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07841

UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION

Distr.
RESTRICTED
UNIDO/TOD. 142
6 June 1977
English

ESTABLISHMENT OF AN ANTILLEAN DEVELOPMENT BANK

VC/NAN/76/071

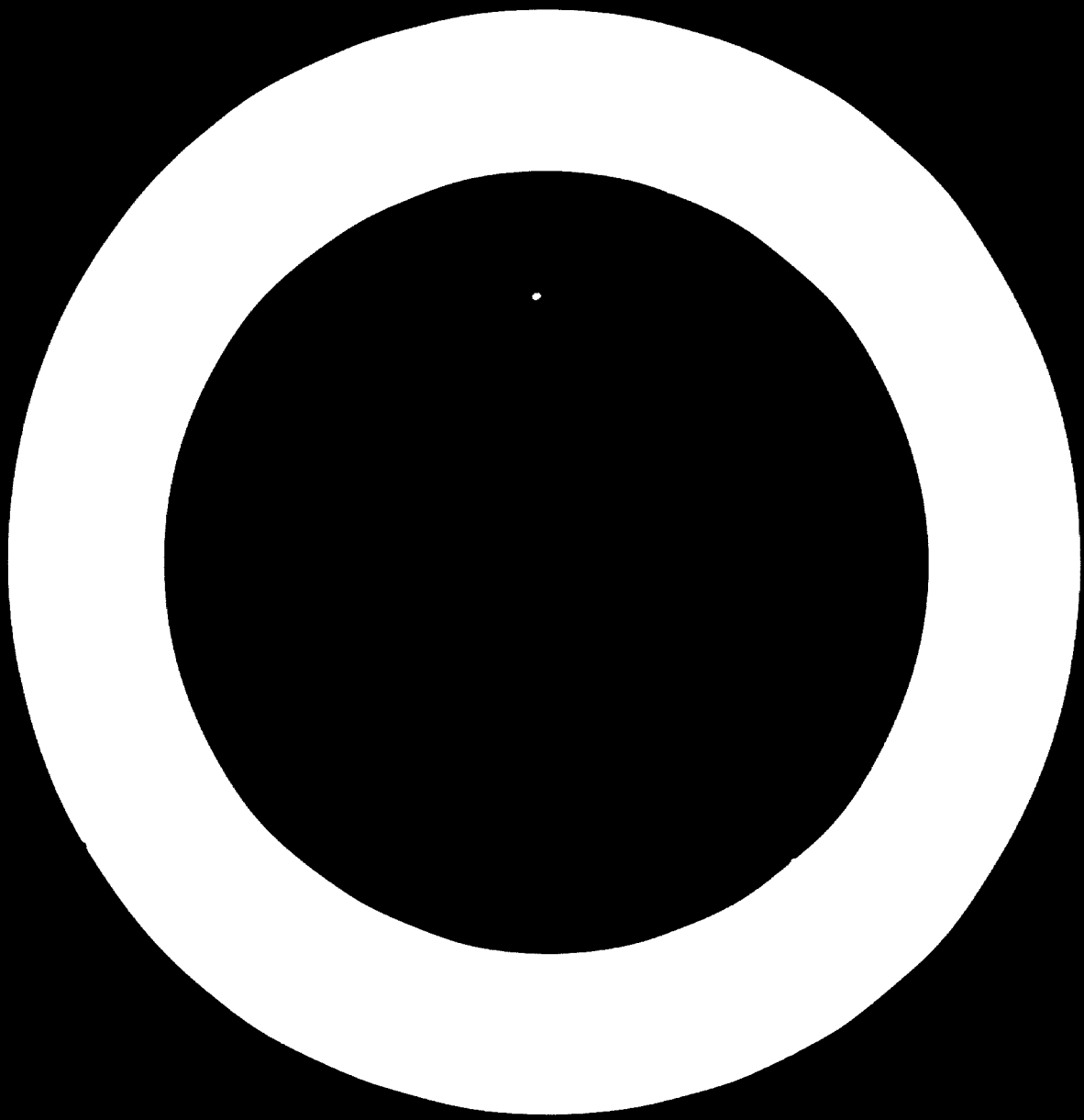
NETHERLANDS ANTILLES

Terminal report

Prepared for the Government of the Netherlands Antilles by the
United Nations Industrial Development Organization

Based on the work of F.J. Flynn, economist

14.77-3800



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Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

The monetary unit in the Netherlands Antilles is the guilder (Ant.f.). During the period covered by the report, the value of the Ant.f. in relation to the United States dollar was \$US 1 = Ant.f. 1.80.

The following abbreviations of organizations have been used in this document:

CODECO	Curaçao Development Corporation
DBA	Development Bank of the Antilles Inc.
IMF	International Monetary Fund

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INTRODUCTION

Background

The Government of the Netherlands Antilles felt there was a need for a centralized financing organization to co-ordinate, promote and finance economic development in the Netherlands Antilles. The need for such an organization was confirmed in various reports, and two reports, by the World Bank and International Monetary Fund (IMF), contained recommendations for the establishment of a development bank.

A local project team, working in close liason with the Minister of Development, produced a document setting out the rationale for the establishment of the Development Bank for the Antilles (DBA).

The rationale document and draft set of articles of association were submitted to the four island territories in November 1976 for comment. The island territories of Bonaire and the Windward Islands have already given written indication of executive approval in principle.

The island territory of Curaçao has given a verbal indication of executive approval in principle.

The Government of the Netherlands Antilles requested the services of an expert to review the rationale for establishing the DBA; comment on the work done by the local project team; and assist the team in refining the articles of association, the organizational structure and assistance required from international sources.

Official arrangements

The Netherlands Antilles submitted to the United Nations Industrial Development Organization (UNIDO) a request for the services of an expert for an eight-week period. The resulting project, for which the budget was \$15,895, was financed from UNIDO Voluntary Contribution, the project started on 5 March 1977 and ended on 28 April 1977.

Project objectives

The objectives of the project were: to survey savings and investment institutions in the Netherlands Antilles; to define the functions of an industrial development corporation, to make recommendations regarding the work of a development corporation; to prepare draft statutes for a development bank; and to elaborate on any technical assistance that might be needed.

FINDINGS

Rationale

The World Bank and IMF reports set out the main reasons for the establishment of the DBA: it would be possible to better organize, promote and finance economic development in the Netherlands Antilles on a centralized basis, and a duly authorized development bank supported by the central Government would ensure that the Netherlands Antilles would have more international assistance available to it than at present.

The limited success of the Curaçao Development Corporation (CODECO) and the Foundation for the Promotion of Small Business, which are supported by the private and public sectors, might seem to indicate that there are not enough projects available to justify the establishment of a development bank. The executives of these organizations have pointed out, however, that their success has been limited by a lack of money and labour rather than a lack of projects. They felt very strongly that the DBA could complement their own activities, which are related to very small business. It is their opinion that, as local entrepreneurs gain confidence in a substantial source of finance like a development bank, more projects will be forthcoming. Although CODECO and the Foundation are under-financed and short-staffed, their experience indicates that many smaller projects are not being started, because insufficient development finance is available or interest rates are too high. CODECO and the Foundation do not have suitable resources to meet current demand. Interviews with bankers, government officials and industrialists confirm the views expressed by the two institutions.

It is often pointed out that the smaller entrepreneurs require considerable assistance in writing up their projects and preparing supporting material. The DBA is designed to provide such assistance.

The Director of the Department of Economic Affairs recently announced that the Department had some 25 import-substitution studies under way. He estimated that the investment required to realize these projects would be between 4 and 5 million guilders. Several industrialists who were interviewed mentioned fairly-large specific projects (capital investment between 500,000 and 6,000,000 guilders) that they were thinking of submitting to the DBA when it came into being. The bankers interviewed were all of the opinion that good, economically feasible projects were foundering because the entrepreneurs could not meet the commercial banking standards for security or the repayment

schedule. They felt that these projects could be financed soundly by a mixture of debt and equity from a source such as a development bank.

Like many other developed and developing nations, the Netherlands Antilles has regional differences between its various island territories. However, these differences do not affect the rationale for establishing a development bank. The decision must depend on the objectives set and whether there is a reasonable probability that they will be substantially achieved. While potential considerations affect the timing of certain steps in the formation of the DBA, questions of timing do not invalidate the two main reasons for setting up the Bank.

It is the considered opinion of the expert that the rationale for the establishment of the DBA, as presented by the local project team, is sound, and that there is already an identifiable role to play for such an institution in the economic development of the Netherlands Antilles. The DBA will have a reasonable probability of success in achieving its objectives if it is properly organized and managed.

Articles of association

Articles of association were prepared locally before the expert took up his assignment and were circulated to the island territories of Aruba, Bonaire, Curaçao and the Windward Islands in November 1976. As a result of discussions with the local project team, minor changes were suggested that reflected more precisely the requirements of the Code of Commerce. The final version will be submitted to the Justice Department of the central Government, which, at the request of the Minister-President, will draft a bill that will be submitted to the Staten (federal legislature). If the bill is approved, the executive branch will be authorized to subscribe in the name of the central Government to the shares of the DBA. The bill (or a sister one) will contain budgetary provisions allocating funds to pay for the shares subscribed to, and granting, if necessary, exemption from certain provisions of the current Central Bank Act.

The final version of the articles of association will also be submitted to the various island territories, where bills will be drafted for submission to the Island Councils to (a) authorize the executive branch of the island territories to subscribe to shares in the DBA, and (b) appropriate the funds to pay for the share subscription.

It was estimated by a prominent local solicitor that the legislative process could take as little as three to four weeks from the time the bills were drafted and prepared for submission to the Staten and the Island Councils. It therefore appears that the articles of association are proceeding smoothly to a workable, final form most particularly suited to the requirements of the Netherlands Antilles.

The DBA and existing financial institutions

An authoritative survey of the financial institutions of the Netherlands Antilles, prepared by the Central Bank, shows that approximately 75% of all the savings placed locally with existing institutions is invested abroad by those institutions. A condensed balance sheet for the institutional investors at the end of 1975 indicates that the amount invested abroad was approximately 317 million guilders. Investment of even 10% of that amount locally would have a marked effect on the local economy.

Since there are already sufficient projects in the Netherlands Antilles to absorb such an amount easily, it is necessary to consider what mechanism would be required to induce institutional investors invest a greater percentage of their funds locally. Discussions on this point with bankers, institutions and industrialists indicated that, to commence such a programme at a significant level, government guarantees of a substantial portion of the loan fund given to the DBA at low rates would be required. As the DBA built up experience and the institutions became more confident of its autonomy and the competency of its management, market-rate funds would not require guarantees, although low-rate funds would. The foregoing may appear at first sight to be no more than a restatement of the obvious - that government loans or loans to the DBA guaranteed by the central Government could command a lower rate. What is significant, however, is the implied expression of willingness to divert a portion of loan funds to the DBA. The mechanisms and guarantees are greatly influenced by experience. The expert's conclusion was that, if the DBA builds up a reasonable body of experience in its first years of operation, the local institutional investors who are at present placing the majority of their investment funds abroad would be willing to place an ever increasing percentage of their investment funds with the DBA.

Although some institutions, such as the pension funds, are prohibited by their charters from participating in the private sector portion of the DBA's equity, others, such as the banks, had no hesitation whatever in expressing

their willingness to participate in the equity of the DBA. No institution would, or legally could, yet commit itself to a specific participation, but the willingness to participate seemed to the expert to be sincere. There appeared to be considerable social pressure on the banks, which have been doing so well in recent years, to give evidence of the discharge of their social obligations. From the support and enthusiasm with which the banks view the DBA project, it appears that they believe the DBA is the appropriate mechanism for the discharge of at least part of those obligations.

One example of the banks' attitude is their recent agreement to provide the island territory of Curaçao with bond financing to pay the purchase price, which is now being fixed by the evaluators, for the OGEM electric company. The amount involved may be some 35 to 45 million guilders and represents, on the books of the banking group, reclassification into long-term (10 year) island territory bonds of existing short-term operating advances to OGEM that are guaranteed at present by OGEM's parent company in Amsterdam.

The banks and other lending institutions have expressed a willingness to channel projects or participation in projects to the DBA. To do so would be good business from their point of view, since the quality of their own participation would be improved. The important thing is that such a device would substantially increase their local project lending and would therefore mean a greater local use of the existing commercial bank deposit base.

During the DBA's first years of operation, it should co-operate with island institutions such as CODECO and the Foundation for the Promotion of Small Business because (a) at an island level, such institutions screen projects initially and (b) human resources are being developed in these institutions.

The articles of association of the DBA provide that it may underwrite share issues. The IMF Report on Capital Markets supports such a concept. In the opinion of the expert, however, such sophisticated arrangements are at least 10 years premature. The DBA should avoid underwriting as such for the present and should act as a syndicator. To do so is feasible and would fill a gap in the financial services provided locally at present. It will be some years before the general public is ready for a stock exchange, and it would take many years before stock exchange could develop the volume necessary to pay its own way.

The DBA should work with CODECO and the Foundation in the small business area on Curaçao. It will have to provide services more directly on the other island territories, at least on Bonaire and the Windward Islands. In these instances it must co-operate with the Federal Bureau of Economic Development, which is responsible at present for providing assistance in project formulation to residents of Bonaire and the Windward Islands. In Aruba, the DBA should work with a local group, should one come into being, for project development in the small business area. For larger projects, it must play a more direct role in Aruba and co-operate with the Aruba island territory Bureau of Economic Development.

There is local expertise available in all the above-mentioned organizations; the DBA should assume a co-operative rather than competitive stance, so as to avoid alienating **these experts**. It may well be that, after a few years, some of these other organizations will **become redundant and the DBA will be able to** make greater use of the human resources available in the island territories. During the initial period, however, co-operation is essential. It must be directly expressed as a policy of the board of directors and communicated immediately to the members of the other organizations and island territory Governments. If this is not done, and if the other organizations and the island territory Bureaus of Economic Development (particularly on Curaçao and Aruba) feel that they are competing with the DBA, the probability of the DBA achieving its objectives will be seriously jeopardized.

Subsequent rationalization of human resources and organizations will depend upon the DBA's success in winning the confidence of local entrepreneurs, the development organizations, and the central and island territory Bureaus of Economic Development. Those involved must be persuaded (a) that the DBA has the qualified management, technical expertise and support staff needed to expand its activities and (b) that the DBA exercises its financial responsibilities and authorities impartially and in accordance with the development aspirations of each region.

The success of the DBA will therefore depend upon the clarity with which the board of directors and the management view and understand these policies.

