Assignment of the project to a team consisting of an economist, an engineer and a financial analyst who review the project and prepare a preliminary report.*

(d) "The Staff Solicitor is consulted on the legal aspects of the project and the loan proposals. After approval of the project, he maintains close liaison with the Company's Solicitors on the preparation of the security documents."

(e) Based on findings in the above steps, preliminary appraisal report is prepared and submitted to a Staff Loan Committee, consisting of the Department Heads, meeting under the chairmanship of the General Manager with the Working Party concerned in attendance.

(f) The Appraisal Report is then finalized, incorporating the observations and comments of the Staff Loan Committee. This Report forms the basis for the preparation of the Report and Recommendation of the General Manager to the Executive Committee on the project and the proposed investment.

34. MIDFL requires its borrowers to submit periodic reports on progress of construction, operating results and finances. Most borrowers, however, do not submit satisfactory reports on a regular basis.

35. Under the revised organizational pattern, a separate end-use section has been set up in the Administration Department and new staff have been assigned to carry out the duties of this section.

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* Note: This arrangement has been introduced 6 months ago and is now a normal feature of MIDFL's operating procedures.

Equity Investments, Underwriting and Share Issues

36. Aside from the recent M$ 1.0 million subscription in its subsidiary, MIEL, MIDFL has not made any equity investments. It did, however, act as underwriter for the 1961 Dunlops' share issue of M$ 4.7 million, the first public share issue ever offered in Malaya. This issue was so successful, being almost four times oversubscribed, that underwriting was dispensed within subsequent share issues in favor of sale by placement with brokers and, more recently, sale by tender direct to the public. In 1962, MIDFL acted as issuing house for the three public share issues offered during that year, for a total of M$ 26.9 million out of the M$ 42.9 million of new share capital which was raised by the manufacturing sector as a whole, thus becoming not only the first underwriter in Malaya, but the first issuing house as well. Although considerable demand remained for issuing house services, MIDFL's fees were not competitive with those of a large number of new firms set up for the purpose, and no share issues were given to it after 1962. MIDFL has now resumed its underwriting activities by undertaking an operation for Guinness (Malaysia) Ltd. early this year.

Other Activities.

37. Technical Services; Market and Feasibility Studies. Many of MIDFL's clients, particularly the small ones, require technical assistance in addition to financial assistance, and MIDFL has done as much in this line as can reasonably be expected. It emphasizes to its clients the importance of proper technical and financial planning and, when needed, assists them itself or asks them to retain qualified consultants for the purpose. MIDFL will be in a position to render more technical assistance to its clients as staff productivity and competence improve.

38. On several occasions MIDFL has, at the request of the Government, or on its own initiative, sponsored detailed studies designed to promote new industries in Malaysia. One of these is a pre-investment study of a pulp and paper industry which was undertaken jointly with IFC and a Canadian technical partner last September. MIDFL has also, on its own, executed market studies of charcoal, flour-milling, etc., to assist it in the appraisal of projects submitted for financial assistance and is currently considering similar studies of the textile, woodworking and coconut coir industries. Finally, MIDFL has been consulted on and is participating in the direction of the preparation of an overall industrial survey of the country, which includes six feasibility studies on selected industries to be carried out by Messrs. Arthur D. Little & Co.

39. Relations with the Government and the Public. MIDFL is now regarded, both by the public and by the Government, as a national institution which, while seeking a profit for itself, serves the aim of industrializing the economy as a whole, rather than serving the interests of any particular group, local or foreign. Relations with the Government have improved greatly since the reorganization two years ago. The former General Manager was

called upon to advise the Government on specific matters of policy on several occasions, and his successor maintains close contacts with the Government on ministerial levels in regard to important aspects of MIDFL operations involving Government relations. The Chairman of the Board and the Governor of the Central Bank, both members of MIDFL's Executive Committee, provide effective channels of good relations and of mutual exchange of views and information with the Government. At the working level, relations with the various Government agencies concerned with industrial development have been established.

40. Expansion of Operations within the New Federation. MIDFL has recently opened a branch office in Singapore and hopes to increase its operations there. However, it is only beginning to operate in Singapore; as of the end of 1964, MIDFL had approved two loans totalling M$ 1.7 million.

41. The Economic Development Board (EDB), an agency of the Singapore State Government, which has been making long-term loans below normal market to new industrial ventures of interest since August 1961, is anxious to cooperate with MIDFL, as it is nearing the end of its funds. Of the initial capital of M$ 100 million, which it received from the Singapore Government, it has committed about two-thirds, and has only enough uncommitted resources in sight to continue its present rate of commitment for another year. It is in this context that it is seeking MIDFL's cooperation.

III. FINANCIAL RESULTS

Balance Sheet

42. Annex 2 presents MIDFL's balance sheets as of March 31, 1962-1965, the end of the fiscal year.

43. Investments in Treasury Bills and fixed deposits presently constitute almost 36 per cent of total assets. During the past year MIDFL drew down M$ 7.9 million from these funds to cover the bulk of its net disbursements on local currency loans, which amounted to slightly more than M$ 12 million during the period. The ratio of total assets to net worth has increased to 2.8:1 from about 1:1 before the reorganization.

Profit and Loss Accounts

44. The profit and loss accounts of MIDFL for the fiscal years ended on March 31, 1962-1965 are presented in Annex 3.

45. Income. MIDFL's income has grown rapidly since the beginning of operations. In the year ended March 31, 1965, total income was M$ 2.5 million, of this amount 35 per cent consisted of interest on short-term investments, 59 per cent came from MIDFL's lending operations, about 3 per

cent consisted of fees for issuing house and registrar services and the balance representing miscellaneous small income. Since the reorganization, the loss of income from underwriting, issuing house and registrar services which contributed more than M$ 400,000 in fiscal year 1962/63, has been more than offset by the rise in income from short-term investments which increased by M$ 433,000 in fiscal year 1963/64. In the meantime, income from lending operations more than doubled each year up to March 31, 1964. Despite the virtual cessation of MIDFL's lending during 1963 which had a delayed effect on income from lending operations, the income for the year ended March 31, 1965, still showed an increase of 45 per cent above the monthly average of fiscal year 1963/64.

46. Expenses. On the expense side, administrative expenses, although mounting rapidly, have been a steadily declining percentage of average portfolio outstanding. But, at a current rate of about 3 per cent of portfolio they are still relatively high in comparison with those of older, well-established development finance companies. In the year ended March 31, 1965, the administrative expenses absorbed 33 per cent of total income, as against 37 per cent in 1963/64 while other expenses were less than 3 per cent, due to the fact that only M$ 5,834,000 of the Bank loan was drawn at the end of the period.*

Dividends, Reserves and Profitability

47. Dividends. MIDFL has not yet paid a dividend.

48. Reserves. MIDFL's present reserves policy is to be reviewed jointly by it and IFC, in order to determine its adequacy, at the time the review of the small loan program is made later this year. The approved Statement of Policies and Procedures stipulates that at the end of each financial year an amount be appropriated such as to bring the cumulative provision for doubtful debts up to 2 per cent of the loan portfolio then outstanding. As of the end of March 1965 a total of M$ 526,000 had been appropriated, equivalent to 2 per cent of portfolio, excluding hire purchase contracts.

49. A further appropriation is made to the General Reserve of 50 per cent of net profits after taxes and the provision for doubtful debts. When M$ 1.5 million has accumulated, the appropriation will be reduced to 25 per cent until the General Reserve is equal to the amount of the Government Loan then outstanding. As of the end of March 1965, the General Reserve had reached M$ 650,000.

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* Note: The percentage of 3 has been arrived at by expressing the total administrative expenses including depreciation as a percentage of total loans portfolio as at March 31, 1965.

50. Profitability. The following table represents profits as percentages of average portfolio and of average equity in each of the past five fiscal years:

	Year Ending March 31				
	1961	1962	1963	1964	1965
Profits before taxes, and after provision for bad debts, as percentage of average portfolio	1.7	7.8	5.0	7.2	6.7
Profits before taxes, and after provision for bad debts, as percentage of average equity	-	3.2	3.5	6.5	8.3
Profit after taxes as percentage of average equity	-	1.4	2.5	4.1	5.8
Profits after taxes and provision as percentage of average equity	-	1.0	0.7	3.5	4.5

Note: "Profit after taxes as percentage of average equity" has been added to provide additional relevant information.

51. The reasons for the relatively low profitability are several. In the first place, it is only in the last quarter of 1963 that MIDFL could really be deemed to have begun operating. Second, though it has recently succeeded in increasing substantially the volume of its commitments many of them have not been disbursed and have not begun to generate income. Again, MIDFL increased its staff considerably in 1963 and 1964 and is incurring larger administrative expenses than previously on this score but, on the one hand, the output of its staff in new projects has not been commensurate with its cost because of insufficient experience and, on the other hand, most of the commitments on which the additional staff have been employed, have not begun to yield an income. An equally important factor is that the borrowers are not atuned to the operation of an industrial development finance institution and often require considerable assistance in the preparation of their projects resulting in time-consuming investigations and negotiations by the MIDFL staff out of proportion with the nature and size of the proposed investment.

52. Above all, MIDFL is still at the stage at which the level of operations is too small in relation to overhead. It will begin to substantially improve its profitability only when it reaches a level of investment which is high enough to make the proportion of its non-financial costs considerably lower than the interest spread of about 2 per cent which it hopes to earn on borrowed funds.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

Statement of Policies and Procedures approved by the Board of Directors on September 23, 1964

RESOLVED: The Board of Directors of Malaysian Industrial Development Finance Limited (MIDFL) hereby adopts the following policies and procedures which will govern its operations:

1. MIDFL is an investment institution designed to assist in the expansion of private industry in Malaysia (as used in this Resolution, means the area from time to time comprised in the territories of the Guarantor under the Guarantee Agreement dated 15th July 1963 between the Federation of Malaya and the International Bank for Reconstruction and Development). In order to accomplish this purpose, it will pursue an active policy to promote, finance and otherwise assist private industry.

2. MIDFL will invest only in privately owned and managed enterprises in Malaya which are expected to make a contribution to the economic development of Malaya.

3. MIDFL will make its investment decisions only on the basis of sound investment principles and standards. Subject thereto, it will select projects on as broad a geographical basis as possible.

4. MIDFL will diversify its financing (except for temporary investment of liquid funds in short-term securities) among different types of industries and different types of financing.

5. Although, in accordance with normal business practice, MIDFL will obtain adequate security to protect its loans, its decisions to invest will be based on its judgment regarding the prospective profitability of its clients' enterprises.

6. MIDFL will make appropriate use of its powers in order to provide its clients with finance in any form it considers appropriate to their needs, and in its own interest. It will give particular attention to its clients' needs for equity financing and to the extent consistent with sound financial practice will provide such equity within the following percentage limitations.

7. It will normally not commit to any single enterprise:

   a. in the form of equity an amount greater than 10%;

   b. in whatever form an amount greater than 15%;

of the total of its own paid-in share capital, the proportionate drawal of the Government loan and the reserves.

8. The total amount of its equity investments at cost will not exceed the amount of its paid-in share capital and reserves.

9. MIDFL will refrain from seeking in any enterprises (other than one which in actuality although not technically is a branch or department of MIDFL) a controlling interest or any other interest which would give it the primary responsibility for the management of that enterprise, and to this end it will not (save as aforesaid) seek to own more than 25% of the Common or Ordinary shares of any single enterprise. Notwithstanding the foregoing limitations, in any case of jeopardy, MIDFL may take such action as it thinks fit to protect its investment.

10. MIDFL will conduct its operations in such a manner as to foster the growth of a capital market in Malaya, and improve the facilities for marketing shares and securities. It will revolve its own portfolio whenever it can sell on satisfactory terms. In selling any investment it will pay due regard not only to its own interests but also to those of other participants in such investment, and to those of the other investors in the enterprise in which it has invested.

11. MIDFL will finance undertakings which are soundly managed and which, after careful economic, financial and engineering investigation, appear to be economically and financially viable. Thereafter it will carefully watch over the conduct of the enterprises it has financed, and it will promptly make available to them constructive and remedial advice whenever requisite.

12. In order to strengthen its own management and staff, as well as to assist its clients in the formulation and conduct of their projects, it will rapidly build up an effective organization and develop an adequate staff possessing skill in finance, marketing and economic analysis, engineering, accountancy and law.

13. MIDFL will initiate a special program designed to assist small-scale industrial enterprises which require loans in amounts between M$ 50,000 and M$ 150,000. Pursuant to its operation of this program:

a. Not more than 20% of the total amount of MIDFL's annual commitments will be lent to such borrowers;

b. Separate accounts will be kept for such loans, so that from time to time the economics and experience of small-loan operations can be ascertained.

At the end of two years from the inception of this program, MIDFL and IFC will study MIDFL's experience with such loans, and, if it is concluded that the small-loan program has jeopardized MIDFL's objective of building itself into a financially sound institution, the program will be abandoned.

14. MIDFL will build up reserves consistent with sound financial practice, including reserves for bad debts and other losses on investments (which will not be less than 2% of its loan and investment portfolio, and said rate will continue until MIDFL and IFC shall otherwise agree after reviewing the small-loan program as provided herein), and, in addition, supplementary reserves. At least 50% of its profits after providing reserves for bad debts and other losses on investments, and after taxes, will be allocated to such supplementary reserves until they total M$ 1.5 million; thereafter at least 25% of such profits will be allocated to such supplementary reserves until they equal the amount of the subordinated Government loan then outstanding. At the time when the study of MIDFL's experience with small loans is made (as provided in 13. above), MIDFL and IFC will review the adequacy of the reserves for bad debts and losses on investments, and will consult together as to a satisfactory level for such reserves for the future.

15. MIDFL will transfer the risk of foreign exchange fluctuation on any external borrowings which it must repay in foreign exchange, except that in the case of small-loan operations it may refrain from transferring such risk provided that it finds other suitable ways to make provision for such risk.

16. The Board of Directors will prevent any one person or company or any group of affiliated persons or companies from gaining control of MIDFL.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

ANNEX 2

Balance Sheets
(in thousands of Malayan dollars)

	Audited							
ASSETS	March 31, 1962		March 31, 1963		March 31, 1964		March 31, 1965	
Current Assets		5,383		1,380		25,269		17,761
Cash and Bank Balances	608		1,035		387		159	
Sundry Debtors & Debt Balances	41		134		81		616	
Accrued Income	234		211		251		336	
	883		1,380		719		1,111	
Intermediate Investments								
Treasury Bills	-		-		18,000		13,150	
Bank Deposits	4,500		-		6,550		3,500	
	4,500		-		24,550		16,650	
Equity Investments	-		-		-			2,047
Loans Outstanding (less Provision for bad Debts)		3,774		11,592		13,710		25,790
Long and Medium Term Loans								
Foreign Currency	-		-		-			
Local Currency	3,653		11,415		13,502		25,188	
Factory Mortgage Loans	-		21		69		266	
Hire Purchase Contracts	121		156		139		336	
Fixed Assets (Net)		121		166		202		223
TOTAL ASSETS		9,278		13,138		39,181		45,821
LIABILITIES & CAPITAL								
Current Liabilities		201		441		1,028		1,136
Provision for Taxation 1/	120		359		657		1,060	
Sundry Creditors & Provisions	81		82		371		76	
Long-Term Borrowings - IBRD Loan		-		-		-		5,834
Government Long-Term Advance		-		-		22,500		22,500
Shareholders' Funds		9,077		12,697		15,653		16,351
Issued Capital (250,000 Ordinary shares of $100 each - $60 paid)	9,000		12,544		15,000		15,000	
General Reserve	-		50		300		650	
Unappropriated Profits	77		103		353		701	
TOTAL LIABILITIES		9,278		13,138		39,181		45,821

1/ Includes current tax liability and provision for following year.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LIMITED

Profit and Loss Accounts
(in thousands of Malayan dollars)

	Audited Year ended March 31							
	1962		1963		1964		1965	
INCOME								
Interest on Treasury Bills and Bank Deposits		153		138		571		866
Interest and Commitment Charges								
Interest on Malaysian Dollar Loans	230		478		1,011		1,361	
Interest on Foreign Exchange Loans	-		-		-		105	
Sub-Total		230		478		1,011		1,466
Underwriting Commission, Share Issue and Registration Fees		114		414		14		83
Miscellaneous		21		9		9		58
Total Income		518		1,039		1,605		2,473
EXPENSES								
Administrative Expenses:								
Salaries, Wages, Bonus, Social Benefits	121		272		343		575	
Other Administration Expenses	66		129		210		197	
Directors' Fees and Expenses	23		26		16		14	
Audit Fees	1		3		3		5	
Depreciation and Miscellaneous	17		21		27		31	
Sub-Total		228		451		599		822
Financial Expenses:								
Interest on IBRD Loan	-		-		-		81	
Interest on Bank overdraft	-		2		12		-	
Sub-Total		-		2		12		81
Total Expenses		228		453		611		903
Net Profit before Taxes		290		586		994		1,570
Provision for Income Tax		159		310		417		640
Net Profit after Taxes		131		276		577		930
Provision for Bad Debts		-		200		77		249
Net Profit after Taxes and Provision for Bad Debts		131		76		500		681
Unappropriated Profit Brought Forward		4		77		103		370
Total Available for Appropriation		135		153		603		1,051
Amortization of Preliminary Expenses		58		-		-		-
Transfer to General Reserve		-		50		250		350
Unappropriated Profit Carried Forward		77		103		353		701
Net Profit after Taxes and Provision for Bad Debts as a Percentage of:								
Average Net Worth		1.0 1/		0.7		3.5		4.3
Average Paid-in Share Capital		1.0 1/		0.7		3.6		4.7

1/ After amortizing preliminary expenses of M$ 58,000.

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L I M I T E D

NIGERIAN INDUSTRIAL DEVELOPMENT BANK

(NIDB)

September 7, 1965

NIGERIAN INDUSTRIAL DEVELOPMENT BANK

I. THE COMPANY

1. The Nigerian Industrial Development Bank (NIDB) came into being on January 22, 1964, following three years of discussion and negotiation. It is a reconstruction of the Investment Company of Nigeria (ICON), the first and the only purely private development financing institution to operate in Nigeria.

2. ICON was founded in 1959 under the sponsorship of the Commonwealth Development Finance Company with the encouragement of the Nigerian Government. Its initial resources consisted of issued and paid-in share capital of N£ 1.0 million, held mainly by British firms and individuals though Nigerians subscribed to 1.5% of the capital. Early in 1961, ICON began considering ways to replenish its resources as it expected to have fully committed its initial capital by the end of that year.

3. Originally the Federal and Regional Governments of Nigeria were expected to make long-term, low-cost loans to ICON when additional funds were needed. However, the Federal Government decided in 1961 that it would prefer a national institution to operate in the same area as ICON and approached the World Bank for assistance in establishing such an institution. In view of this decision, ICON ceased its efforts to raise new capital and ways to merge with the proposed institution were considered. It was finally decided that the most expedient way of bringing the new institution into being and accomplishing the merger was to reconstruct ICON and convert it into NIDB.

