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COMMENTS ON THE MOBILIZATION OF DOMESTIC RESOURCES BY DEVELOPMENT FINANCING INSTITUTIONS IN LATIN AMERICA 1/

by

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1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO.

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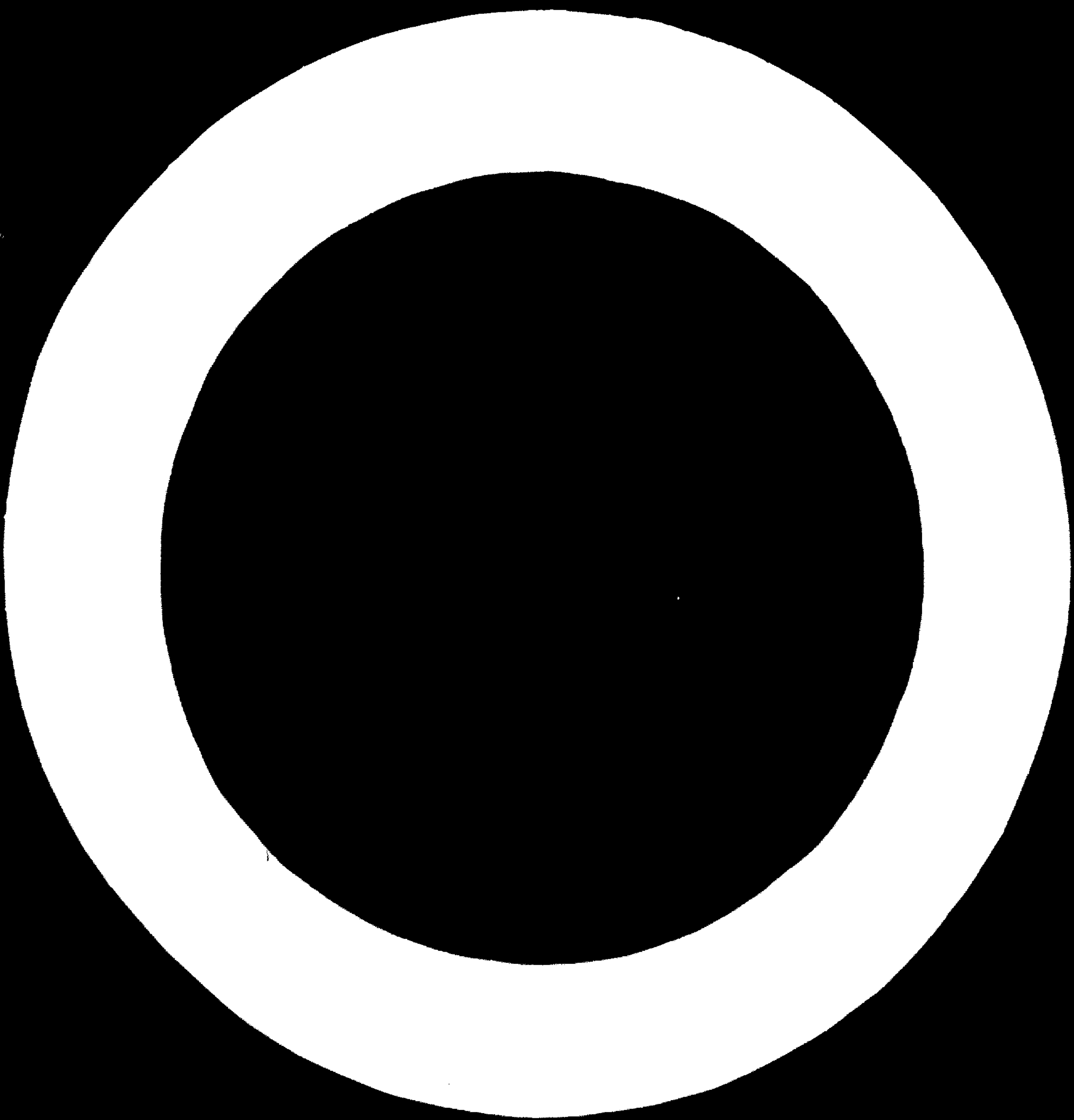

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FOREWORD

The main object of this paper, specially prepared for the Fifth Meeting on Co-operation between Industrial Development Financing Institutions, is to draw the attention of participants to certain situations that occur in the mobilization of domestic resources for development in Latin America.

We should point out that it is difficult to discuss the subject by itself, in isolation, because the problem of the region's domestic resources forms part of a more general and complex situation arising out of the economic development of the countries involved, the limited sources of finance, the organization of the capital markets, and even the failure of the people to form the habit of saving, to which the role played by the Latin American development institutions has to be added.

We have therefore preferred to emphasize certain aspects of the process of attracting and investing domestic resources, and to consider them in relation to the functions of the region's development financing institutions as a basis, albeit a modest one, for discussion at the UNIDO Meeting.

We should like to add that we consider that the Latin American Association of Development Finance Institutions (ALIDE), as the representative of the region's development bank, has a leading role to play in analysing the situations and problems relating to the mobilization and investment of domestic resources, because its permanent links with the financial organizations in Latin America enable it to act to the utmost effect, providing valuable sources of information on the subject, from which new and interesting procedures and solutions can develop.

INTRODUCTION

Latin America is a continent undergoing constant evolution, its basic objective being the economic and social development of its peoples. It is the dynamism contributed by each country in the area to the development process that provides the momentum for achieving that objective.

Within this general frame of reference, the region's development finance institutions play a role that can be considered decisive, since they are the bodies that attract financial resources to be invested for the benefit of the producing sectors, mobilizing both public and private savings, encouraging the setting up of companies and providing technical assistance.

These bodies, which normally operate under the name of "development corporations" or "development banks", although financing organizations, are characterized above all by their promotional activities; accordingly, they aim to assist in the development of their respective countries and take steps - or should do - to see that resources are employed in the most suitable way, that they are put to rational use in terms of development objectives or established priorities, since the lack of such resources is a universal problem in Latin America.

Many of the Latin American development institutions were founded between 1940 and 1960, and they have increased at a considerable rate; at present there are approximately 200 of them, including multinational, national, public, private and mixed institutions. The establishment and expansion of these organizations reflects the region's increasingly urgent desire to achieve development; the tasks they have to perform in this connexion depend on the situation in each country, the quantity and quality of its human resources, the special requirements of its socio-economic system, and the actual availability of financial resources.

Further influences on their behaviour and operation are the changes in financial policies at the international level, whether bilateral or multilateral; the underdeveloped countries' constantly decreasing share of world trade in goods and services; and the technological progress of the developed countries, which widens the gap between them and in many cases condemns the less developed to dependence.

Latin America is aware of this state of affairs and knows that the road to development is rough and difficult; that the effort which has to be put into the task is a challenge to its strength, capacity and imagination; and that the necessary dynamism depends on its own ability, because programmes of international co-operation such as have been attempted on a number of occasions have in the majority of cases turned out to be mere words, where they have not served to introduce political, economic or even cultural influences.

In the light of these problems and the crises facing it, Latin America is to a greater or lesser extent pursuing two complementary paths: structural reforms, as a basis for social equilibrium and economic development, and economic integration, as a means of increasing its political weight in the world at large and as an instrument for harmonizing its various economies.

We feel that although both courses are valid, they must, if the serious problems in the region are to be solved, also have an ideological basis, an ideological framework, which will give vital content and full validity to both socio-economic approaches.

As McClelland[1/] says: "There is no real substitute for ideological fervour", since it is an important emotional force, which must be present if individuals or nations are to be committed to the pursuit of general objectives.

This basic factor, this framework of conduct and action, must inculcate in the social group a sense of national union, of the country's integration as an organic whole, with its own goals and objectives, aiming at the smooth progress of the population in general, in accordance with principles of social justice, and at the economic development through which the proposed aims can be achieved.

It is in this context that the development financing institutions have a fundamental role to play, since their work must be aimed at supporting and effectively backing development programmes or plans, as effective instruments created or accepted for this purpose.

To pay no heed to the goals of development, therefore, is to go against the whole nature and purpose of bodies of this type.

In Latin America today, all the development institutions are well aware of the role they are expected to play, although in some cases, for external reasons, their promotional activity is not as great as it might be and their financial contributions are not channelled into priority development activities.

1/ The Achieving Society, page 430. Harvard Institute.

PURPOSE OF DEVELOPMENT FINANCING INSTITUTIONS

In what has been said by way of an introduction we have defined in general terms the basic purpose of development financing institutions in Latin America.

It is worth repeating, however, that in principle all of them, by definition, seek to help in so far as their resources, structure and particular field of operation permit, in furthering the economic expansion and social progress of their respective peoples.

One particular feature that should be highlighted is that their activities are not just financial, in other words they are not restricted to credit transactions. Of equal or greater importance, indeed, are their promotional activities, which include a variety of tasks, from direct assistance to the entrepreneur in solving his particular problems to studies of investment projects, and including such a basic function as personnel training through courses, seminars or other informational activities.