Personnel and assistance requirements

The local project team prepared functional and detailed organization charts that the expert found satisfactory.

In view of the sensitivity of the position of the DBA vis-a-vis existing institutions, the size of the Bank's initial staff must not lead those institutions to feel that the bank will assume a competitive rather than a co-operative stance. Moreover, although the DBA must be adequately staffed from the outset - and must be seen to be adequately staffed - the initial staff must not be so large as to be an impossible burden on the bank's operating resources.

One approach would be to reduce local operating costs to a bare minimum by utilizing only staff from abroad, whose salaries and expenses would mainly be paid by donor countries or international organizations. This approach would put the bank in the best position to operate as far as reducing operating costs and obtaining the required level of expertise are concerned.

An alternative would be to use foreign staff for a fixed initial period and have local counterparts appointed to whom all skills would be transferred by the end of the initial period.

Both approaches presuppose that (a) no competent local staff are available, and (b) all inexperienced local staff are equally capable of absorbing new skills within a fixed period. The expert feels that these suppositions are not valid and are not compatible with continuity in management. Although the qualified and competent local candidates do not necessarily possess at present all the skills required for the individual job responsibilities, some of them would require very little additional experience.

The expert also believes that it is usually a mistake, albeit sometimes one dictated by political necessity, to present a "local" image by hiring local staff at the beginning who may or may not be qualified or trainable. Local labour laws often prevent the subsequent release of unsuitable employees.

The competent local staff with whom the expert came into contact are already employed by or connected with the organizations with which the DBA would have to co-operate. Although the DBA would do well to employ people who become available, it should not acquire staff initially from existing organizations if to do so might alienate those organizations.

The expert feels that the position of manager can be filled locally. The manager should be of an educational level to command respect, and his formal qualifications should include at least one of economics, finance and business administration. His experience must include some exposure to international organizations dealing with aid, lending and grants. He must be

very familiar with the working of Government at both the federal and island territory levels.

The position of operations manager is the key operating position and the one on which the responsibility for continuity rests. The qualifications of the operations manager must therefore be as broad as possible. The operations manager must be formally qualified in banking, economics, finance and business administration. He must hold an advanced degree in one of these disciplines. His basic experience should have been gained in economics or financial analysis with first-hand operating experience in applying those disciplines in a development-oriented organization. Although he may have gained basic experience in banking or other financial institutions, he must have an entrepreneurial spirit and administrative experience at a senior level of a development-oriented organization. He should probably be 38-48 years old and employed at present as a senior officer in such an organization. Ideally, he should be able to write and speak Dutch, English and Spanish, or should have demonstrated linguistic ability to acquire fluency in those languages. He must also be available full-time for a minimum of three (preferably five) years on a contract basis.

A suitable person might be loaned by an international organization or a donor country for the contract period without having to forfeit his established social security, pension and employment rights. Since it will not be easy to find suitable candidates, the search should begin immediately. UNIDO could be asked to conduct the search.

The working relationship between the manager and the operations manager will be close and constant. The expert therefore feels that the manager should play a key role in the selection of the operations manager, who will be de facto deputy to the manager, at least during his contract period.

When the EEA opens, it must have sufficient staff to establish credibility and handle competently a realistic work-load while working out operating procedures for the type and level of activity that are encountered in practice. The expert recommends that a team of three foreign staff, in addition to the operations manager, should be recruited as soon as possible to fill the positions of chief engineer, chief economist and chief financial analyst. Within their respective disciplines, the incumbents must have middle-level and analytical experience in a development-oriented organization. The team should be engaged for a three-month period to do the following, under the direction of the operations manager:

- (a) Review and organize all available studies on development opportunities in the Netherlands Antilles so as to provide an information base for the establishment of priorities;
- (b) Prepare detailed operating manuals for the operations of the DBA;
- (c) Work with selected local candidates on (a) and (b) and assess their suitability for permanent employment within the DBA;
- (d) Develop loan application forms and procedures most suitable for the DBA;
- (e) Process loan applications received during their assignment period, working with counterpart candidates.

The operations team should be recruited to start its assignment about six weeks before the DBA is expected to commence operations. If a suitably qualified local project evaluation manager is not found within the first three months, one of the operations team might be asked to accept a two-to-three month appointment as project evaluation manager.

The only other staff member who would have to be recruited immediately is the treasurer. Although there are many local staff who would be qualified for the position, they are presently employed in banks, as chartered accountants or in branches of government. A suitably qualified person (chartered accountant) need not have had specific development bank experience if he has a suitably qualified operations manager to advise him. If a local candidate is not available immediately, a foreign treasurer should be employed for no more than a two-year period.

The expert believes that legal counsel from the Netherlands Government should be assigned to the DBA for three months for the initial stages. Although a local solicitor could do the bank's legal work part time after the initial period of organization, a Netherlands solicitor, preferably from the Netherlands' aid program, would be the most suitable candidate for the post.

In summary, the following foreign staff would be required:

- (a) Operations manager for three to five years;
- (b) Treasurer for a maximum of two years;
- (c) Operations engineer for three months;
- (d) Operations economist for three months;
- (e) Operations financial analyst for three months;
- (f) Possibly a project evaluation manager for two years.

The expert was concerned by the possibility that, if the local salary level of the DBA was geared to that of government service, the most suitably qualified local candidates at all levels from the manager down might not be attracted to become DBA employees. The board of directors must recognize that the salary levels in government service on the Netherlands Antilles are not competitive with salaries in the private sector. Since the DBA is to be an autonomous institution, it must be in a position to bid for and acquire the services of qualified Antillians. The board of directors should therefore adopt salary policies that reflect the reality of the market. The board of directors should also review the guidelines for the division and delegation of operating authority prepared by the expert.

Briefing meetings

Although drafts of the rationale and articles of association had been distributed to the island territory governments in November 1976, and the island territories of Bonaire and the Windward Islands had already indicated their approval in principle in writing, it was ascertained that the authorities concerned were not fully conversant with the aspects of the DBA's work. It was therefore decided that a tour of all the islands should be made to explain in greater detail the aims of the DBA and how it would actually operate. Representatives of the administrative and elected arms of Government on each island were briefed in sessions lasting two to three hours.

The briefing material had been prepared in such a way as to first provide an overall view of the organization of the DBA and the rationale behind the organization. It was particularly emphasised that the aims were public in nature but a private company structure was to be used to achieve those aims. The operational independence of the management of the DBA was of great interest to the audience and seemed to provide the reassurance needed to allay expressed and unexpressed suspicions that the DBA would or might favour one island territory more than another, or one island more than another. The briefing material, including handouts of the organization charts and the guidelines for the division and delegation of authority, made maximum use of examples to explain the operating procedures of the DBA and its stance of co-operative interaction with existing institutions.

At every briefing session, a spokesman for those being briefed expressed what the expert took to be a sincere desire that the DBA should be established

as soon as possible, and pledged co-operation and assistance to bring the DBA into being, and to co-operate with it and use its facilities once it was established.

Individuals and groups from the private sector were also briefed. A full presentation was made to the executive of the Chamber of Commerce of Curaçao. The expert gave a two hour lecture to students of the business administration faculty of the University of the Netherlands Antilles.

From the experience of the briefing team and the attitudes expressed, the expert concluded that the DBA has a high probability of success.

Annex I

ARTICLES OF ASSOCIATION
(Distributed draft translation)

NAME, DOMICILE AND DURATION.

Article 1.

1. The name of the corporation shall be:
Ontwikkelingsbank van de Antillen N.V.
When doing business abroad it may call itself "Development Bank of
the Antilles Inc."
2. The corporation, hereinafter called the Bank, is domiciled
3. The Bank is established for an unlimited period of time.

OBJECTIVES.

Article 2.

The objectives of the Bank shall be:

- a. to promote the establishment of projects and enterprises which in
the opinion of the Bank are important for the economic development
of the Netherlands Antilles;
- b. to seek a balanced economic development of the islands of the
Netherlands Antilles.

Article 3.

In order to achieve its objectives the Bank shall inter alia:

- a. make available long and medium term finance for enterprises and projects;
- b. participate in enterprises and projects;
- c. provide technical and administrative assistance and give financial advice;
- d. manage such special funds as may be placed at the disposal of the Bank
with due observance of the provisions of these articles;
- e. further co-operation among other public or private, territorial,
national or international institutions in the interest of the economic
development of the Netherlands Antilles;
- f. undertake such other activities and provide such other services as may
in the opinion of the Bank advance its objectives.

Article 4.

In these articles:

"enterprises" means any business which through its activities makes
an important contribution to the economic development of the Netherlands
Antilles;

"projects" means a financing proposal submitted by a juridical person
engaged in industry or commerce or in the rendering of services;

"economic development":

- a. the development of manufacturing processing and assembling industries.
- b. the development of building construction industries and transport enterprises.
- c. the development of commercial projects in the fields of agriculture, horticulture, animal husbandry and fisheries.

"long and medium term finance" means any loan or guarantee where the obligation of the borrower to repay the principal sum will not have to be discharged sooner than twelve months from the date on which the loan became effective.

CAPITAL.

Article 5.

1. the authorized capital of the Bank shall be NAf.20,000,000.00, divided into shares having a par value of NAf.1,000.00, as follows:
3000 shares A, which may be issued only to the Island Territory of Aruba;
1500 shares B, which may be issued only to the Island Territory of Bonaire;
3000 shares C, which may be issued only to the Island Territory of Curacao;
1500 shares D, which may be issued only to the Island Territory of the Windward Islands;
3000 shares E, which may be issued only to the juridical person The Netherlands Antilles;
8000 shares F, which may be issued only to private institutions.
2. Wherever mention in these articles is made of shares, share certificates or shareholders, such term shall refer to all classes of shares, share certificates or shareholders, unless the text clearly indicates otherwise.
3. On the shares issued, at least 10% shall be paid in; the Board of Directors may make additional calls on shareholders.
4. In virtue of sections 61 of the Code of Commerce of the Netherlands Antilles, the Board of Directors has the right to enter into agreements within the meaning of Section 60 of said Code without instructions from the General Meeting of Shareholders.

ISSUING OF SHARES.

Article 6.

1. Shares shall be issued by the Board of Directors on terms to be laid down by the Board of Directors.
2. The Board of Directors shall issue no shares below par value.
3. When new shares are issued, shares A, B, C, D and E shall be made available to holders of those classes of shares in the same proportion as the authorized capital is divided into those classes of shares. Shares F may only be issued to a number which shall not exceed the total of subscribed shares A, B, C, D and F, divided by 60, multiplied by 40.

PURCHASE OF OWN STOCK.

Article 7.

The shares of the Bank are not transferable, except that the Bank under special circumstances may acquire fully paid-up shares of its capital, provided:

- a. that at least 20% of the authorized capital shall remain outstanding with others than the Bank;
 - b. the total number of issued F-shares shall not, through the acquisition of own shares exceed the total number of issued shares A, B, C, D and E, divided by 60, multiplied by 40.
2. No rights may be exercised on behalf of own shares held by the Bank nor shall such shares be considered when determining the quorum at any meeting.
 3. Own shares purchased by the Bank shall be paid for in cash within six months after the purchase deal and at a price to be fixed by an expert appointed by the Board of Directors and the shareholder in mutual agreement. If no agreement can be reached, the expert shall at the request of the willing party be designated by the Court of First Instance at

SHARE REGISTER.

Article 8.

1. The share shall be registered shares and shall be recorded in a share-register kept by the Board of Directors. No share certificates shall be issued.
The name of every shareholder, the address as stated by him, the number and class of the shares held by him and the amount paid up on each share shall be recorded in the share register.

~~2. Every change in respect of a share shall be recorded in the share~~

2. Every change in respect of a share shall be recorded in the share register and every entry shall be signed by the Chairman and the Secretary of the Board of Directors.

ORDINARY CAPITAL AND SPECIAL FUNDS.

Article 9.

The ordinary capital resources of the Bank are:

- a. the subscribed capital^b in accordance with article 5;
- b. funds raised by borrowings of the Bank;
- c. any other resources which do not form part of the Special Funds of the Bank as referred to in Article 10.

Article 10.

1. The Bank may accept funds for administration as Special Funds for the promotion of its objectives.
2. Every Special Fund accepted by the Bank under paragraph 1 of this Article shall be used in such manner and under such terms and conditions as are stipulated by the Bank and under an agreement to the effect that such fund has been accepted by the Bank for administration;
3. The Board of Directors shall establish such regulations as may be necessary for the administration and use of each Special Fund. Such regulations shall not be contrary to the regulations in these Articles except for those regulations which exclusively relate to the ordinary operations of the Bank;
4. The resources of a Special Fund referred to in paragraph 1 shall also include:
 - a. funds repaid in respect of loans or guarantees financed from any special fund;
 - b. income derived from operations of the Bank, which income accrues to a Special Fund under the terms referred to in paragraph 2.

USE OF RESOURCES AND FACILITIES OF THE BANK.

Article 11.

The resources and facilities of the Bank shall be used exclusively to implement the objectives of the Bank.

Article 12.

With due observance of the regulations in these Articles the Bank may finance or assist in the financing of projects and enterprises in the following ways:

- a. by making or participating in direct loans with its paid-up capital and with its reserves and undistributed surplus or with the Special Funds;
- b. by making or participating in direct loans with funds raised by the Bank in capital markets or borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;
- c. by investment of funds referred to in paragraphs (a) and (b) of this Article in the equity of enterprises;
- d. by guaranteeing, in whole or in part, loans made by others to enterprises and for the benefit of projects;
- e. by underwriting the issue of securities by enterprises;
- f. by acquiring or retaining as part of its assets any securities which the Bank may have to take possession of in discharge of any liability incurred through underwriting any issue, subject to the condition that any securities so acquired shall be disposed of as soon as possible when the Bank can appropriately do so on satisfactory terms.

Article 13.

1. The operations of the Bank shall consist of ordinary operations and special operations.
Ordinary operations are operations financed from the ordinary capital resources of the Bank and special operations are those which are financed out of the Special Funds referred to in Article 11.
2. The ordinary capital resources and the Special Funds of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from each other.
3. The ordinary capital resources of the Bank shall not be charged with, or used to discharge losses or liabilities arising out of special operations for which Special Funds were originally used or committed.
Any losses incurred on Special Funds shall in the first instance be covered by a reserve fund created by the Bank out of its Special Funds specifically for this purpose.
4. Expenses related directly to ordinary operations shall be charged to the ordinary capital resources of the Bank and expenses to special operations shall be charged to the Special Funds.
All other expenses shall be charged as the Board of Directors determines.

Article 14.