4. As part of the reconstruction, ICON's assets, with the exception of N£ 0.25 million in cash, were taken over by NIDB. These assets included seven equity investments totaling N£ 0.2 million and eight loans totaling N£ 0.4 million. ICON's outstanding commitments at the time of the reconstruction totaled about N£ 50,000.

Purpose and Powers

5. NIDB's objective, as stated in its statutes, is "to carry on the business of assisting enterprises engaged in industry, commerce, agriculture and the exploitation of natural resources in Nigeria." Its powers are broadly defined and include all the activities usual to a development finance company.

Currency Unit: Nigerian Pound (N£)

N£ 1	= US$ 2.80
US$ 1	= N£ 0.357 (7 shillings 2 pence Nigerian)
N£ 1,000,000	= US$ 2.8 million

Resources

6. Share Capital. NIDB's authorized share capital comprises 2,250,000 classified and issued shares with a par value of N£ 1 and 2,750,000 unclassified and unissued shares, also with a par value of N£ 1. The issued and fully paid share capital is divided into three classes: Class A Ordinary Shares (N£ 1,020,000), Class B Ordinary Shares (N£ 980,000) and 5-1/2% Cumulative Participating Preference Shares (N£ 250,000). Only the two classes of ordinary shares carry votes. These two classes are identical in every way except that one class, Class A, may only be held by Nigerians (or international organizations of which Nigeria is a member) while the other class, Class B, may be held by anyone. The Articles of Association require that the nominal value of Class A shares outstanding shall always be greater than the nominal value of Class B shares outstanding.

7. The preference shares have a right to a fixed, cumulative, preferential dividend of 5-1/2% per year and thereafter to share in further dividends equally and rateably with ordinary shares. They also have certain rights in the event of a winding up, capitalizations of profits or a further issue of shares.

8. Government Loan. At the time of the reconstruction, the Nigerian Government made a loan of N£ 2.0 million to NIDB. The loan is interest-free and subordinated to all other loans and to the share capital. It is to be repaid over a 15-year period after 15 years of grace.

9. Summary. The total resources available to NIDB following the reconstruction were, therefore, N£ 4.25 million, as follows:

Ordinary shares	N£ 2.00 million	
Preference shares	0.25	
Government loan	2.00	N£ 4.25 million
(Less) ICON's existing portfolio and commitment		0.64
Total		N£ 3.61 million

10. Borrowing Power. The Articles of Association give the Directors of NIDB power to borrow money to carry on NIDB's business but limit the amounts borrowed and outstanding to three times the aggregate of issued share capital, free reserves and subordinated borrowings. The Directors have so far not exercised this power.

Organization.

11. Ownership. Class A shares amount to 51% of the voting stock. Some 30 Nigerians or Nigerian companies hold about 2% of this class of shares. IFC and the Government have each subscribed to half of the remaining Class A shares.

12. Class B shares amount to 49% of the voting stock. Slightly over half of these shares are held by old ICON shareholders, numbering about 70. The remaining Class B shares are held by eight other foreign institutions who subscribed to NIDB's capital at the time of the reconstruction.

13. All of the preference shares are held by old ICON shareholders.

14. Board of Directors. The Board of Directors is vested with all the powers and responsibilities of managing the affairs of NIDB. The Directors are elected annually. Due to the cumulative voting procedures provided in the Articles of Association, half of the twelve-man Board represents Class A shareholders and half, Class B shareholders. One Class A Director represents IFC and another represents the Central Bank. The remaining four Class A Directors represent the Nigerian shareholders. The Class B Directors are split evenly between those representing old ICON shareholders and those representing the new foreign investors brought in at the time of reconstruction. Several of the Directors not resident in Nigeria have appointed local alternates.

15. Executive Committee. Due to the difficulty of assembling the full Board frequently, an Executive Committee was established in August 1964. Two of its four members are resident in Lagos whilst the other two have appointed alternates or proxies resident in Lagos. The Committee can therefore meet as often as necessary. So far the Executive Committee has met once a month (the full Board has been meeting about every two months). The Board delegated to the Executive Committee the power to approve investments not in excess of N£ 100,000 and to recommend for the favorable consideration of the Board investments above N£ 100,000, as well as certain powers in connection with the administration budget and staff matters. The present position is as follows:

EC Member	Place of Residence	Alternate	Proxy
'A' Directors			
Chief Ugochukwu	Lagos	-	-
Aminu Dantata	Kano	-	Chief Ugochukwu, Lagos
'B' Directors			
Victor Rockhill	New York	D.L. Buckman, Lagos	-
D.A. MacLeod	Lagos	-	-

16. Management and Staff. The General Manager of NIDB since its establishment has been Mr. James S. Raj, on secondment from the Industrial Credit and Investment Corporation of India (ICICI) where he holds the position of Deputy General Manager.

17. The post of Deputy General Manager, created in April 1965, is filled by Mr. S.B. Daniyan. In addition, there are three Assistant General Manager positions, two of which are filled by Messrs. G.O. Onosode and O. Akinrele, the third being vacant.

18. Staff. NIDB has been recruiting staff steadily over the past year. At the end of June 1965, it had a professional staff of 16, three of whom it took over from ICON. Besides Mr. Raj, there is another expatriate staff member who has one year left out of his two-year contract. A third expatriate is expected to join NIDB for a two-year term in August 1965. The secretarial and service staff numbered 37 at the end of June.

II. OPERATIONS

Operating Policies

19. At the time of the reconstruction NIDB's Board of Directors adopted a statement of policies which circumscribed more precisely the scope of NIDB's activities and established prudent limits on the size of its investments. A copy of this statement is given in Annex 1. The statement limits NIDB's operations to the industrial and mining sector and to privately-owned and managed enterprises. Within this area, NIDB is to diversify its financing among different types of enterprises and types of finance. Its total loan and equity subscription to any single enterprise is limited to no more than 10% of its share capital, and free reserves. NIDB avoids taking primary responsibility for management by limiting its equity participation to a maximum of 25% of the shares of any enterprise.

Lending Activity

20. The following table presents a summary of NIDB's financial assistance up to the end of June 1965, including ICON's investments passed on to NIDB:

	Loans		Equity	
	No.	Amount	No.	Amount
Commitments	38	N£ 2.3 mil.	16*	N£ 0.6 mil.
Disbursements	15	0.8	9	0.4
Outstanding	13	0.7	9	0.4

21. The significant lag of the disbursement rate behind the approval rate reflected in these figures is explained by the fact that ICON was completely inactive during 1963 with the result that NIDB, once it was established, had to start afresh in attracting and processing applications for financial assistance.

* Including one rights issue, but excluding nominal holdings in the Lagos Stock Exchange and subsidiary Companies.

22. Foreign Exchange Lending. NIDB has no foreign exchange resources as such. However, the Nigerian pound is freely convertible for purchasing of equipment into British sterling, and other foreign currencies can be obtained with little difficulty.

23. Interest Rates. The interest rate charged is usually 8-1/2% per annum, though an 8% interest rate is not usual.

24. Duration of Loans. The normal term of a loan is eleven years, including a one-year grace period after the start of commercial production, though repayments have occasionally been required in as short a time as five years. Security is normally a first mortgage over fixed assets and a floating charge over other assets. In all loans approved, NIDB has retained the right to appoint a nominee director during the life of its loan, though it has exercised this right in only six cases. It charges a commitment fee of 1%, and has included conversion rights or stock options in the terms of five of its loans.

25. Size of Investments. NIDB's individual commitments have ranged in size from N£ 10,000 to N£ 200,000, with the average being N£ 78,000.

26. Geographical Location. NIDB has made commitments in all of the four regions of Nigeria as well as the Federal Territory of Lagos. The eastern and northern regions have received the majority of the amount however, one-third of the total having been directed to each.

27. Distribution of Investments by Industry. Half of NIDB's commitments have been in the textile industry with the remainder spread over a fairly wide number of industrial sectors.

Equity Investments

28. By the end of June 1965, NIDB held equity investments in nine companies, totaling N£ 403,750, not including its nominal investment in the Lagos Stock Exchange and its investment in its subsidiary companies, Icon Securities Limited and Icon Nominees Limited. Seven of these investments, totaling N£ 217,500, had been carried over from ICON. One of these has since been increased through NIDB's taking up a rights issue. NIDB had approved by the end of June, six further equity investments totaling N£ 194,000.

Underwriting

29. ICON had been active in new issue, stockbroking and jobbing work since it helped organize the Lagos Stock Exchange. In 1962 it established Icon Securities Limited as a wholly-owned subsidiary to take over this aspect of its operations. NIDB retained Icon Securities after the reconstruction to carry on the same work. Icon Securities has undertaken underwriting operations, in conjunction with NIDB and with other institutions.

Promotional Activity

30. NIDB has not promoted a project by itself. However, it has devoted considerable time to shaping projects brought to it.

III. FINANCIAL RESULTS

Balance Sheets

31. Annex 2 presents NIDB's balance sheet as at December 31, 1964, and ICON's balance sheet as at December 31, 1963. NIDB's balance sheet is summarized below:

	December 31, 1964	
	N£ '000	%
ASSETS		
Cash and short-term investments	3,246	73.7
Other current assets	91	2.1
Loans	407	9.3
Equity investments	367	8.3
Investment in subsidiary companies	190	4.3
Fixed assets	33	0.8
Preliminary and reconstruction expenses	68	1.5
Totals	4,402	100.0
LIABILITIES		
Current liabilities	19	0.5
Equity:		
Ordinary shares	2,000	45.4
Preference shares	250	5.7
Reserves	133	3.0
Government loan	2,000	45.4
Totals	4,402	100.0

32. The debt/equity limitation contained in NIDB's Articles of Association allows it to borrow, on the basis of the above balance sheet, about N£ 13 million. None of this borrowing power has yet been used.

33. Short-Term Investments. NIDB has invested the part of its resources not immediately required for its lending and investment activities in short-term securities. As of June 30, 1965, N£ 2.8 million was invested in a variety of such securities, yielding on the average 5.19%. This activity, typical of a young development finance company, has substantially increased its revenue, allowing it to build up and maintain its staff and create reserves.

Profit and Loss Accounts

34. In the year ended December 31, 1964, NIDB's gross income was N£ 205,000 compared with ICON's income of N£ 65,000 for the previous year. Income from long-term loans and equity investments accounted for 15% of the 1964 income, with profits from its subsidiary, Icon Securities, accounting for another 18%. The balance, 67%, was derived mainly from short-term investments.

35. NIDB's administrative expenses during 1964 totaled N£ 94,000. Though high in comparison to the total outstanding portfolio of long-term loan and equity investments, the relationship is fairly typical for a development finance company in its first year of operation.

36. Profit for the year, after taking into account a small loss on the sale of fixed assets, amounted to N£ 110,000. This compares to a loss for the previous year of N£ 7,000 incurred by ICON due mostly to its standstill and the expenses incurred in connection with the reconstruction. After deducting the 5-1/2% dividend paid on the preference shares, NIDB's profit represents a return of about 5% on ordinary share capital.

37. NIDB is exempt from tax on profits transferred to reserves up to a total of N£ 2.0 million. It therefore had to pay tax only on the preference dividend it paid.

38. Annex 3 presents NIDB's profit and loss statement for 1964 and, for comparison, ICON's profit and loss statement for 1963.

Dividends and Reserves

39. NIDB paid from its 1964 profits the 5-1/2% dividend on the preference shares. The rest of its profits in that year were retained in the Company.

40. Reserves represented, at the end of 1964, 17% of the outstanding loans and equity investments. This coverage for possible bad debts can be expected to decrease as the disbursement rate picks up. However, if all of the loans and equity investments approved by the end of June 1965 are disbursed during 1965, and if allocations to reserves from 1965 profits are the same as the year before, this coverage would still amount to about 8% of outstanding loans and equity investments.

NIGERIAN INDUSTRIAL DEVELOPMENT BANK

Statement of Policies Approved by the Board on January 22, 1964

RESOLVED that the Company shall carry on its business in accordance with the following policies and procedures:

(a) The Company has been established to provide medium and long-term financing to enterprises operating in Nigeria. As an investment institution it will not engage in operations of a commercial banking nature and will not accept time or demand deposits.

(b) It will limit its operations (save in exceptional circumstances) to the industrial and mining sectors.

(c) It will finance enterprises which, by reason of their size, will make a significant contribution to the economic development of Nigeria.

(d) It will finance only enterprises that are privately owned and managed. The existence of a government or other public interest in an enterprise will not necessarily preclude financing by the Company, providing the Government's interest as measured by voting power or control of the management of the enterprise is not predominant and especially if the Government's investment is only temporary, pending its selling out to private interests.

(e) It will diversify its financing (except for temporary investment of liquid funds in short-term securities) among different types of enterprises and through different types of financing; and will not contribute in loan and equity subscription to any single enterprise an amount equivalent to more than 10 per cent of the Company's paid-up share capital and free reserves; provided that commitments to underwrite issues of shares exceeding the above limitations may be undertaken if the Company believes at the time of making any such commitment that it will not be called upon actually to take up such number of shares as will make its contribution to any single enterprise exceed such limitations.

(f) It will refrain from seeking a controlling interest in any enterprise or any other interest which would give it primary responsibility for the management of such enterprise; it shall not assume responsibility for the management of any enterprise in which it has invested except in case of jeopardy or threat of jeopardy; it will not take up more than 25 per cent of the shares of any single enterprise; provided that commitments to underwrite issues of shares exceeding the above limitation may be undertaken if the Company believes at the time of making any such commitment that it will not be called upon actually to take up such number of shares as will make its holdings more than 25 per cent of the shares of any single enterprise.

(g) It will select projects, subject to sound investment criteria, on as broad a geographical basis as possible.

(h) It will conduct its operations so as to assist in the growth of a capital market in Nigeria and improve facilities for marketing of shares and securities, and will revolve its own portfolio whenever it can do so on satisfactory terms.

(i) It will build reserves consistent with sound financial practice; these will include reserves for bad debts and losses on investments and, in addition, supplementary reserves; at least 50 per cent of net profits (after deducting the amount of the preferential dividend on the 250,000 5-1/2 per cent Cumulative Participating Preference Shares) will be put to supplementary reserves until such reserves reach £150,000 and thereafter at least 25 per cent.

(j) It will finance undertakings which are soundly managed and which appear, on careful investigation, to be economically viable; it will watch the operations of such undertakings; and will give technical assistance to management when necessary.

(k) It will build and strengthen its own management and staff so as to achieve a well-balanced organization, including financial and economic analysis, technical, accountancy and legal services, and supervision of previously concluded investments.

(l) It will take all steps within its power to prevent any one person or company or group of affiliated persons or companies from gaining effective control of the Company.

(m) It shall not assume the foreign exchange risk in respect of relending of any non-Nigerian monies borrowed by it.

(n) It will aim at engaging Nigerians who are suitably qualified for its senior staff positions and may employ expatriate staff in such positions for such period as is thought fit on condition that such expatriate staff will provide training for the Nigerian staff with a view to equipping them to take up the senior staff positions when vacated by such expatriate staff.

NIGERIAN INDUSTRIAL DEVELOPMENT BANK

Balance Sheets
(in thousands of Nigerian pounds)

	December 31	
	1963*	1964
ASSETS		
Cash	26.7	2.6
Sundry debtors and payments in advance	31.7	90.9
Short-term investments	273.9	3,243.8
Loans	368.2	406.6
Equity investments (at cost)	217.6	367.6
Investment in subsidiary company	83.2	189.8
Fixed assets (net)	19.3	33.0
Preliminary and reconstruction expenses	39.8	67.7
Total	1,060.4	4,402.0
LIABILITIES		
Sundry creditors and accrued expenses	13.4	11.1
Current taxation	14.0	-
Amount set aside for future taxation 1965/66	3.1	-
Proposed preference dividend	-	7.8
Government loan	-	2,000.0
Paid-in capital	1,000.0	2,250.0
Capital reserves	22.1	22.1
Supplementary reserves	-	52.5
General reserves	-	52.5
Profit and loss account	7.8	6.0
Total	1,060.4	4,402.0

* Investment Company of Nigeria Ltd.

NIGERIAN INDUSTRIAL DEVELOPMENT BANK

Profit and Loss Accounts
(in thousands of Nigerian pounds)

	1963*		1964	
Income				
Equity investments	3.4		1.1	
Loans	24.0		29.6	
Subsidiary company	17.5		36.4	
Short-term investments	14.5		137.5	
Other income	5.9		-	
Total Income		65.3		204.6
Expenditure				
Administration and other expenses	51.7		89.9	
Depreciation	3.1		3.9	
Loss on sale of fixed assets	-		0.3	
Reconstruction expenses written off	17.3		-	
Total Expenditure		72.1		94.1
Net profit before taxation		(6.8)		110.5
Taxation based on profit for the year		(3.1)		-
Net profit after taxation		(9.9)		110.5
Balance brought forward from previous years	22.6		7.8	
Overprovision for taxation in previous years	(4.9)	17.7	0.5	8.3
Available for appropriations		7.8		118.8
Preference dividend (less tax)	-		7.8	
Supplementary reserve	-		52.5	
General reserve	-		52.5	
Total Appropriations		-		112.8
Balance Carried Forward		7.8		6.0
Net profit after taxation as percentage of:				
(a) Net Worth (at end of year)		-		4.6%
(b) Share Capital (at end of year)		-		4.9%

* Investment Company of Nigeria Ltd.

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O E S T E R R E I C H I S C H E   I N V E S T I T I O N S K R E D I T

OESTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT

(IVK)

September 7, 1965

OESTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT

I. THE COMPANY

Purpose and Powers

1. In 1955 the Austrian Government recognized a gap in the existing financial structure in Austria; namely the provision of medium and long-term finance to private industry. Although there was a well developed commercial banking system and a fairly active capital market, it was almost impossible for private firms to obtain long-term finance from either the banks or the capital market to finance industrial investments. The banks generally provided only short-term finance, which they would sometimes roll over. The capital market was more or less restricted to the issues of government, municipality, or public utility securities because these securities enjoyed favorable tax advantages, which made it impossible for private securities to earn competitive yields.

2. In 1957 IBRD's views on this situation were requested, and it was decided that an IBRD loan for modernizing and expanding private industrial enterprises in Austria was justified, and IVK was created to channel these funds to private industry in Austria.

Resources

3. Share Capital and Reserves. IVK was established in July 1957 with a capital of AS 1.0 million which was shortly thereafter increased to AS 10.0 million, or about $ 385,000 equivalent. The share capital of IVK was subscribed by the Osterreichische Kontrollbank Aktiengesellschaft. The Kontrollbank is a subsidiary of twelve of the principal Austrian credit institutions which represent the leading institutions of the credit community. It performs various functions, which concern the financial community as such. An additional share issue was made at the close of 1958 and the intention at that time was to increase the paid-in share capital to AS 40 million. In order to secure a wider distribution of the share capital, the Kontrollbank, then the only shareholder, did not fully exercise its subscription rights. The response to the issue was quite strong and the capital was increased by the full amount of subscriptions to that issue so that at the end of the year the paid-in capital totalled AS 42 million instead. On completion of this share increase, approximately three-quarters of IVK share capital was held by banks (including Kontrollbank), about 20% by industrial enterprises, 5% by insurance companies and the balance held by individuals and miscellaneous institutions. In 1963 IVK had an additional share increase to AS 55 million. The issue was offered on the basis of three shares for every ten shares held and the shares were for a 20% premium. Thus the issue yielded AS 15.6 million in cash to IVK and the amount of the premium, AS 2.6 million, was put to reserves.