This, then, is a very important aspect that should be borne very much in mind when considering the aims of development institutions.

The degree of emphasis placed on these development and promotional programmes is an indication of the significance attached by those responsible for directing these organizations to a particular development process.

An analysis of the statutes of development institutions in Latin America leads to the conclusion that although there are naturally variations on account of differing circumstances, the objective is basically as defined above.

In order to achieve that objective, they are authorized by the laws establishing them or by their statutes to act as financial intermediaries, that is to say, they attract resources and place them, either generally or in a given economic sector; they promote the development of the capital market; they give support in the preparation and implementation of projects, by making the studies themselves or financing them, and by providing credit or direct investment contributions. They also provide technical assistance by giving financial advice or guidance on accounting and administration so that the best results can be obtained in these areas.

In practice, the ability of development financing institutions to achieve their basic objective and perform the functions entrusted to them depends to a large extent on the efficiency of each one of them, on their adaptability, and in particular on their realistic and dynamic response to change. It also depends on their co-ordination in plotting and following the course of development planning.

CLASSIFICATION

A number of criteria may be used to classify development financing institutions in Latin America; the classification, however, is not a rigid one, because any one organization may be included in a number of different categories.

Following the divisions established by Tulio de Andrea 2/ these institutions can be classified according to the composition and ownership of the capital, the level of operation, the field of activity, and the type of financial assistance which they offer.

According to their capital composition and ownership, they may be multinational - public or private - and national.

Among the public multinational institutions in Latin America are the Inter-American Development Bank, the Central American Bank for Economic Integration, the Andean Development Corporation, and the Caribbean Development Bank. Their common objective is to promote the individual and collective development of their member countries.

Private multinational institutions are represented solely by Adela, Compañía de Inversiones S.A., in which private industrial concerns and banks and financial institutions from the United States, western Europe, Canada and Japan have holdings. Their objective is to invest capital, in any form, in companies situated in the western hemisphere, with the exception of the United States and Canada.

The region's national institutions, for their part, number 195, 55 of which are state or public, 112 private and 28 mixed (i.e. owned jointly by the State and private parties).

According to the level at which they operate, development organizations may be regional, national, state or provincial, and according to their field of activity, sectoral or multi-sectoral.

With reference to this last classification, comments have been made on the advantages and disadvantages of covering one particular sector of the economy or several. Regarding the first, it is said that certain activities, such as agriculture, on account of the risks and problems they have to face, require institutions which are specialized and concerned exclusively with them. Operating in a number of sectors, on the other hand, means that resources may be scattered and thus not put to their best possible use.

2/ Políticas Operativas de las Instituciones Financieras de Desarrollo, Tulio de Andrea, published by ALIDE, Lima, 1974.

Those who do not agree with these arguments consider on the contrary that covering several fields of activity allows the institutions to establish priorities for their investments, making optimum use of the resources, which as a general rule are scarce; the existence of sectoral organizations, on the other hand, does not make for good co-ordination.

The type of financial assistance which the institutions offer may be credit, credit and investment, or investment alone.

The majority of Latin American institutions fall into the second category, i.e. under their statutes they can grant credits and contribute capital. Those whose sole financing activity is capital investment are limited in number.

Nevertheless, even when their terms of reference are extensive - and many institutions are authorized to cover a wide range of financial operations - in practice they keep to a few, confining themselves solely to the credit field. The causes for this lie in their lack of operating capacity and the narrow approach of those in charge, who want to keep risks to a minimum, or in external reasons such as the limited scope of the capital markets, accentuated by the fact that the shareholders tend to be a closed group, so that the share capital cannot be increased.

Leaving aside these categories, which provide a systematic method of identifying functions or fields of activity, there are in fact more similarities between the institutions than there are differences; this is because all were created or founded "as financing instruments to help promote economic development in their respective countries", "through State initiative or with State resources, or alternatively with private funds, but with government approval and encouragement", and "all or almost all are recognized as autonomous bodies with legal status and their own funds" and "they operate by financing programmes or projects either directly or as intermediaries".[3]

The differences, where they exist, are due to the particular conditions in their countries, the composition of their capital or the functions that have been entrusted to them.

3/ Tulio de Andrea, Op.cit.

COMMENTS ON THE FUNCTIONS OF DEVELOPMENT FINANCING INSTITUTIONS

The functions which the Latin American development financing institutions perform - or have been given to perform - can be divided into four main groups, according to the classification used by Humberto Diaz, José Zabala and Carlos Berner[4]: financial intermediary functions; development of business ability; transfer of technology; and promotion.

1. Financial intermediary functions

Investment, the backbone of economic development, is not a simple process; on the one hand it implies saving out of income, and on the other, risking those savings in some productive effort. In underdeveloped countries, either one or both of these investment requirements are often lacking; attention is generally focussed on lack of capital as being the main obstacle to development.

Admittedly this is not universal, although companies and individuals may encounter difficulties in finding the capital they need: "When people live on the edge of subsistence, their savings may be insufficient, but they never cease to exist, and it is difficult not to be convinced that in many countries savings are higher than is thought, and that more savings could be mobilized towards productive investment".[5]

A low level of investment may be the result not only of poverty but also of social values, or of the economic environment, which channel savings into unproductive uses, or of inadequate opportunities to use savings in a productive fashion.

These preliminary considerations may serve as a basis for putting forward some comments, which represent the writer's personal opinions, about the functions described above. To merely give an objective account of the various functions of the development financing bodies would be to repeat what has already been dealt with fully and authoritatively by many writers. The interesting thing, however, is not to repeat what others have said but to contribute ideas or opinions that will open the door for discussion on situations or problems peculiar to the region, and to listen to comments on what is put forward.

4/ Fuentes de Financiamiento de la Banca de Desarrollo en America Latina, Humberto Diaz, José Zabala and Carlos Berner, published by ALIDE, Lima, April 1964.

5/ Bancos de fomento, William Diamond, F.C.E.

Acting as a financial intermediary means acting as a link between the sources of funds and the recipients of those funds who use them for investment. In performing that function, the development institutions seek to attract funds and then to make them available for investment in productive activities.

The sources are both domestic and external. The former comprise the Government, Central Bank, State and private banks, other financing institutions in the capital market and individuals or corporations.

The external sources are represented by multi-national organizations, Governments and public or private institutions from other countries, foreign banks and foreign individuals or bodies corporate.

Those who receive the resources supplied from those sources are Governments, public institutions, public, private or mixed companies, co-operatives and individuals.

Basically, therefore, the function of a financial intermediary consists in obtaining resources from different sources and channelling them into investment.

An analysis of the composition of the resources handled by the development institutions in Latin America, shows that they may be capital, domestic or external.

The capital resources consist of the organizations' capital proper, their reserves, their undistributed profits and non-reimbursable contributions.

The domestic resources are formed by public or private loans, by securities floated on the national market and by savings and sight or term deposits.

The external resources come from outside sources, such as international organizations, Governments, banks, suppliers and other private credit institutions.

Special mention should be made in this brief analysis of the mobilization of savings, capital resources and credit contributions from the Central Bank.

Mobilization of savings

Two of the principal functions of development financing institutions as financial intermediaries are to mobilize savings and to transfer those savings from the savers to those who are able to invest or use them.

However, before those functions can be carried out, it is of vital importance to consider the legal codes and practices. Savers or investors may require certain guarantees before transferring savings to others and investing them in companies run by others. These guarantees include sound banking practices and protective regulations, an administration of law and justice that inspires confidence, and the existence of persons or institutions to effect the transfer of interest and other dues.

As has been said, development requires a stable and ramified system of productive sectors, backed by a solid financing system consisting of the different types of financial intermediaries which channel savings from macro economic agents such as companies, families, the Government and the foreign sector, into productive investment.

A sound policy for mobilizing resources means gaining access to the small amounts saved by a great number of families and individuals, in order to secure solid and widely-based support; this is only achieved, however, if the institution and the financing machinery inspire confidence; and such confidence will only prevail where there is stability and efficiency.

A feature of savings in developing countries is that they by-pass institutional channels; either they are put away safely, or they are invested directly in land, goods or other assets offering yield and security. This method of utilizing savings makes a very small contribution to a country's productive capacity, with the result that resources are wasted.

To counter this situation, brought about through a desire for security, the development financing institutions have to make every effort to provide a channel for the greater part of family savings. In order to achieve this, they have to develop systematic plans for educating people on the subject and encouraging individual and family savings - in other words, they have to invest in saving.

Another of the obstacles to the proper channelling of savings is the financial machinery whereby savings are turned into investment, such as time deposits, mortgage debentures, bonds, etc. Such machinery involves a certain distortion in the savings process, and that distortion is intensified by the inflation in Latin America. For example, there are effective interest rates - including tax exemptions and other benefits - paid to the holders of financial assets which vary between 7 and 18 per cent. Nevertheless the real effective interest rate, i.e. the effective interest rate divided by the price index, is clearly lower. Thus, if the annual rate of inflation is 8 per cent, the real yield from financial assets bearing an 8 per cent interest is equal to zero.