1. The total amount outstanding of loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed times the total amount of the subscribed capital and the reserves.
2. The total amount outstanding in respect of a Special Fund shall not at any time exceed the total amount of the resources which are at the disposal of that Special Fund.
3. In the case of loans made with funds borrowed by the Bank, the total amount of principal outstanding and payable to the Bank in a specific currency shall not at any time exceed the total amount of the principal of outstandings borrowings by the Bank that are payable in the same currency.

Article 15.

1. With regard to funds invested in the equity of enterprises out of the ordinary capital resources of the Bank, the total of these investments shall not at any time exceed per cent of the total amount of the paid-in capital and the reserves.
2. In the case of guarantees given by the Bank in its ordinary operations the total amount guaranteed shall not exceed per cent of the total amount of the subscribed capital and reserves.

Article 16.

Funds not immediately required for the ordinary operations of the Bank may be invested in a manner to be determined by the Board of Directors.

THE OPERATING PRINCIPLES OF THE BANK.

Article 17.

The operations of the Bank shall be conducted in accordance with the following principles:

- a. the Bank shall in its operations be guided by sound banking principles and shall finance only economically sound and technically feasible projects and enterprises;
- b. the Bank shall not make loans or undertake responsibility for the discharge or re-financing of earlier commitments made by the borrower;
- c. the operations of the Bank shall provide mainly for the direct financing of projects and enterprises, but may include loans or guarantees of loans made to other legal bodies within the Netherlands Antilles engaged in

financing of economic development, provided the loans or guarantees are related to and used for projects and enterprises consistent with the objectives of the Bank;

- d. the Bank shall seek to maintain a reasonable diversification in its investments;
- e. the Bank shall seek to revolve its funds by selling its investments in equity capital to other investors whenever it can appropriately do so on satisfactory terms;
- f. before a loan or guarantee is granted or an investment in equity made, the applicant shall have submitted an adequate proposal to the Bank and the Management of the Bank shall subsequently have presented a written report with their recommendations on the proposal to the Board of Directors;
- g. in considering an application for a loan or a guarantee the Bank shall pay due regard to the ability of the borrower to obtain finance or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors;
- h. in making or guaranteeing a loan the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be able to meet their obligations under the loan contract;
- i. in making or guaranteeing a loan, the rate of interest, other charges, the securities offered and the schedule for repayment of the principal shall be such as are considered by the Bank to be appropriate for the amount of the loan concerned and for the purpose for which it is granted;
- j. in guaranteeing a loan made by other institutions, or when underwriting an issue, the Bank shall charge a suitable commission or fee for its risk in such guarantee or underwriting;
- k. the Bank shall take all necessary measures to ensure that the proceeds of any direct loan made or of any loan guaranteed or participated in by the bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;
- l. the Bank shall ensure that every loan contract entered into by it, shall enable the Bank to exercise all necessary powers of entry, inspection and supervision of operations in connection with the project to be financed and shall further enable the Bank to require the borrower to provide information and allow inspection of its books and records during such time as any part of the loan remains outstanding;

- m. the Bank shall, when investing in the equity of an enterprise, not seek to obtain a controlling interest, except when the Board of Directors hold this to be necessary for the protection of the interests of the Bank;
- n. the Bank shall not accept loans, Special Funds or assistance that may in any way prejudice, limit, deflect or otherwise alter its objectives.

TERMS AND CONDITIONS FOR LOANS, GUARANTEES AND UNDERWRITINGS.

Article 18.

1. In the case of direct loans made or participated in or loans guaranteed by the Bank or when underwriting issues, the contract shall establish, in conformity with the operating principles set out hereinbefore and with due regard to the other rules of these Articles, the terms and conditions for the loan or the guarantee or the underwriting concerned, including payment of principal, interest, commitment fee and other charges, maturities and dates of payment in respect of the loan, or the fees and other charges relating to the guarantee or the underwriting, respectively.
2. Guarantees by the Bank shall also provide that the Bank may terminate its liability with regard to interest if, upon default by the borrower or any other guarantor, the Bank offers to purchase at par and with interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.
3. Whenever it considers it appropriate, the Bank may require as a condition of granting or participating in a loan that the Island Government in whose territory a project is to be carried out guarantees the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

COMMISSION AND FEES.

Article 19.

1. In addition to interest the Bank shall charge a commission on direct loans made or participated in as part of its ordinary operations at a rate to be determined by the Board of Directors.
2. In guaranteeing a loan as part of its ordinary operations the Bank shall charge a guarantee fee at a rate to be determined by the Board of Directors and payable periodically on the amount of the loan outstanding.

3. Other charges, including commitment fee and commission for underwriting of the Bank in its ordinary operations and any commission, fees or other charges in relation to its special operations, shall be determined by the Board of Directors.

CONSERVATIONS OF THE BANK INVESTMENTS.

Article 20.

1. In cases of default on loans made, participated in or guaranteed by the Bank in its ordinary operations, the Bank shall take such steps as it considers appropriate to conserve its investment including modification of the terms of the loan.
2. Payments in discharge of the Bank's liabilities on borrowings or guarantees chargeable to the ordinary capital resources shall be charged, firstly against any reserve created for this purpose and subsequently, in so far as necessary and at the discretion of the Bank, against other reserves, surplus and capital available to the Bank.
3. Whenever necessary to meet contractual payments of interest, other charges or amortisation on borrowings of the Bank in the course of its ordinary operations or to meet its liabilities with respect to similar payments in relation to loans guaranteed by the Bank and chargeable to its ordinary capital resources, the Bank may call an appropriate amount of the unpaid part of the subscribed capital, with due observance of these articles of incorporation.

GENERAL MEETING OF SHAREHOLDERS.

Article 21.

1. The annual general meeting of shareholders shall be held within four months after the end of every fiscal year.
2. At this meeting at least the following business shall be transacted:
 - a. the Board of Directors shall report on conduct of the business of the Bank during the fiscal year ended;
 - b. the balance sheet and profit and loss account shall be submitted by the Board of Directors in accordance with the rules of Article 28, to be confirmed and adopted;
 - c. the members of the Board of Directors shall be elected;
 - d. a resolution shall be passed on the appropriation of profits shown by the confirmed and adopted annual accounts;

- e. the remuneration of the members of the Board of Directors shall be determined;
- f. a chartered accountant shall be designated to undertake the audit of the accounts and the annual reports and accounts submitted to the General Meeting of Shareholders.

- 3. Special General Meetings of Shareholders may be called at all times.
- 4. A General Meeting of Shareholders may be called by the Chairman of the Board of Directors or by three members of the Board of Directors or by one or more shareholders representing in the aggregate not less than ten per cent of the subscribed capital of the Bank.
- 5. A General Meeting of Shareholders shall be called either by registered letter sent by air mail, or by telegram or telex followed by registered letter, dispatched to the shareholders at the addresses stated by the shareholders for this purpose, not later than twenty (20) days prior to the day of the meeting, not counting the day of dispatch nor that of the meeting.

If the meeting is not called as set out hereinbefore, valid resolutions may only be passed unanimously and on behalf of the total of the subscribed shares.

- 6. The convening notice shall state place, date, time and business of the meeting; no resolution may be passed by the General Meeting of Shareholders on a subject not set forth in the convening notice except by the unanimous resolution on behalf of the total of the subscribed shares.
- 7. General Meetings of Shareholders may be held on Aruba, Bonaire, Curacao, Saba, St. Eustatius or St. Maarten.
- 8. The Chairman of the General Meeting shall be elected by the Shareholders attending the meeting.

The chairman of the meeting shall appoint a secretary to take minutes of the proceedings.

- 9. Unless otherwise provided by law or by these Articles, resolutions of the General Meeting shall be valid if adopted by an absolute majority of votes.
- 10. Every shareholder is entitled to one vote for each share registered on his name.

11. Valid votes may also be given by a shareholder who, in a capacity other than that of a shareholder, will lay any claim on the Bank or who will be released from any obligation to the Bank as a result of the resolution to be adopted.
12. Shareholders may be represented at a General Meeting by a proxy given in written and to the satisfaction of the Chairman of the Meeting, with the proviso that members of the Board of Directors, the Manager and in general persons in the employment of the Bank shall not act as proxies.
13. Minutes shall be kept of all General Meetings of Shareholders and signed by the chairman and the secretary of the meeting.
If the proceedings of the meeting are recorded in an official notarial report, it will be sufficient for the notary public and his witnesses to sign the report.
14. The General Meeting of Shareholders shall be attended by the members of the Board of Directors, the Manager and the auditor of the Bank.
The chairman of the meeting shall decide on the admission to the meeting of persons other than the shareholders or their proxies and the persons specified in the first sentence of this paragraph.
15. Resolutions of the General Meeting of Shareholders may be passed without a meeting if all shareholders agree to such resolutions in writing, by cable, or by telex. The resolutions and the documents evidencing the consent of all shareholders shall be filed with the minutes of the General Meeting of Shareholders.

MEETINGS OF HOLDERS OF ONE CLASS OF SHARES AND COMBINED MEETINGS REFERRED TO IN PARAGRAPH 4 OF ARTICLE 23 AND IN ARTICLE 31.

Article 22.

1. Meetings of holders of one class of shares and combined meetings referred to in paragraph 4 of Article 23 and in Article 31 may be called when necessary or desirable for the discharge of the duty of such meetings.
2. The rules of Article 21 on the General Meeting of Shareholders shall apply correspondingly to the meetings referred to in this Article, it being understood that the provisions of paragraphs 3, 4 and 5 of Article 21 shall not apply to the combined meeting as referred to in paragraphs 4 of Article 23.

THE BOARD OF DIRECTORS.

Article 23.

1. The administration of the Bank rests with the Board of Directors, consisting of not less than five and not more than nine members.
2. The members of the Board of Directors shall be appointed, suspended from office and discharged by the General Meeting of Shareholders; the members of the Board of Directors shall be appointed by the Annual General Meeting of Shareholders from binding nominations stating the names of at least two persons for each vacancy to be filled, in accordance with the following rules:
 - one member from a binding nomination to be submitted by the meeting of holders of shares A;
 - one member from a binding nomination to be submitted by the meeting of holders of shares B;
 - one member from a binding nomination to be submitted by the meeting of holders of shares C;
 - one member from a binding nomination to be submitted by the meeting of holders of shares D;
 - one member from a binding nomination to be submitted by the meeting of holders of shares E;
 - not more than four members from binding nominations submitted by the meeting of holders of shares F;The number of members of the Board of Directors which may be elected from a binding nomination to be submitted by the meeting of holders of shares F shall be determined as follows:
 - one member, if the number of subscribed shares F represents more than 5% but less than 15% of the total of the subscribed capital;
 - two members, if the number of subscribed shares F represents more than 15% but less than 25% of the total of the subscribed capital;
 - three members, if the number of subscribed shares F represents more than 25%, but less than 35% of the total of the subscribed capital;
 - four members, if the number of subscribed shares F represents 35% or more of the total of the subscribed capital.

3. Binding nominations shall be prepared by the meetings of holders of shares belonging to the class entitled to submitting a binding nomination in accordance with the previous paragraph. These meetings shall be held prior to the General Meeting which shall decide on the appointments.
The General Meeting may reject a binding nomination if a resolution to that effect is passed by a two thirds majority of the votes representing more than one half of the subscribed capital.
4. In case no binding nomination was submitted or if a binding nomination was not submitted in time or if the General Meeting of Shareholders rejects a binding nomination, the General Meeting of Shareholders shall be adjourned by the chairman for a period of time -before filling the vacancy - in order to enable a combined meeting of shareholders A, B, C, D and E represented at the General Meeting to prepare a binding nomination. A binding nomination thus submitted may also be rejected by the General Meeting of Shareholders on the strength of a resolution to that effect adopted by a majority of not less than two thirds of the votes given, representing more than one half of the subscribed capital.
5. The members of the Board of Directors shall be appointed for a period of one year which shall end at the time of closing of the Annual General Meeting of shareholders of the next year.
6. Vacancies that occur during a period of office shall be filled by a Special General Meeting of Shareholders with corresponding application of paragraphs 3 and 4 of this Article.
The member thus elected shall sit on the Board of Directors until the time of closing of the next annual General Meeting of Shareholders.
Vacancies lasting not more than three months need not be filled.
7. Retiring members of the Board of Directors may be re-elected.
8. A member of the Board of Directors may be removed from office before the end of his term of office by the General Meeting of Shareholders through a resolution passed by two thirds majority of the votes given, representing more than one half of the issued capital.
9. The Board of Directors may designate one or more members out of their number to maintain regular contact with the Manager.
10. Membership of the Board of Directors shall not be compatible with membership of a legislative body, the Council of Ministers or an Administrative Board of any Island Territory.

Article 24.

1. The members of the Board of Directors shall elect a chairman out of their own numbers and a secretary who may be one of themselves.
2. The Board of Directors shall meet at least once every three months and whenever the Chairman or three of the members consider a meeting to be necessary.
3. A meeting of the Board of Directors shall be called by or on behalf of the Chairman or three members of the Board of Directors at a notice of at least 72 hours (not counting Saturdays, Sundays and official holidays), by a telegram or telex stating place, day, time and business of the meeting sent to the addresses which the members of the Board have given to the Bank for this purpose.
4. A majority of the Board of Directors shall constitute a quorum for a meeting.
5. All resolutions of the Board of Directors shall be passed by absolute majority of the votes given.
A member of the Board of Directors may authorise another member to represent him at a meeting by a proxy given by telegram or telex or in writing.
6. Minutes shall be kept of all meetings of the Board of Directors and signed by the Chairman and the Secretary.
7. Resolutions of the Board of Directors may be passed without a meeting if agreed to by all the members by telegram or telex or in writing.
Such resolutions and the documents evidencing the agreement of all the members shall be kept on file with the minutes of the meetings of the Board of Directors.
8. Unless the Board of Directors resolves otherwise in certain cases the meetings of the Board of Directors shall be attended by the Manager.

Article 25.

1. The duties of the Board of Directors shall be to lay down the policies of the Bank within the framework of these Articles.
2. The Board of Directors shall establish regulations and rules for the Manager and shall give the Manager such instructions as the Board of Directors may consider appropriate for the administration and proper conduct of the business of the Bank.