Currency: Austrian Schilling (AS)
US$ 1 = AS 26
AS 1 = US$ 0.03846
AS 1,000,000 = US$ 38,460

4. By the end of 1964, IVK had retained as reserves, including write-off reserves, approximately AS 51.0 million. Thus shareholders' equity plus all reserves totaled AS 106.0 million.

5. ERP (Marshall Plan) Counterpart Funds. IVK has obtained four counterpart fund loans from the Austrian Government totaling AS 188.0 million (about $7 million equivalent). The first of these four loans, for AS 80.0 million, was arranged in August 1958. It is a 60-year loan including 20 years of grace at 1% interest. The subsequent loans were arranged in July 1962, in late 1963 and in the middle of 1964 for AS 40.0 million, AS 34.0 million and AS 34.0 million respectively. The terms of these last loans call for repayment in 50 years including 16 years of grace and they carry an interest rate of 2%. All of the ERP loans which were fully paid-in upon signing, rank equal with equity in event of liquidation of the corporation and are considered part of the borrowing base of IVK.

6. IBRD Loans. IVK has received three loans from the World Bank, totaling about $25 million. The first loan, for $10.8 million, was approved April 28, 1958; the second, for $9 million, was approved in September 1959; and the third loan, for $5 million, was approved June 15, 1962.

7. Other Loans. When IVK was first established, IBRD assistance was offered because due to structural reasons, IVK was unable to borrow on private capital markets. The domestic market remained closed. The first step in this direction was accomplished in November 1961, when IVK secured a loan from four Swiss banks worth SW.F. 13 million ($3 million) at an interest rate of 6% for 6-1/2 years including 1-1/2 years of grace. IVK was able to obtain these funds on its own credit standing and the loan was not guaranteed by the Austrian Government.

8. The ability of IVK to obtain loan funds from the private capital market continued to improve and in mid-1963, the corporation arranged a loan with a number of institutional investors in the United States - mainly insurance companies and pension funds - for $5 million at an interest rate of 6-3/8% per annum repayable in five equal annual instalments after five years of grace.

9. At the end of 1963, a line of credit was agreed upon with Austrian insurance companies amounting to AS 150.0 million. The schilling loan is to be drawn down in three equal annual instalments beginning in 1964 and the maturity of the loan is 10 years.

10. In September 1964, a medium-term operation with a leading US commercial bank amounting to $4 million, bearing an interest rate of 5-1/2% per annum, repayable in three equal instalments 24, 30 and 35 months after drawing, was arranged.

11. The following table summarizes the resources which IVK has obtained since it commenced activities (in millions of AS):

Paid-in share capital	55	
Reserves (Dec. 31, 1964)	51	106
ERP loans (AS)		188
IBRD ($23.3 million) - 3 loans		606
Swiss bank loan		78
Loan from private US institutions ($5 million)		130
Loan from Austrian insurance companies (AS)		150
Loan from US commercial bank ($4 million)		104
		AS 1,362 million

Organization

12. Board of Directors. IVK's Board of Directors consist of 11 members including the President, Dr. Walther Kastner, an attorney and counsellor-at-law who became President of the corporation in 1960. The other directors are representatives of financial and industrial firms in Austria.

13. Management. The management (Vorstand) of IVK consists of three men: Dr. Eduard Karlik, General Manager, Dr. Wilhelm Teufenstein, Assistant General Manager and Mr. Eduard Schmidt. Messrs. Karlik and Schmidt are associated with both IVK and the Kontrollbank and divide their time between the two institutions while Dr. Teufenstein is solely concerned with IVK affairs.

14. Staff. When IVK first started operations it relied primarily on the staff of the Kontrollbank to carry out its day-to-day activities. As time went on, however, it assembled a staff of its own. Projects are studied by the staff and presented to the Management. Loans up to AS 5.0 million in each case, on a cumulative basis not more than AS 15.0 million, the Management may decide on its own responsibility against later information of the Executive Committee of the Board. Loans of more than AS 5.0 million require prior approval of the Executive Committee. The Executive Committee of the Board consists of the President, Vice President and two other members.

II. OPERATIONS

Operating Policies

15. The company operates under a General Policy Guideline which was adopted by the Board in 1958. A copy of this statement is given in Annex 1. In its first years, IVK restricted its financing to industrial projects. In later years, however, it began to enlarge its field of activity and has financed projects in transport, retail business, and in special cases, will consider granting finance to other sectors of the economy as well.

16. When the IBRD loans were arranged, the company agreed to limit its non-subordinated debt to 3-1/2 times the sum of its paid-in share capital, reserves and the counterpart fund loans from the Government of Austria which rank pari passu with share capital. IVK has also followed the principle of not using its share capital and reserves for loan operations but invests these funds in low risk, fixed yield government and industrial securities.

17. IVK has followed a conservative reserve policy. Under the regulations of the Banking Reconstruction Law of 1955, IVK is given the right to set aside certain reserves free of tax, the largest of these being a write-off reserve against possible losses which IVK is allowed to build up at the rate of 3% of loans outstanding at the end of each year. Thus if IVK's accounts are examined on a conventional basis, it is shown that less than 10% of after-tax earnings, as normally computed, have been distributed in the form of dividends; the remainder have been retained as reserves in the corporation.

Lending Activity

18. Summary. Up to the end of 1964, IVK had approved 147 loans totaling almost AS 1.3 billion. The average size operation was equivalent to $335,000. The following table summarizes the number and amount of loan approvals and disbursements since 1960 (in millions of AS):

Year	Long-term For. Curr. Loans	Long-term Schilling Loans	Total
		Approvals	
1960	102	14	116
1961	72	25	97
1962	221	59	280
1963	108	69	177
1964	68	242	310
		Disbursements	
1960*	139	33	172
1961*	110	24	134
1962*	214	51	265
1963*	127	51	178
1964*	74	242	316

* The disbursements do not apply in every case to the specific loans approved in this year.

19. Interest Rates. IVK's interest rate for loans up to six years is 7 to 7-1/4% per annum and for loans more than six years, the rate is 7-1/4 to 7-1/2% per annum. In deciding the interest rate the actual risks involved are taken into account. For loans for instance which received the guarantee of a Federal State, a rate of below 7% per annum was quoted. At the end of 1964, the weighted average interest rate on loans outstanding was 7.46%.

20. Duration of Loans. The average life of loans according to loan agreements signed has been declining since IVK started operations. In 1958, the average term was 12.8 years and by the end of 1964, the weighted life of loans according to loan agreements outstanding had been reduced to nearly 10 years.

21. Size of Loans. On a cumulative basis the largest number of loans were in the $40-200,000 bracket; these loans accounted for almost 50% of total loans approved by number but only 15% by value. There were 24 loans in the $200-400,000 range and 23 in the $400-800,000 range. These 47 loans accounted for 43% of total approvals by value since IVK began operations. Fifteen loans were approved in the $800,000 to $1,200,000 range and three loans above $1,200,000 had been approved. These 18 loans accounted for 41% of total approvals by value.

22. Geographical Location. Geographically, the preponderance of the projects financed by IVK have been located in Vienna and Lower Austria. However, projects have been financed in all the federal states.

23. Distribution of Loans by Industry. The industrial distribution of IVK's lending activity is quite broad. The largest number of loans was granted to the iron and steel industry (24), followed by the building industry (18), the paper industry (15) and the textile industry (15). According to the amount of loan, however, enterprises in the paper industries account for 19% of the total loans approved, while the iron and steel industry 15%, the chemical and textile industries each 11% and the building industry about 8%. Thus these five branches of industry account for approximately 65% of the total funds invested by IVK.

24. Of the total funds provided by IVK to industry, about 60% has been used to purchase equipment and machinery, 30% to purchase buildings and the balance for other expenditures. Of the machinery financed by IVK, approximately two-thirds has been imported, the balance being procured locally.

25. Up to the end of 1964, no bad debts had been written off against the reserve established for this purpose, and practically all loans outstanding had been repaid on schedule. In a few instances IVK was requested by borrowers to revise amortization schedules moderately, but in all cases, after revision of the schedules, the borrowers proceeded to repay their loans as per the modified agreements.

Equity Investments

26. IVK's portfolio does not include any equity investments.

Underwriting

27. IVK, so far, has had no underwriting activity.

III. FINANCIAL RESULTS

Balance Sheets

28. Summarized statements of earnings and balance sheets are contained in Annexes 2 and 3. IVK's total assets have increased from AS 132.0 million in 1958 to about AS 1.2 billion at the end of 1964. At the end of 1964, about AS 1.0 billion of total assets were outstanding long-term loans. Of the total outstanding at the end of 1964, AS 386.0 million were in local currency loans and AS 640.0 million were in foreign currency loans. Of the outstanding foreign currency loans, approximately AS 478.0 million were loans financed out of proceeds of IBRD loans and the balance represented loans financed from the Swiss commercial bank loan (AS 62.0 million) and the $5 million from US institutions (AS 105.0 million). As mentioned previously, IVK holds its shareholder equity and reserves in the form of low risk, fixed interest bearing securities. Approximately 60% of these funds was held in loans of the government, federal states or communities. The remainder was held in non-governmental, high-grade securities.

Profit and Loss Accounts

29. The following table summarizes some of the data relating to IVK's earnings and profitability experience (before reserve allocations) in the five-year period 1960-1964:

	1960	1961	1962	1963	1964
Gross income/Average total assets (ATA)	7.7%	7.1%	7.2%	7.3%	7.2%
Financial Exp./ATA	3.9%	3.9%	4.3%	4.4%	4.3%
Admin.Exp./ATA	1.3%	1.0%	0.8%	0.8%	0.5%
Average spread	2.5%	2.2%	2.1%	2.1%	2.4%
Total long-term debt/Net worth (year end)	6.4	8.5	9.8	9.3	9.1
Earnings before tax/Average net worth	16%	19%	23%	23%	25%
Earnings after tax but before reserves/Average net worth	12.8%	12.4%	17%	14%	16%
Long-term debt/Net worth + ERP loans	1.9	3.0	3.0	2.9	2.7

30. During 1961 through 1964, gross income, as related to total assets, remained almost constant. Increasing financial expenses resulting from the use of higher cost funds were offset by declining administrative expenses relative to total assets. Thus with a spread of about 2.1% leverage increasing slightly to about 9.1 (it was 6.4 in 1960), before-tax earnings average more than 20% on the paid-in share capital and reserves. On an after-tax basis, the comparable average was 14.4%.

Dividends and Reserves

31. Because of the large provisions for reserves made according to Austrian law, profits available for dividends were only about one-seventh of earnings after tax as described above. In 1962 through 1964, IVK paid out almost all of its distributable profits with a dividend of 3% in 1962, 4% in 1963 and 5% in 1964. These dividends amounted to AS 6.2 million. At the end of 1964, IVK's reserves amounted to about AS 51.0 million and the book value of its shares was about 195% of par.

OESTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT

General Business Policies as Approved by the Board of Directors in 1958

1. The Company was created for the purpose to provide any kind of long-term capital for investment financing. The available funds shall be used most effectively. In principle, therefore, the Company will finance investments only, which create new capital goods.

2. In order to turn over its funds as quickly as possible, the Company will undertake a special effort to refinance the early maturities of its loans in the money market.

3. The Company will not take part in the management of a borrower. The Company will not delegate, therefore, any of its representatives (with exception of Members of the Board of Directors) to serve as Managing Director, a partner or a member of the Board of Directors in an enterprise which is a borrower. The Company will, however, if the borrower so wishes, provide counsel and services (technical assistance).

4. Normally, the Company shall finance investments by extending loans. Equity financing and financing by subscribing convertible bonds is not excluded.

5. The Company will select and appraise loan applications according to the principles, which have been successfully used in the past in collaborating with experts of the International Bank for Reconstruction and Development. These extensive methods of examination make it of technical and administrative reasons, necessary to set forth a minimum size of an investment project. In view of the fact that the Company sees its special task in providing long-term investment finance also to medium industries, the minimum size of a project will be AS 2,000,000. In principle the Company will provide not more than 50% of the total investment requirements (including investments for normal renewals and repairs).

6. Since the Company provides investment finance, the duration of a loan should not be less than seven years. The maximum length of a loan should not exceed the economic life of the investment goods financed.

7. Following conservative business practices the Company regards a diversification of risks necessary. A specialization in any one branch of industry will be avoided.

8. In selecting and appraising loan applications the Company will apply purely economic principles only. Each project must stand on its own feet. The investment projects will be judged with special attention to developments regarding the economic integration of Europe.

9. Among applications suitable for financing the Company will observe the principle of economic priority. Special attention will be given to the quality of the management of the borrowers.

10. The Company will follow a conservative dividend policy with special regard to the creation of reserves.

11. When increasing its share capital and issuing new shares, the Company will see to a distribution of its share capital as wide as possible.

OSTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT

Balance Sheets as of December 31, 1960-1964
(in millions of AS)

	1960	1961	1962	1963	1964
ASSETS					
Portfolio investments in securities	42	42	43	91	94
Accounts receivable - short-term	12	73	33	59	41
Interim investments	-	-	-	20	20
Long-term loans in Austrian schillings	73	93	136	170	386
Long-term loans in foreign currency	253	352	542	630	641
Short-term and miscellaneous assets	8	12	18	24	28
Total	388	572	772	994	1,210
LIABILITIES					
Short-term	6	11	14	22	94
Long-term schilling liabilities	-	-	17	18	66
Long-term foreign currency liabilities	249	422	551	704	752
Government ERP loans	80	80	120	154	188
Paid-in share capital	42	42	42	55	55
Write-off reserves	10	14	21	25	32
Other reserves and miscellaneous	1	3	7	16	23
Total	388	572	772	994	1,210

OSTERREICHISCHE INVESTITIONSKREDIT AKTIENGESELLSCHAFT

Statement of Earnings 1960-1964
(in millions of AS)

	1960	1961	1962	1963	1964
Income	24.7	33.9	48.3	64.3	79.3
Expenditures					
Administrative expenses	4.1	4.6	5.1	7.3	5.7
Financial expenses	12.6	19.0	28.7	39.0	47.8
Total	16.7	23.6	33.8	46.3	53.5
Gross earnings	8.0	10.3	14.5	18.0	25.7
Tax	1.6	3.5	3.8	6.7	9.6
Reserves					
Write-off reserves	4.7	3.6	7.1	3.8	7.2
Legal reserves	-	1.2	0.2	0.2	0.2
Value adjustment reserves	-	0.6	0.7	1.4	1.6
Reserves according to Bank Reconstruction Law	0.6	1.1	1.3	2.5	2.9
Free reserves	-	-	-	0.9	1.1
Miscellaneous	0.1	0.1	0.2	0.2	0.2
Total	5.4	6.6	9.5	9.0	13.2
Annual profit*	1.0	0.2	1.2	2.3	2.9
Dividend (percentage)			3.0%	4.0%	5.0%
(amount)			1.2	2.2	2.8

* As per Austrian definition

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PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

(PICIC)

September 7, 1965

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

I. THE COMPANY

Purpose and Powers

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

Resources

2. Capital and Reserves. The authorized share capital of PICIC is Rs 150 million, of which Rs 40 million is subscribed and paid in. The initial paid-in share capital was Rs 20 million which was increased by Rs 10 million in 1961 and another Rs 10 million in 1963. IFC participated in the 1963 issue, through renunciation of rights by the foreign shareholders, by taking up 200,000 shares with a par value of Rs 2 million at a 7% premium. The paid-in share capital is held by investors as follows:

Pakistan	60.0%
U.S.A.	10.9%
U.K.	10.8%
Japan	7.3%
Germany	6.0%
IFC	5.0%

The Government is not a shareholder of PICIC.

3. By the end of 1964, PICIC had accumulated reserves and retained earnings of Rs 11.75 million.

4. Government Loans. The Government has granted PICIC two long-term loans totaling Rs 60 million and subordinated to other long-term debt and to paid-in share capital. The first Rs 30 million granted in 1957 is free of interest, and has a term of 30 years, including 15 years of grace. The second Rs 30 million, granted in 1961, bears interest at 4%, and has a term of 40 years, including 4 years of grace. Initial repayments of the

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Currency: Rupees (Rs)

Rs 1	= US$ 0.21
US$ 1	= Rs 4.762
Rs 1,000,000	= US$ 210,000

second loan, beginning in 1965, are of token size only, and increasing slowly.

5. Foreign Borrowings. Foreign currency credits available to PICIC at March 31, 1965 total $165 million, or Rs 785 million, but PICIC had sanctioned foreign currency loans exceeding that amount by Rs 65 million, in anticipation of new borrowing.

6. PICIC's Total Resources, and resources available for investment as of December 31, 1964, can be summarized as follows:

	Total resources	Resources available
	(in millions of rupees)	
Capital and reserves	51.8	-
Government loans	60.0	-
Foreign borrowings (March 31, 1965)	760.0	50.0
Cash and short-term deposits	-	26.1
Securities	-	19.9
Market value of purchased shares	-	9.5
Total	871.8	105.5

Organization

7. Board of Directors. The Board of PICIC has now 21 members: the Managing Director, 12 directors representing Pakistani shareholders, 3 government representatives and 5 directors representing foreign shareholders. Nomination to the three government directorships belongs to the Central Government with the understanding that two of the three nominees should represent the East Pakistan and West Pakistan Provincial Governments. One government director on PICIC's Board is provided for in the first loan agreement between PICIC and the Government. In August 1963, PICIC's statutes were amended so as to permit also the provincial governments to be represented, as this was believed to be in the best interest of relations between PICIC and Government. The Board usually meets four times a year.

8. Executive Committee. The Executive Committee consists of seven members, and meets from eight to ten times a year. It has the same powers as the Board, except that it may approve loans only up to Rs 5 million. Loans to companies which have a director or directors on the Board of PICIC are decided by the full Board of Directors, irrespective of the size of the loan.

9. Management. Mr. Uquaili served as Joint General Manager practically from the outset of PICIC, and became General Manager early in 1960. His position was changed to Managing Director early in 1964. His Deputy Managing Director is largely responsible for day to day operations of PICIC, leaving the Managing Director free to devote himself mainly to policy matters.

10. Head Office and Branches. The head office in Karachi employs a staff (excluding management) of 106 persons of whom 53 are professionals. There are branch offices at Dacca (East Pakistan) and Lahore (West Pakistan), which undertake preliminary screening of applications and follow-up of projects. The Dacca office employs a staff of 12, of which 6 are professionals, and the Lahore office 8, of which 3 are professionals. In 1964, PICIC established a new office at Rawalpindi to maintain liaison with the Central Government. This office will later be moved to Islamabad, the new national capital under construction.