Likewise, many financial assets available on a market - many of them offering the same advantages as regards liquidity and security - do not produce the same yield because they bear different interest rates and tax exemptions. In this way the capital market becomes fragmented, so that savings cannot be distributed flexibly over the different financial assets.

The ordinary saver, however, faced with this somewhat complex situation combined with his ignorance of the financial machinery and his desire to protect himself against the constant decline in the purchasing power of money, ends up paying no attention to differences in interest rates and puts his savings mainly into time deposits, mortgage debentures or deposits in co-operative and mutual societies, in a desire for security, immediate convertibility and the possibility of getting loans for the purchase of a house or consumer durables.

Measures such as increasing the nominal interest rate paid to the holders of financial assets and making tax exemptions and machinery uniform, could make the process of channelling savings more flexible, in a situation such as has been described.[6]

In addition, the effective channelling of savings requires the development of a capital market. It will be difficult for this market to grow if the laws of the country establish difficult or rigid conditions for the formation of companies or their share capital, making it difficult for the investor or saver to participate; or if entrepreneurs' attitudes or traditions are such that they are either unwilling or afraid to extend the circle of shareholders in their companies; or if the financial machinery is inefficient.

It is therefore the job of the development institutions, as part of their role as financial intermediaries, to identify those problems, in order to bring them to the attention of the authorities and thus facilitate the flow of savings into the investments which they are promoting or encouraging.

In point of fact, during the 1960s domestic savings financed approximately 90 per cent of the gross investment in Latin America, despite the fact that many of the problems described apply to the region and that the lack of financial resources in local currency restricts the use of external credit.

6/ Symposium on capital markets in Peru, National Securities Commission, December 1972

Another disadvantage is that domestic savings require short-term liquidity, whereas development investment requires medium or long-term amortization.

Domestic savings, therefore, although an essential source of funds, have not been considered to deserve preferential treatment and specific plans to develop and increase them by the development financing institutions.

It should not be forgotten that the practice of saving, which involves an understanding of the role of savings as a source of funds for development, needs to be taught, so that it becomes a habit, and this is a job for the development institutions, many of whose executives ought to change their thinking on this matter; instead of devoting their efforts to obtaining external finance - which they consider to be a more suitable activity for a banker - they should be constantly concerned with the need for domestic savings and the prospects of getting them.

In Fuentes de Financiamiento de la Banca de Desarrollo en America Latina,7/ a study has been made of a sample of 17 development financing institutions which have machinery or schemes for attracting resources from the public in significant quantities. The conclusions of this study confirm the foregoing account of the problems:

No country had a complete and up-to-date inventory of the machinery and schemes operating on the capital market, much less those used by development institutions.

The large majority of development or promotion institutions in the area did not use personal and family savings regularly or systematically and as a result had not developed machinery and schemes for that purpose.

The few institutions which did seek to attract resources from the public had been increasingly successful, and this had become one of their main sources of finance - in a number of cases the foremost one.

No particular common features were found among the various kinds of machinery used by the institutions in question to attract popular savings. There were, on the other hand, differences in terms, interest rates, security, liquidity etc.

Of the resources obtained from the public, more come from time deposits than from sight deposits, except in institutions which are of the nature of development and commercial banks.

7/ Humberto Diaz, José Zabala and Carlos Berner, Op.Cit., ALIDE, April 1974

As the amount of resources obtained from the public increases the funds obtained from external sources decrease, particularly those from private banks or other institutions.

Of the institutions selected as having better schemes or machinery for encouraging the public to save, eleven have a markedly higher proportion of resources from domestic than from other sources.

The six exceptions are:

Nacional Financiera de México	39.7%
Banco Industrial del Perú	43.5%
CAVENDES de Venezuela	23.5%
BNF de Paraguay	25.2%
Financiera Hondureña	16.9%
Soc. Financiera de Inversiones de Nicaragua	35.6%

However, between 1967 and 1971 there was a considerable increase in these institutions' percentage of domestic resources.

Capital and State Bank Resources

The capital of many of the development institutions in the Latin American region includes contributions from the Government, and also from the Central Bank in the form of loans bearing very low rates of interest.

This class of resources is becoming very important in Latin America on account of the difficulties in mobilizing and attracting domestic savings. Added to this is the level of profitability in the capital markets in a number of countries in the region, which makes them somewhat unreliable and for this reason they have not managed to generate enough confidence among savers and investors to get adequate support.

There is also another factor which should be taken into consideration: the financing periods. Development institutions, by the very nature of their promotional activities, place resources for the medium and long term; in order for them to do this the sources of those funds need to be secure and stable, and in this connexion we have seen that the supply of domestic resources often does not meet these conditions, which severely limits the chances of placing them for suitable periods.

Because of this State of affairs, another source of funds has to be found, and hence the importance of the resources provided by the Government and the Central Bank.

Some people consider that government resources, since they come from the Treasury and represent no cost to the body receiving them, are not treated as carefully as resources which have to be paid for, and that as a result not enough care is taken with the investment, the funds being channelled into activities which do not always have priority, or else used to acquire intensive technology rather than to employ more labour, which is not normally wise in areas where there is a high rate of unemployment.

Similar arguments are put forward about resources from the Central Bank, which, on account of their low rate of interest, it is said, make people forget how important it is for investment purposes to make a good choice of project.

However, on these questions it is important to bear in mind the fundamental objectives of the development institutions and the conditions in which they operate in the region, where underdevelopment is widespread.

In the first place, in speaking of development organizations in Latin America, we repeat that we are referring to financial organizations whose job is to grant loans, usually long-term or medium-term, which involve considerable risks and which in addition must carry low rates of interest as an incentive to investment and thus to the development of business.

We have already said that in countries such as those in Latin America, or at least in many of them, there is a lack of resources, and entrepreneurs, promoters and investors do not have a variety of alternative sources to call upon; further, if the State, through its appropriate government agencies, does not provide resources, including the capital of development financing institutions, the economic process will be checked, or even decline into a counter-productive stagnation.

The idea that as such money costs nothing, it will be used in a way that is not very satisfactory from the point of view of the return on the investment projects that are being financed, is in our opinion fully valid, both theoretically and practically, in respect of countries with a bigger or better economy, where it is possible to find plenty of alternative investment projects, which can be studied and carefully selected. But in the under-developed countries, which are not only short of resources but also of projects, the possibility does not exist and the alternatives are limited.

A further consideration that might be borne in mind in this connexion is the distribution effect of these government contributions. They are in fact money which the State obtains through taxes and which it then re-distributes by promoting, founding and financing companies; although this method of channelling resources might appear unusual, too narrow and even too private-enterprise, it must not be forgotten that the aim of a development institution is to stimulate the productive process in order to speed up the country's general economic development.

Further, in examining economic policy, it has to be considered that the granting of funds by the State to the development organizations implies a close relation between the Government's aims in economic matters and the way in which such funds are used to achieve those aims by the development and promotion institutions.

It is also worth referring to the rates of interest, which are normally lower at development corporations or banks than at commercial banks, a consequence of the fact that the capital is supplied by the Government or the credit by the Central Bank.

If the interest rates are lower, it is either to provide an incentive for investment, or because low rates are necessary for the activity towards which the credit is being channelled, or because the profitability of a project might be affected.

There are many examples of low interest rates being granted as an incentive: to promote non-traditional exports, or exports in general; to decentralize economic activities by means of preferential treatment, for investments in certain regions or areas of a country; as a means of fostering industrial estates; or as a direct measure in favour of a given sector or economic activity.

In the second case, that is to say, where resources are provided for a certain activity, low interest rates are legislated or provided for not just as an incentive but as an absolute necessity. Agriculture, particularly in countries like the majority of Latin American countries, is the most obvious case. This is even more so when a policy of agrarian reform is undertaken, since as a general rule those who get the land are peasants with no capital of their own; they must have credit in order to start or continue farming, with the additional phenomenon that the food products which they normally grow are subject to price control, to protect the consumer, which seriously affects the results of their efforts. It should be recognized that the profit margin is extremely low and as a result the interest rate on money lent them is of decisive importance.

There may also even be psychological reasons which provide real grounds for differential interest rates.

Finally, we should mention situations which affect the project's profitability.

In principle we feel that in view of the few sources of funds, to which there is no alternative, anybody needing money, precisely on account of that need, attaches only relative importance to the rate of interest, and applies for the loan anyway. However, this factor must not seriously affect the profitability of a project, and that must be taken into account by the development institution.

These arguments, combined with the very nature of such organizations, whose particular function is to promote and develop, clearly indicate in our opinion that their objective can in no way be tied or limited to raising resources on the domestic capital market or from external sources, because in view of their importance for the country's economic development they must have financial independence and stability, which are precisely what capital contributions from the State or credits from the Central Bank provide.

To sum up, we must understand that promotion and development work cannot be conditioned or limited by disadvantages and difficulties in attracting resources on the domestic market; and that a certain type of resources is required in the form of a capital contribution or at low rates of interest, as a permanent and stable source of funds, if the organizations in question are to be operative.