3. All powers of the Bank shall, subject to these Articles, be vested in the Board of Directors. The Board of Directors shall delegate their powers to the Manager with the understanding that the Manager shall have the power to represent the Bank only on the strength of a resolution of the Board of Directors explicitly authorizing him to perform the following acts:
- a. to acquire, encumber, alienate, let and rent immovable property;
 - b. to contract loans for account of the Bank, except drawing on a loan already contracted by the Bank;
 - c. to commit the Bank for debts of others;
 - d. to institute legal proceedings with the exception of such legal action as cannot be delayed;
 - e. to establish branches and other business establishments;
 - f. to grant general or special powers of procuration to subordinates;
 - g. to grant loans and guarantees;
 - h. to invest in the equity of enterprises and corporations and to dispose of such investments;
 - i. to exercise the right of voting on behalf of shares in the equity of other corporations;
 - j. to assume or discontinue the administration of other enterprises and corporations;
 - k. to provide for a retirement scheme for the staff of the Bank;
 - l. to enter into collective labour agreements.

THE MANAGER.

Article 26.

1. The executive powers of the Bank are vested in the Manager - with the ultimate responsibility resting with the Board of Directors.
2. The Manager prepares annual financial and operational budgets to be approved by the Board of Directors.
3. The Manager shall be appointed, suspended and removed from office by the Board of Directors.
4. The Board of Directors shall determine the Manager's salary and establish his terms of employment.
5. With advance authorization from the Board of Directors, the Manager may appoint ^{an} employee of the Bank to act as his deputy.

FISCAL YEAR, ANNUAL REPORTS AND ACCOUNTS.

Article 27.

The fiscal year of the Bank shall be the calendar year.

Article 28.

1. Within three months after the end of the fiscal year the Board of Directors shall submit to the shareholders an annual report and the Balance Sheet and Profit and Loss Account of the Bank for the fiscal year under review with an explanatory note on the standards applied in the valuation of the assets of the Bank.
2. The annual reports and accounts and the explanatory report shall be accompanied a statement of the auditor of the Bank relating thereto.
3. Confirmation and adoption of the Balance Sheet and the Profits and Loss Account by the General Meeting of Shareholders shall imply approval of the policy of the Board of Directors and shall discharge the Board of any liability for their administration of the Bank during the fiscal year concerned in so far as such policy and administration is evidenced by the confirmed and adopted annual reports and accounts.
4. Separately, the Board of Directors shall submit within three months after the end of the fiscal year to the shareholders an audited annual report, Balance Sheet and Profit and Loss Account concerning the Bank's operation of its Special Funds.

CREATION OF RESERVES.

Article 29.

1. The Bank shall establish a general reserve fund and such other reserve funds as it may consider expedient.
2. In the annual report to the General Meeting of Shareholders the Board of Directors shall make a recommendation for the meeting to decide upon as to what part of the net income of the Bank, shall be appropriated, after making provisions, for reserves and what part, in any, shall be distributed to the shareholders.

APPROPRIATION OF PROFIT.

Article 30.

1. The profit, which shall be understood to be the net income shown by the profit and loss account after allocation to reserve funds in the manner provided by these articles of incorporation, shall be placed at the disposal of the General Meeting of Shareholders.
2. For any year in which the amount of the general reserve fund equals than per cent of the authorized capital of the Bank the distribution of dividends to shareholders shall be limited, but not guaranteed, to per cent of the paid-up capital as at the date of the Balance Sheet.
3. If the Profit and Loss Account for any year reveals a loss which cannot be met from reserves or in any other manner, no distribution of profits shall be made in any of the subsequent years until such loss has been recovered.

AMENDMENT OF THE ARTICLES OF INCORPORATION AND DISSOLUTION OF THE BANK.

Article 31.

The General Meeting of Shareholders may amend these articles of incorporation or dissolve the Bank only on the strength of a unanimous recommendation made by the combined meeting of holders of shares A, B, C, D and E.

LIQUIDATION.

Article 32.

1. Unless the resolution of the General Meeting of Shareholders on dissolution of the Bank provides otherwise, the members of the Board of Directors shall act as liquidators of the Bank.
The provisions of these Articles as to appointment, suspension and removal from office of the members of the Board of Directors, shall apply equally to the liquidators.
2. As far as practicable these Articles shall remain effective during the liquidation.
3. After discharge of all the liabilities of the Bank the amount paid up on each share shall be distributed to the shareholders. The balance remaining after such distribution shall be distributed to shareholders in proportion to the number of shares held by each shareholder.
4. Liquidation of the Bank shall be effected subject to the relevant provisions in Code of Commerce of the Netherlands Antilles

OBSERVATIONS ON THE ARTICLES OF ASSOCIATION

NOTE: These observations on the draft English language version of the Articles of Association have been reviewed with the local project team. Many comments or observations are recorded by way of explanation to an uninformed reader who is not familiar with the Netherlands Antilles. Other observations of a more legal and/or technical nature have been reviewed with Dr. J.A. Schiltkamp who is preparing some alternate Dutch language version drafts for consideration of the local project team.

Art. 1 - The matter of the place of domicile has been left open. It may well be that the location of Head Office may be in Aruba. My own opinion is, that Curacao is the most logical choice, but I concede that the Head Office could well be located in Aruba with a branch office in Curacao causing no detriment to the operations of DBA.

Art. 2 - The more brief a statement of objectives is, the more flexibility is maintained. However, for greater clarity, I would have re-written section a) as follows:
"a. to promote and participate in the financing of new projects and enterprises and the expansion of existing enterprises which" etc.

Art. 4 - Consistent with my observation regarding Article 2, I would recommend that the definition of "enterprises" be expanded to include ".... business, whether in the process of being established or expanded"

I would also recommend that a direct mention be made of the tourist industry in the b. part of the definition of economic development.

Since the provisions of Article 17(b) are very specific, I recommend that the financing of the expansion of existing enterprises be specifically included in Articles 2 and 4 to avoid subsequent conflict with critics of DBA. For instance, paying out a small existing debenture which charges all of the assets of an enterprise is very common in the financing of the expansion of existing enterprises.

Art. 5 - This Article, Article 6 and Article 7 dealing with the capital and classes of shares were designed to ensure that all levels of Government are treated fairly inter alia, and that together they shall always be in a position of controlling DBA vis-a-vis the private sector. Mr. Schiltkamp's office is preparing an alternate Dutch version draft of these Articles whereby they hope to simplify the legal structure while maintaining the intent of these Articles. It must be kept in mind that changes in Articles 5, 6 and 7 may necessitate changes also in Articles 21, 22 and 23.

Art. 9 - The special funds referred to here are not only those special borrowings from international organizations for specific designated purposes or disbursement control, but may also include extraordinary Antillian generated funds such as funds from the oil concession participating agreements designated as surplus to the operating requirements of the Government-owned petroleum company. It could also include all or a portion of the special loan funds received from the Dutch government to encourage small scale industries.

Art. 12 - The aspect of underwriting security issues is an advanced concept considering that no local stock exchange exists, nor is likely to exist within the next decade. Nevertheless, it is wise to include such provisions now rather than later. The powers granted thereunder will be best utilized in acting as a "syndicator" of local debt and equity issues to organize and utilize the resources of the insurance companies, the local pension funds, the banks, and other local investment groups.

Art. 14 - It is recommended that a conservative figure of from 5 to 7,5 times be used in section 1. of this Article until all capital subscriptions have been called and paid in. By that time sufficient experience will have been gained so that the shareholders will feel comfortable with a number in the area of 15 times. Section 3. of this Article passes all exchange risks to the borrower.

Art. 15 - It is recommended to use 10% and 20% in the blanks in Sections 1 and 2 respectively. Again these are conservative and the reasoning stated concerning Article 14 is applicable.

Art. 16 - This treasury function must be delegated, within limits, by the Board to the Manager who will have the Treasurer execute on his behalf.

Art. 17 - Concerning section b., please refer to the observation under Article 4. Although I agree in principle with the necessity of stating this provision, it must also be made clear that this may be permitted to improve security when financing expansion enterprises.

Concerning section e., please refer to comments concerning Article 12. It is premature to suppose that DBA will have a ready market available for equity participations which it may acquire.

Art. 21 - Section 9 will be clarified by an addition that the votes referred to are those votes cast at the meeting, not eligible notes.

Section 11 is required to allow Island Governments to vote even though they may be interested parties and would normally be prevented from voting on the basis of a declaration of interest.

Section 14 must be looked at carefully in the Dutch version so that it cannot be interpreted that the absence of a Director or the Manager or the auditor would invalidate the proceedings at a meeting of Shareholders.

Art. 23 - This seemingly complicated arrangement for nominations is required as a practical necessity to maintain the balance of control between government and the private sector. This may be simplified somewhat by changes to Articles 5, 6 and 7.

Art. 25 - Concerning section 3., see Appendix B for Guidelines on the Division and Delegation of Operating Authority.

Art. 30 - In respect to section 2, I would recommend that the desired effect will be achieved if the figures of 15% and 5% were to be inserted in the first and second blanks respectively.

Art. 31 - The question here is whether the shareholders as a practical matter, since they are mainly representatives of different levels of government would agree to a change in the Articles unless the formal agreement of their respective governments is first formally obtained. It is to be hoped as a practical matter that this course of action would only be resorted to on matters of considerable substance.

GENERAL COMMENT - The local project team led by Drs. C.G. Smits and having as its members Drs. J. Buys and Mr. E.R. Rebeling deserve praise and commendation for the excellent job they did over many hours and long months in preparing the draft Articles of Association. Working from precedents of the by-laws of other development banks, they have prepared excellent Articles of Association in a most craftsmanlike manner, in a form best suited for conditions on the Netherlands Antilles. I offer my sincere congratulations on a job well done.

Annex II

GUIDELINES FOR THE DIVISION AND DELEGATION
OF OPERATING AUTHORITY

(1) Introduction:

It is a basic principle, and a most important one, that the ultimate responsibility for the application of the funds that the Development Bank of the Antilles Inc. (DBA) will work with, rests with the Board of Directors. This principle is well established in the by-laws.

As a practical matter however, it is not possible for the Board of Directors to meet and consider each detail of the day-to-day operations. For this reason, the by-laws provide that the Board of Directors may delegate part of its power to the Manager in a general way, and by specific resolution to do those things listed in Article 25 (3).

The by-laws have established the Objectives of DBA, the Operating Principle of DBA and the mechanism for the delegation of various levels of operational authority.

(2) Operating Roles:

The Board of Directors and the Manager have two basic operational roles: (1) to ensure that the DBA receives sufficient capital and loan funds to operate, and (2) to ensure that the funds which the DBA receives are used in commercially viable and socially desirable projects within the principles and constraints established in the by-laws.

On considering the diverse activities of the Members of a Board of Directors, it is obvious that they must rely to a great extent upon the Manager and his support staff to conduct the day-to-day operations in both basic operational roles within policy guidelines established by the Board of Directors. When an operating matter either requires a new policy decision of the Board of Directors, or if an operating matter concerns either the sourcing of funds or the investment of funds in excess of the authority generally delegated to the Manager, a meeting of the Board of Directors must be called to deal with the matter.

Although Article 24 (2) requires that the Board of Directors meet at least every three months, it is a practical necessity that they will meet more often than that during the start-up phase of operations. In considering the frequency of Board meetings, one must consider "reaction time", and what that means to both the fund raising role and the fund investment role.

(3) Reaction Time:

In respect to the fund raising role of DBA, reaction time is of less importance than it is to a commercial bank, which, as a matter of day-to-day operations must be bidding on the domestic and international markets for deposits of various terms to provide the funds for executing its fund investment role. Unlike a commercial bank, DBA will have no ordinary deposit base. The majority of its funds will be taken on deposit on a term basis or by loan contract.

Therefore, the Board of Directors should, as a matter of policy set a level of authority under which the Manager may contract and accept deposits without the necessity of receiving specific Board approval before the deposit is accepted. Usually, such an authority would be delegated stating an amount of money, the maximum term of such deposits and the range of acceptable interest to be paid.

With such an authority, the Manager is able to react in the domestic and international money markets and accept deposits within the guidelines immediately. It is the nature of such deposit funds that they do not wait around for acceptance. The depositors want their funds to be earning interest immediately.

It is desirable for a development bank to broaden its deposit base by accepting such deposits for two reasons: (1) to increase the funds available for bridge financing, and (2) to gain recognition of its role in the domestic and international money markets.

As the operations activity of the DBA increases, there will be need of such money market deposit funds to provide the bridge financing to initiate projects while longer term, more favourable deposits are being arranged for the permanent financing, i.e. to bridge the time between the commitment of longer term deposits (loans) and their actual receipt.

Therefore reaction time is a factor in this respect in the fund raising role.

In respect to the investment role, the most common complaint about the operations of development banks is that the momentum to establish a project dies very often because of the long time required to get a yes or no answer to an application.

It is necessary to understand that two very distinct time phases are often confused in the criticism levelled on this basis: the first is the time required to prepare an application for assistance in a form, including all the supporting documentation, in which it is capable of being evaluated, and the second is the time spent within DBA in completing the evaluation and reaching a decision.

However, the applicant is very often confused about this distinction. He often feels that simply in talking about his idea or proposal to a staff member of the DBA, he has initiated his application. It is essential for the future relationship of the DBA with the sources of project applications, that all published material concerning the method of making applications spells this out very clearly.

Indeed it is part of the role of the DBA to assist applicants in preparing their proposals and this should be done as expeditiously as possible, but it is not to be considered as part of the reaction time dealt with here.

Specifically, the reaction time being discussed here is the time from the presentation of completed documentation until the applicant has a final answer, whether it be negative or affirmative. There can be no excuse for DBA dragging out this time period. Many development banks actually commit themselves, excepting "special circumstances" to provide a financing decision of the bank within a stated number of days or weeks after receipt of completed documentation.

Reaction time is also effected by the size of the financial assistance required for the project under evaluation and consideration. It ought not to take as long to evaluate and reach a decision on a project of NAF. 10.000 as on a project of NAF. 1.000.000, whether it be straight loan funds one is considering or a combination of equity and loans.

The shorter the reaction time is, the more credibility the bank will have with the entrepreneurs who are the actual source of loan applications. This credibility is important because should the entrepreneur not have confidence that the bank will evaluate and give them an answer on applications within a reasonable time, they will become frustrated and be unwilling to complete the necessary documentation to properly evaluate projects.

Another aspect of reaction time is that when it is likely that the answer will be negative on an application, the entrepreneur should be so informed as soon as possible so that he does not spend unnecessary time and money working on a project for which financing will ultimately not be available from DBA.

Therefore in order to expedite these processes, the Board of Directors should delegate both positive and negative authority to the Manager within reasonable guidelines. This authority should set the maximum total investment in NAF., and, apart from general guidelines as to the balance between equity and loan funds as established in the by-laws, leave the mix of investment up to that maximum level to the discretion of the Manager.