11. Organization. PICIC's head office is divided into four major departments: Operations, End-Use, Accounts, and Secretariat and Legal. Each department is sub-divided as follows:

Operations	End-Use	Accounts	Secretariat and Legal
General Division	End-Use	Accounts	Legal Section
Research Division	Letters of Credit	Insurance	Administration
Project Division			Shares Section
			Investment Section

Head office and branches employ 15 financial analysts, the Chief of Operations and deputy chiefs not included, 1 Chief Engineer and 11 engineers.

12. Procedures. Applications for loans are given a preliminary screening in the Operations Department, after which they are referred to the Project Appraisal Committee. The Managing Director is head of the Committee but the responsibility for conducting meetings is usually delegated to the Deputy Managing Director. Other members of the Committee are the department heads and senior staff. Based upon a preliminary assessment paper, the Committee decides whether PICIC should proceed to a full project appraisal. When the appraisal has been done, the full report is reviewed by the Project Appraisal Committee, whose members are invited to discuss fully all aspects of the project and its assessment. If a favorable decision is given by the Committee, the application is submitted to the Board or the Executive Committee, depending on the size of the loan.

13. The End-Use Division takes over a project at the time a loan is sanctioned. In the past year this division has expanded its staff from 10 to 20 and has organized and improved its procedures. There are still problems in obtaining adequate financial information on some of PICIC's earlier investments, but PICIC is generally more successful in this respect with more recent clients, and progress and financial reporting from them is more satisfactory. In the carrying out of its work, the End-Use Division works closely with the Operations Department, especially with the engineering staff for follow-up on technical matters.

II. OPERATIONS

Operating Policies

14. On December 10, 1964, the Board of PICIC approved a new statement of business policies, based mainly on those practices and principles which had developed over the years. This statement is given in Annex 1.

15. Selection of projects is made exclusively on economic, technical and financial criteria, within the industrial development plans of the Government as outlined in the Industrial Investment Schedule. Projects based on the use of local raw materials are given preference. It is the intention that financial assistance will be dispersed as much as possible, both among owners of industries and among geographical areas, with preference, other things being equal, to the undeveloped areas in both wings of the country.

16. Loans are given on a secured basis, but the merit of the project itself is the main determining factor. PICIC does not seek a controlling position in enterprises in which it has invested or to which it has lent. It endeavors to follow up and assist projects financed by it. There is no rigid policy on what percentage of the total cost of a project PICIC would normally finance. Fifty:fifty debt/equity financing is usual. Permanent working capital requirements are usually included in the cost of a project and covered by the financial plan. Short term working capital requirements are not financed by PICIC.

17. Aggregate investments in equity should normally be restricted to the equivalent of PICIC's paid-in share capital and free reserves.

18. Size of Operations. From the start of its operations until 1961, PICIC's policy was to consider loans and investments from Rs 100,000 upwards, although most loans were for more than Rs 500,000. In 1961, the Government determined that the Industrial Development Bank of Pakistan would provide foreign currency loans up to Rs 500,000 and rupee loans up to Rs 1 million, and that PICIC would only consider loans above these limits. In March 1963, the line of demarcation between the two institutions was raised to Rs 1.5 million for foreign currency loans and to Rs 2.5 million for local currency loans. Exceptions can be permitted for special reasons, such as expansion projects for enterprises which are already borrowers from the institution in question. A committee consisting of the Vice Chairman of the Industrial Promotion Bureau and the Managing Directors of IDBP and PICIC supervises the demarcation.

19. PICIC has gradually lifted its ceiling on investment in any one firm. Initially, the intention was to limit assistance to one single enterprise to 5% of net worth and subordinated government loans. Under the present policy, however, PICIC could invest as much as 20% of net worth and subordinated loans in one company. This means as much as Rs 22

million ($4.7 million), which is 43% of PICIC's present net worth and 7.1% of the present total protfolio of loans and investments. In most cases, however, PICIC would like to find a financial partner when more than $4 million is involved.

20. Exchange Risk. PICIC does not assume the foreign exchange risk for any part or period of its foreign borrowings. Except for the first loan from the World Bank, where the foreign exchange risk is covered by the Government, the exchange risk is passed on to PICIC's borrowers. Many of the credits PICIC has received through the Government, however, have fixed amortization schedules which often do not coincide with the repayments from PICIC's borrowers. In cases where the repayment period for PICIC's borrower is shorter than PICIC's (and Government's) repayment obligations, the Government assumes the foreign exchange risk for the unexpired period of the loan in question, against a charge of 1/4% per annum levied on the principal balance outstanding of the loan given by PICIC. Exchange risk arises in those cases where PICIC exercises options by actually converting into shares some part of a foreign exchange loan. The substantial unrealized capital gains in PICIC's investment portfolio provide a cushion against this risk. So do the amounts with currency clauses still outstanding to PICIC, to which PICIC has no corresponding foreign exchange obligations.

Lending Activity

21. Summary. Up to December 31, 1964, PICIC had sanctioned, net of loans cancelled, 405 loans in local and foreign currencies with an aggregate value of Rs 775 million. PICIC's annual rate of operations has increased steadily since 1961. Since 1960, the amounts of rupee loans have been very small and in 1963, no rupee loan was approved.

Loan Approval (in millions of rupees)

	1960	1961	1962	1963	1964
Loans approved	72.23	95.88	141.85	153.75	224.11
Foreign currency loans	62.27	94.40	137.63	153.75	223.21
Rupee loans	4.96	1.48	4.22	-	0.90

Disbursements have been rising rapidly and mostly in foreign exchange since 1962.

Loan Disbursement (in millions of rupees)

Total loans	44.09	34.28	51.76	123.30	106.23
Foreign currency loans	33.20	28.08	48.25	122.29	106.17
Rupee loans	10.89	6.20	3.51	1.01	0.06

PICIC's net loan portfolio stood at Rs 287 million as of December 31, 1964.

22. Almost all PICIC's recent lending has been in foreign exchange. Rupee loans have declined gradually over the years, until now practically none are granted. According to PICIC, its large clients can easily obtain their rupee requirements elsewhere. They are generally profitable enterprises with high internal cash generation, having ready access to the domestic capital market. Their main need, therefore, is foreign exchange to pay for imported equipment, which constitutes a substantial part of the cost of most projects. In some cases they may just need foreign exchange, and no loan.

23. Interest Rates. The rate of interest that PICIC can charge on its loans has been restricted by the Government to 6-1/2% on rupee loans and 7-1/2% on foreign exchange loans since May 1962.

24. In addition to interest, PICIC's borrowers pay an appraisal fee of 1/2% of the loan amount, a commitment charge of 1/4% per quarter on undisbursed amounts, and the foreign exchange risk charge in those cases mentioned above.

25. Duration of Loans. PICIC does not normally extend loans for more than 12 years. Most loans are made for 10 years or less. Exceptions have been made on joint operations with IFC, when the loan term has been up to 14 years.

26. Size of Loans. The average size of new loans sanctioned in 1964 was equivalent to $1,100,000, compared with $673,000 in 1963, $365,000 in 1961/62, and $192,000 in 1958-60. The very large increase in the average size of loans is partly a consequence of the raising of the lower lending limits in March 1963.

27. Geographical Location. PICIC has been more active in West than in East Pakistan. Moreover its activity in the latter has relatively declined in recent years. Over the years 1958-60, the loan distribution between West and East was 65%-35%, compared to 1961-63 74%-26%, whereas in 1964, 87% of the amount of all loans sanctioned was for the West and only 13% for the East. Activities are thus concentrated in the West. PICIC is now working on plans for a few large projects in East Pakistan, but the number of possible projects above PICIC's minimum size is not very great.

28. Distribution of Loans by Industry. With respect to industrial diversification of loans sanctioned, cotton textile and jute projects (34%) and food products and processing (24%) loom very large, whereas engineering, chemicals and pharmaceuticals, cement, ceramics and glass, paper, paper products and printing, inland water transport and shipping each account for between 5-9% of the total amount of loans sanctioned by PICIC in its seven years of existence. In 1964, projects in the food processing category were predominant, accounting for 41.8% of the total amount of loans sanctioned, compared with an average of 17% in the years before.

29. Options. Loans to existing enterprises with a paid-in capital of more than Rs 2.5 million or to new enterprises with a paid-in capital of between Rs 2.5-5 million normally carry a right for PICIC to purchase the original loan amount. However, this right can be exercised only if a company makes a public cash issue of shares during the life of the PICIC loan. This is not a conversion option in the common sense of the term, and the right has, in fact, with one or two exceptions, been of no practical consequence. PICIC has, therefore, increasingly endeavored to take a direct equity participation concurrently with the granting of a loan, rather than obtaining a right of little or no value.

30. In the case of new enterprises with a paid-in capital of Rs 5 million or more, PICIC obtains true convertible debentures, embodying the option to convert at par 20% of the original loan amount into new shares of the company. These options can generally be exercised as long as the debentures are outstanding.

31. Loans for Balancing and Modernization. Towards the end of 1964, the Government agreed to PICIC lowering its lending limit to Rs 250,000 ($52,500) for loans to finance imports of equipment needed for the balancing and modernization of existing plants. PICIC expected at that time that in about a year's time, it could make profitable loans aggregating some $10 million for this purpose, in addition to what would otherwise be normal business, and this amount was accepted by the Government. So far, however, the demand for such loans has turned out to be less than expected.

Equity Investments

32. Equity investments made in 1964, nine in number, Rs 9.5 million in amount, were larger than in any previous year, the average annual investment being about Rs 3 million up to the end of 1963. Shares totaling Rs 0.9 million were sold during 1964. At December 31, 1964, PICIC's portfolio of investments totaled Rs 21 million. The portfolio had been acquired as follows:

Direct investment	Rs 7.9 million
Underwriting	2.8
Exercise of share options	10.3
	Rs 21.0 million

33. In addition to these investments, PICIC has purchased a number of shareholdings as a means of temporary investment of surplus cash. The purchased shares consist of 25 industrial holdings, of which 11 belong to companies assisted by PICIC. PICIC's portfolio of shares, both those purchased and those acquired otherwise, is generally sound, and the market value at December 31, 1964, was estimated at more than Rs 5 million above the cost price, an average gain of about 17% in addition to gains of about Rs 1.4 million already realized. Investment in shares is particularly attractive to PICIC because, being a recognized Investment Company under the income tax law, its dividend income is tax exempt.

Underwriting

34. Underwriting is a field in which PICIC substantially increased its developmental function in 1964. Up to the end of 1963, PICIC had underwritten only Rs 16.3 million for five share issues, of which PICIC took up Rs 1.2 million. In 1964, PICIC underwrote a total commitment of Rs 27.9 million for three capital issues, the largest of which by far was the Sui Northern Gas Pipeline's underwriting for Rs 24.2 million underwritten by PICIC alone, of a total capital issue of Rs 35 million. Only one of the three cases was a joint underwriting by PICIC and other institutions: the amount underwritten was Rs 2.5 million, of which PICIC's liability was Rs 500,000.

35. In the past, there have been relatively few public capital issues in Pakistan, and underwriting of such issues has also been on a very modest scale. In 1964, the total number of public share issues was 34 aggregating Rs 639 million in amount, of which only Rs 58 million for 12 issues was covered by underwriting arrangements. PICIC's underwriting thus represented about half of the total amount and one-fourth the total number of underwritings. PICIC expects that underwriting will be of increasing significance in the future, as it is expected that more and more companies will have to have recourse to the capital market in order to cover their equity requirements. The Government frequently makes it a prerequisite for granting a license to set up new plants or expanding old ones, that at least 50% of the share capital is held by the general public.

Promotion

36. The rapid growth of industry in Pakistan in recent years is in large part due to the enterprise and expansion of large industrial ventures. PICIC made loans in 1964 to 74 projects whose sponsors were entering the industrial field for the first time, roughly 13% of the total amount of loans granted by the company. PICIC has also encouraged the establishment of many new industries, introducing more economic use of agricultural and industrial wastes and by-products, such as wood-wastes, wheat straw, molasses, cotton and jute stalks, etc. PICIC has been particularly active in investigating new fields for industrial investment. Its efforts in this direction include surveys of such industries as cement, sugar and by-products, paper and newsprint, gypsum board, synthetic rubber, staple fiber, china clay and refractory products. In these ways, PICIC has been performing important developmental functions.

III. FINANCIAL RESULTS

Balance Sheet

37. Summary. Comparative balance sheets of PICIC as of December 31, 1958 through 1964, are shown in Annex 2. Major items for the last two years are summarized below:

	1963		1964		Change in 1964
	Rs. mil.	%	Rs. mil.	%	Rs. mil.
ASSETS					
Current assets	46.7	16.0	57.6	15.5	+10.9
Loan:					
Local currency	19.8	6.8	14.1	3.9	- 5.7
Foreign currency	206.2	70.8	273.0	72.7	+66.8
Equity investments (at cost)	18.4	6.3	29.3	7.8	10.9
Fixed assets	0.3	0.1	0.3	0.1	-
Total	291.4	100.0	374.3	100.0	+82.9
LIABILITIES					
Current liabilities	10.2	3.5	14.1	3.8	+ 3.9
Foreign currency borrowings	173.8	59.7	248.4	66.3	+74.6
Equity:					
Capital paid-in	40.0	13.7	40.0	10.7	-
Reserves & undistributed	7.4	2.5	11.8	3.2	+ 4.4
Total equity	47.4	16.2	51.8	13.9	-
Government loans (quasi-equity)	60.0	20.6	60.0	16.0	-
Total equity and quasi-equity	107.4	36.8	111.8	29.9	-
Total	291.4	100.0	374.3	100.0	+82.9

38. The growth in total assets in 1964, which represents 28% over 1963 assets, was financed up to 90% from the net increase of foreign currency borrowings, the remaining 10% from internal cash generation and increased current liabilities. Total net loan portfolio increased by 27%, but remained at 77% of total assets, as in 1963. Current assets, rising by Rs 10.9 million, were almost the same percentage of total assets as in 1963.

39. It will be noted that the amount of foreign currency loans outstanding is about Rs 25 million higher than net foreign currency borrowings. The reason is that two of the AID loans for a total of $14.1 million were repaid in full by PICIC by the end of 1964, whereas PICIC had lent these funds on longer terms to its borrowers.

40. Capital Structure. PICIC's reserves and unappropriated earnings are now about 30% of the share capital (18.5% in 1963) and slightly less than 4% of the portfolio of loans and investments (3% in 1963). The ratio of all long-term debt (including government loans) to PICIC's net worth increased from 4.9:1 in 1963 to 6:0 in 1964. The clue to the appreciably improved profitability in 1964 lies in this fact.

41. By agreement with the Bank, PICIC can incur indebtedness other than the subordinated government loans up to four times its own equity plus the subordinated loans. In terms of this agreement, PICIC's outstanding indebtedness increased from 1.6 times to 2.2 times equity and subordinated loans during 1964.

Profit and Loss Accounts

42. Detailed income statements of PICIC for the past seven years are shown in Annex 3 and can be summarized as follows: (in Rs million)

	1958	1959	1960	1961	1962	1963	1964
Gross income	1.6	2.8	5.3	9.0	12.2	19.5	27.9
Financial expenses	-	0.1	1.3	2.7	4.9	8.7	13.4
Administrative expenses	0.9	0.7	1.2	1.6	1.9	2.0	2.2
Income before tax	0.7	2.0	2.8	4.7	5.4	8.8	12.3
Income tax	0.3	0.7	0.8	1.4	2.1	4.2	5.1
Net earnings	0.4	1.3	2.0	3.3	3.3	4.6	7.2
Net earnings as % of:							
Net worth (beg. of yr)	2.0%	6.5%	9.4%	15.1%	9.7%	13.1%	15.2%
Average share capital	2.0%	6.6%	9.8%	12.6%	10.9%	13.1%	18.0%
Dividends paid	-	3.8%	5.0%	6.0%	6.0%	7.0%	7.0%
Dividend payout ratio	-	56.8%	51.0%	47.6%	55.0%	54.5%	38.9%

43. The growth of gross income was 59% in 1963 and 43% in 1964 over the year before. Computed on the total average assets[1/] over the last three years, gross income represented 7.9% in 1962, 8.3% in 1963, and 8.4% in 1964. Included in gross income are capital gains from sale of investments, which were Rs 490,000 in 1964 (Rs 130,000 in 1963).

44. The average cost of funds to PICIC has been increasing over the years as a consequence of the fact that an increasing portion of the funds with which PICIC operates consists of borrowings at 5.5-6%. The change in the average lending rate, average cost of borrowed funds, and average spread on such funds is illustrated by the following table:

	1962	1963	1964
Average lending rate	7.30%	7.40%	7.45%
Average cost of borrowed funds	4.23%	4.67%	4.93%
Average spread on borrowed funds	3.07%	2.73%	2.52%

1/ The median between opening and closing total assets.

The increase in the average lending rate is explained by the increasing dominance of lendings in foreign currency at 7-1/2% over lendings in local currency at 6-1/2%. The narrowing of the spread is bound to continue as the dominance of high cost borrowings over low cost borrowings increases.

45. Dividends from equity investments increased from Rs 690,000 in 1963 to Rs 980,000 in 1964, corresponding to an average return on such investments of 4.2% in both years. The average yield on market price of all shares listed on the Karachi stock exchange was only 3.44% in 1964.[1/]

46. Income in 1964 from temporary investments, mainly in government securities, and from bank deposits was Rs 1.72 million, 4.1% of the unweighted average amount of all such current assets. Government securities in Pakistan yield between 3.6% and 4.4% according to term and issue. The call money rate of the scheduled banks in Pakistan ranged from nil to 4-1/2% in 1964, with a weighted average for all call deposits around 1.7%. In 1965, the call money rate has risen considerably because of scarcity of such funds, with highs of 6-1/2-7% in March 1965.

47. Administrative expenses, which were Rs 2.26 million in 1964, increased by 13% from 1963. As a percentage of total assets these expenses decreased from 0.7% in 1963 to 0.6% in 1964.

48. The corporate income tax remains at 50% of taxable income after a tax-free allocation of 10% of net profit to a special reserve. Dividend income from equity investment is tax exempt. Taxes paid in 1962 and 1963 include Rs 400,000 and Rs 520,000 respectively, of taxes applicable to earlier years when inadequate provisions had been made.

Dividend and Reserves

49. Reserves Policy. The reserve policy of PICIC is set out by Article 154 of the Articles of Association as follows:

(1) Not less than 15% of net profits shall be set aside as a reserve;

(2) Out of the profits remaining after this first allocation, a dividend not exceeding 7% on the outstanding share capital may be distributed;

(3) Not less than 10% of the profits remaining after the distribution of this first dividend shall be set aside as a second allocation to reserves;

1/ There are 177 shares listed on the stock exchange, of which only 94 shares have a yield so far. Most of the remaining 83 shares without a yield are new company shares. Excluding these "no yield" shares, the average return on market price was 6.48% in 1964.

(4) Out of the profits remaining after the second allocation, a dividend not exceeding 6% on the outstanding share capital may be distributed;

(5) Not less than 50% of the profits remaining after the distribution of the second dividend shall be set aside as additional reserves.