Given that the capital market in Latin American countries at present is limited, if they are to be able to provide promotion credits, with suitable periods, at incentive rates and to cover the major risks incurred by this type of investment, the two types of resources referred to, namely, government constitutions in the form of capital and Central Bank constitutions in the form of loans, are essential for the region's development financing institutions.

Finally, if it is assumed that the Central Bank loans are to be granted within a previously determined programme, a monetary programme which has been formulated in accordance with a plan for increasing the money supply and for a fixed period, we must conclude that there are no inflationary risks involved in adding these resources to the system's liquidity.

Investment of funds

The investment that follows upon the attraction of funds, is its basic and complementary counterpart, forming, as has been said, the backbone of economic development.

Investment is the transfer of savings to the investor, and it takes place through institutions making up the capital market, to which Governments, enterprises and private individuals come in search of funds.

There are two aspects directly connected with investment which, within the framework of the following general ideas on the topic, will be commented upon further with a view to stimulating a broader exchange of views: they are the priorities in the allocation of funds and the security given for loans.

We shall begin by stating that economic development requires a proper channelling of investment towards the sectors having greatest priority. A low level of investment can be the result of a scarcity of funds, of the economic environment which channels savings towards unproductive uses, or of inadequate opportunities to utilize savings in a productive manner.

Traditional financial intermediaries meet the demand for financial services and resources from customers of known solvency engaged in established activities, who entail a lower credit risk. Development financing institutions, on the other hand, have to channel a great part of their resources towards the establishment of new economic activities necessary for development - activities which will increase re-investment, produce goods and services, and generate employment; such investment carries with it a greater credit risk.

Development loans are a delicate matter, even in the most favourable circumstances, because there is always lurking in the background the shortage of funds and the difficulty of attracting them. Development loans require the work of specialized staff in market analysis, production, engineering, economics and other skills for project evaluation. Many development financing institutions in Latin America lack such staff or have only a few of them, which obliges them to act conservatively. This frequently causes investment to gravitate towards loans involving less credit risk, towards existing enterprises requiring, as a rule, working capital.

This situation, which is all too common in the region, raises tho problem of the allocation, by development financing institutions, of resources essential for development in countries such as those of Latin America.

This problem also involves certain questions which in our view have to be clarified, because the conclusions reached will determine the criterion to be applied in regard to the functions and objectives of development and promotion bodies.

These questions are: what is the role of the financial sector, and particularly of development institutions, in the country's over-all development plan? and is the development financing sector, or should it be, autonomous in its decisions, particularly in regard to the allocation of funds?

In developing countries, where there is nearly always a shortage of funds, the efficient use of them is a matter which must be given the greatest priority; this, of course, leads us to the field of planning, i.e. the plans, goals and objectives laid down by the Government for the country's economic development.

It has already been said that to ignore reality is to go against the basic function of a development organ; and it can be assumed, beyond any doubt, that development plans, which are based on the evaluation and analysis of reality as a starting point for framing and drawing up programmes which make it possible to achieve an organic, general and progressive development, constitute - or should constitute - mandatory guidelines for the activities of development banks or corporations, because the latter are after all financial instruments designed to help achieve the goals established by Governments; this includes purely private bodies, because the general interest must not be subordinated to private interests.

Thus the link between a development bank and the development plan is close and inescapable in countries like ours, where maximum co-ordination of activities and resources is essential.

Consequently, autonomy of decision in regard to the allocation of funds handled by, or available to, development institutions is valid in so far as such decisions are taken within the framework of the guidelines laid down by Governments directly or through their development plans.

This does not mean adopting a rigid attitude, nor does it imply any disregard for the need for administrative autonomy as a basis for the operational efficiency of the institutions.

Another aspect of the investment or allocation of funds is the importance attached to the security. There is no need to go very far into the matter to realize that the principal factor determining the decision of the people who grant loans is the liquidation value of the security.

This approach, appropriate to commercial banking, is detrimental to the work of development financing institutions. But although it is an established practice, the reason behind it is to a large extent the difficulty of obtaining funds and the instability of financial markets, which makes it necessary to take the greatest precautions to cover the risks entailed in such situations.

We are also aware of the difficulty which these institutions have in making the need to invest funds in priority development activities compatible with the need to make them sufficiently profitable to bring an adequate return to the provider of the funds and to cover the cost of the services involved in their transfer.

Such compatibility is achieved through the correct evaluation of investment projects; and although this involves some cost, usually varying between 1 and 2 per cent of the total investment involved in the project, it yields in return a very high degree of certainty as to its feasibility and profitability.

This brings us round to the view that the best security is a sound investment project.

It is also important to consider the capital cost of the resources which are to be assigned to development projects. We have mentioned the need to channel individual and family savings, but these savings have to be attracted by a sufficiently encouraging rate of interest which at least covers the loss of purchasing power, so that savers will sacrifice present consumption to the expectation of greater consumption in the future.

If this were the only source of finance, the capital cost which would have to be charged to the project would be equal to the rate of interest paid to savers plus a percentage covering the cost of maintaining the institution. There are, however, a number of different sources of finance, which makes it necessary to establish a weighted average as the capital cost. The cost thus obtained would be the rate of interest to be applied to the financing of projects.

However, it has already been argued that economic development requires that encouragement should be given to specific economic sectors and that investment should be made in specific types of enterprises at rates of interest lower than the economic rate. In such cases, it is the community as a whole which bears the difference in interest rates as a social cost, and which actually subsidizes the process from the macro-economic study and projection stage down to the specific project stage. There are not enough projects of the required quality and with the right distribution, and this is a serious obstacle to the work of banks and development financing institutions.

"Hence the need to intensify pre-investment activities and to improve their implementation. Pre-investment can be defined as the sum of the activities designed to identify investment opportunities, to select those of greatest relative value, and to prepare the projects which have been included in the investment programmes."8/

Returning to the project itself and to our assertion that it is the best security for investment, we must add that the work of a development institution should not be limited to evaluation but should be continued in the form of what is known as "follow-up", i.e. a constant watch over the progress of the project and the correct and satisfactory use of the funds invested.

Working along these lines, we may even consider specific kinds of technical assistance, in the form of advice on financial, accounting and even administrative matters; but not on the management of the business, because that could mean responsible involvement without full control, which, in addition to detracting from the value of the assistance, might lead to a dangerous situation.

This "follow-up" work can be greatly assisted by the performance of commercial banking operations for the borrowing enterprises, because the very frequency of such transactions - discounting paper, current account operations, etc. - is useful for the identification and classification of problems with a view to anticipating them or preventing them from occurring.

2. <u>Development of business ability</u>

There is more to economic development than the attraction and investment of funds in accordance with a policy formulated with that aim in view. At the centre of the process, as its author and principal agent, is the man who thinks out, promotes and directs the complex machinery of progress.

The degree of development to be attained depends on the level of the men concerned, or rather, on their level of training and ability. And ability is a yardstick which is as valid for manual work as it is for technical, scientific and managerial work.

Thus, in our age, know-how, made complex by the impressive advance of science, which is its antecedent and its consequence, has become, in the economic field, the greatest productive resource.

8/ Tulio de Andrea, op.cit.

"In the Latin American countries," Humberto Diaz says, "the scarcity of financial resources is not the only factor restricting faster economic and social development; another factor is the lack of business talent, of the ability to organize and manage production units. Consequently, the provision of financial resources cannot be the development banks' only contribution; they should also contribute to the growth of business ability."

A development institution has, therefore, a dual function in regard to business ability: training its own management personnel, and helping with the training of those who make use of the funds which it supplies and, in general, the staff of enterprises engaged in programmes of major scope.

The management of a development financing institution is not an easy matter, since it requires, apart from what we might call specialized knowledge, creative intelligence, analytical skill, receptivity to change, the right psychological disposition, and a belief in the objective and aims of its work. Thus, to the ability of the man we have to join the quality of the individual.

3. Technological development

Another function which has been assigned to development financing institutions is the transfer of technology.

These institutions, when engaging in financial operations, also contribute technology, so that they are responsible for the transfer of technology.

This transfer of technology is no easy task. It has to be adopted to the conditions, absorption capacity and requirements of the milieu; and the technology is protected by various kinds of barriers which have to be overcome and which are very often far beyond the control of the developing countries.

Moreover, everybody now agrees that knowledge is advancing at an impressive rate, rendering obsolete today the technological achievements of yesterday. This means that the gap between the developed countries, which produce and sell technology, and the developing countries, which need it and buy it, is constantly widening, thereby creating a state of dependence which is made more acute as technology advances and becomes more complicated, sophisticated and costly.

As the technology available in the countries of the region is inadequate for the tasks of development, the development institutions have to assume a positive role and give guidance in the introduction of new technology, they are undoubtedly better placed than any individual person or businessman; in addition, they can obtain better information on alternatives.

There is still one further step that could be taken, namely, to provide support for scientific and technological research through the establishment of specialized centres or through contributions to institutes and universities.