(4) Project Priority:

Although as an operating consideration it may in practice happen very seldom, it may happen that two or more applications are being reviewed by Management which deal with the same type of business. The applications may originate all from the same Island or they may come from different Islands. In such cases, it is clearly the responsibility of the Manager and his staff to make quantitative and qualitative assessments of the various applications on the same subject and to make an appraisal of the market factors which will indicate whether none, some or all of the proposed projects are feasible from a marketing point of view.

However, in such cases where some or one of the proposals only may be accepted for financing, and others turned down, it is most important that the Manager supplies to the Board of Directors the best possible information upon which the Board may make a decision of priority.

When there are conflicting or over-lapping applications for assistance, the Manager is responsible for preparing the best possible information base upon which the Board may make a decision of priority. By their nature decisions of priority are matters of policy, and policy matters are clearly reserved for Board decision according to the by-laws. It is to be hoped that the nature of the Board of Directors of the DBA, composed as it is of both governmental representatives and representatives from the private sector will arrive at decisions of priority expeditiously balancing the interests of the Island Territories, while exercising good banking principles.

(5) Delegation of Authority:

Under Article 25 of the by-laws the policy role of the Board of Directors is stipulated in sub-Article 1.

The general authority for the Board of Directors to delegate power to act to the Manager is contained in sub-Article 2. It is obvious from this sub-Article that it is intended that the Manager will be responsible to the Board of Directors for the administration and the conduct of the day-to-day business of the Bank.

Sub-Article 3, of Article 25 provides that the Board shall delegate its powers to the Manager. This requirement for the Board to delegate its powers to the Manager is general in nature and is only limited by the need for specific resolutions in respect to the matters listed under items a. to 1..

However, the Board of Directors does not necessarily need to pass a resolution of the Board each time a matter of business in any of these classifications arises. It would be more customary operating practice for the Board of Directors to pass a "limits of authority" resolution setting specific limits within which the Manager is free to exercise the authority of the Board of Directors and act for and on behalf of the Bank. It would be prudent for the Board to set rather low limits to start with and raise them thereafter from time to time as confidence grows in the capabilities and experience of the Manager and his technical support staff.

Such a resolution may also provide that the Manager may not sub-delegate certain of these powers, or provide that, in the absence of the Manager from the Bank, certain levels of authority are automatically delegated to the Deputy Manager

It is the responsibility of the Manager to prepare and submit to the Board for their approval, the limits of lending authority that he proposes that individual officers of the Bank ought to have. Since it is the reputation of the Manager at stake, the Board of Directors should never establish limits of authority on officers of the Bank, other than the Manager himself, without prior consultation with and recommendation of the Manager.

(6) Initial "Limits of Authority":

It is suggested that the Board of Directors set rather conservative limits when the Bank is starting operations and experience is being accumulated both by the Board of Directors and the Manager. Therefore, the following could well form part of the initial limits of authority Resolution of the Board of Directors:

"The Manager is hereby authorized, without the requirement of further authorization from the Board of Directors of the Bank to act in his sole discretion for and on behalf of the Bank and the Bank shall be bound by such actions as if each act or acts had been specifically approved by a separate resolution of the Board of Directors and the limits of such authorization shall be as follows:

A. Borrowing, accepting and purchasing deposits - The Manager may borrow, accept and purchase deposits up to a limit of Naf. 100.000 providing that the term does not exceed one (1) year and the interest payable thereon calculated on an annual basis does not exceed by more that two and one-half (2½) percentage points the London inter bank rate on Euro dollars for a like term.

B. Financing Authorization - The Manager may authorize and commit the Bank to make loans, issue guarantees, participate in equity investment, or any combination thereof as may be permitted by the by-laws up to a total combined amount of Naf. 50.000 in any one project and may order the disbursement of such funds on such terms and conditions as he may consider prudent and each such undertaking of the Manager under this authorization shall have been reviewed and approved by the Deputy Manager and/or the Operations Manager or such other

approvals required by the established credit procedures of the Bank, before disbursement of funds.

- C. By-Lay Article 25 sub Article 3 - In respect to sub-sub Articles b., g. and h. of Article 25 and Article 3, specific authorization is as set out in parts A and B of this Resolution.

In respect to sub-sub Article 25.3.c., the Manager may, in the course of the ordinary business of the Bank, issue guarantees up to the limits established in Part A of this Resolution.

In respect to sub-sub Article 25.3.i., the Manager may exercise the right of voting on behalf of shares in other corporations which are owned by the Bank if Meetings of Shareholders of such other corporations are called and held within the period of time between the scheduled meetings of the Board of Directors of the Bank.

This Resolution is not to be construed as extending a general authorization to the Manager to perform the acts described in sub-sub-Articles a., d., e., f., j., k. or l. of sub-Article 3 of Article 25 of the by-laws.

- D. All acts performed by the Manager in exercising the authority granted to him shall be reported to the Directors at the next following regularly scheduled meeting of the Board of Directors."

Social Criterion

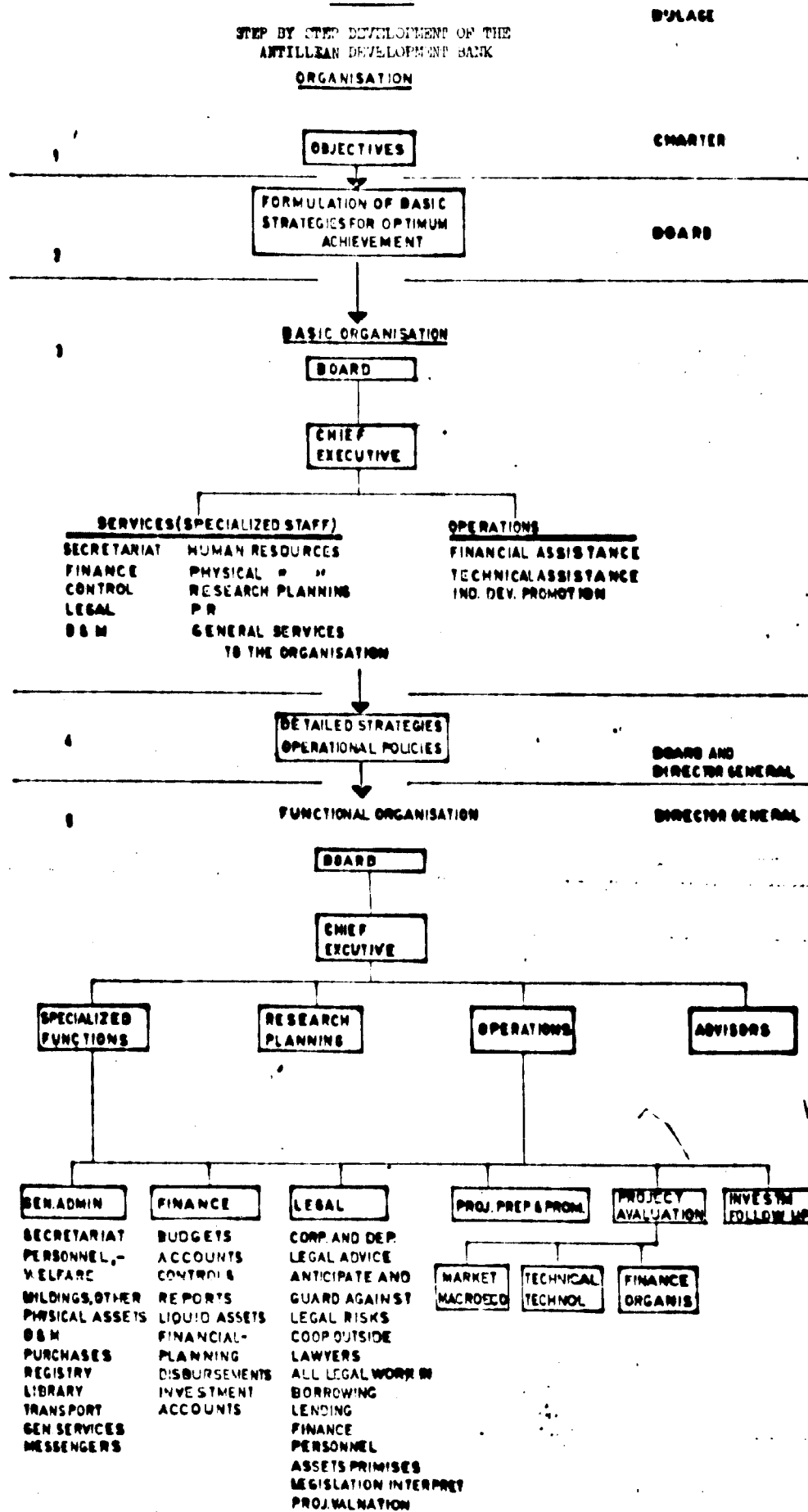
Discussions with the representatives of the Island Territory of Curacao were fruitful and led to the following policy decision criteria to be included in the operating guidelines:

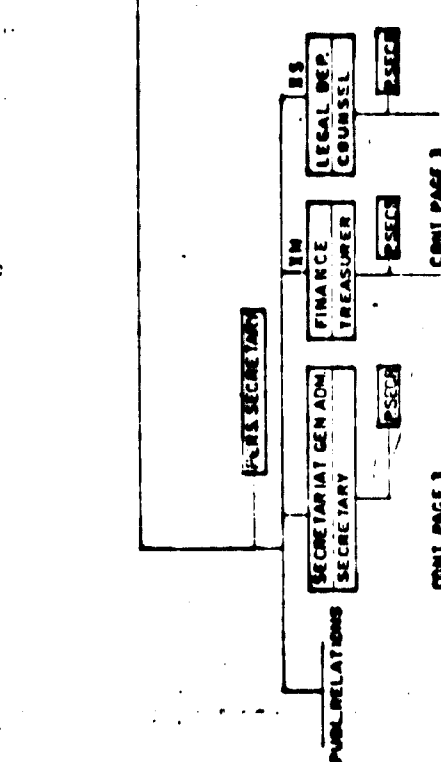
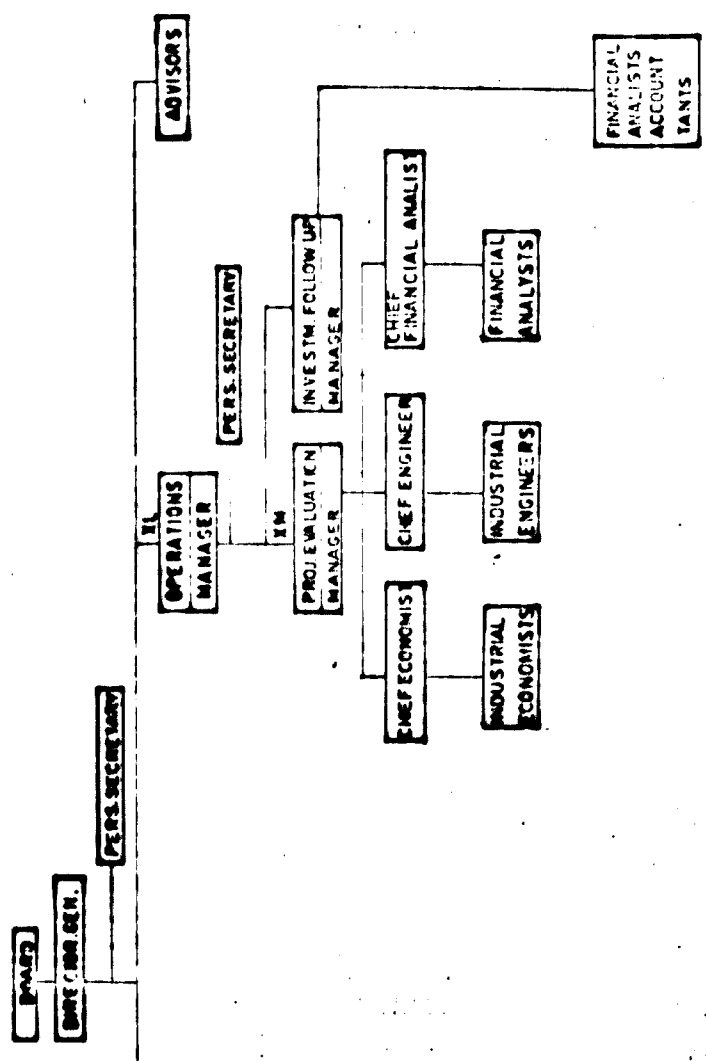
- (1) When evaluating applications for financing, it is incumbent on the Board of Directors and Management to consider whether the application under consideration leads to a greater concentration of the control of the economic affairs of the Netherlands Antilles in the hands of any single individual, group, corporation or corporate group, and whether the impact of that greater concentration of control has a positive or negative economic and social impact in the long run.
- (2) Guarantees should not be requested from the Island Territories simply to improve the security of a particular financing package; rather they are to be requested generally when all or a portion of a particular application requires expenditures that are considered to be of an infrastructure nature within the area of responsibility of the Island Territory.
- (3) "Enterprises" is to be interpreted by the Board or Directors and Management as including service industries connected with the broad classification of specified activities.