50. It is possible under these provisions to distribute a major part of net profits as dividends. In the past, however, PICIC has appropriated considerably more to reserves than required under its statutes. Capital gains from the sale of investments are set aside in full to a Capital Reserve.

51. Appreciation of PICIC's Shares. The book value of PICIC's shares, whose par value is Rs 10, appreciated from Rs 11.84 at the end of 1963 to Rs 12.94 at the end of 1964. At the same time the market price increased steadily from around Rs 12 at the beginning of 1964 to Rs 14.50 in December 1964. At March 31, 1965, the quotation was Rs 15.50, and at May 20, ex-dividend, Rs 14.30. At this latter price the net yield on PICIC's shares is 4.9% at 7% dividend. This is neither particularly high nor particularly low for shares of this category in Pakistan. The price/earnings ratio for PICIC in 1964 was 9.2:1 (ex-capital gains), whereas most commercial banks show a higher ratio. The current price on PICIC's shares could be considered as a compromise price based on fairly high earnings and a moderate immediate dividend yield.

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

Outline of Business Policies Approved by The Board of Directors on December 10, 1964

1. Objectives of the Corporation

   (a) To stimulate the development of the country by providing finance for the establishment of new industries as well as for the balancing, modernization and expansion of existing industries, all in the private sector;

   (b) To provide finance only for projects economically viable and financially sound; and

   (c) As far as possible, to assist in broadening the base of industrial ownership in the country and thereby develop the Stock Market.

2. These objectives are carried out through:

   (i) Investment Policy

   (a) Finances are made available only for viable projects which will contribute to the economic growth of the country and to saving or earning of foreign exchange. For this purpose all projects are subjected to careful examination through qualified staff and only those judged economically viable, technically sound and financially profitable are considered for assistance;

   (b) Finances are made available to projects which are in line with the development plans of the Government, preference being given to projects largely based on local raw materials;

   (c) Financing is diversified, as far as possible, both as regards different regions of the country and as regards different industries and their ownership. Preference is given to the financing of projects in the under-developed areas of the two wings of the country as long as they satisfy the conditions of economic viability and financial soundness;

   (d) In accordance with the normal business practice, adequate security is obtained to cover the loans but in addition the main considerations are soundness of management and projected profitability of the enterprise to cover repayments;

   (e) The Corporation does not seek any controlling interest in any enterprise financed by it but consistent with the safety of its interests, leaves the management and control in the hands of the entrepreneurs;

(f) Even after providing the finance, the projects are carefully watched and those in difficulties are assisted to the extent possible till the loans are repaid; and

(g) Corporation does not finance working capital requirements by means of short-term local currency loans. This business is left to the commercial banks. In other respects also PICIC does not compete with commercial banks.

(ii) Method of Financing

Corporation provides finance according to the suitability of each project, in the form of:

(a) direct loans, mostly in foreign currencies;
(b) loans partly convertible into stock;
(c) direct equity participations; and
(d) underwriting of public issues.

(iii) Size of Loans

(a) Progressively and as desired by Government, Corporation has raised the minimum limit for its lending operations. These minimum limits, except where enterprise is already mortgaged with PICIC for earlier loan or where permitted by Government for special reasons, for the time being, are Rs 1.5 million for foreign currency loans and Rs 2.5 million for rupee loans (smaller loans are provided through other institutions in the country).

(b) It is the intention of the management to normally restrict financial assistance to any one enterprise to 20% of Corporation's equity and quasi-equity funds. In line with this policy Corporation has participated in larger loans with IFC and other financing agencies.

(iv) Exchange Risk

In granting foreign exchange loans (except in the case of subloans from the first IBRD loan to PICIC where the foreign exchange risk is covered by Government) the exchange risk is passed on to the ultimate borrowers.

(v) Staff Recruitment and Training

(a) In order to strengthen its own management and staff as well as to assist its clients in the formulation and conduct of their projects, Corporation has continued to build up an effective organization and develop an adequate staff possessing skills in finance, marketing and economic analysis, engineering, accountancy and law; and

(b) Corporation has been sending out members of its technical staff for training at IBRD, IFC, Economic Development Institute and other development financing agencies abroad; at the same time Corporation has trained officers of other institutions and is particularly ready to receive for training officers from newly-established development banks for their initial training.

(vi) Reserves

The Corporation continues to build reserves consistent with sound financial practices. In the past the practice has been to place roughly 50% of the profits to reserves, in addition to capital gains realized from the sale of investments and intention is to continue this policy.

(vii) Broadening Industrial Ownership

(a) In the case of new as well as existing larger industrial enterprises, as a condition of financing, Corporation has required that certain percentage of the share capital is offered to the general public as a means to broaden the base of industrial ownership;

(b) The Corporation has, wherever practicable, made direct equity investments or obtained conversion rights and then sold some of its investments in the open market to further the growth of the capital market. In selling any investments it pays due regard not only to its own interests but also to the interests of other participants in such enterprise as well as to the steady and sound growth of stock exchanges in the country; and

(c) It is the intention that the total equity investments in various enterprises, either made directly or acquired through conversion rights, is normally restricted to the paid-up capital and free reserves of the Corporation.

(viii) Control over the Corporation

The Directors will use their powers to prevent any one person, or company, or group of affiliated persons or companies obtaining effective control of the Corporation.

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

Balance Sheets

(in millions of rupees)

	1958	1959	1960	1961	1962	1963	1964
ASSETS							
Cash and short-term deposits	14.46	2.83	2.62	7.74	7.08	8.03	26.09
Govt. & other securities	29.73	28.84	15.63	23.37	27.79	29.27	19.90
Accrued interest & charges	0.50	0.96	2.33	3.26	5.53	9.15	10.74
Other current assets	0.02	0.17	1.05	1.32	0.45	0.20	0.88
Local currency loans	5.00	11.90	19.82	22.87	24.11	21.88	14.10
Foreign currency loans	-	9.81	40.83	61.00	101.02	204.14	272.98
Total Loans	5.00	21.71	60.65	83.87	125.13	226.02	287.08
Equity Inv. (at cost)	0.80	3.06	7.34	9.92	13.92	18.44	29.33
Fixed assets (net)	0.11	0.12	0.31	0.34	0.26	0.27	0.27
Total	50.62	57.69	89.93	129.82	180.16	291.38	374.29
LIABILITIES							
Accounts payable	0.02	0.42	2.22	0.46	2.15	5.04	7.88
Provision for taxes on income	0.21	0.52	0.84	1.64	1.73	2.67	3.43
Proposed dividend	-	0.75	1.00	1.57	1.80	2.50	2.80
Current Liabilities	0.23	1.69	4.06	3.67	5.68	10.21	14.11
Foreign currency borrowings	-	5.04	33.95	52.50	79.35	173.81	248.43
Equity:							
Capital paid in	20.00	20.00	20.00	30.00	30.00	40.00	40.00
Capital, special and general reserves	0.20	0.89	1.86	3.58	4.94	7.26	11.54
Undistributed earnings	0.19	0.07	0.06	0.07	0.19	0.10	0.21
Net equity	20.39	20.96	21.92	33.65	35.13	47.36	51.75
Subordinated government loans	30.00	30.00	30.00	40.00	60.00	60.00	60.00
Net equity and quasi-equity	50.39	50.96	51.92	73.65	95.13	107.36	111.75
Total	50.62	57.69	89.93	129.82	180.16	291.38	374.29
Ratios:							
Equity to all long-term debt	1:1.5	1:1.7	1:2.9	1:2.7	1:4.0	1:4.9	1:6.0
Equity and subordinated loans to other long-term debt	1:0	1:0.1	1:0.7	1:0.7	1:0.8	1:1.6	1:2.2

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LIMITED

Statements of Earnings
(in millions of rupees)

	1958	1959	1960	1961	1962	1963	1964
INCOME							
Interest on temporary investments & bank deposits	1.52	1.18	0.87	0.82	1.24	1.38	1.72
Interest on loans	0.07	1.11	3.73	6.38	7.72	13.47	20.23
Dividends from investments	-	0.10	0.25	0.57	0.54	0.69	0.98
Capital gains from invest.	-	0.29	0.10	0.30	0.15	0.13	0.49
Miscellaneous income	0.03	0.17	0.31	0.92	2.58	3.80	4.51
Total Gross Income	1.62	2.85	5.26	8.99	12.23	19.47	27.93
EXPENSES							
Administrative expenses	0.87	0.68	1.17	1.57	1.93	1.99	2.26
Interest paid and other financial expenses	-	0.13	1.31	2.74	4.90	8.72	13.37
Total Expenses	0.87	0.81	2.48	4.31	6.83	10.71	15.63
Income Before Taxes:	0.75	2.04	2.78	4.68	5.40	8.76	12.30
Income tax of year	0.36	0.72	0.82	1.38	1.73	3.65	5.10
Inadequate tax provisions previous years	-	-	-	-	0.40	0.52	-
Net Income	0.39	1.32	1.96	3.30	3.27	4.59	7.20

Allocation of Net Income

	1958	1959	1960	1961	1962	1963	1964
Carried forward	-	0.19	0.07	0.06	0.07	0.19	0.10
Net income	0.39	1.32	1.96	3.30	3.27	4.59	7.20
	0.39	1.51	2.03	3.36	3.34	4.78	7.30
Capital, special and general reserves	0.20	0.69	0.97	1.72	1.35	2.18	4.29
Dividend	-	0.75	1.00	1.57	1.80	2.50	2.80
Carry forward	0.19	0.07	0.06	0.07	0.19	0.10	0.21
	0.39	1.51	2.03	3.36	3.34	4.78	7.30
Net income as % of:							
Net worth (at beginning of year)	2.0%	6.5%	9.4%	15.1%	9.7%	13.1%	15.2%
Average share capital	2.0%	6.6%	9.8%	12.6%	10.9%	13.1%	18.0%
Dividend payout ratio	-	56.8%	51.0%	47.6%	55.0%	54.5%	38.9%
Rate of dividend	-	3.8%	5.0%	6.0%	6.0%	7.0%	7.0%

P R I V A T E D E V E L O P M E N T C O R P O R A T I O N O F T H E

P H I L I P P I N E S

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PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

(PDCP)

September 7, 1965

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

I. THE COMPANY

1. The Private Development Corporation of The Philippines (PDCP). PDCP was incorporated on February 4, 1963 with a capital stock of ₱ 25 million. Its inception dates back to the beginning of 1961 when the possibility of a private development finance company was discussed between the then President of the Republic and Mr. Knapp. Mr. Woods was subsequently engaged by the Bank as a special consultant and in a report in June 1962 he recommended the creation of what was to become the Private Development Corporation of the Philippines.

Purpose and Powers

2. According to its statement of Operating Policies, a copy of which is shown in Annex 1, PDCP shall assist in the development of private productive enterprises in the country by providing medium, long term, and equity financing to such enterprises, assist in the development of a wider market for corporate securities, and encouraging wider distribution of ownership in such enterprises.

Resources

3. Share Capital and Reserves. The authorized and issued share capital totals 2.5 million shares of ₱10 each (or ₱25 million) divided into ₱17.5 million (70%) Class "A" shares which may be owned only by citizens of the Philippines or corporations in which 60% of the share capital is owned by such citizens. The remainder of the shares, ₱7.5 million Class "B" shares, may be held by any person or entity.

4. Up to the end of 1964, PDCP had retained all of its earnings as reserves and these totalled ₱4.2 million at December 31, 1964.

5. The AID loan is a local currency loan, fully paid-in, which has a maturity of 30 years including 15 years of grace and carries an interest rate of 1/2 of 1% per annum. In the event of liquidation any portion of the AID loan outstanding and not due for payment will be subordinated to the equity. The AID loan proceeds are maintained as a separate fund and can only be used for procurement of goods and services of Philippine origin. Individual loans from this fund exceeding ₱500,000 require AID approval.

Currency Unit: peso (₱)
1 peso =U.S.$0.256
1 U.S. dollar =₱ 3.90
1,000,000 pesos=U.S.$256,000

6. The IBRD loan is for \$15 million equivalent in various currencies. The Philippine National Bank is the initial borrower and it in turn on-lends the proceeds to PDCP. The loan is guaranteed by the Republic of the Philippines and the interest rate is the IBRD's current rate when each part of the loan is credited to the loan account. In addition to the IBRD's interest rate, PNB charges PDCP an additional 0.443% for servicing the loan. Under the Loan Agreement, the lower limit for an individual sub-project is \$50,000 and any project over \$100,000 must be submitted to the IBRD for prior approval. PDCP does not carry the foreign exchange risk on this loan but passes the risk onto the sub-borrower.

7. Thus at the end of 1964, PDCP had the following resources:

Share Capital:	"A" shares	₱17,500,000
	"B" shares	₱ 7,500,000
		₱25,000,000
Reserves		₱ 4,200,000
AID loan (fully paid in)		₱27,500,000
IBRD loan		\$15 million equivalent

Organization

8. Ownership. There are approximately 870 "A" shareholders, but two-thirds of the total value of "A" shares are held by 65 principal "A" shareholders, each holding more than 10,000 shares. Included among the "A" shareholders is the International Finance Corporation which holds 80,000 shares or approximately 3.2% of PDCP's total paid-in share capital. PDCP's "B" shares are held by 19 foreign financial institutions, some of which have offices in Manila, and an additional 44 firms and individuals. The 19 foreign financial institutions hold ₱7 million of the total "B" shares outstanding worth ₱7.5 million.

9. Board of Directors. PDCP's Board consists of 11 members, 8 of whom must be citizens of the Philippines and holders of Class "A" shares. These Class "A" Directors are elected solely by Class "A" shareholders while the remaining 3 are elected by the Class "B" shareholders. The shareholders have agreed that as long as any portion of the IBRD loan is outstanding, one of the 8 Philippine Directors shall be PNB's nominee.

10. The Chairman of the Steering Committee which set up PDCP was Mr. Francisco Ortigas and he became the first Chairman of PDCP. In March 1964 Mr. Ortigas left the Board because of health reasons and was replaced by Mr. Montinola who is the Chairman and President at the present time. Mr. Rafael S. Recto, President of the Philippine National Bank, is that organization's representative on PDCP's Board. The other "A" directors are representatives of industrial and financial institutions in the Philippines.

11. PDCP's By-laws call for an Executive Committee of 5 members, including the Chairman and at least one director representing Class "B" shareholders. The Committee meets upon the request of the Chairman or at least two of its members and has full board powers, except the power to inaugurate changes in policies or operating procedures. In practice the Board meets, on average, twice a month. Any action taken by the Executive Committee must be reported to the Board. PDCP has so arranged the Executive Committee that it can be called into session automatically when there is not a quorum of the full Board.

12. Management and Staff. Until March 1, 1965 PDCP's top operating management consisted of an Executive Vice-President, Mr. Kirk Paulding, and a Vice President-Treasurer, Mr. Vicente Jayme. Although executive authority resides in the Chairman who is also President, its authority has in fact been delegated to the Executive Vice President. Mr. Paulding's contract expired on March 1, 1964 and the Board designated Mr. Jayme as Executive Vice President and he assumed the position on March 1. The position from which Mr. Jayme moved up to Executive Vice President has not been filled.

In addition to the Executive Vice President, PDCP employs 20 professional staff and 26 clerical and supporting staff.

II. OPERATIONS

Operating Policies

13. PDCP's operating policies which are given in Annex 1 stipulate that it will assist in the development of private productive enterprises by the provision of medium and long-term loans, equity financing, and assistance in the development of a capital market. A privately controlled company is defined as one in which Government holds less than one-third of the voting shares. PDCP will not normally grant, to any single enterprise, aggregate assistance exceeding 10% of the Corporation's total assets. It will not seek to control any of the enterprises it finances. Total assistance to a single firm will not generally exceed 50% of the total assets of the enterprise. It is also the Corporation's intention to retain at least 50% of its net earnings in a reserve account until such account reaches ₱3 million, after which time it may distribute up to 80% of net profit.

Lending Activity

14. During 1964, which was the first full calendar year of operation, PDCP provided assistance to 20 projects for ₱38 million (about $10 million equivalent) as indicated below.

	Foreign Currency	+ Pesos	= Total	%
Ceramics	$ 88,000	385,000	737,000	1.9
Electric Power (2)	473,800	167,000	2,062,200	5.3
Fishing (Deep Sea)	-	250,000	250,000	0.7
Food Processing	-	3,000,000	3,000,000	7.9
Mining	1,710,000	-	6,840,000	18.0
Nylon Yarn	203,600	-	814,400	2.1
Office & School Supplies	-	450,000	450,000	1.2
Paint	-	350,000	350,000	0.9
Pigment & Resin (2)	150,400	493,000	1,094,600	2.9
Plastics	66,808	270,000	537,232	1.4
Precision Map-Making Equip.	60,000	-	240,000	0.6
Steel Pipes & Tubes	-	1,500,000	1,500,000	3.9
Structural Steel	63,030	647,880	900,000	2.4
Sugar Refining	1,200,000	3,500,000	8,300,000	21.9
Sugar Milling (2)	436,874	1,739,100	3,486,596	9.2
Tugboats & Bulk Carriers	1,785,720	-	7,142,880	18.8
TV Picture Tubes	50,000	150,000	350,000	0.9
	$6,288,232	P12,901,980	P38,054,908	100.0%

15. About two-thirds of total approvals in 1964 were for foreign currency loans. PDCP has also been dealing with quite large projects as indicated by average assistance per project of about $500,000 equivalent. Only four out of the 20 project loans were for less than $100,000 equivalent. The range of industries financed is quite broad; 3 of the 20 projects were in the sugar industry and since these were sizeable projects, they accounted for approximately one-third of total approvals by value in 1964.

16. The maturities of PDCP's loans have ranged from 4 to 12 years. PDCP charges an effective rate of 9-1/2% for both local and foreign currency loans, and on the latter the borrowers assume the exchange risk.

Equity Investments

17. As of December 31, 1964, PDCP had not made any direct equity investment, although some of its loans carry conversion options.

Underwriting

18. PDCP hopes to be able to be of assistance in developing the capital market in the Philippines and has so far underwritten one debenture issue. This one operation provided PDCP with useful experience for future underwritings and made it aware of the institutional deficiencies in the Philippines regarding the issue of new shares. One such deficiency is the lack of security sales organizations and PDCP has undertaken to create within its own staff such a capability.

Promotion

19. PDCP's promotional activity will largely be in the area of assisting entrepreneurs to "put together" their projects although PDCP already has shown some interest in the identification and promotion of new projects and is actively working on several such projects. However, it is too early to expect any results from these promotional activities, since they have been limited to the amount of staff time that could be devoted to them.

III. FINANCIAL RESULTS

Balance Sheet

20. Summary balance sheets for 1964 are given in Annex 2. As PDCP has only recently started operations the bulk of its assets are held in short-term investments. Only about ₱13 million out of total assets of about ₱63 million were in long-term loans and investments at the end of 1964. As noted above, approvals totalled about ₱40 million at the end of 1964, and thus about three-fourths of these approvals had yet to be disbursed.