This is a field which banks and development financing institutions in Latin America have hardly touched, if at all, but the range of possible results is presumably of enourmous importance for any country which is seeking to develop.

4. **Promotion**

Although this is a basic function of development institutions, we have not included it in the foregoing list and exposition of functions precisely because it has to be accorded special importance, since, in the conditions obtaining in almost the whole of Latin America, there can be no development without promotion.

It has been stated that the fact that there are unexploited opportunities for investment, despite the existence of savings, suggests that a lack of demand for capital can be as serious an obstacle as a lack of supply. In fact, the shortage of available capital in the developing countries is closely connected with the shortage of enterprises possessing the technical skill to plan and operate an enterprise and also possessing executive talent. The lack of technical or executive competence in the planning and operation of an enterprise can also inhibit productive investment, particularly when the financial resources required have to be obtained in the form of a loan or otherwise from individual savers or institutions. Most probably, inadequate or poor management of an investment reflects a combination of these factors, since they are rarely found in isolation.

To overcome these difficulties or negative factors is not at all easy; it calls for talent, imagination and adaptability on the part of those in charge of development institutions and in the ideas and programmes which they may put into effect in order to promote investment and the establishment of enterprises, especially those which are of priority importa ce for development.

A development financing institution must be an activist institution, without any fear of change; it must, on the contrary, originate change, since there can be no development without new ideas.

Promotional work must be understood in the same way as the direct work of an entrepreneur, i.e. taking the initiative with regard to the establishment of a business and starting it up.

Among the promotional activities which a development financing institution can undertake, the following may be mentioned:[2]

1. The organization of general industrial inquiries and feasibility studies on special projects;
2. The formulation of specific proposals for new enterprises;
3. Helping clients or investors to find technical and business partners;
4. Investing in the share capital and guaranteeing issues of securities so as to attract other investors;
5. Organizing mergers, in order to create more economic industrial units;
6. Developing the capital market by activities designed to broaden the ownership of enterprises and by other means;
7. Encouraging the acceptance of new ideas in the economic sector.

Development financing institutions are not, of course, the only promotional bodies in the less advanced countries. Their activities are carried out in response to the general desire to overcome under-development, and they must therefore be co-ordinated with those of other institutions pursuing the same aim.

Development financing institutions, moreover, maintain different kinds of links with enterprises, from the simplest kind of debtor-creditor relationship through intermediate arrangements such as minority or majority share-holding. In doing so, they not only risk their own capital and prestige, but also induce third parties to do the same, so their responsibility in this connexion is very great.

This responsibility makes it necessary to promote and improve the pool of suitable managerial staff, both within their own organizations and in the enterprises which they promote. Assistance by a development financing institution to the enterprises which it sponsors should be given whenever it is necessary and not when it is not; the important point is to attain the objective which is sought when enterprises are promoted and established; thus administration by the financial institution becomes merely a means and not an end in itself.

This approach is intended not only to make development financing institutions more efficient, but also to produce a surplus of talent and ability in order to make the development process more productive.

2/ "Las Compañias Financieras de Desarrollo", essay by E.T. Kuiper, D. Gustafson and P.M. Mathew.

TABLE [illegible]

RESOURCES OF THE PUBLIC AS A SOURCE OF INTERNAL FINANCE: SAMPLE OF [illegible] DEVELOPMENT BANKS

COUNTRIES AND INSTITUTIONS	TOTAL RESOURCES AND RESOURCES OF THE PUBLIC	Resources of the public as a percentage of internal resources Internal resources as a percentage of total resources				
		1967	1968	1969	1970	1971
ARGENTINA						
- Banco Nacional de Desarrollo	Total internal resources	71.[illegible]	75.6	[illegible].2	[illegible].4	[illegible]
	- Total resources of the public	62.[illegible]	58.[illegible]	[illegible].2	[illegible].4	[illegible]
	- Sight deposits	[illegible].4	[illegible].4	3[illegible]	[illegible]	20.[illegible]
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	[illegible]	51.2	53.5	[illegible]	4[illegible]
- Banco de la Nación Argentina	Total internal resources	89.2	88.9	98.4	89.[illegible]	[illegible]
	- Total resources of the public	79.6	81.3	81.[illegible]	[illegible]	[illegible]
	- Sight deposits	39.0	41.9	40.[illegible]	4[illegible]	4[illegible]
	- Savings deposits	25.2	27.4	30.6	30.[illegible]	[illegible]
	- Time deposits, bonds, etc.	45.4	12.0	10.8	[illegible]	[illegible]
BRAZIL						
- Banco de Investimento Industria do Brasil	Total internal resources	----	75.9	78.[illegible]	[illegible].4	[illegible]
	- Total resources of the public	----	49.1	50.8	52.[illegible]	[illegible]
	- Sight deposits	----	----	----	----	----
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	----	49.1	50.8	[illegible]	[illegible]
COLOMBIA						
- Caja de Crédito Agrario Industria y Minero	Total internal resources	84.2	83.5	83.9	[illegible]4.4	[illegible]
	- Total resources of the public	53.[illegible]	54.2	51.[illegible]	[illegible]	[illegible]
	- Sight deposits	11.3	10.8	11.[illegible]	[illegible]	[illegible]
	- Savings deposits	27.5	27.3	26.4	2[illegible]	[illegible]
	- Time deposits, bonds, etc.	14.9	16.1	13.[illegible]	[illegible]	[illegible]
- Banco Cafetero	Total internal resources	70.8	67.8	[illegible]3.3	[illegible]	[illegible]
	- Total resources of the public	80.3	78.1	[illegible]3.9	[illegible]	[illegible]
	- Deposits	73.0	69.0	[illegible]	[illegible]	[illegible]
	- Savings deposits	[illegible].3	9.[illegible]	[illegible]	[illegible]	[illegible]
	- Bonds, etc.	----	----	----	----	[illegible]
MEXICO						
- Nacional Financiera	Total internal resources	38.4	38.[illegible]	40.[illegible]	[illegible]	[illegible]
	- Total resources of the public	[illegible]	[illegible]	[illegible].4	[illegible]	[illegible]
	- Sight deposits	----	----	----	----	----
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	[illegible]	[illegible]	[illegible].4	[illegible]	[illegible]
- Financiera Comermex S.A.	Total internal resources			[illegible]	[illegible]	[illegible]
	- Total resources of the public			[illegible]	[illegible]	[illegible]
	- Sight deposits	----	----	----	----	[illegible]
	- Savings deposits	Not available	Not available	----	----	----
	- Time deposits, bonds, etc.			[illegible]	[illegible]	[illegible]
- Sociedad Mexicana de Crédito Industrial S.A. SOMEX	Total internal resources	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Total resources of the public		[illegible]	[illegible]	[illegible]	[illegible]
	- Sight deposits		----	----	----	----
	- Savings deposits		----	----	----	----
	- Time deposits, bonds, etc.	Not available	[illegible]	[illegible]	[illegible]	[illegible]

TABLE 1 (continued)

[illegible] OF THE PUBLIC AS A SOURCE OF INTERNAL FINANCE: SAMPLE OF [illegible] DEVELOPMENT BANKS