Annex III

STEP BY STEP DEVELOPMENT OF THE
ANTILLEAN DEVELOPMENT BANK

ORGANISATION





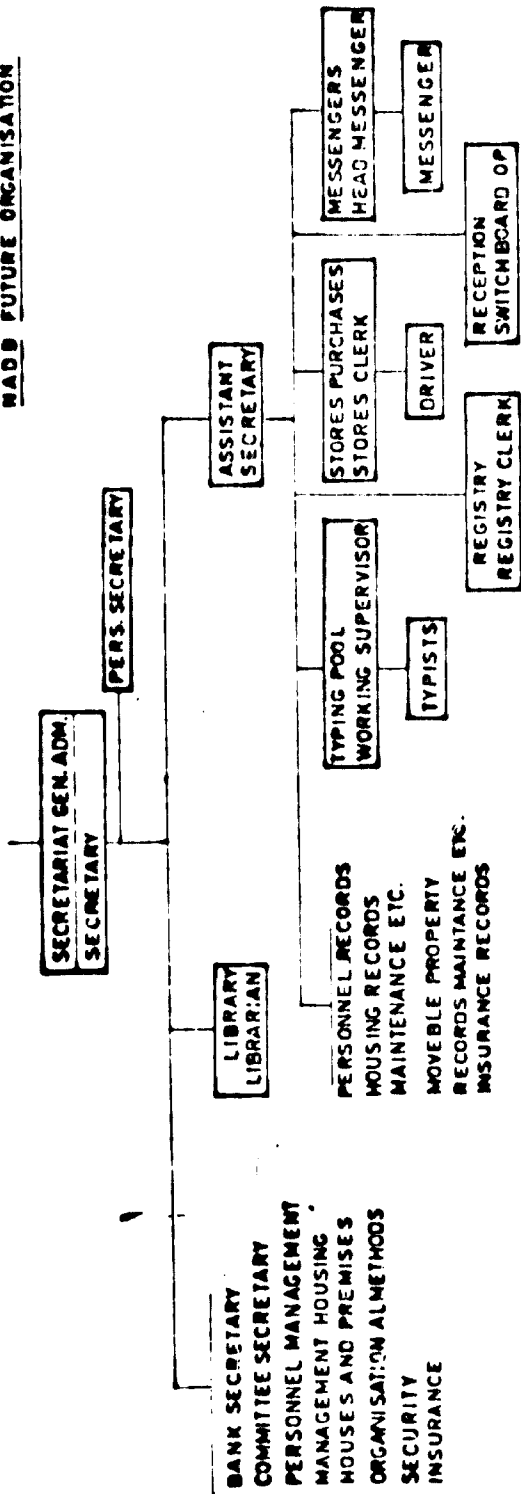
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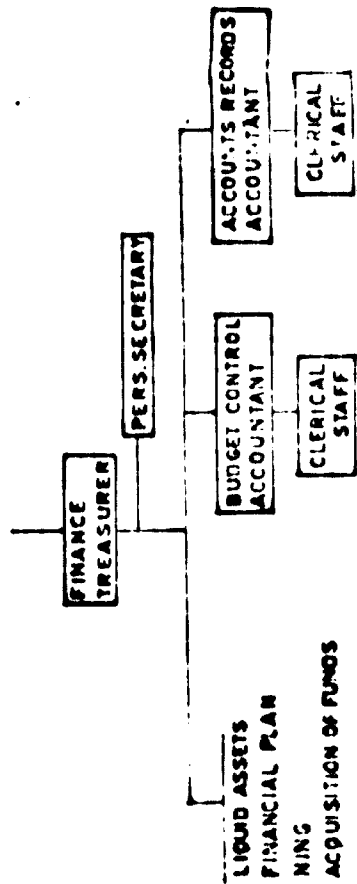
ABB ORGANISATION CHART

X= KEY POSITIONS WHERE THE NEED FOR TECHNICAL ASSISTANCE MOST LIKELY WOULD BE FELT STRONGLY
 XS= SHORT TERM (5-12 MONTHS)
 XM= MEDIUM TERM (1-2-3 YEARS)
 XL= LONG TERM (3-5+)

MADE FUTURE ORGANISATION



1. SECRETARIAT AND GENERAL ADMINISTRATION



2. FINANCE DEPARTMENT

Annex IV

THE FINANCIAL SECTOR OF THE NETHERLANDS
ANTILLES

Introduction.

Financial institutions in the Netherlands Antilles can be classified under two headings: "locally" and "offshore". The former may operate locally within its objectives and powers. The offshore institutions are restricted to conducting offshore business; transactions with residents are not allowed. The local commercial banks, however, are also authorized to furnish a complete range of banking facilities to non-residents. Financial institutions consist of primary and secondary banks as well as institutional investors. The banking institutions attract funds for relending purpose. Unlike the secondary banks, the liabilities of primary banks include deposits, availment of which can be made by the depositors by cheque or other payment vehicle. Secondary banking institutions which include mortgage banks, savings institutions, consumer credit corporations, long term industrial credit companies, etc. Unlike primary banks they neither attract demand deposits nor engage in short-term lending.

Institutional investors include pension funds and life insurance companies. They attract funds, and as such accumulate savings, and invest on a long term.

Both the domestic and the offshore market include banks and institutional investors. In addition to beforementioned institutions, numerous offshore corporations are being established in the Netherlands Antilles. Well known examples are investment-, holding-, royalty-, shipping- and trading companies. The main reason to establish such companies for transactions conducted exclusively with non-residents, can be found in the advantageous tax treatment. Although most of these companies borrow, lend or invest large amounts of money, they are not considered as financial institutions. Exchange control and banking regulations have been liberally interpreted to encourage the development of the offshore sector.

Banking Regulations.

The supervisory powers of the Central Bank are specified in the National Ordinance No. 138 of 1972. The Central Bank is authorised to request any information necessary for the proper supervision of the domestic banking and credit system. Any information thus obtained is used in strictest confidence.

The Supervision Law does not define banking business itself, however, it applies to credit institutions and credit associations which are defined as follows:

"Credit institutions are enterprises or institutions with the exception of credit associations, which substantially make it their business to accept moneys or deposits and/or grant credit facilities. Credit associations are institutions whose purpose is to assist their members in saving and/or granting of credit and advances to such members".

As said the banking sector comprises offshore banks and locally operating banks. In both cases banking business may be conducted by a Corporation established under the law of the Netherlands Antilles, which is an independent legal entity that may be controlled by a parent bank. The banking business may however also be conducted by means of a branch which is an integral part of a banking institution that may be established abroad, provided that the legal form of the parent company is acceptable to the Central Bank.

Banks as all credit institutions and associations must register with the Central Bank. To start banking business a Declaration of No Objections is required from the Central Bank. The law stipulates that the Central Bank must issue this declaration unless the issuance of such declaration is detrimental to the development of a sound banking or credit system or in conflict with sound banking policy.

There is only one type of licence and the licence is issued free of charge. In practice, however, the Central Bank distinguishes between licences for local operations and for offshore transactions on the one hand, and licences for banking and other financial activities on the other. The legal stipulation concerning local operations means that there must be proof that the bank will contribute to the economic development of the Netherlands Antilles and that the position of the already existing banks will not be endangered. Moreover, local and offshore banks must have a management which should be well experienced in banking and administration. Furthermore, there has to be a certain minimum capital. All banks must be audited by an independent auditor. There are no requirements as to the nationality of directors, but at least one of them must be a resident of the Netherlands Antilles.

The prevailing opinion is ^{that} there are presently sufficient banks to serve the needs of the small local market. With respect to offshore activities, the Central Bank still welcomes new banking institutions, but it has become more selective. In admitting new banks the Central Bank looks for reputable names. The Central Bank has adopted the view that any bank including offshore banks should be supervised. In case a foreign bank incorporates a subsidiary in the Netherlands Antilles, the supervisory authorities in the home country will be notified. Moreover, the Central Bank intends to propose a revision of the current Supervision Law to the extent that it will include the supervision of offshore banks. The preparation of such a draft is in an advanced stage.

According to the law the banking and credit institutions are regulated for two quite distinct purposes: (1) to ensure their soundness and prudent operations; (2) for reasons of monetary policy and the control of credit.

To ensure a prudent supervision, the Central Bank has issued guidelines for liquidity and solvency requirements to be observed by the local banks. The solvency requirements refer to the minimum capital calculated as a percentage of outstanding loans. The percentage may change according to the risks involved. In general the percentage is 10 for business and personal loans and 5 for household mortgages. The capital is defined as the total of paid-in capital, free reserves and profits that have been retained. Branch offices of foreign-based banking institutions are obliged to have a paid-in capital, furnished by their headquarters.

As to liquidity requirements, in general 20% of the outstanding short-term liabilities must be kept liquid; long-term liabilities such as term deposits and borrowed funds are to be set off against future receivables on account of maturing deposits. Where offset is not possible, liquidity ratios dependent from tenor and kind of holder, should be applied. Savings are being divided into long term and short-term according to the velocity of circulation; the requirement varies from 10 to 20%. Offshore banks are exempted from the abovementioned liquidity and solvency requirements, reporting requirements and other supervisory requirements.

Under the Banking and Credit Supervisory Ordinance the Central Bank should consult with the financial institutions in order to safeguard adherence to a sound monetary policy.

If the consultations with the financial institutions do not result in full agreement or if in the opinion of the Central Bank there is insufficient cooperation in the execution of the agreed policy, the Bank is authorized to issue general directives governing the business operations of the financial institutions. The general directives may only be issued, amended, extended or suspended by means of a National Decree. Up till now no directives have been issued. The Bank has always been favored with the voluntary cooperation of financial institutions, in particular the commercial banks.

Foreign exchange and currency regulations.

The foreign exchange rates are quoted on a daily basis by the Central Bank. The Netherlands Antilles guilder is pegged by law to U.S. dollar, resulting in a fixed buying rate for one dollar of f. 1.79 and a fixed selling rate for the dollar of f. 1.01. The rates for the major foreign currencies reflect the rates for the U.S. dollar in the respective countries. At the moment 14 currencies are quoted officially.

All the local commercial banks are authorized by the Central Bank to deal in foreign currencies. They have to apply the official rates when dealing with the public. The Central Bank deals with the commercial banks mainly in U.S. dollars and generally at an interbank rate of f. 1.80 for one U.S. dollar; the Central Bank does not normally deal with the public. Residents must hand over exchange proceeds to an authorized bank. The banks are permitted to provide foreign exchange for most current transactions. Payments for legally imported and legally exported goods may be made freely under a General Licence. Payments for most current invisibles (services, etc.) up to an equivalent amount of f. 5,000.— are not restricted either. Payments exceeding such amount as well as all payments representing interest on loans or net income from other investments, for amortisation, loans or depreciation of direct investment are subjected to licences which are normally granted on verification of the facts. Foreign investment in the Netherlands Antilles requires a licence which in general is granted if the investment is in the economic and social interest of the islands of the Netherlands Antilles.

Investment of residents in officially quoted foreign securities is not restricted, provided the securities are registered abroad in the name of an authorized bank. Residents have to channel foreign payments through authorized banks. Foreign payments must be reported to the Central Bank for balance of payments purposes.

Offshore companies are exempted from the obligation of making foreign exchange declarations, resulting in a status equal to a non-resident. They may freely maintain accounts with foreign banks and are not obliged to hand over their exchange proceeds to the authorized banks. On the other hand they are not entitled to the use of the exchange resources of the Netherlands Antilles.

The guilder (abbreviated as f.) is the official currency unit in the Netherlands Antilles and as such legal tender. However, the U.S. dollar and the Bolivar are also widely accepted. In particular on the island of St. Maarten the guilder and the U.S. dollar circulate concurrently.

On the islands of Aruba, Curaçao and St. Maarten a large number of foreigners are temporarily staying the whole year round, resulting in a large flow of foreign currencies. In 1976 more than 350,000 tourists visited these islands which have a population of only 220,000 residents. According to the balance of payments for 1976 an amount of f. 341 million was received from tourists.

The provision that residents must surrender foreign currencies to authorized banks, is flexibly interpreted especially to accommodate tourism. The authorities allow residents to hold some foreign currencies in cash to meet exchange problems arising from payments made by tourists. Many resident enterprises, especially the trading companies, maintain accounts expressed in foreign currencies with the domestic banking system. The banks also provide loans and overdrafts expressed in foreign currencies, mainly the U.S. dollar.

As per the end of 1976 the commercial banks on all the six islands had granted loans and overdrafts expressed in foreign currencies up to a counter value of f. 57.9 million or 14 percent of the total amount outstanding. The amount received in foreign currencies on deposit or in current account was equal to f. 51.1 million or 11 percent. The figures for the Windward Islands are strikingly higher. Loans and overdrafts expressed in foreign currencies amounted to 60 percent of the total amount outstanding to residents. The liabilities consisted for 45 percent of foreign currencies, which means in general the U.S. dollar.

The Central Bank.

The Central Bank was established in 1828 as the "Curaçoesche Bank" (the Bank of Curaçao). The name was changed into Bank van de Nederlandse Antillen in 1962.

The original purpose of this bank was to provide notes and to supply local credit. It is still the bank of issue, but the lending activities have gradually been taken over by the commercial banks. Presently the Central Bank provides only advances to the Government and to local enterprises when the commercial banks are not able or reluctant to finance a project which is considered of importance to develop the economy. This activity is used mainly to set up the hotel-industry as part of the Government's policy to promote tourism.

The Bank should stabilize the value of the monetary unit, supervise the financial system and control the foreign exchange transactions.

All the commercial banks maintain accounts with the Central Bank primarily to cover clearings with other banks and to obtain currency to meet withdrawals by customers.

The commercial banks' exchange dealings are also settled through these accounts. As head of the financial system the Central Bank should act as lender of last resort.

The Bank van de Nederlandse Antillen quotes a lending rate of 7 per cent for re-discounting purposes. Up till now this facility has never been used. The percentage is symbolic rather than reflecting the actual costs of covering commercial banks' lending positions. Its capital amounts to f. 10 million fully paid in. Additionally a reserve fund of f. 10 million has been created. Moreover, special reserves are being created up to f. 15.4 million. The administration is exercised by a management and a board of supervisory directors. The management consists of the managing director and the secretary, who are appointed by the Governor on the nomination of the board of supervisory directors. The supervisory board consists of five members. The chairman of the board is appointed and discharged by the Governor. The other members are appointed by the Governor from a nomination of three persons made by the board after consultation with the management for each vacancy to be filled. The term of the office is four years and persons may be re-appointed immediately.

Balance sheet figures Central Bank, as per December 31st

Amounts in millions of guilders

	1972	1973	1974	1975	1976
<u>Assets</u>					
Gold and foreign reserves	125.6	124.4	150.3	167.9	207.3
Advances to Central Gov't	4.7	18.4	32.3	73.5	64.5
Loans to private sector	1.6	5.2	4.0	3.9	3.3
Miscellaneous	0.9	2.1	2.6	3.2	4.0
TOTAL	132.8	150.1	189.2	248.5	279.1

Liabilities

Banknotes	72.3	82.2	87.2	105.6	101.3
Deposits residents	39.1	33.4	88.3	97.0	126.6
Funds borrowed abroad	-	3.4	3.0	2.7	2.3
Miscellaneous	6.4	8.0	13.6	8.0	13.8
Capital and Reserves	15.0	23.1	27.1	38.2	38.4

Domestic money and capital market

The financial institutions have been successful in mobilizing domestic savings. However, they have found it very difficult to utilize savings within the Netherlands Antilles, sufficient because of a lack of investment opportunities. Domestic private companies, being small and closely held, are reluctant to issue bonds or equity. The Government has floated some bonds in the domestic market, but not recently and never in such quantity as to establish a primary market.