21. Because of the tight short-term credit situation in the Philippines, PDCP has found profitable short-term investments for funds which are not yet required for project loans or investments. At the end of 1964, these short-term investments totalled about ₱46 million ($11.8 million equivalent) and consisted of bankers acceptances and financial and industrial utility paper. These investments yield over 9% or about the same as the yield on PDCP's long-term project loans.

22. At the end of 1964, PDCP held ₱1.55 million of debentures, partially convertible, resulting from its initial underwriting operation. These debentures yield 12% and are therefore a profitable investment.

Profit and Loss Accounts

23. PDCP's income statements are given in Annex 3. Gross income in 1964, arising almost entirely from short-term investments, was equivalent to about 11% of average total assets. Administrative expenses totalled about ₱1.1 million (US$280,000 equivalent) or about 2% of average total assets. Financial expenses, mainly the 0.5% interest charge on the AID loan, were only equivalent to 0.5% of average total assets; and thus PDCP earned a net spread of about 8.5% on its assets. With leverage on share capital of about 1.3, the before-tax return on share capital was about 19%. After taxes amounting to about 28% of taxable income, the return on share capital was about 14%.

Dividends and Reserves

24. PDCP retained all of its earnings up through the end of 1964 and reserves at that time amounted to ₱4.2 million, giving a book value of ₱11.6 per share. At the Annual General Meeting held on March 16, 1965, a 2%

dividend was declared for the first quarter of 1965. PDCP's shares are listed on the Manila Stock Exchange. However, the volume of trading has not been great and what trading there has been was done at or near par.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Statement of Policies approved by the Board on March 17, 1964

1. Economic Role of PDCP. The Corporation shall assist in the economic development of the Philippines. To this end it will assist in the development of private productive enterprises in the country by providing medium, long-term and equity financing to such enterprises, assisting in the development of a wider market for corporate securities, encouraging a wider distribution of ownership in such enterprises.

2. Privately-Controlled Industrial and Other Productive Enterprises. The term "privately-controlled" as used in the Articles of Incorporation will be taken to mean all enterprises which are privately operated and managed, and where private ownership is of controlling interest (at least 2/3 of the voting stock). The mere fact that such firms have secured loans from government financial institutions, or that the government holds a minority equity position (up to 1/3 of the voting stock) will not exclude such firms from receiving financial assistance from the Corporation.

3. Non-Control of Enterprises Financed. The Corporation will not seek to control any of the enterprises that it finances and will not participate in the management of such firms.

4. Diversification of Investments. In managing its portfolio, the Corporation will endeavor to diversify its investments - in terms of the type of industries being financed, the location of such industries, and as to whether funds are used for medium or long-term loans, or for equity investments.

5. Maximum Investment.

a) The Corporation shall not make an investment (including loans and equity participations) in any one Investment Enterprise, if at the time or as a result thereof the total investment (as so defined) of the Corporation in such Investment Enterprise shall exceed an amount equivalent to 10% of the Corporation's total assets.

b) In general, the Corporation's investment (loans and equity participation) in any one investment enterprise shall not exceed 50% of the total assets of the investment enterprise including PDCP's investment.

6. Retirement of Equity Investments. The Corporation looks upon its equity investments more as an assistance to productive enterprises and will seek to retire and dispose of its shares, as soon as this becomes feasible and fair price can be obtained for its shares.

7. Dissemination of Ownership. The ownership of the Corporation will be disseminated as widely as possible, and reasonable efforts will be taken

to prevent any one person, entity, or group from dominating the ownership or management of the Corporation.

8. Reserve Policy. It will be the policy of the Corporation to build and maintain adequate reserves.

9. Criteria in Processing Loan Applications. Loan applications filed with the Corporation will be processed on the basis of their economic and business merits. The projects will be analyzed as to their economic desirability, technical feasibility, financial soundness, management competence, etc., to insure that only sound productive ventures are financed.

10. Technical Assistance to New Enterprises. The Corporation will endeavor to provide the necessary technical services to the enterprises being financed, whenever necessary.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Summary Balance Sheets
(in millions of pesos)

ASSETS	Dec. 31, 1963	Dec. 31, 1964
Cash	0.72	2.16
Short-term investments	44.02	46.51
Receivables	0.27	0.92
Equipment and property (net)	0.19	0.18
Organization expenses 1/	0.46	0.39
Project loans	0.50	11.08
Investment 2/		1.55
TOTAL ASSETS	46.16	62.79
LIABILITIES AND EQUITY		
Payables	0.34	1.43
IBRD loan	-	4.66
Paid-in share capital: "A"	12.15	17.50
"B"	5.42	7.50
Total paid-in capital	17.57	25.00
Retained earnings	0.75	4.20
Net worth	18.32	29.20
Subordinated AID loan	27.50	27.50
Equity plus subordinated loan	45.82	56.70
TOTAL LIABILITIES AND EQUITY	46.16	62.79

1/ Organization expenses are being amortized over a 5-year period.
2/ FIFC Debentures purchased by PDCP under an underwriting agreement.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Summary Statements of Income
(in millions of pesos)

	Dec. 31, 1963 (5 months)	Dec. 31, 1964 (12 months)
INCOME		
Interest income	1.34	4.83
Discounts, commissions, fees	0.01	1.29
TOTAL INCOME	1.35	6.12
EXPENSES		
Staff remuneration	0.14	0.50
Other operating expenses	0.13	0.61
Total administrative expenses	0.27	1.11
Interest and financial expenses	0.06	0.23
TOTAL EXPENSES	0.33	1.34
Income before tax	1.02	4.78
Less: estimated tax	0.27	1.34
NET INCOME 1/	0.75	3.44

Profit and Expense Ratios

	(5 months)	(12 months)
Administrative expenses as percent of year's average total assets	1.17%	2.0%
Net income as percent of year's average net worth	8.3%	12.4%

1/ Entire amount retained as reserves.

T E O L L I S T A M I S R A H A S T O O Y (T. R.)

(Industrialization Fund of Finland)

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TEOLLISTAMISRAHASTO OY (TR)

Industrialization Fund of Finland

September 7, 1965

TEOLLISTAMISRAHASTO OY (TR)

I. THE COMPANY

Purpose and Powers

1. TR was established in 1954 to provide long-term credit mainly to small industries. During the first years of operation, TR made loans through its shareholding banks who were responsible for screening applications and assumed the risk of repayment. By the end of 1961, it had committed all of its resources amounting to Fmk 12 million ($3.7 million) and its operations began to decline in 1962. In the latter part of 1963, TR was reorganized, its resources enlarged and its method of operation changed from indirect lending to the forms of direct financing normally undertaken by a development finance company.

Resources

2. After the reorganization the share capital consisted of Fmk 6 million Series-A shares, of which Fmk 2 million were subscribed by foreign shareholders and the IFC, and Fmk 9 million Series-B shares subscribed by the Bank of Finland.

3. Each Series-B share has one-tenth of the voting power of a Series-A share. Series-B shares are entitled to non-cumulative dividends of up to 3% after interest has been paid on all debentures and loans and after Series-A shares have received a dividend of 5%. They are subordinate to Series-A shares in the event of liquidation. Each year one-thirtieth of Series-B shares are to be "redeemed" out of profits before taxes. In accordance with Finnish law, such redemption will not result in a reduction of the TR 's share capital and their value will continue to be included in the share capital appearing on the balance sheet, being in effect a reserve account.

4. Long Term Debentures. There are two debenture issues, both counted with equity for the purpose of defining the limit to TR 's borrowings in the World Bank's loan agreement:

(a) Debentures of 1956 - These amount to Fmk 4.5 million (of which about 60% are now held by the Post Office Savings Bank and 40% by other Finnish shareholders), carry an interest rate of 6% and mature in the year 2000. These debentures are senior to TR 's share capital and to the 1963 debentures, but junior to its other liabilities.

(b) Debentures of 1963 - These amount to Fmk 5.5 million (purchased by the Bank of Finland and the Post Office Savings Bank), bear

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Currency: Markka (Fmk)
U.S. $1 = 3.20 Fmk
1 Fmk = 31 U.S. cents
Fmk 1 million = U.S. $310,000

interest at 5% per annum and will be repaid in 10 annual installments starting in 1994. They rank senior to TR 's shares, but junior in liquidation to all other liabilities including the debentures of 1956.

5. Government Advances. The only government advance to TR is the Fmk 6 million loan of August 10, 1955. This loan bears interest at 4-1/4%. Repayment is in three installments of Fmk 2 million each on January 3 of 1964, 1965 and 1966.

6. IBRD Loan. A World Bank loan of $7 million, guaranteed by the Republic of Finland, was extended to TR under an agreement signed on September 18, 1963. The amortization schedule is a composite of the repayment schedules of the sub-loans, not to extend beyond 15 years from the time when TR's loan account is credited. The interest rate is determined separately for each part of the loan at the time such part is credited to the loan account. (All credits have had an interest rate of 5-1/2%). A total of $6,843,750 out of the loan had been committed by TR as of the end of December 1964, and the entire amount by the end of February 1965.

7. In accordance with its operating policy, the foreign exchange risk arising from the Bank loan is not borne by TR but is either passed on to TR 's borrowers or to the government. The government has agreed to bear the risk for any loan up to Fmk 500,000. For any amount of an individual loan over this limit, the foreign exchange risk is passed on to the borrower. TR 's clients have not been charged a fee for the exchange risk protection provided by the government. However, TR 's Board of Directors examines each case before a government guarantee is granted to a borrower. It is the feeling of the Board that no such guarantee should be provided if the borrower's financial position is sound enough to enable it to bear the foreign exchange risk itself. Also, enterprises with sufficient export sales are considered not to need such protection in view of their foreign exchange earnings. Of the lending using the proceeds of the Bank loan, 48% was covered by the government guarantee.

8. Loan from Finnish Shareholders. In connection with the reorganization, the Series-A shareholders undertook to provide TR with a loan of Fmk 7.5 million at an interest rate of 6% per annum without commitment charge, and with a maturity of 15 years. The need for calling upon the funds did not arise until May 1965. Since other resources are nearly exhausted, the shareholders' loan will be drawn down rapidly.

9. Borrowing Limitation. The IBRD Loan Agreement dated September 18, 1963, provides that TR will not incur any debt if the aggregate amount of unsubordinated debt incurred and then outstanding shall exceed an amount equal to three times equity plus the subordinated debentures. As of the end of December 1964, the ratio was 0.44 to 1. After the Bank loan of $7 million and the shareholders' loan of Fmk 7.5 million have been fully drawn down, the ratio would be 1.35 to 1.

Organization

10. Ownership. All outstanding Series-B shares, representing 13% of the voting rights of all shares, are held by the Bank of Finland. The Series-A shares are held by 29 Finnish and foreign institutional shareholders and IFC. The Finnish shareholders, consisting of the Post Office Savings Bank and 16 private banks and institutions, hold Fmk 4 million Series-A shares with 58% of the voting rights. The foreign shareholders, consisting of 12 banks in England, Germany, the Netherlands, Sweden, France and the U.S.A., hold Fmk 1,498,000 with 22% of the total voting rights. IFC holds 502 shares totalling Fmk 502,000 having 7% of the voting rights. As Series-B shares are retired, the voting power of the private shareholders will gradually increase. After complete redemption of Series-B shares, the private shareholders will have 88% of TR 's voting power.

11. Board of Administration and Board of Directors. The Articles of Association provide for a Board of Administration of 15 to 18 members, elected by the shareholders to serve for three-year terms and a Board of Directors of 6 to 8 members, appointed by the Board of Administration, to serve for three years also. The Board of Administration is the policy-making body. At present it consists of 15 members, representatives of high standing from the Finnish financial community, and is headed by Dr. Klaus Waris, the Governor of the Bank of Finland, as Chairman, and Mr. Tauno Angervo, General Manager of Pohjola Insurance Company, as Vice-Chairman. There are two Government officials on the Board: one from the Ministry of Commerce and Industry and the other from the Ministry of Finance, who also represents the Post Office Savings Bank. The Board of Administration meets twice a year.

12. The Board of Directors is the decision-making body, vested with full powers to manage TR 's affairs. There are at present eight members, consisting of five top executives of large shareholding private banks, a representative of the Bank of Finland, TR 's General Manager and the Chairman of the Board, Mr. Teuvo Aura, who is the Chief General Manager of the Post Office Savings Bank. The Board meets usually once every one or two weeks. Its formal approval or disapproval is required for all applications. In practice, the Board seldom makes major changes in the General Manager's recommendations, although from time to time it may suggest modifications in such matters as the term of the loan, the security or the amount of funds being raised from other sources. The Board also gives formal approval to all proposed staff appointments and salaries.

13. Executive Committee. For the purpose of strengthening the management, in November 1963 the Board of Directors created an Executive Committee composed of Mr. Veikko Makkonen, a member of the Board of Directors of the K.O.P. Bank (one of the largest commercial banks) and Mr. Onni Sarokari, a member of the Board of Directors of the Central Bank of Savings Banks, together with Mr. Konttinen, the General Manager of TR .

This Committee was to review all loan applications before their submission to the Board of Directors and all reports on TR's outstanding investments. Recently, the Committee has not met regularly and has become virtually inoperative. Its inactivity is attributable to the Board's satisfaction with the General Manager and the staff which he has built up since the reorganization.

14. Management and Staff. Mr. Seppo Konttinen has been TR's General Manager since March 1963. Formerly he was with the Central Bank of Cooperative Credit Societies as Legal Counsel.

15. Mr. Jaakko Lassila, a Secretary of the Bank of Finland, and a member of the Board of Directors of TR, and a former Alternate Executive Director of the World Bank and IFC, was appointed Special Advisor to the General Manager by the Board of Administration on January 28, 1964. Mr. Lassila is in frequent contact with the General Manager on important operations and policy matters.

16. The present staff includes two general officers, five financial analysts, one engineer, one accountant, one translator, one secretary and two clerical assistants. All of the staff members were recruited during the past two years, half during the latter half of 1964.

17. The staff have rendered considerable help to many applicants in project preparation. As TR's volume of business grows, it is evident that additional staff will be needed to cope with the anticipated work load. The management is quite aware of this need and is trying to recruit two more engineers without delay and at least two more financial analysts during the next few months.

II. OPERATIONS

Operating Policies

18. A statement of policies to be followed by TR was approved by the Board of Administration on September 3, 1963. A copy of this statement is given in Annex 1. In accordance with this statement assistance has been extended mainly to medium-sized concerns in newer industries. All operations have fallen within the limits prescribed in the statement, namely:

a. Commitments in any single enterprise are limited to 15% of the aggregate of TR's share capital, reserves and the outstanding amount of the debentures of 1956 and 1963. As of the end of 1964 this limit amounted to about Fmk 3.78 million; the largest commitment has been for Fmk 3 million.

b. Equity investments in any single enterprise are limited to (1) 10% of TR's paid-up share capital and reserves and

(2) 25% of the voting shares of the enterprise concerned.

c. Total equity investments are limited to the amount of TR's paid-up share capital and reserves. This amounts to about Fmk 15 million and the equity investment in any one enterprise is limited, accordingly, to Fmk 1.5 million. The only equity investment to date has been for Fmk 100,000.

19. TR does not provide finance to government-owned industries, to industries heavily subsidized by the government, such as the dairy industry, or to companies which are closely connected to the affairs of a political party, such as certain printing companies. As a rule it will not consider assisting wholly-owned subsidiaries of large companies or of foreign companies. It would, however, consider assisting a foreign-owned enterprise if this would open the possibility of Finnish participation. TR would like to give additional emphasis in its future operations to those companies which are likely to expand their foreign sales and thus increase foreign exchange earnings or to those whose products result in foreign exchange savings through import substitution.

20. TR prefers to provide no more than about one-third of the total financial requirement. It is concerned with promoting sound financial structures in the companies it assists and endeavors to see that the debt does not exceed twice the amount of equity. In many cases, it insists that the owner raise additional share capital or put in additional subordinated personal loans. Most of TR's loans are secured by a first mortgage on fixed assets or by a bank guarantee.

21. Procedures: Appraisals. After preliminary discussion with the General Manager, prospective borrowers submit a preliminary application (four pages plus Balance Sheets for the last five years). This is usually reviewed within one week. If the project is considered to be promising, the applicant is asked to submit a more detailed application (18 pages). The project is assigned to one of the six members of the Project Evaluation Department. Before the appraisal report is submitted to the Board of Directors, it is discussed at a staff meeting.

22. If IBRD approval of the project is required, after the project is approved by the Board, a more detailed written appraisal is prepared in English for submission to the Bank. This usually contains more information on such subjects as markets, competition and sources of raw materials. Most of this additional information is already known to the members of the Board and so has not been included in the Finnish appraisal report.

23. Follow-up Procedures. So far TR has had to do very little follow-up work since very few projects have been completed. Progress reports are obtained from borrowers fairly promptly (on TR's forms) every three months during the construction phase and every six months after completion of construction.

24. External Relations. TR's relations with the Bank of Finland and the government have been very good. Both were helpful in making TR's reorganization a success. The government has provided with no charge a guarantee facility for the foreign exchange risk of TR's loans, permitted a tax benefit from retirement of Series-B shares from profits before taxes and exempted TR from the limitations of 20% foreign ownership and voting power.

25. The newly established Governmental Guarantee Institute for Small Industries has been cooperating with TR very closely in appraising applications from smaller concerns seeking TR's credits and requiring the Institute's guarantee since they would otherwise be unable to provide adequate security for a loan. Without such cooperation many small enterprises would not have been able to obtain funds they needed for worthwhile investment projects. Up to the end of 1964, this form of guarantee has been extended to 15 TR loans amounting to Fmk 4,305,000.

26. Recently, the Ministry of Industry and Commerce asked TR to administer the program of Government Small Business Loans. This program is intended to benefit factories employing no more than 50 workers and having sales turnover of less than Fmk 1 million. After careful consideration, TR declined this request because of the heavy appraisal work involved in administering a program covering a large number of credits of very small amounts.

Lending Activity

27. Summary. About half of TR's operations have been based on use of Bank funds, 53 of the 119 loans approved up to the end of 1964, committing almost all the first Bank loan, $6,843,750 (Fmk 21,900,000) out of $7 million.

APPROVALS
(in million of Fmk)

		Oct. - Dec. 1963	1964
Loans:	Domestic Funds	2,280	19,382
	1st IBRD Loan	5,500	16,400
Equity Participation		-	100

DISBURSEMENTS
(in million of Fmk)

Loans:	Domestic Funds	-	14,600
	1st IBRD Loan	-	7,000

28. TR has limited the use of the Bank loan to financing machinery and equipment although no such restriction is required by the Loan Agreement with the Bank or by regulations governing TR's operations. TR has used its other resources for financing construction of buildings and permanent working capital as well as procurement of machinery and equipment.

29. TR's loans are made to meet the cost of goods for qualified projects without reference to the foreign exchange needs. The lack of distinction between foreign and domestic procurement, so far as availability and use of funds is concerned, is recognized in the Bank's loan agreement which does not restrict the use of its funds to financing foreign exchange costs. A significant proportion of the industrial investment goods in Finland is either domestically produced or made from imported components. About a third of the machinery and equipment financed by TR has been manufactured in Finland.