[illegible]	TOTAL RESOURCES AND RESOURCES OF THE PUBLIC	Resources of the public as a percentage of internal resources / Internal resources as a percentage of total resources				
		1967	1968	1969	[illegible]	[illegible]
[illegible]						
[illegible] de Perú	Total internal resources	28.5	38.[illegible]	42.[illegible]	[illegible]	
	- Total resources of the public	21.2	42.[illegible]	[illegible]	[illegible]	[illegible]
	- Sight deposits	19.6	41.[illegible]	43.[illegible]	[illegible]	[illegible]
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	[illegible].6	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Total internal resources	39.3	[illegible]	[illegible]	[illegible]	[illegible]
	- Total resources of the public	36.3	40.[illegible]	[illegible]	[illegible]	[illegible]
	- Sight deposits	13.[illegible]	18.[illegible]	[illegible]	[illegible]	[illegible]
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	21.[illegible]	[illegible].4	[illegible]	[illegible]	[illegible]
[illegible]	Total internal resources	13.9	[illegible]	[illegible]	[illegible]	[illegible]
	- Total resources of the public	90.8	94.	[illegible]	[illegible]	[illegible]
	- Sight deposits	----	----	----	----	----
	- Savings deposits	----	----	----	----	----
	- Time deposits, bonds, etc.	90.8	94.	[illegible]	[illegible]	[illegible]
[illegible]	Total internal resources	4[illegible]	48.4	[illegible]	[illegible]	
	- Total resources of the public	43.[illegible]	34.[illegible]	30.[illegible]	[illegible]	
	- Sight deposits	3[illegible]	14.[illegible]	[illegible]	[illegible]	Not available
	- Savings deposits	----	----	----	----	
	- Time deposits, bonds, etc.	[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]						
- Banco Financiera Hondureña	Total internal resources	Not available	Not available	[illegible]	[illegible]	[illegible]
	- Total resources of the public			38.4	[illegible]	[illegible]
	- Sight deposits			----	----	[illegible]
	- Savings deposits			----	----	----
	- Time deposits, bonds, etc.			[illegible]	[illegible]	[illegible]
PANAMA						
- Banco Nacional de Panamá BNP	Total internal resources	[illegible]	86.[illegible]	[illegible].4	[illegible]	
	- Total resources of the public	[illegible]	14.[illegible]	[illegible]	[illegible]	[illegible]
	- Sight deposits	65.8	[illegible]	[illegible].4	[illegible]	[illegible]
	- Savings deposits	----	----	----	----	[illegible]
	- Time deposits, bonds, etc.	30.0	[illegible]	[illegible]	[illegible]	[illegible]
COSTA RICA						
- Banco Nacional de Costa Rica	Total internal resources	Not available	66.1	[illegible].3	[illegible]	[illegible]
	- Total resources of the public		84.[illegible]	[illegible]	[illegible]	[illegible]
	- Current deposits		68.2	[illegible]	[illegible].9	[illegible]
	- Savings deposits		0.4	[illegible]	[illegible]	[illegible]
	- Time deposits, bonds, etc.		15.[illegible]	[illegible]	[illegible]	
NICARAGUA						
- Sociedades Financieras de Inversión	Total internal resources	[illegible]	34.4	[illegible]	[illegible]	
	- Total resources of the public	42.8	45.[illegible]	44.[illegible]	[illegible]	
	- Bonds, etc.	42.8	45.[illegible]	4[illegible]	[illegible]	[illegible]
PARAGUAY						
- Banco Nacional de Fomento	Total internal resources	[illegible]	[illegible].9	[illegible]	[illegible]	
	- Total resources of the public	[illegible].9	[illegible]	[illegible]	[illegible]	[illegible]
	- Sight deposits	9.8	[illegible]	4[illegible]	[illegible]	
	- Savings deposits	[illegible]	30.[illegible]	[illegible]	[illegible]	
	- Time deposits, bonds, etc.	[illegible]	[illegible]	[illegible]	[illegible]	

TABLE [illegible]

SOME CHARACTERISTICS OF THE INSTRUMENTS USED BY A SAMPLE OF [illegible] DEVELOPMENT BANKS FOR RAISING FUNDS FROM THE PUBLIC

Name of development bank (country)	Type of instrument	Period	Re-adjustment or monetary correction	Interest (%) per annum	Date of interest payment	Liquidity	Security	Tax treatment or exemption	Institution supervising the issue	Miscellaneous remarks
Nacional Financiera S.A. (Mexico)	Certificate of participation	Indefinite	No	[illegible] and [illegible]	As agreed	Repurchased at par and at sight but in practice the period is agreed with purchasers	General guarantee of institution (portfolio, etc.)	Without exemption since 1972	National Securities Commission	In practice these are placed [illegible] with institutions and [illegible] with the public. In general as temporary investments
Id	Financial Certificates	[illegible] years	No	(a) [illegible] (net) (b) 10 (less tax (c) [illegible] less tax, net, [illegible]) (There were certificates in US$ at 3%, but they are no longer in circulation)	Quarterly	They can be sold by the year (and in fact the Institution repurchases them then at par and sight)	Id	Id. The tax paid on the interest. This is the only tax, since income is not cumulative for tax purposes	Id	There are certificates from [illegible] Mexican pesos upwards, because this is the instrument for attracting popular savings. The ones on sale at the moment are the [illegible] gross [illegible] net
Id	Bonds	10, 11 and 12 years	No	(a) 10.6 gross (9.01 net) (b) 11.8 gross (9.44 net) (c) 13.0 gross (10.4 net)	Monthly	The purchaser undertakes to retain them for one [illegible] before transferring them (Nacional Financiera reserves the right to amortize them as from 4th year	Id	No tax exemption since early 1972. The tax paid on the interest is the only one, since income is not cumulative for tax purposes.	Id	They can be purchased from [illegible],000 pesos the first time and in further instalments [illegible] pesos [illegible] are now [illegible]
FINANCIERA COMERMEX S.A. (MEXICO)	Time deposits	-	No	Not available	On maturity	-	Id	No. The tax paid on the interest is the only one, since income is not cumulative for tax purposes		
Id	Bonds	Indefinite Theoretically, up to 10 years; drawn by lot every [illegible] months	No	9 gross (7.92 net)	Quarterly	Immediate in practice owing to the support given by the issuing company (it repurchases at sight and at par)	Specific security supervised by Bank of Mexico	No	National Banking Commission and Bank of Mexico for security or tax reserves. For approval of issues, National Securities Commission	There are [illegible]

[illegible]	[illegible] instrument	Period	Re-adjustment or monetary correction	Interest [illegible]	[illegible] interest payment	Liquid[illegible]	[illegible]	[illegible] tax exemption	[illegible]	Remarks
[illegible]	[illegible] certificates	a. 2 years b. [illegible] years c. 4 years d. [illegible] years		a. [illegible] b. [illegible]	[illegible]	They are [illegible] transfer[illegible] [illegible] their maturity periods and the finance company [illegible] them easily because they are supervised and registered	[illegible] reserves [illegible] determined [illegible] by [illegible] Vex	[illegible]	[illegible] Vex [illegible]	[illegible]
1	[illegible]	[illegible]	[illegible]	a. [illegible] for "[illegible]" b. [illegible] for "[illegible]"	[illegible]	[illegible] maturity one year but they are endorsable	1	No	[illegible]	a. [illegible] upwards. b. [illegible] upwards.
BANK OF INVESTMENT INDUSTRIAL S.A. INVESTMENT BANK	[illegible]	[illegible] and [illegible]	[illegible]	[illegible] fluctuate [illegible] investor	[illegible] maturity	[illegible] accepted by third parties are turned over [illegible] investors with the institution's guarantee by endorsement		No		[illegible] and check the interest, commission [illegible] released [illegible] instrument [illegible]
1	a. Time deposits b. Certificates of deposit	a. [illegible] months b. [illegible] months	[illegible]	[illegible]	[illegible] maturity	[illegible] are negotiable		No		[illegible]
1d	Mutual funds	Indefinite			Depend [illegible] ment [illegible] dends	Quoted [illegible] stock market	Shares invested [illegible]	No		[illegible] valued [illegible] in accordance with value of shares invested in.
1d	[illegible] funds tax incentives	30% at [illegible] years 30% at [illegible] years 20% at 4 years					Investments made with these funds	N		

Table [illegible] (continued)

Name of development bank (country)	Type of instrument	Period	Re-adjustment for monetary correction	Interest % per annum	Date of interest payment	Liquidity	Security	Tax treatment or exemption	Institution supervising the issue	Miscellaneous remarks
BANCO NACIONAL DE DESARROLLO (ARGENTINA)	Special securities participation account	Indefinite (savings account system)	No	A basic interest is fixed plus an additional interest according to investment yield (the last basic was [illegible]% and the additional [illegible])	Compounded half-yearly	In practice they are extremely liquid (on account of being a savings account system)	Institution's guarantee	No		This is a savings system in which the institution invests the funds raised in industrial company debentures and also, although decreasingly so, in industrial company shares. Investors are usually persons of medium income.
BANCO DE LA NACION ARGENTINA	Savings deposits		No	12%	Not available	Immediate		Not exempt		The interest figure relates to [illegible] it was [illegible]
Id	Time deposits	45–180 days	No	[illegible]4–[illegible]%	On maturity			Not exempt		This instrument is used by the Banco Nacional de Desarrollo Argentina. The interest figures relate to 19[illegible] [illegible] they were 10.0–[illegible]%
C.A. Venezuela de Desarrollo (Cavendes) (Venezuela)	Time deposits	3 to 12 months	No	[illegible]	On maturity	On maturity		No		
Id	Bonds	10 years (drawings every six months)	No	8.0	Monthly	In practice, immediate because they are quoted on stock market (They are in bearer form)	General guarantee of institution plus specific security (10% in Government securities and 90% in a portfolio of first-mortgage loans which can be varied)	Exempt from income tax	Banks Supervisory Board for authorization; agreement of Central Bank is also required	
Banco Cafetero	Savings deposits		No	9.0 [illegible]	[illegible]					
Id	Time deposits	minimum 1 year	No	14.0	On maturity			[illegible]		