Commercial banks, the largest category of financial intermediaries, engage mainly in short-term lending for commerce, construction and consumption. Their net external positions are closely balanced and subject to Central Bank regulations. On the other hand, pension funds, the second-largest type of financial intermediaries, and life insurance companies, invest about 75 per cent of the assets abroad/because of the lack of attractive domestic alternatives.

provided by
The banks' largest source of funds is domestic savings deposits which can, for all practical purposes, be withdrawn on demand and partly have a high rate of turnover. Many depositors use these accounts or passbooks instead of current accounts even though they are not checkable. All banks pay a 5 per cent interest rate on savings deposits. This rate was established in August 1970 and has been maintained by moral suasion from the authorities. Since interest is only paid on the minimum balance rather than the average balance, the real interest rate may be lower.

Savings deposits are widely held by residents of the Netherlands Antilles. As per the end of 1976 the banking system had about 135,000 passbook savings accounts outstanding, which is all the more remarkable because the population is less than 240,000. The average size of savings deposits amounted to about f. 1,800.—. Time deposits held by individuals are treated as savings accounts in the Central Bank statistics, and are included in above-mentioned figures.

It is difficult to generalize about time deposits because their characteristics vary from bank to bank. For instance, the minimum amount required for a time deposit varies from f. 5,000.— to f. 10,000.—. Time deposit rates, unlike the savings deposit rate, are quite flexible and, for larger amounts, are determined by negotiation between the depositor and the bank.

The average size of personal time deposits varies from about f. 50,000.— to f. 75,000.—. Corporate time deposits, although fewer in number, are of larger amounts, averaging about f. 200,000.—. Almost all time deposits are of a maturity less than a year. Moreover it seems that the typical maturity for a time deposit when issued, is three to six months.

The issue of negotiable certificates of deposits is restricted and no trading exists.

Only recently some interbank deposits are being made. However, no market has been developed. The banks keep their overliquidity with the Central Bank, which pays a low interest on time deposits. Although the Central Bank quotes a discount rate, since mid-1970 a rate of 7%, for years no paper has been discounted.

The majority of the primary banks prefer to lend on an overdraft basis although loans are made available for specific purposes to the industrial sector as well as for project financing with amortization over a period of 3 to 5 years. In particular trading advances mainly covering import are provided on an overdraft basis. Generally the banks ^{signed} hold/drafts or promissory notes as collateral. Consequently some eligible commercial paper is available for trading but this market has not been developed ^{yet.} Interest rates charged on overdraft facilities vary from 8 to 10 per cent per annum.

Pension funds, and, to a lesser extent, life insurance companies attract considerable savings through their contractual savings plans. These institutional investors invest their moneys for a strikingly high proportion in foreign assets. Only about 25 per cent of the investments are made in the Netherlands Antilles, mainly in loans.

Some local companies are quoted on the Amsterdam stock exchange. These companies are Antilliaanse Erouwerij N.V., Antilliaanse Verffabriek N.V. and Electriciteitsmaatschappij Aruba N.V. For financing some development project the Central Government borrowed on the Dutch capital market. These bonds are also quoted on the Amsterdam stock exchange and ^{being} regularly traded. Presently, the possibilities to develop a money and capital market are / studied by the authorities.

Local banks

The Netherlands Antilles has several well-managed commercial banks which provide all modern banking services. Besides the Central Bank, several local and wellknown foreign banks ^{have been} established. The foreign influence is a striking aspect of the local banking system. Only two relatively small banks, viz Aruba Bank N.V. and Banco di Caribe N.V.) are completely locally owned. All the other banking institutions were formed by foreign banks on their own as branches or subsidiaries of foreign banks or as joint ventures with local interests. In addition to Dutch banks, which are represented on these islands since long, banks from the U.S.A., Canada, U.K. and Venezuela entered the Netherlands Antilles market in the last ten years.

All the locally established banks are generally licensed to deal with residents and non-residents as well.

The biggest private bank is Maduro & Curiel's Bank N.V. which is established in Curaçao and affiliated to The Bank of Nova Scotia Ltd. in Toronto. Its wholly-owned subsidiaries are the Caribbean Mercantile Bank ^{N.V.} in Aruba, the Maduro & Curiel's Bank (Bonaire) N.V. in Bonaire and the Caribbean Credit Corporation N.V. in Curaçao. It also controls The Windward Islands Bank Ltd. in St. Maarten, N.V. De Spaar- en Besleenbank van Curaçao and N.V. De Curaçaosche Hypotheekbank in Curaçao.

The Banco Barclays Antilliano is a subsidiary of Barclays Bank International Ltd. and is the only bank with branches on all the six islands. Its fully-owned subsidiary is the Antilliaanse Hypotheekbank N.V.

Algemene Bank Nederland N.V. is represented with branches in Curaçao, Aruba, Bonaire and St. Maarten and owns the Antilliaanse Financieringsmaatschappij "Anfinij" N.V. and the Algemene Hypotheekbank N.V. Citibank N.A. has branches in Aruba and Curaçao, Bank of America NT & SA only in Curaçao; also in Curaçao is established a branch of Banco Industrial de Venezuela; The Chase Manhattan Bank N.A. has a branch in St. Maarten where also The Bank of Nova Scotia N.V., a wholly owned subsidiary of The Bank of Nova Scotia Ltd. in Toronto, is established. The Island Government of Curaçao owns the Girodienst Curaçao, a transfer-institution, that does not allow overdraft facilities to its current account customers.

Banco Nacional de Hipotecas N.V. in Aruba and the Caribbean Mortgage Bank N.V. in St. Maarten are specialized banks for granting mortgage loans.

The Central Government established the Bouwkredietbank, to supply loans to stimulate the building of private houses; the Volkskredietbank for granting consumer loans; the Postspaarbank, which acts as a savingsbank and makes long-term credits and grants mortgage loans to the public. All these institutions have offices on all the six islands.

The Government also owns the Sociale Verzekeringsbank which does not supply any credits but carries out the social security plans of the Government.

There are also a few development banks: "CODECO", established in Curaçao and "INDECO" in Bonaire, to assist investors and making long term loans. N.V. Wederopbouw Willemstad provides mortgage loans for reconstruction purposes.

The Government Pensionfund - Algemeen Pensioenfonds van de Nederlandse Antillen - has incorporated the Central Hypotheekbank N.V. as a wholly-owned subsidiary to act as a mortgage bank for the public.

Combined balance sheet figures banking system ¹⁾ as per December 31st;

amounts in millions of guilders.

	1972	1974	1975	1976
<u>Assets</u>				
Cash & Bank	88.7	48.1	82.8	108.0
Overdrafts	206.3	214.7	193.4	222.1
Loans	188.8	188.1	208.2	213.9
Premises & Inventory	18.1	20.8	22.0	21.1
Net foreign assets	14.4	32.4	41.2	64.3
Miscellaneous	8.8	10.2	8.4	9.5
TOTAL	489.1	524.3	565.8	636.7
<u>Liabilities</u>				
Capital & Reserves	34.3	38.3	37.7	49.0
Funds borrowed	30.1	29.4	18.5	11.3
Deposits & Savings	249.1	291.4	315.4	350.9
Current accounts	132.8	134.9	160.4	102.6
Banks	10.5	7.6	8.6	24.5
Miscellaneous	12.3	18.7	15.2	10.4

1) Includes all above-mentioned banking institutions except Central Bank and Sociale Verzekeringsbank.

Clearing.

Both in Aruba and in Curaçao a clearing system has been set up in which all local commercial banks participate. Every working day at 11:00 a.m. the banks' representatives meet at the Central Bank to exchange cheques and transfers. The clearing is based on mutual confidence. Consequently the representatives will not check the items received, but for the number. Errors noticed afterwards as well as cheques unpaid, will be brought in at next day's clearing by way of a transfer note. The claims and liabilities resulting from the clearing are settled through the banks' current accounts with the Central Bank on a daily basis. The Central Bank itself does not participate in the clearing system.

Banks Association

Both in Aruba and Curaçao an association of banks has been set up² which all the local primary banks are members. They are organised entirely by the banks themselves with no official status representing the banking community vis-a-vis the Government. They meet periodically. However, they can not be considered as cartel-organisations. Interest rates, fees as well as other charges are quoted on an individual basis and are not fixed within the association.

Secrecy of banking information.

The Antillean legislation does not include a separate law or separate stipulations on banking secrecy. This absence of specific provisions does not mean, however, that in the Antilles no banking secrecy exists. The secrecy of banking information is based on general legal provisions, such as the Articles 285 and 286 of the Criminal Code of Law, that penalize the deliberate violation of obtained secrets. Secrets are considered to comprise all the information of which one reasonably ought to have assumed them to be of a confidential nature. Furthermore, Article 1356 of the Civil Code stipulates that all contracts (banking business is as a rule conducted by means of contracts), commit not only to what is stipulated explicitly, but also to what is required by fairness, by practice or by law. The question with regard to the secrecy of banking information is determined above all practice. When dealing with banks, it is not always stipulated explicitly that data will be treated confidentially. However, practice accepted by the banking community requires that no professionally obtained information is disclosed unless legally required. Such exceptions are made with respect to information required in criminal proceedings or investigations. In such circumstances the customer will be informed immediately. Consequently there is no banking secrecy for the criminal courts of the Netherlands Antilles. Requests by foreign authorities will be refused except when the customer agrees to the disclosure. In the event a bank unjustly reveals facts covered by secrecy the customer concerned may file a claim against the bank concerned. According to the Foreign Exchange Law the Central Bank has the power to request anyone, including banks, to furnish information required for the purpose of securing compliance with or detecting evasion of this law. This power may not be used outside the area of exchange control, nor for investigating offences against any other legislation, domestic or foreign. Any person so directed must also produce books, accounts or other documents. Bank accounts in the Netherlands Antilles are maintained in the actual names of the account holder. The concept of the so-called number accounts is not used, although some local commercial banks issue bearer savings passbooks and certificates of deposits.

Credit Associations.

From 1960 on various cooperative associations have been incorporated principally with the purpose to stimulate savings among their members and to create the possibility to grant them loans and advances when needed. These associations, better known as "credit unions" are as a rule entities. The highest legislative authority within the association is the general members' meeting. Moreover, the association has a management which is responsible to the general members' meeting and sometimes a supervisory board, which verifies the financial statements. The credit committee deals with all the applications for loans.

As a rule the members save a minimum amount on a monthly basis which provides the share capital. Savings exceeding the minimum amount are maintained as deposits. General members can get a loan provided they comply with the minimum savings requirements and do not have any unpaid loan with the association. Each association sets its own interest rate percentages and lending conditions. Usually the articles of associations stipulate that profits are distributed in accordance with the outstanding number of fully paid up shares.

In Curaçao more than 60 associations have been registered, in Aruba about 10 and in Bonaire and the Windward Islands just a few seem to be operating. All credit unions, but two, have joined the master-organisation, the "Liga di Cooperativanan di Spaar i Credito Antiyanan Neerlandes", abbreviated Liga. The credit unions may be classified in two categories:

- a. the district credit unions;
- b. the professional credit unions.

The district credit unions generally consist of members who live in the same vicinity. These associations were usually founded by clerical leaders. The associations not only provide financial assistance, but have also social aspects. The professional credit unions are connected with enterprises and institutions. For some years the professional credit unions tend to grow at the cost of the district credit unions. This tendency has resulted in a number of inactive, or even dormant, associations.

The Liga provides legal advice and administrative assistance to the affiliated credit unions, organizes courses for the members of the board of management, supervisory boards and credit committees and represents the credit unions vis-a-vis the Government.

and in particular the Central Bank in the consultation on monetary policy and the prudent adherence to this policy.

Except for a small staff, which is in charge of administrative and office duties, all the members of the board and committee are volunteers.

The Liga acts as a clearing institution for the credit unions and assists the unions which have run into liquidity problems. The Liga pays interest on moneys deposited by the member unions.

During the 1960s the credit unions displayed great activity among especially the working classes to assist the members with their financial needs. After the first period of success and spontaneous participation, the time of consolidation and gradual growth had come. However, about 30 unions did not succeed in consolidating their affairs and consequently discontinued their activities.

As per the end of 1975 the credit unions had granted an estimated amount of f. 4,900,000.— for loans and had attracted savings up to approximately f. 5,300,000.— The corresponding figures as per 1974 were f. 4,400,000.— and f. 4,500,000.— respectively.

The institutional investors.

This group comprises mainly the pension funds and the life insurance companies. The pension funds have been set up as foundations by the Government or local enterprises to provide their personnel an old age pension. Moreover, several companies have formed thrift foundations to assist their personnel with saving and sometimes provide loans or advances.

The insurance sector is quite large. As per the end of 1976 a total of 10 were registered with the Central Bank as credit institutions under the Supervisory Ordinance for the Banking and Credit system. All these companies are foreign owned with main offices located in various countries including Holland, Canada, England, Jamaica, Trinidad, Venezuela and the United States of America.

The condensed balance sheet figures as per the end of 1975 for the institutional investors are as follows:

	<u>f. 1,000,000</u>	<u>% of total</u>
<u>Assets</u>		
Cash and with local banks	10.6	2.5
Loans to residents	69.1	16.4
Claims on non-residents	317.0	75.2
Miscellaneous	24.9	16.4
Total	422.4	100
<u>Liabilities</u>		
Participants and beneficiaries	419.3	99.3
Miscellaneous	3.1	0.7

Trustcompanies.

Trust companies have been established on all islands. Although not considered as financial institutions, they do play an important role in the financial sector especially for the offshore corporations. They mainly engage in providing advice and assistance in legal and tax matters. They also assist with the incorporation and registration of new companies. They apply for all the necessary licences and normally act as the mandatory resident director. They administer the operations of the companies domiciled with offices. They perform the administrative functions such as the maintenance of a registered office, the holding of shareholders' meeting, the filing of tax returns and the updating of the commercial register. Some of the trust-companies are owned by solicitors and notaries, but also the major banks have set up subsidiaries for rendering these services. It is common practice that this so-called trust business is exercised by groups of companies; each group with the same purpose, management, address and shareholder. The "big four" are the groups of Pierson, Haldring & Pierson (Curaçao) N.V., Curaçao International Trust Company N.V., Antilliaanse Beheersmaatschappij "Amaco" N.V., which is a fully-owned subsidiary of Maduro & Curiel's Bank N.V., and the Trustmaatschappij van de Algemene Bank Nederland (Curaçao) N.V., a wholly-owned subsidiary of the Algemene Bank Nederland N.V. Their total share of the market exceeds 80%. Many of the trustcompanies act as director of an offshore bank or finance company. They are involved with numerous financial operations; without lending or borrowing in their own names. They represent a great amount of financial know-how though the stress lays on the fiscal aspects.

The trustcompanies provide fiduciary services. The Netherlands Antilles legislation does not include provisions regarding the Anglo-American trust concept. Presently studies are in an advanced state to introduce a trust concept.