30. Interest Rates. TR's interest rates are not high in terms of the prevailing rates for short-term loans and government bonds or when the rate of price increases in recent years is considered; however, they are higher than the rates charged by many Finnish financial institutions. TR's interest rates vary from 7-3/4% to 8-1/2%, except for one earlier loan made at 7-1/2%. In determining the rate of interest to be charged in each case, consideration is given to the creditworthiness of the borrower, the degree of risk involved in the financing of the project and the degree of foreign exchange risk to be assumed by the borrower. Generally, if the borrower is paying a bank guarantee fee, which is usually 3/4%, then the 7-3/4% rate is charged; otherwise, the higher rate is charged.

31. A commitment charge of 1% has been collected by TR since September 1, 1964, on the undrawn portion of all loans extended. Before that date, TR charged a commitment fee of 3/4% only on the loans made from the proceeds of the IBRD loan.

32. Index Linkage. TR's agreements for loans using Finnish resources contain a provision which would allow TR to link interest and principal of the loan to one-fourth of the increase in the official cost-of-living index. These provisions have not been brought into force and can only be a decision of the Board of Administration to collect index raises on all the domestic loans. In such event the increase would not be applied retroactively.

33. Duration of Loans. The average final maturity of the loans is 10.6 years, if weighted by amounts, 11.6 years. Of the total amount committed, 83% has a term of nine years or more; 26% has a term of 14 to 15 years. The amortization period of each loan includes a grace period of up to two years.

34. Size of Loans. As a rule, TR would not like to make loans of less than Fmk 150,000, and loans of this size are probably not very profitable.

The smallest loan to date has been for Fmk 80,000 but smaller loans may be made in the future. TR is sometimes criticized in Finland for failing to provide smaller loans; however, other sources for such lending are available. Small loans, theoretically up to Fmk 120,000, are available for small enterprises from the Small Business Loans Bureau of the Ministry of Commerce and Industry. The average size of all the loans is Fmk 367,000 ($115,000). Excluding the two largest ones, the average would amount to Fmk 334,000 ($104,000).

35. Geographical Location. The location of projects assisted has followed closely the dispersion of industry in Finland. Four-fifths of the loans granted have been for projects in Uudenmaan, Turun-Porin, Hameen and Vaasan Provinces, all in the southern part of Finland. One-third of TR's loans were made for projects in Helsinki, in Uudenmaan Province, by far the most important industrial area in Finland.

36. Distribution of Loans by Industry. TR's lending is fairly well diversified among different industries and its pattern has generally paralleled developmental activity in the various industrial sectors apart from the traditional industries. During the 15-month period from October 1963, when TR began making long-term loans, to the end of 1964, TR received 361 loan applications for a total amount of Fmk 109,522,000. From these applications, 119 loans amounting to Fmk 43,562,000, or 40% of the amount applied for, were granted.

37. The engineering industry has received the largest amount of financing, with 26.6% of the total. Furniture making follows with 18.6% and textiles with 11.2%. The other industrial classifications have each received less than 10% of TR's financing.

38. Nine loans amounting to Fmk 7,015,000 (16% of the total amount) have been for the establishment of new enterprises, and 110 loans totalling Fmk 36,547,100 (84%) for existing ones. A large number of existing medium-sized and small industrial enterprises urgently need to invest in cost-reducing expansions and modernizations in order to increase their competitiveness. In view of the strong demand for long-term capital on the part of these enterprises, TR's pattern of lending in this respect is not expected to change drastically. As to the form of enterprises assisted, 89% of the total amount of TR's loans was granted to joint stock companies, with individual proprietorships, general partnerships and limited partnerships sharing the remainder about equally.

Equity Investments and Underwriting

39. The only equity investment approved by the Board of Directors since the reorganization is Fmk 100,100 for the purchase of 3,850 new shares of Huhtamaki-yhtyma Oy. The project is a part of the joint financing by TR and IFC of the project of Huhtamaki's Leiras Pharmaceutical Division. In addition to its equity participation, TR extended a loan of Fmk 900,000.

IFC invested Fmk 320,000 ($100,000) for the purchase of 12,300 common shares of the company and extended a 10-year loan of $700,000.

40. The conditions which have severely limited the development of an active capital market and have made the issue of share capital a relatively unattractive means for a company to raise funds are likely to continue to restrict the opportunities for TR to make equity investments. However, TR continues to attach great importance to its objective of developing the capital market and it has in collaboration with other institutions made various recommendations to the government for amending the rules and regulations which tend to hinder the development of a good climate for equity investment. Only after such efforts have proved successful will TR be able to provide permanent risk capital to industries on any significant scale and help widen the distribution of industrial securities in Finland.

III. FINANCIAL RESULTS

Balance Sheet

41. TR's balance sheets as of December 31 for 1963 and 1964 are shown in Annex 2.

42. The Balance sheet as of the end of 1963 shows the position of TR soon after its reorganization. The additional resources obtained by TR as a part of the reorganization had not been put into use. The first disbursement of loans approved in the latter part of 1963 was not made until February 1, 1964. Therefore, current assets, mainly bank deposits and temporary investments, at the end of 1963 accounted for 71% of total assets.

43. At the end of 1964, after 15 months of operations in its present form, TR's portfolio of loans outstanding had increased by Fmk 20 million, financed mostly by a reduction in temporary investments and cash and by drawings in the IBRD loan, which commenced in June 1964.

Profit and Loss Accounts

44. Income statements showing TR's earnings for 1963 and 1964 are given in Annex 3.

45. The gross income (receipts) of Fmk 2,300,000 for 1964 represented an increase of 42% over the previous year, although operations for the two years are hardly comparable. Profit before taxes increased 61%; however, as explained below, due to adjustments made in TR's accounting methods to eliminate certain hidden reserves, the net profit shown for 1964 is less than that of 1963.

46. According to the accounting practices of Finnish financial institutions, permitted under existing regulations, accrued interest receivable at the end of an accounting period need not be fully reported and the profit may thus be understated. The tax on this portion may be postponed, in effect, as long as the amount of accrued interest is maintained at the same or a rising level. At the end of 1963, the cumulative unreported accrued interest amounted to Fmk 280,560 of which Fmk 265,385 represented the additional understatement for the year 1963. At the end of 1964, the cumulative unreported accrued interest amounted to Fmk 179,270 and the Fmk 101,290 reduction in the hidden reserves was treated as taxable income in 1964. The statements above and in the appendix have been adjusted so that income reflects operating results, but the tax shown is the tax actually paid. If TR had kept its books and published its accounting statements according to standard accounting procedures elsewhere, i.e. without keeping the hidden reserves, more taxes would have been paid in 1963 and the real net profit after tax for 1964 would not have been lower than that of 1963. If the tax paid in 1963 and 1964 had been based on the adjusted income figures, the net profits would have been Fmk 479,000 in 1963 and Fmk 605,000 in 1964.

47. Administrative expenses amounted to only 1% of the average total assets employed during the year. Financial expenses were equivalent to 2.4% of the average assets during the year. The average cost of funds to TR during 1964, including a 4% dividend on the Series-A shares, was about 3-1/3%. Its temporary investments yielded 6-1/2% and these accounted for about 55% of the gross income in 1964. Its average interest rate in long-term loans was just over 8%. The spread between cost of funds and return on funds was thus just under 4%, which is more than many similar institutions enjoy but reasonable for the scale of operations. As pointed out above, the tax rates in Finland on company earnings are high but the tax incidence was mitigated by the exemptions allowed in the form of bad debt set aside and redemption of Series-B shares, together representing 46% of the gross income.

48. TR, like other companies in Finland, is subject to three income taxes: the State tax, which was 38% in 1963, 45% in 1964 and will be 48% on undistributed profits and 42% on distributed profits in 1965, the Helsinki municipal tax of 12% and the church tax of 1%.

49. The net profit of Fmk 483,000 for 1964 represents a return of 3.2% on all share capital and a return on Series-A alone of 8.1%. Using the latter measure of return on the shareholders' investment is probably justifiable since the Series-B shares represent subsidy money and it is not now thought that dividends would be paid on them.

50. As a special tax exemption privilege for TR, the government allows TR to redeem out of profits before taxes Fmk 300,000 of the Series-B shares. In 1964 this allowance meant that about 30% of TR's profits were exempt from all income taxes.

Dividends and Reserves

51. In accordance with Finnish banking practice, TR allocates annually to a reserve for bad debts an amount corresponding to 0.6% of its outstanding loans. This allocation is made from profit before tax and will continue to be made until the reserve for bad debts amounts to 8% of the total outstanding loans. There have been no defaults in repayment on loans made since the reorganization but repayments have only begun to fall due. TR knows of no cases that are likely to go into default.

52. After allocation to the bad debt reserve, and after annual redemption of Series-B shares, TR sets aside each year, in accordance with its Articles up to 15% of its net profits into the statutory reserve, until it reaches 25% of its share capital (including the redeemed portion of Series-B shares) and thereafter 10% of its net profits until the statutory reserve amounts to 50% of the share capital.

53. A dividend of up to 5% on Series-A shares may be paid after redemption of Series-B shares and allocations to reserves. If after the above distribution of dividends there remains any unappropriated profit, a dividend of 3% must be distributed on Series-B shares. TR is paying a dividend of 4% on Series-A shares for the year 1964, and no dividend on Series-B shares. The Articles are to be amended in due course to allow TR to pay a higher dividend on Series-A shares and to allocate greater amounts to reserves before payment of dividends on the Series-B shares.

54. TR has decided to eliminate all hidden reserves by the end of 1965.

55. TR's shares are not listed on the Helsinki Stock Exchange. Since TR's reorganization, no sales of its shares have taken place.

TEOLLISTAMISRAHASTO OY (TR)

Statement of Policies approved by the Board September 3, 1963

The Industrialization Fund has been established to promote the establishment of new and the expansion of existing small and medium-size industrial enterprises through loans and other forms of investment and to assist in the development of a capital market in Finland. The Fund will conduct its operations in accordance with sound investment banking practices.

Scope and Nature of Operations

1. The Fund will invest in small and medium-sized industrial enterprises in Finland. Proposals for the financing of projects in the fields of agriculture and service industries will be considered only in exceptional cases where such projects are closely associated with or are likely to contribute directly to the development of industry.

2. It will invest only in enterprises which are privately managed and operated and will as a rule not consider projects requiring finance in amounts less than Fmk 150,000.

3. The Fund will invest in projects which will contribute to the economic growth of the country. Projects will be judged on the basis of their economic, technical and financial merits. The Fund will finance only projects that will be soundly managed and appear on careful investigation to be financially sound and economically and technically well conceived.

4. The Fund's loans and other investments will be used to finance fixed assets and, where appropriate, permanent working capital. The Fund will not make short-term credits and will not engage in operations which are primarily devoted to the financing or refinancing of exports or imports.

5. The Fund will provide financial assistance in any form or combination of forms it considers appropriate to its clients' and to its own interests. It will consider its clients' needs for both loan and equity financing and will be prepared to offer not only these, but other types of assistance such as loans with equity features, loan guarantees and the underwriting of new securities issues.

6. The Fund will be prepared to provide such technical assistance and advice as its clients may require in the formulation, execution and operation of their projects.

industrial securities. The Fund will, where possible, engage in joint operations with other financial institutions both domestic and foreign. It stands ready and will actively endeavor to sell its own bonds when it has need of such resources. It will sell its investments to local and foreign private investors, whenever it can do so on appropriate terms.

7. The Fund will study measures in the fields of taxation, fiscal policy, foreign exchange regulations and accounting practices necessary to assist the development of the capital market and will, in cooperation with other interested entities in the public and private sector, make appropriate recommendations for the adoption of such measures.

Policies Regarding Financial Prudence

8. The Fund will acquire adequate security for the loans it provides.

9. The Fund will build up reserves consistent with sound financial practice. In accordance with its Articles, it will set aside each year 15 per cent of its net profit after taxes until the reserves amount to 25 per cent of paid-up share capital, and subsequently not less than 10 per cent until the reserves amount to 50 per cent of the share capital.

10. The Fund will not assume the exchange risk on its borrowings in foreign currency. It will pass that risk on to its borrowers to the extent that it is not assumed by the Government of Finland.

11. The following limitations will be observed by the Fund:

a. The Fund's commitments in any single enterprise will not exceed 15 per cent of the aggregate of (i) the Fund's paid-up share capital, reserves and (ii) the outstanding amount of the Debentures of 1956 and 1963;

b. The Fund's equity investments in any single enterprise will not exceed 10 per cent of the Fund's paid-up share capital and reserves;

c. The Fund will not make any equity investment if at the time or as a result of such investment the total nominal amount of the Fund's equity investments would exceed the aggregate amount of its paid-up share capital and reserves;

d. The Fund will refrain from taking a controlling interest in any enterprise; to this end, it will not acquire more than 25 per cent of the voting shares of any single enterprise, except as may temporarily be necessary in connection with an underwriting, or in cases where the Fund's investment is or would be in jeopardy.

Procedures and Organization

12. Financing will be provided by the Fund directly to the ultimate beneficiary. The Fund will not operate through intermediary institutions.

13. The Fund will build and strengthen its own management and professional staff; it will develop a staff capable of providing the financial and economic analysis, technical, accounting and legal services, and supervision of previously concluded investments, necessary to carry out the functions previously referred to.

TEOLLISTAMISRAHASTO OY (TR)

Balance Sheets
(in thousands of Fmk)

Assets	1963	1964		Liabilities and Capital	1963		1964	
Cash	7,458		5,030	Current Liabilities		313		1,022
Temporary investments	14,165		1,977					
Accrued income from loans and investments	1,179		671	Long-term debt, not subordinated				
Operational funds	22,802		7,678	Loan from the Government	6,000		4,000	
				Old foreign exchange loans	390		120	
Loans & equity investments:				IBRD Loan No. 1	—		7,058	
Loans made before reorganization	8,980		5,943	Total unsubordinated debt		6,390		11,178
Loans made after reorganization								
Loans from Fmk resources		16,719		Debentures, subordinated to other debt				
Loans from IBRD loans		7,058						
Total new loans			23,777	Debentures, 1956	4,500		4,500	
Equity participations	-		-	Debentures, 1963	5,500		5,500	
	8,980		29,720	Total subordinated debt		10,000		10,000
Less: provision for bad debts	250		428					
Loans & equity investments (net)	8,730		29,292	Equity				
				Share capital (paid-in)				
Fixed assets (net)	451		453	Series-A	6,000		6,000	
				Series-B, outstanding	9,000		8,700	
				redeemed			300	
				Reserve for contingencies			42	
				Unappropriated profit	280		181	
				Total equity		15,280		15,223
Total assets	31,983		37,423	Total liabilities & capital		31,983		37,423

TEOLLISTAMISRAHASTO OY (TR)

Statements of Income
(in thousands of Fmk)

	1963		1964	
INCOME:				
Interest on bank deposits and temporary investments		874		1,255
Interest on long-term loans				
on loans from Government loan	308		183	
on loans from old debentures and equity	370		282	
on loans from old foreign exchange loans	24		13	
on loans from new Fmk resources			385	
on loans from IBRD loans	—		98	
		702		961
Commitment charges				62
Other		40		22
Total income		1,616		2,300
EXPENSES:				
Administrative expenses		198		352
Financial expenses				
Interest on debentures of 1956	297		270	
Interest on debentures of 1963	205		275	
Interest on Government loan	255		170	
Interest on old foreign exchange loans	19		12	
Interest on IBRD loan			92	
Commitment charges			17	
Other financial expenses	—		80	
Sub-total		776		916
Total expenses		974		1,268
Profit before taxes and bad debt reserve		642		1,032
Provision for bad debts		54		178
		588		854
Income taxes		14		371
Net profit after taxes and bad debt reserve		574		483

	1963		1964	
Appropriation of Net Profits				
Unappropriated profit brought forward		6		280
Net profit after taxes and provision for bad debts		574		483
Total available for appropriation		580		763
Redemption of Series-B shares	300		300	
Transfer to reserve for contingencies	-		42	
Dividends on Series-A shares	-		240	
Sub-total		300		582
Unappropriated profit carried forward		280		181

T U R K I Y E   S I N A I   K A L K I N M A   B A N K A S I

(Industrial Development Bank of Turkey)

21.
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TURKIYE SINAI KALKIMA BANKASI A. S. (TSKB)

Industrial Development Bank of Turkey

September 7, 1965

TURKIYE SINAI KALKIMA BANKASI A. S.

I. THE COMPANY

1. TSKB was established in June 1950 and started operations in March 1951.

Purpose and Powers

2. TSKB's activities include short-term medium and long-term lending, investing in shares and bonds of industrial enterprises and providing technical assistance. In addition to operations with its own and borrowed capital, TSKB administers three revolving funds on behalf of the Governments of Turkey and the United States: (a) Marshall Plan Private Enterprise Fund for long-term loans to private industry; (b) Capital Participation Fund for investment in equities; and (c) Industrial Exports Working Capital Fund for short-term loans for financing the export of industrial goods.

Resources

3. IDB's resources are summarized in the following table:

	Local Currency LT mil.	Foreign Exchange $ mil.	Cost to TSKB %	Outstanding at 12/31/64 LT mil.	Outstanding at 12/31/64 $ mil.
Share capital paid in	50.0			50.0	
Reserves	14.9			14.9	
Unappropriated income	5.4			5.4	
Equity	70.3			70.3	
Lira bonds (1951)	12.5		4-1/2	3.2	
Lira Bonds (1954)	12.5		5	7.0	
1st IBRD Loan (1950)		9.0	3-3/4		1.16
2nd IBRD Loan (1953)		9.0	4-7/8		4.02
1st IDA credit (1962)		5.0	5-1/2		4.84
2nd IDA credit (1964)		5.0	5-1/2		.35
3rd IDA credit (1965)		10.0	5-1/2		not yet drawn
DLF loan (1958)		10.0	5		5.41
AID loan (1964)		5.0	5-1/2		not yet drawn
Total Long-Term Loans	25.0	53.0		10.2	15.78

Currency Unit: Turkish Lira (LT)

US$ 1 = LT 9
LT 1 = US$ 0.111
LT 1,000,000 = US$ 111,111

	LT mil.	$ mil.
Marshall Plan Private Enterprise Funds 1/	217.2	24.1
Capital Participation Fund 2/	69.4	7.7
Industrial Exports Working Capital Fund 3/	34.1	3.8
Total Adminstered Funds	320.7	35.6

Organization

4. Ownership - TSKB's initial share capital of LT 12.5 million (then equivalent to $ 4.5 million) was subscribed by 18 institutions, mostly commercial banks, and was made up of 125,000 bearer shares of LT 100 each. In addition to the ordinary shares, 100 bearer certificates were issued to the founders in proportion to their participation in the initial capital, entitling the holders to a special bonus out of TSKB's profits. In October 1953, as a requirement for the second IBRD loan, the authorized share capital was doubled to LT 25 million (by a successful new issue). In the latter part of 1963, TSKB's share capital was again doubled to LT 50 million ($ 5.6 million) at which time IFC subscribed to LT 8.3 million, representing 15% of the share capital.