Table 2 continued

Name of development bank or entity	Type of instrument	Period	Re-adjustment for monetary correction	[illegible] % per annum	Date interest paid	Liquidity	Security	Tax exemption	[illegible]	Remarks
Caja de Crédito Agrario, Industrial y Minero [illegible]	Savings [illegible]		[illegible]	[illegible]				[illegible] are exempt [illegible] and the interest thereon [illegible] exempt from [illegible] tax		[illegible]
	[illegible]	[illegible] years [illegible] years [illegible] years [illegible] years [illegible]		[illegible]				[illegible]	[illegible]	[illegible] are required [illegible] part of their reserves
Banco Industrial del Perú	Time deposits		[illegible]	[illegible] available	[illegible]			[illegible]		
Id	[illegible] certificates of participation	Not available	[illegible]	[illegible]	Quarterly	[illegible] bearer	General guarantee of institution	[illegible] exempt	[illegible] authorized by Supreme decree	[illegible] certificates of participation [illegible]
Financiera Peruana S.A.	Bonds	[illegible] years series A, which matures in [illegible] 20 years series [illegible] 10 years series [illegible]	[illegible]	10.[illegible]	Not available	Not available	General guarantee of finance company called "without specific security"	Fully exempt since beginning of 1972	Banks Supervisory Board and since [illegible] National Securities Commission	Series [illegible] bonds [illegible] law [illegible] were instituted under this law and series [illegible] bonds current [illegible]. These internal funds have replaced external funds, on which the Government has placed a limitation. In addition, Peru Invest placed substantial amounts of securities of [illegible] industrial enterprises at short and medium term, with guarantee.
Id	Time deposits	1 year (minimum	[illegible]	Not available	On maturity			Id		A start has recently been made in operating with these time deposits [illegible]

Table 2 (continued)

Name of development bank (country)	Type of instrument	Period	Re-adjustment (or monetary correction)	Interest (% per annum)	Date of interest payment	Liquidity	Security	Tax treatment or exemption	Institution supervising the issue	Miscellaneous remarks
Banco Nacional de Fomento (Paraguay)	Savings deposit		No	6.0				No		
Id	Time deposits	(a) Up to 3 months (b) 3-6 months (c) 1 year	No	(a) 6.5 (b) 7.0 (c) 8.0	Quarterly (or compounded quarterly)	On maturity		No		
Id	Contractual savings		No	8.0	Id			No		A contractual savings arrangement in which the saver undertakes to increase his account by regular fixed amounts over a specific period of time.

Notes: (1) The instruments of only 16 of the 17 institutions are given, since those of the Sociedad Mexicana de Crédito Industrial S.A. (SOMEX), in Mexico are the same as those given for FINANCIERA COMERMEX, also of Mexico.

(2) This ratio increases in practice to 1:14 to 1:16, since the investments in loans of more than two years with real estate as security are computed, for these purposes at only 50% of their value.

(3) Until recently (May 1972) only 4% was paid. In addition, interest is calculated on average minimum balances.

ANNEX I

NACIONAL FINANCIERA S.A., MEXICO */

Nacional Financiera, established in 19[illegible], is one of the first development banks to have been set up in Latin America. Also, this institution has from the start been given the fundamental task of promoting the mobilization of internal resources and bringing about the establishment of a real national securities market.

As far as the securities market is concerned, there is no doubt that the high degree of development attained in attracting funds through the issue of various types of instruments has been due to the work done by Nacional Financiera. The high percentage of total securities in circulation accounted for by Nacional Financiera has been falling gradually (between 19[illegible] and 1971 it fell from 2[illegible] to 17 per cent), owing to the impressive increase in funds attracted by private finance companies. It was in fact the institution's pioneering work in this field that has made this development possible and there has been a constant increase in the funds invested in it (over 1[illegible],000 million Mexican pesos in mid-1971), with a consequential impact on the economy, since the greater part of these funds and those of the rest of the financial sector are channelled into productive investment.

It should be pointed out that the prestige of Nacional Financiera has even enabled it to place securities amounting to US$[illegible] million on foreign markets (mainly in the United States and Europe). In its securities operations, as in its other activities, Nacional Financiera has acted in accordance with the Government's monetary and financial policy, which is designed to facilitate the mobilization of internal resources and to avoid inflationary trends.

The success achieved on the securities market has been due to the policy pursued by the institution, which has designed and introduced on to the market different types of securities, adjusting their characteristics to economic conditions in the country and to the prevailing state of the securities market, with a constant attempt to satisfy investors' wishes as to yield, safety and liquidity.

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*/ Extract from Fuentes [illegible] Financiamiento de la Banca de Desarrollo en America Latina, H. Diaz, J. [illegible] and C. Ferner, ALIDE, April 1974.

(a) Historical development of instruments for attracting internal resources

During the first six years of its life (1934-1940), Nacional Financiera, despite having a fairly wide - and even rather vague - range of functions, emerged as the most important institution in the securities market then coming into being. It began by helping to place the first issues of the national debt, which up to that time had been taken almost entirely by the Bank of Mexico, and it played a part in the distribution of road bonds by purchasing them, converting them into other kinds of securities, and buying and selling on the market. In this initial stage it also issued its first securities.

After the Amending Law of late 1940, which gave it specific functions in the field of industrialization and the supervision and regulation of the national securities market, it was able to embark immediately upon more effective work in both fields. In that year it put into circulation its first issue of certificates of participation, a security which marked an important stage in the development of the fund-raising and investment machinery in Mexico. Through the plentiful resources collected with this instrument substantial investments were made in public securities, and financing was provided for the establishment and consolidation of enterprises in basic economic fields.

Since then the institution has introduced a number of different securities on to the market, adapting itself to the economic situation and to market trends. Among these the following should be mentioned:

Financial certificates, both in national currency and in dollars,
Certificates of participation,
Industrial co-ownership certificates,
Bonds.

(b) Total amount placed

From 1937 to 30 June 1971 the institution has "floated" 90 issues of securities on the national market, having a total value of 22,512.6 million Mexican pesos.

The value of Nacional Financiera securities in circulation on the national market from 1960 to 1971 has been as follows, in millions of Mexican pesos:

As at 30 June of each year

1960	2,265.4	1966	6,124.7
1961	2,909.5	1967	6,567.5
1962	3,628.5	1968	7,573.1
1963	5,147.4	1969	8,909.9
1964	5,411.4	1970	10,566.6
1965	5,712.1	1971	13,020.3

(c) Current circulation of securities

At 31 December 1971 the Nacional Financiera securities in circulation amounted to 13,677 million Mexican pesos.

It is interesting to note that by 20 May 1972 the amount of securities in circulation had increased to 14,340 million Mexican pesos. This increase is considerable if it is borne in mind that at the beginning of 1972 the exemption from income tax enjoyed by Nacional Financiera securities was discontinued (the securities of private finance companies were never exempt from this type of tax).

A more detailed analysis of the distribution of investment in the various types of securities between the two dates mentioned above shows that the fall-off in the higher-yielding securities (through maturation) has been more than compensated by the increase in the lower-yielding securities that have been placed in circulation.

The foregoing information shows that a real "savings mentality" has already been formed in Mexico; and Nacional Financiera, in this respect, deserves special consideration and may serve as a model in regard to its decisive role in the formation and growth of the internal market for placing fixed-income securities.

(d) General characteristics of the Nacional Financiera instruments or types of securities

As has already been pointed out, Nacional Financiera's success has been mainly due to the policy of designing and placing on the market different types of securities, adapting and adjusting their characteristics to the state of the market.

Of the instruments currently used, certificates of participation are designed particularly for institutions or enterprises which have a temporary surplus of funds; financial certificates are for attracting small savings (there are certificates of 100 Mexican pesos), and bonds serve to attract the funds of investors having larger incomes and resources.

Finally, it is important to point out that, since the discontinuation of the exemption from income tax on interest previously enjoyed by Nacional Financiera securities, they have been in the same position as the securities issued by private finance companies, as regards both their yields and their other general characteristics. Thus competition in the attraction of funds from the public is now based chiefly on the prestige of the institutions concerned, adequate and prompt attention to the public, and promotion at all levels and in all regions of the country.

ANNEX II

INSTRUMENTS AND MACHINERY IN BRAZIL FOR THE ATTRACTION OF RESOURCES AND THE RE-CYCLING OF FUNDS */

The instruments and machinery used in Brazil for attracting investment funds do not differ substantially from those usually employed in financially developed countries. The following may be cited:

Taxes

These may be federal or state, and are partly allocated to development institutions in the budget.

The tax incentive scheme deserves a separate chapter and will be dealt with later.

Social Security or Capital Funds

Some of these deserve to be mentioned specifically:

(a) Length of Service Guarantee Fund (FGTS), constituted by a treasury account into which enterprises deposit funds intended for the payment of indemnities to their employees - in relation to their years of service - upon their retirement.

(b) Civil Servants' Capital Formation Programme (PASEP), established by Supplementary Law No. 8 of 3 December 1970 and regulated by Resolution No. 1[illegible] of the Central Bank, which is also designed to create a welfare and retirement fund for public employees. PASEP funds are collected monthly by the Bank of Brazil on the basis of a percentage of the income of the civil servants concerned, the conditions being as follows: (1) the Federal Government (1 per cent of such income in 1971; 1.5 per cent in 197[illegible]; [illegible] per cent from 1973 onwards); (2) state governments and municipalities (in the same percentages as the Federal Government); (3) public enterprises, mixed companies or government foundations (0.[illegible] per cent in 1971; [illegible] per cent in 1972 and 0.[illegible] per cent from 197[illegible] onwards). These funds, administered by the Bank of Brazil (on the basis of an annual commission of 1.5 per cent), are used for loans or investment in various sectors of the country's economy. The profits derived from the operation are credited to the accounts of each civil servant, [illegible] per cent being

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*/ Extract from [illegible] Financiamiento [illegible] Desarrollo de América Latina, A. Díaz, J. [illegible] C. [illegible], ALIDE, Lima, 1974.

distributed on the basis of income and 50 per cent on the basis of years of service. This individual distribution is subsequent to monetary correction of the balances accumulated and crediting of an interest rate of 3 per cent on the corrected values.