The offshore market

At present finance is more than ever an international business with no necessary connection between the currency borrowed and the country of residence of the borrower, the lender and intermediary institution. The growth in international transportation, communication and trade not only caused the creation of multinational companies, but also resulted in a large and flexible flow of money. Payments are being made by way of transfer and with no or little cash involved. It is normal practice now for a European enterprise to borrow in U.S. dollars from a bank established outside its country. In addition to the old concept of a bank having branches in various countries to facilitate its domestic customers, financial centers have been created where the banking business is totally disproportioned to the needs of the local market. Such centres are usually small territories which have deliberately encouraged international banking business by means of a favourable tax system as well as flexibly administered exchange control and banking regulations.

Banks and other financial intermediaries in an offshore centre earn their profit by borrowing from depositors outside that center and relending to other non-residents or investing exclusively abroad. Much of this international business is carried out for a very small margin. This applies in particular when a bank operates on the interbank market. Because of a low tax rate the very small margin may still be highly profitable after deduction of the expenses involved.

With modern communication facilities and with many branches, subsidiaries, affiliates and associates of banks operating internationally, offshore business does not have to be done physically in any particular place; negotiations can be held practically anywhere and the business is actually put through the books of the institution based in the most appropriate location for the purpose.

The Netherlands Antilles is probably one of the most sophisticated offshore investment centres in the area. It is not a tax haven, i.e., a jurisdiction where no tax is levied, but the tax liability of international operations is greatly reduced by a preferential low levy and by the provisions of the tax treaties between the Netherlands Antilles and other countries.

This facility can be extended further by using an intermediary company in the Netherlands by which the ^{provisions} of all those tax treaties which are not extended to the Netherlands Antilles, will indirectly ^{be applicable.} The general profit tax rate for offshore companies is 2.4% on the first f. 100,000.— net profit and 3% on the remainder. To arrive at the net taxable income interest paid is allowed as a deductible expense for profit tax purposes, if the requirements to be negotiated with the Tax Inspector, are met.

In case the funds are borrowed from a bank, there should be a reasonable spread of 1/4%; in other cases the spread should not be less than 1% of the face value. The aforementioned spreads are taxfictions for the determination of the minimum taxable income; the actual spread may be less. There is no withholding tax on dividends and interest paid by companies.

Income from local operations is subject to the standard rates of 27-34%, which together with the municipal surcharge of 15% makes the effective rates range between 31.05 and 39.1%. As said a condition for the preferential low tax treatment is that the company will not engage in any trade or business within the Netherlands Antilles; the income of the company must therefore be fully derived from sources outside the Antilles. However in some cases, especially banks, the Tax Inspector has agreed that a company may divide its income into offshore income taxable at the preferential low rates and local income taxable at the standard rates. The most popular use of the Netherlands Antilles has been as a finance vehicle intermediary to raise funds in the Eurodollar market, or other external dollar market, through either loans syndication or bond issue or by direct bank loans.

The infrastructure of the islands, mainly of Curaçao and to a lesser extent of Aruba and Sint Maarten, is fairly developed. Professional services of bankers, lawyers and accountants are available, as are services of trust companies that undertake the incorporation maintenance and operation of entities. There is no stock exchange and consequently no stockbrokers, but banks provide broker services. Telecommunications with the rest of the world are excellent. The stable political environment together with liberal foreign exchange regulations, make the Netherlands Antilles an attractive place for offshore operations.

Euro currency operations.

The emergence of the Netherlands Antilles as a center of international financial activity basically started with a growth in the number of the so-called finance subsidiaries. They are very limited in their purpose being used only for inter-company financing. Such a company is established as a fully-owned subsidiary of a foreign parent company for floating a Euro-dollar bond issue or issue a loan evidenced by notes or taking up a simple bank loan. The proceeds of such borrowings were intended mainly for the financing of the business of the parent company and other closely related corporations by way of loans made to such corporations. It was especially in this way that the tax treaty between the United States and the Netherlands Antilles became of additional significance, since under this tax convention interests paid by the United States parent to the Netherlands Antilles subsidiary were exempted from United States withholding tax. In these cases - i.e. on U.S. source interest - a substantial tax is levied in the Netherlands Antilles (30%) in accordance with the abovementioned treaty on the taxable income of said financial subsidiaries.

These finance companies have been of paramount importance to make the Netherlands Antilles in general, and Curaçao in particular, a focal point in international financing. In only a few years more than U.S.\$'3 billion was channeled from Europe to the United States through the intermediary of Curaçao finance subsidiaries. This development has been curtailed because the United States Congress enacted at the end of 1971 and in 1973 legislation designed to encourage the creation of international finance subsidiaries within the United States in order to eliminate the need for United States companies to make use of subsidiaries in foreign territories such as the Netherlands Antilles. There are still some deficiencies in the United States legislation and as a consequence some Eurodollar offerings continue to be made through the Netherlands Antilles finance subsidiaries, but on a much smaller scale. Apart from the finance subsidiaries, quite a large number of offshore investment, holding, royalty, copyright and patent holding companies have been established in the Netherlands Antilles.

Many of the bonds issued by aforementioned finance subsidiaries are quoted on official Stock Exchanges such as Amsterdam, Luxemburg, or quoted informally by the main underwriters or brokers. The shares of some holding companies and in particular of investment funds, are officially listed on foreign stock exchanges.

The offshore banks.

All the generally licensed commercial banks furnish a complete range of banking facilities to non-residents. Some have established a separate offshore department to enjoy the preferential low tax levy on income from abroad. Most bankers have their own trust department, while some have also incorporated trust offices to facilitate non-resident customers. In addition to these local banks many foreign banks are represented in the Netherlands Antilles exclusively for offshore transactions. Some of these subsidiaries conduct all banking operations, but others restrict themselves to act as a finance or investment subsidiary. Some of the offshore banking institutions have set up an operating office with a local staff. Generally finance subsidiaries do not operate continuously as such; loans, mostly on a long term, are concluded once or only a few times. They do not provide financial services to third parties.

In the last few years quite a number of foreign banking institutions has chosen the Netherlands Antilles as a base for their international transactions. There are also some banks incorporated by international enterprises primarily for corporate finance purpose, which banks are sometimes referred to as captive banks.

The offshore banks may engage in exchange business which does not involve Netherlands Antilles guilders, provided residents are in no way involved in such exchange transactions.

The oldest offshore bank is Pierson, Haldring & Pierson (Curaçao) N.V., a wholly-owned subsidiary of Pierson, Haldring & Pierson N.V., Amsterdam, which was incorporated in June 1975 to continue the business of a firm of private bankers of the same name, established in the Netherlands in 1875 and is affiliated to Amsterdam-Rotterdam Bank N.V. Pierson, Haldring & Pierson (Curaçao) N.V. opened its doors in Curaçao in 1954. The Amsterdam-Rotterdam Bank N.V. has incorporated in December 1976 a fully-owned subsidiary named Amro Bank Overseas N.V., which opened a separate office in the same building where Pierson, Haldring & Pierson (Curaçao) N.V. is residing.

Besides having a range of branches and agencies to serve the local business community, the Algemene Bank Nederland N.V. has chosen the Netherlands Antilles as a base to conduct offshore banking business. In addition to its branches, several subsidiaries have been incorporated, all operating through the main office in Curaçao. N.V. Edwards, Henriquez & Co's International Bank, Sonaire Commercial Bank N.V. and Curaçao Finance Corporation N.V. provide banking services; Algemene Bank Nederland International N.V. and Mbe & Hope Finance N.V. act as finance subsidiaries. Recently Nederlondsche Middenstandsbank opened a branch office in Curaçao and also incorporated a subsidiary NMKB Finance Company (Curaçao) N.V. exclusively for offshore banking.

Banco Real S.A. is also represented with a branch in the Netherlands Antilles, but has not set up an office yet.

Incorporated by foreign banks and represented with an office are Banco Mercantil Venezolano N.V. and Inarco International Bank N.V. The former has its office in Curaçao and the latter in Aruba. Not backed by banks but owned by foreign individuals or entities are International Investment Bank N.V. Curaçao, First Curaçao International Bank N.V. Curaçao, North America Bank & Trust Company N.V., St. Maarten, which all have opened

operating offices, and British National Bank of Commerce N.V. and Euro-Caribbean Banking Corporation N.V., both established in Curaçao but no offices have been opened yet. In the past more captive banks were incorporated, but the licences were withdrawn or expired or they were not licensed at all.

In addition to abovementioned banking institutions, the following banks have also been incorporated in the Netherlands Antilles and licensed by the Central Bank. They are all affiliated to foreign banks. A few of them are not yet in operation and none have opened domestic operating offices:

- M & T Bank International N.V.
- Lavoro Bank Overseas N.V.
- The Bank of Nova Scotia International Curaçao N.V.
- Elavenburg Overzee Bank N.V.
- Partnership Pacific Bank N.V.
- Banque de Paris et des Pays Bas (Curaçao) N.V.
- International Commercial Bank of Curaçao N.V.
- Crocker International Banking Corporation N.V.
- F. van Lenschoot Bankiers (Curaçao) N.V.
- Interunion Bank (Antilles) N.V.

Several foreign banks have been set up subsidiaries for finance, investment or holding activities. Some of them are licensed to act as a credit institution. They are:

- Bayerische Vereinsbank Overseas Finance N.V.
- Curaçao Tokyo Holding N.V.
- Isis Curaçao N.V.
- Leumi International Investments N.V.
- The Industrial Bank of Japan Finance Company N.V.
- Société Financière Européenne Finance Company N.V.
- The Long Term Credit Bank of Japan Finance N.V.
- Trade Development Finance (Netherlands Antilles) N.V.
- Wells Fargo International Financing Corporation N.V.
- Williams and Glyn's Finance N.V.

The volume of offshore banking operations through the Netherlands Antilles is not yet fully known. The offshore departments of the generally licensed banks reported as per the end of 1976 a total amount of f. 572.9 million as foreign assets and f. 516.9 million as foreign liabilities. The restricted offshore banks do not report to the Central Bank nor do they publish separate balance sheets. Consequently no figures are available.

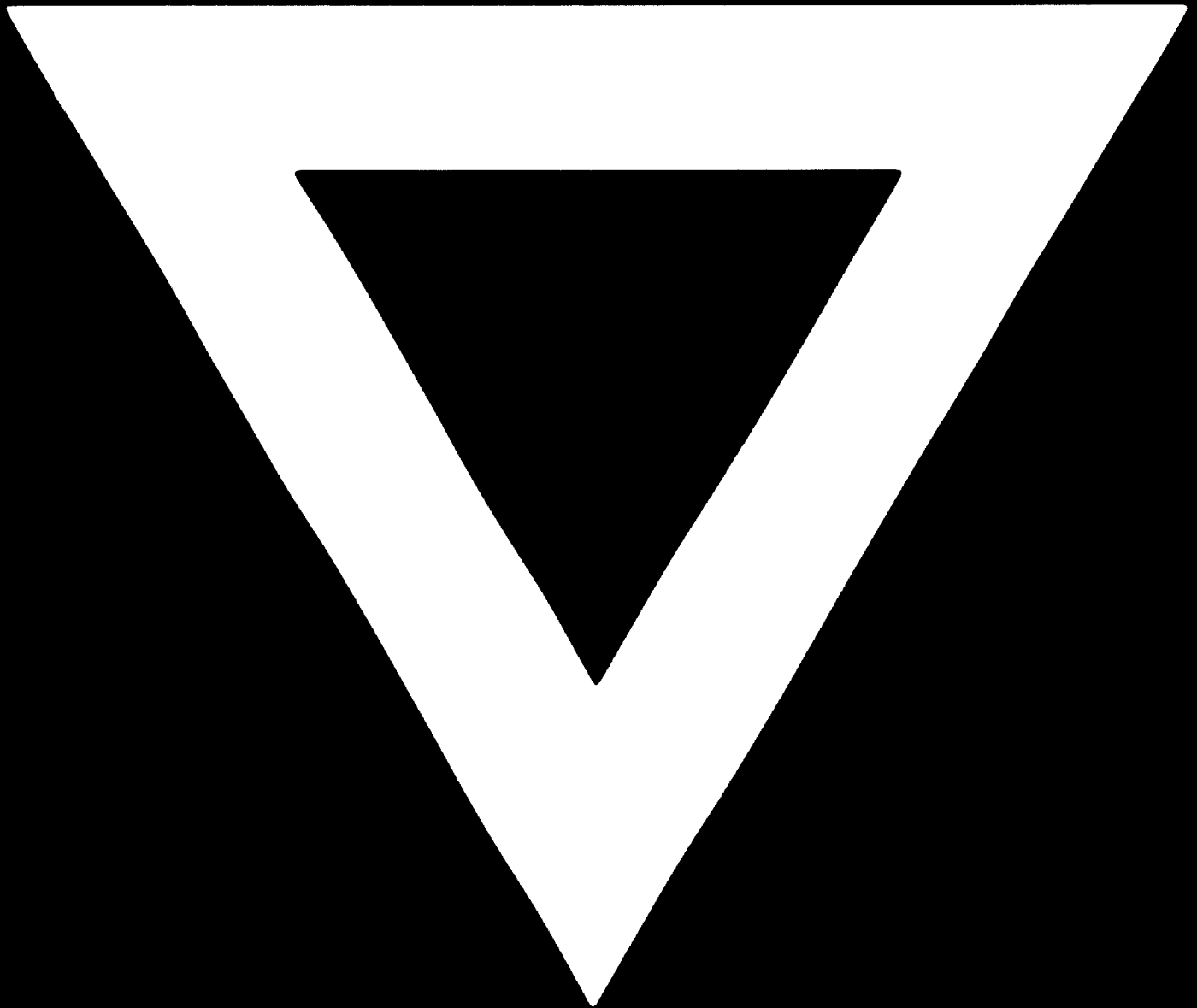
Offshore insurance companies.

There is no specific law in the Netherlands Antilles regulating insurance companies. Only life insurance companies, being credit institutions, are supervised by the Central Bank. This presents an opportunity for large industrial and commercial firms to insure their overseas of foreign risks by forming wholly-owned insurance companies sometimes referred to as "captive" insurance companies.

The advantages for the parent corporation of such captive insurance companies lie in the possibility of having risks insured which the normal world-wide insurance market would not fully accept. The difference between the premium received by the captive insurance company and the premium paid to re-insure the risks as far as possible, can be accumulated and invested at preferential tax rates. Re-insurance companies are also represented by offshore subsidiaries in the Netherlands Antilles. As per the end of 1976 about 60 insurance companies had been incorporated for conducting offshore operations.



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