5. Board of Directors - The Board has eight directors elected by the shareholders for three-year terms. Mr. Yazici, General Manager of the Is Bank, is the Chairman. The Board has been fairly widely representative of various interests including banking industry, commerce and economics. In return for making certain loans to TSKB, the Central Bank of Turkey was given the right to put up a panel of three shareholders belonging to the banking profession, from which the shareholders have to choose one of the members of the Board. The Board meets once a week regularly and plays an active role in TSKB's day-to-day operations and administration. Board approval is needed for every investment exceeding LT 150,000 or the equivalent in foreign currency.

6. Working Committees - Four committees are now in existence:

Loan and Investment - for coordinating appraisals and investment decisions.
Financing - for coordinating investment commitments and resources and preparing and implementing budgets.
New Project Development and Research - for exploring new types of projects and new activities.
Personnel - for coordinating recruitment, training and improving conditions of service.

1/ TSKB receives a management fee of 3% of the loans outstanding. The risk of the loans made from this Fund is borne by the Fund.
2/ TSKB receives a quarterly management fee of 25% of the net profit of the Fund, not to exceed 1% of the value of the Fund.
3/ TSKB receives a quarterly management fee of 1/2 of 1% of the amount of loans outstanding at the end of each quarter.

7. Management and Staff - The present General Manager, Mr. Egeli, is a member of the Board. TSKB's departments are divided into three groups: (a) departments concerned with operations and the administration of TSKB's internal affairs; (b) departments concerned with appraisal of projects; and (c) departments in charge of financial administration. Each group is directed by an assistant general manager. The first group, under Mr. Kayalioglu, consists of the Loan and Investment Department, the End-Use Department, Secretary and Personnel Department and the Regional Offices. The second group, under Mr. Örs, consists of three appraisal departments, the Economic Research Department, the Financial Analysis Department and the Engineering Department. The third group, under Mr. Eroguz, consists of the Finance Department, the Loan Disbursement Department, the Securities Department, the Department for Collection of Arrears, Cashier's Office, Office Manager's Department and Internal Auditor's Office.

II. OPERATIONS

Operating Policies

8. A statement of policies and practices was adopted by TSKB in 1963 which includes the following guidelines concerning investments:

a. TSKB's commitments of equity participations in one company are not to exceed 10% of TSKB's own equity.

b. TSKB's interest in one company is not to exceed 25% of the share capital of the company concerned.

c. TSKB's total commitments to one company is to be restricted to 10% of TSKB's total assets.

Several projects financed by IDB had exceeded the above limits but these investments were made prior to the adoption of this policy statement and it has been adhered to since. A copy of IDB's Policy Statement is given in Annex 1.

Lending Activity

9. Summary - From March 1951 when TSKB started its operations up to the end of 1963 the total amount of loans approved, net of cancellations, reached LT 664.4 million involving 614 borrowing firms.
A table showing the summary of approvals and disbursements from 1960 to 1964 is shown in Annex 2.

10. During 1964, loans amounting to LT 202,022,000 were approved, bringing the total of loan approvals to LT 866,448,000. These loans have been financed from the following sources:

	LT '000
Lira funds	50,532
IBRD loans	132,904
DLF loan	94,824
IDA credits	109,883
AID loan	2,520
EIB loans	33,081
Marshall Plan Private Enterprise Fund	442,704
	866,448

Just over half of TSKB's loan operations have been financed by administered funds.

11. Interest Rates - Businesses are paying near 15% per annum, including the tax on interest for finance for working capital purposes. The Industrial Investment and Credit Bank has been charging 10 1/2% per annum plus 2.6% as tax on medium-term credits. The Agricultural Bank's rates are 10 1/2% on short-term loans, 7 1/2% on medium-term loans and 3% on long-term loans. The Mortgage Bank's rates on medium-term loans are either 7 1/2% or 5%.

12. Size of Loans - Statistics for 1962-63 show that 56% of the number of loans granted during those years were below LT 450,000 (US$ 50,000) and 22% below LT 90,000 (US$ 10,000). TSKB has been trying to reduce the high proportion of small loans and to discourage loans of less than LT 250,000 (US$ 27,800).

13. Duration of Loans - As to the loan terms, the same statistics show that 36% of the loans granted were for less than five years.

14. Early in 1964, TSKB adopted the policy of gradually discontinuing working capital credits so as to make available these additional funds for long-term lending. Further short-term lending would be made only to long-term borrowers in order to help them meet scheduled repayments of long-term debt when absolutely necessary. At the end of 1964, short-term credits amounted to LT 24.2 million as compared with LT 40.9 million at the end of 1963. The percentage of short-term credits in TSKB's portfolio has been reduced from 20% at the end of 1963 to 11% a year later.

15. Distribution of Loans by Industry - The breakdown by industry is as follows:

	Amount (LT '000)	Percentage
Textile	134,667	20.27
Stone, earthenware, glass, ceramics	128,381	19.32
Food and food products	104,805	15.77
Metal smelting	73,777	11.10
Chemicals	54,221	8.16
Metal goods	42,953	6.46
Timber and wood products	19,394	2.92
Machinery and mechanical equipment	32,613	4.91
Beverages	14,554	2.19
Wood pulp and paper products	12,230	1.84

	Amount (LT '000)	Percentage
Miscellaneous	10,545	1.59
Rubber goods	10,867	1.64
Means of transportation	9,681	1.46
Repair and maintenance shops	5.997	0.90
Coal and petroleum products	3,010	0.45
Leather and leather products	2,102	0.32
Mining	2,057	0.31
Printing and publishing	1,972	0.30
Clothing	600	0.09
	664.426	100.0

Equity Investments

16. Up to the end of 1963, TSKB had invested in 17 firms using LT 37,723,000 of its own resources and was responsible for participations in 17 other enterprises using LT 48,441,000 from the Capital Participation Fund. These investments were made in a variety of industries corresponding roughly to the dispersion of lending with the heaviest commitments in textiles (23%) and metals (31%). During 1964, equity participations totalling LT 11 million were approved.

17. Sales from the portfolio have been facilitated by a change in the tax regulations to eliminate the provision that whenever part of a shareholding was sold at a profit, tax had to be paid on the paper profit arising from the revaluation of the entire holding. As a result, TSKB has been able to increase sales of shares out of portfolio; total sales amounted to LT 13,465,505 during 1964, the main part, LT 11,496,500, being from the portfolio of the Capital Participation Fund. These sales were to well over a hundred buyers including employees, other individuals, pension funds and an insurance company.

18. A major reform in the commercial code and tax laws is under consideration in accordance with the recommendations of a Capital Market Study sponsored by TSKB along with the State Planning Organization and the Union of Chambers of Commerce and Industry.

Underwriting

19. TSKB so far has had no underwriting activities.

III. FINANCIAL RESULTS

Balance Sheets

20. Balance sheets of TSKB as of December 31, 1963 and 1964 are shown in Annex 3 and summarized below:

Assets	1963 (LT mil.)	1964 (LT mil.)	Liabilities	1963 (LT mil.)	1964 (LT mil.)
Cash	15.0	5.7	Bank borrowings	16.0	2.2
Other current assets	25.2	24.6	Other current liabilities	22.9	21.5
Loans	168.2	179.6			

Assets	1963 (LT mil.)	1964	Liabilities	1963 (LT mil.)	1964
Reserve for loss	-	(5.7)	Long-term loans:		
Investments	35.8	38.5	Lira bonds	12.9	10.2
Property and Equipment	3.5	3.6	Foreign currency loans	126.4	142.1
			Share capital	50.0	50.0
			Reserves	11.2	14.9
			General Provision	8.3	5.4
	247.7	246.3		247.7	246.3
Administered Funds	234.9	320.7	Liabilities for administered funds	234.9	320.7
	482.6	567.0		482.6	567.0

21. Debt is at present well within the 4 to 1 limit to equity on the basis specified in the latest agreement with IDA. (The ratio currently is probably something under 2.5:1.) Additions to reserves during 1965 are likely to increase TSKB's equity base from about LT 73 million at the beginning of the year to about LT 80 million by the end of the year, allowing long-term debt of about LT 320 million. Based on loan repayments and bond redemptions during the year and the expected rate of commitments, long-term debt at the end of 1965 is expected to be something like LT 200 million. Full commitment of the latest IDA credit would give a figure of LT 317 million, still within the limit.

Profit and Loss Accounts

22. TSKB's gross income has risen steadily and profits have increased fairly consistently. Profits after taxes have doubled from 1959 (LT 5.5 million) to 1964 (LT 11.9 million). The income statements of TSKB for the past two years are shown in Annex 4 and summarized below. The most notable changes were the increases in income from investments in Turkish enterprises (LT 2.08 million) and from service fees on administered funds (LT 1.34 million), the increase in taxes (LT 1.12 million) due to increased expenditure tax on income from participations and to stamp duty of LT 450,000 on loan agreements signed with IDA and AID, and an increase in personnel expenses by LT 470,630 due to a 5% salary increase early in 1964 and a small increase in staff. Interest expenses declined by LT 418,988.

INCOME	1963 (LT mil.)	1964 (LT mil.)
On operations with own funds from:		
Short-term credits	4.4	4.0
Long-term loans	11.8	12.2
Investments	3.0	5.1
Commissions and others	4.3	4.4
	23.5	25.7
On operations with administered funds	6.1	7.4
Total Income	29.6	33.1

	1963 (LT mil.)	1964 (LT mil.)
EXPENDITURE		
Administrative costs	6.8	8.7
Financial costs	8.5	8.1
Total Expenditure	15.3	16.8
GROSS PROFIT	14.3	16.3
Provision for taxes	4.8	4.4
NET PROFIT after tax and before provisions	9.5	11.9

23. The net profit after taxes and before provisions represented a return of 13.8% on share capital and reserves in 1963 and 17.0% in 1964. The income from administered funds remains important, accounting for just over one-fifth of total income in both years. TSKB's administrative expenses are relatively low compared with other development finance companies when measured as total assets (1.8%) and about average when measured as a percentage of gross income (26%).

Dividends and Reserves

24. A dividend of 12%, the maximum rate allowed by TSKB's statutes, has been paid annually since 1954. In 1963 this dividend amounted to LT 3,457,435, representing a payout of 36.4% of net profits after taxes and in 1964, LT 6,338,286 representing 53.3%.

INDUSTRIAL DEVELOPMENT BANK OF TURKEY

Statement of Operational Policies
Approved by the Board of Directors in June 1950

1. The Industrial Bank is a private institution which, though it will consider the Government's plans for the national economy, will make decisions on the basis of what is best for the health and activity of private enterprises.

2. The factor of primary importance in the Industrial Bank is not its financial resources but the technical services through which its financial aid will be made effective.

3. The Bank should have a first-class technical staff whose head and nucleus must be sought abroad. It will make investments only after full examination of applications by this staff.

4. In selecting enterprises to be financed, the Bank will observe the following criteria:

   a. Production of goods of benefit to the Turkish economy;

   b. Soundness of the enterprise;

   c. Quick realization and profitableness of the enterprise; and

   d. Desirability of geographical distribution of investment.

5. The Bank will keep its interest rate as low as possible consistent with the payment of its dividends and the accumulation of necessary reserves. It may also charge a percentage of the profits of the financed enterprise in return for the services of its technical staff.

6. The Bank's financing may be in the form of loans, participations, or both; the last is preferable in appropriate circumstances. Wherever possible, the client should provide at least 50 per cent of his capital.

7. The Bank will lend foreign exchange only for imports of equipment. In order to make best use of its foreign exchange, it should seek, insofar as possible, to apply for use of the Government's own foreign exchange resources.

8. The Bank will obtain adequate security on its loans; require the keeping of adequate records and the use of sound accounting procedures; and obtain rights of inspection and audit and, in the event of faulty management, of intervention in the enterprises it finances.

9. The Bank will seek to sell its participations to the widest public and at the earliest moment practicable.

10. The Bank will seek to interest foreign capital in investment in Turkey.

11. The Bank should use its influence in trying to improve government administration relating to business so as to better the working conditions and so the confidence of all private enterprise.

In March 1963 the Board passed the following new policy resolutions:

1. For the purpose of avoiding unnecessary duplications of investment in the public and private sectors the Bank will keep regular and continuous contact with the State Planning Organization through the Economic Research Department.

2. In order to ensure a widespread distribution of its investment risks the Bank will follow the following policies:

a. At any one time not more than 10% of the Bank's assets would be invested in any one company, the amounts invested to include loans, shares and investments in any other form.

b. The Bank would not acquire ordinary or common shares of any one company if thereby the total cost of such shares held exceeds 10% of the Bank's own equity.

c. The Bank would not hold shares in any one company in a nominal amount of more than 25% of the company's subscribed capital.

d. The aggregate value of shares held by the Bank would not exceed an amount equivalent to the Bank's share capital and reserves.

The provisions of b, c, and d, do not apply to shares received in exchange for debit in a liquidation or reorganization or to conversion of debt into shares necessary to protect the Bank's interests.

This resolution will not be amended without the prior consent of IDA.

3. The economic criteria to be applied on investment loans is amended as follows:

Priority shall be given to projects which:

a. have a positive influence on the balance of payments of Turkey, or

b. have a high ratio of value added to investment, or

c. promise reduction in costs and selling prices and/or improvement in the quality of products, or

d. are of importance from the standpoint of the realization of the production targets set forth in the Development Plan.

4. a) After submission of the final project to the Bank, if there is an increase in the investment loan the General Management is authorized to grant a supplementary loan not exceeding LT 150,000, or its equivalent in foreign currency and up to 10% of the original project.

b) The General Management is also authorized to grant a new investment loan up to LT 150,000, or its equivalent in foreign currency if the project is in conformity with the general criteria and economic priorities accepted by the Board of Directors.

Information will be given to the Board by the end of each month on the number and amounts of loans granted by the General Management.

5. The management fee of the Marshall Plan Private Enterprise Fund is reduced from 4% to 3%.

6. The number of experts in the Financial Analysis Department is increased from 7 to 14, in the Engineering Department from 10 to 15 and in the Economic Research Department from 8 to 11.

TURKIYE SINAI KALKIMA BANKASI A.S.

Approvals

Year	From Equity and Borrowed Funds: Long-term Foreign Currency Loans (Mil. $)	Long-term Lira Loans (Mil. LT.)	Short-term Lira Loans Outstanding (Mil. LT.)	Investment in Shares (Mil. LT.)	From Administered Funds: Marshall Plan Private Enterprise Funds (Mil. LT.)	Industrial Exports Working Capital Fund (Mil. LT.)	Capital Participation Fund (Mil. LT.)
1960	3.9	1.5	41.2	7.0	37.3	-	-
1961	6.4	7.5	55.6	8.8	46.0	18.5	32.6
1962	7.2	1.8	45.8	0.5	45.7	31.1	6.6
1963	5.7	0.7	40.9	3.3	114.2	6.3	9.2
1964	14.4	-	24.2	3.7	93.6	13.5	3.2

Disbursements

Year	From Equity and Borrowed Funds: Long-term Foreign Currency Loans (Mil. $)	Long-term Lira Loans (Mil. LT.)	Short-term Lira Loans Outstanding (Mil. LT.)	Investment in Shares (Mil. LT.)	From Administered Funds: Marshall Plan Private Enterprise Funds (Mil. LT.)	Industrial Exports Working Capital Fund (Mil. LT.)	Capital Participation Fund (Mil. LT.)
1960	2.1	1.0	41.2	5.0	22.4	-	-
1961	3.5	8.4	55.6	8.2	28.4	11.3	9.3
1962	5.8	2.1	45.8	1.2	39.1	32.8	15.8
1963	3.0	0.8	40.9	5.8	80.3	11.5	18.3
1964	6.1	-	24.2	2.8	37.8	14.8	4.8

ANNEX 3

TURKIYE SINAI KALKIMA BANKASI A.S.

Balance Sheets
(in thousands of Turkish lira)

ASSETS	1963	1964
Cash	15,029	5,652
Accounts receivable	7,504	4,627
Accrued interest and charges	12,263	11,973
Temporary investments	5,221	7,605
Prepaid expenses	211	391
Operational Funds	40,228	30,248
Loans:		
Short-term credits	40,859	24,189
Long-term loans in Turkish lira	12,439	9,689
Long-term loans in foreign currencies	114,857	145,749
	168,155	179,627
Less: Reserve for expected losses on receivables	-	5,691
Loans (net)	168,155	173,936
Investments:		
Shareholdings in enterprises, at cost	35,858	38,476
Property and equipment - at cost, less depreciation	3,508	3,598
	247,749	246,258
Administered funds	234,864	320,676
	482,613	566,934

LIABILITIES	1963	1964
Bank borrowings	16,043	2,200
Accounts payable	10,809	7,359
Accrued interest	1,444	1,467
Accrued taxes	7,165	6,322
Dividend payable	3,457	6,338
Operational Liabilities	38,918	23,686
Long-term debt:		
4-1/2% bonds	4,727	3,220
5% bonds	8,217	7,009
IBRD loan 34-TU	20,460	10,444
IBRD loan 85-TU	44,165	36,213
DLF loan	57,283	48,683
IDA credit 33-TU	4,493	43,567
IDA credit 66-TU	-	3,143
Total long-term debt	139,345	152,279
Capital Shares and Surplus:		
100 Founders' shares	-	-
250,000 ordinary shares (TL 100 par)	25,000	25,000
50,000 ordinary shares (TL 500 par)	25,000	25,000
Legal reserve	5,005	5,982
Reserve for future losses	2,851	3,285
Extraordinary reserve	3,292	5,624
General provision	8,338	5,402
Total capital stock and surplus	69,486	70,293
	247,749	246,258
Liability to Turkish Government for administered funds	234,864	320,676
	482,613	566,934

TURKIYE SINAI KALKIMA BANKASI A. S.

Statements of Income

	1963 '000 LT	1964 '000 LT
INCOME:		
Interest from long-term loans	11,774	12,155
Interest from short-term credits	4,433	3,993
Income from investments	3,047	5,122
Profit on sale of investments	-	107
Commissions for banking services	3,334	3,641
Service fees on managed funds	6,078	7,416
Other income	1,006	722
Total income	29,672	33,156
EXPENSE:		
Interest on bank borrowings	1,604	1,333
Interest on long-term debt	6,928	6,781
Taxes, dues and fees	1,041	2,165
Personnel expenses	4,371	4,842
General and office expenses	1,152	1,025
Depreciation of property	145	173
Other expense	85	462
	15,326	16,781
Net income before provisions and taxation	14,346	16,375
PROVISION FOR EXPECTED LOSSES ON RECEIVABLES	-	553
GENERAL PROVISION 1/	3,000	3,000
Net income before taxation	11,346	12,822
TAXATION	4,760	4,437
Net income	6,586	8,385

1/ As permitted by the Turkish Commercial Code, the general provision is charged to income at the end of each year, in an amount which will leave reported distributable income at a level considered by the Board to be appropriate in the circumstances. Since this represents an appropriation of income, reported net income is understated by the amount of the provision.