The profits thus generated in the account of each civil servant may be applied for after a specific period of notice or may be compounded. Withdrawals are justified by personal need (marriage, incapacity to work, house purchase, etc.). In the event of death, the accumulated capital and interest go to the deceased's heirs.

(c) Social Integration Plan (PIS), established by Supplementary Law No. 7 of 7 September 1970 and regulated by Resolution No. 174 of the Central Bank. This is a fund having economic and social aims similar to those of PASEP, but which is formed in private enterprises for the purpose of "involving the personnel in the life and development" of these enterprises. It is aimed at the formation of individual capital, stimulating savings and making possible the accumulation of funds which can be put to use in order to increase the national output.

In this case the funds are collected by the Federal Economic Savings Bank (CEF) or its agents from all private enterprises subject to income tax through funds deducted from the tax (2 per cent in 1971; 3 per cent in 1972 and 5 per cent from 1973 onwards), plus additional contributions based on percentages of the amounts invoiced by enterprises or other similar figures (0.15 per cent in 1971; 0.25 per cent in 1972; 0.40 per cent in 1973; and 0.50 per cent from 1973 onwards). The National Monetary Council may apply correction factors of plus or minus 50 per cent to these percentages.

The personal account savings of employees are accumulated in the same proportions as in the case of PASEP; the use of the funds is similar, as is the monetary correction and the minimum interest applied (3 per cent per annum).

Government securities

Issues made by the Federal Government and placed on the capital market. These securities are "National Treasury Bills" (LTNs) and "National Treasury Re-adjustable Bonds" (ORTNs). The first - LTNs - are not subject to adjustments or monetary correction but bear an attractive interest rate in relation to inflation and are intended to attract funds directly from investment sources, since the minimum nominal value is high (1 million cruzeiros). The second - ORTNs - came into being under Law 4357 (16 July 1964) and are issued by the Federal Treasury with maturity dates between and [illegible] years and a minimum interest of [illegible] per cent per annum calculated on the up-dated nominal value. This security was originally equivalent to 10 new cruzeiros and has been corrected every three months on the basis of variations in the purchasing power of the national currency. Its principal market is among small or medium investors.

Time deposits and certificates of deposit

The former are made for periods of less than one year, generally at commercial banks, savings banks and investment banks. The latter - certificates of deposit - have a minimum life of one year and give rise to a security or negotiable document. In neither case is there any monetary correction, but the fixed rate of interest is attractive in relation to the inflation outlook.

The certificate of deposit, with a minimum value of 1000 cruzeiros, is the typical instrument by which investment banks attract savings, especially if it is borne in mind that the discounting of bills of exchange or acceptances - to which reference will be made later - can be used only for a limited period of time at the beginning of an investment bank's life.

Bills of exchange or acceptances

These correspond to the typical kind of "acceptance" used by banks in the United States of America and underwent a dramatic expansion in the early stages of Brazil's modern capital market and investment banks. At the moment they are more used by finance companies to attract funds.

Other instruments

Mutual fund certificates, mortgage bonds, debentures, shares, etc. are usual on the Brazilian capital market.

Having made this summary of the instruments used, it is important to point out that CMN takes a constant interest in them and makes frequent and flexible corrections to prevent market distortions which might make certain instruments excessively profitable in relation to others. These corrections are made on a pragmatic basis and so far have never been retroactive. A number of persons interviewed in this connexion, have stated: "We prefer to let an operational error enrich some people who take advantage of it rather than, in order to prevent that, introducing changes with retroactive effect, which would make the great majority of investors doubtful about the validity of the terms on which they invested".

The flexibility and pragmatism of the Brazilian monetary authorities' actions should clear up any doubt which might arise from the frequency with which resolutions of the Central Bank are issued and the habitual amendments to previous resolutions which they contain. It might appear that this could give rise to confusion among those operating on the capital market and to uncertainty as to the validity of their programmes and strategies. When some of these operators were interviewed, they pointed out that there was a permanent informal dialogue with the authorities, which means that official resolutions are very rarely unexpected and represent, rather, a consensus based on current experience.

At the moment, through various corrections applied by CMN, a reasonable balance has been reached in the return on the various instruments for attracting savings to which we have referred. Persons versed in the subject-matter who were interviewed stated that the relative popularity of one or other of the instruments among investors seemed to be determined by factors such as: (1) preferences or habits; (2) desire to have a diversified securities portfolio; and/or (3) a greater or lesser degree of willingness to take risks, faced with the alternative of investing at low interest but with monetary correction or at higher interest but with the risk of inflation. In this latter connexion - and by way of example - government ORTNs, which yield a moderate yearly interest with monetary correction, are compared with acceptances, a typically more risky security, in the following table:

Profitability of Securities Acquired 12 Months
Before Date Indicated

Maturity	ORTN	Acceptances	General Price Index
December 1969	22.8	30.3	20.1
June 1970	22.6	29.4	20.6
December 1970	24.0	30.5	19.3
June 1971	23.1	30.8	22.0
December 1971	27.1	30.3	19.5

(Source: Central Bank of Brazil)

Savings trends

If the public's preferences are analysed on the basis of the amounts placed in the principal instruments on the Brazilian capital market between 1967 and 1971, the following results are obtained:

(a) Acceptances are still the most popular instrument with the public, although they are tending to fall in relation to savings deposits, mortgage bonds and time deposits.

(b) Time deposits with monetary correction have practically come to replace time deposits with greater interest but subject to the risk of inflation. Thus in 1967, out of 25.6 per cent invested in this way, 15.1 per cent was subject to monetary correction and 10.5 per cent was not. In 1971, on the other hand, out of 24.8 per cent, 24.3 per cent had monetary correction and only 0.5 per cent did not; in other words, the ratio had changed from 59:41 per cent to 98:2 per cent.

(c) With time deposits, a difference has arisen between those which give rise to a certificate or negotiable document and those which do not. There has been a substantially higher volume of placements in uncertificated deposits, which may lead to one of two conclusions or to a combination of both: (1) Most deposits are made for periods of less than one year, since these do not have certificates; and/or (2) Investors prefer a "passive" yield on their funds to the possibility of negotiating them.

(d) The figures and percentages for ORTNs and LTNs do not permit any valid conclusions to be drawn, since these are instruments used by the Government in accordance with the evolution of monetary policy and its control requirements. Thus, for instance, LTNs are temporary instruments of great liquidity and very short term (1971 average: one month, 13 days) through which it is possible to regulate the liquidity of the economic system by making more sales of LTNs than purchases, or vice versa. With ORTN placements, the principal purchasers are not the public, but banks, under their cash reserve obligations.

The "re-cycling" of funds

What has been explained so far makes it clear that the Federal Government and the governments of the various states of Brazil, acting through the basic organs of the capital market (CMN, Central Bank, BB, BNDE and BNH), protect and control the operation of the system in a strict but flexible manner. The treasury bodies, both federal and state, in addition to collecting their own revenue from taxes and other obligatory contributions, are also concerned with attracting savings through the placing of securities with the public (ORTNs and LTNs, for example). At the same time they seek external credits to supplement their own capacity to accumulate funds.

In addition, under strict qualitative and quantitative control to avoid distortions or excesses, the Government also permits private initiative to do whatever it can to attract internal savings and external credits or contributions.

The combined effort, public and private, forms the country's investment potential, which, through national development planning, has to be channelled into priority activities or zones. In this respect Brazil has sought ways of harmonizing and co-ordinating public and private interests, which it is worth noting, especially when the contrary approach - competition - can prove sterile and in any case detrimental to private effort.

Thus the Government does not directly use the whole of the funds which it receives or attracts, but employs, as agents for dealings in medium-term public funds - internal and external - intended for specific investment programmes, not only BNDE, BNB, BNH or BB but also state or regional development banks, private investment banks and even commercial banks and finance companies. This is what is called "re-cycling" funds.

In order to obtain these "re-cycled" funds, the agents must provide: (1) suitable projects for financing, and (2) their own funds, in a percentage which varies according to the circumstances, as a counterpart to the government funds which are being "re-cycled" to them. Thus, the government sources of development finance flow both through public channels - federal or state - and through private channels, creating complementarity of effort instead of antagonism. In addition, the funds available are multiplied because of the condition that the agent or user need only make a minority contribution in order to use a majority of government funds. The specifically identified funds which agencies of the Federal Government - and some agencies of state governments - "re-cycle" through agents throughout Brazil are innumerable.

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