

SPEECH BY PRESIDENT, BANK OF CREDIT AND COMMERCE

INTERNATIONAL AT THE LJUBLJANA CONFERENCE

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Mr Chairman, Ladies and Gentlemen, I am greatly indebted to the organisers of this Conference for giving me this opportunity to say a few words to so distinguished a gathering of bankers and representatives of international organisations. And I congratulate Dr Rotar of the Ljubljanska Bank, Mr Granfil of the Yugoslav Bank for International Economic Cooperation and Dr Cizelj of the Research Centre for Co-operation with Developing Countries on the admirable fashion in which they have planned and carried out the arrangements for this Conference.

The main objectives of this Conference are the formation of an Association of Third World Bankers and an attempt to devise means of developing co-operation in various forms amongst developing countries - both of which projects we must applaud and should all support.

Ladies and Gentlemen, it is to this theme of Third World banking co-operation that I shall address myself today. But before I get there I should like to sketch

in - very simply and briefly - the prospect before us, in our common humanity, as the 20th Century draws to its close.

You are no doubt aware of it, and I am sure during the last few weeks in this very great country it has been discussed with all the depth of feelings and in its widest implications in the UNCTAD Conference.

Ladies and Gentlemen, I am no longer a young man and, therefore at least to some extent, like a famous English poet

"I have learned to look on nature, not as in the hour of thoughtless youth; but hearing often times the still, sad music of humanity ...

And I have felt a sense sublime of something far more deeply interfused, whose dwelling is the light of setting suns"

Ladies and Gentlemen: More than a century and a half has passed since those lines were written: and the music of humanity is no less sad. Not less, but ever more and more, does it cry out for our love and our help.

It may sound unduly pessimistic, but it is my earnest belief, and I wish I had at my command the eloquence with which to put before you adequately my genuine concern that unless the world agrees on rapid, prudent and effective action, then the beginning of the twenty-first century will see the sun rising and setting over a planet in large part desolated by hunger, disease and utter hopelessness.

As you know, three menaces hang over us all: nuclear war, over-population and the third is the gap - ever widening gap - between rich and poor, between the North and the South. What concerns us here is the plight of the South. And it is to this problem we are going to address ourselves in the hope that we can contribute, in however modest a way, to its solution. Or so I sincerely hope.

Now I would offer as an axiom that as and how the gap between rich countries and poor countries, between North and South can be removed, it will be removed. Those of you associated or familiar with the recent conclusions of UNCTAD would surely know the meaning of what I have said. Allow me to say that if the world goes on being incompetent, or short-sighted, or incapable of goodwill and compassion, then this gap

will probably be removed by war or revolution or starvation or a mixture of all three.

So it falls to us in the South - we people of the South - to do something for ourselves to avert this impending catastrophe so far as it lies in our power. It is essential we recognise our collective moral obligation to this Third World we live in: and to transform this moral obligation into something tangible which is within our own means and sphere of operation. But this would require all our moral energy and some of our material resources. In other words, what I have said is that we should be harnessing both our moral and material capital for a finite and prudently determined end: namely the creation of a Third World Bank - the "South Bank".

I should like to say one more thing about the moral capital I have referred to, and it is this: one over-riding advantage of the concept of the South Bank is that it will neither be burdened by any of the political, ideological or bureaucratic debts or be affected by regional and parochial considerations. Its purpose and operations would both be governed basically by humanitarian considerations.

Ladies and Gentlemen, I shall have something to say later on about how the material resources might be raised but I should now like to say a word or two about why it should be raised. The answer to this question is so very much under our noses, that we may fail to see it. Quite simply, it is a moral imperative. And I believe it is our over-riding task, at this meeting to transform the language of ethics, the language of the moral imperative, into the tangible reality of a functioning institution, on however modest a scale. Vision and Reality must converge - and it is within our power and means to bring this about, or at any rate to make a start here in Ljubljana.

Ladies and Gentlemen, after the optimism and real progress of the '60s and early '70s, the world economy was struck by a series of crises. The manifold problems flowing from the long delayed rise in oil prices (for in real terms oil was cheaper in 1970 than it had been in 1950) fundamentally affected prospects for all countries, in particular the developing countries. The latter endured severe external constraints as a result of a sharp deterioration in their terms of trade and acute balance of payments problems have made their economic growth extremely difficult.

Developing countries have sought to overcome this constraint by resorting to the international financial system for funds, but, simultaneously, the developed world in attempting to adjust to an era of more expensive energy and attendant inflationary pressures has followed policies that have plunged the world economy into prolonged recession.

Developing countries thus face acute balance of payments problems, an immense burden of external indebtedness and a deep world recession that allows them minimal freedom of manoeuvre.

Confronted by these difficulties, a series of international conferences sought to find ways of resolving the crisis. The North-South Dialogue and the Brandt Commission have both made worthy efforts towards solving the multifarious problems that beset us. The burden of these efforts has been to emphasise the inter-dependence of the world economy and to draw attention to the need for more positive action by the North. But clearly there is a limit to what the North can do, or wishes to do. And in many matters, the perceptions and interests of the North and South do not coincide. Countries of the South have now recognised that much depends on their own endeavours: that is,

South-South co-operation. But inevitably real progress has been slow and discontinuous.

Ladies and Gentlemen, some efforts are, of course, continuing to improve the operations and scope of regional (and other, mainly OPEC, inspired) development institutions; but parallel to this a clear need has emerged to create a banking institution for the developing countries focussed on the short-term.

We all know from experience in a large number of developing countries, how painful the disastrous impact the current economic problems have on these countries, how urgent is the need to solve these acute short-term problems. In the area of South-South financial co-operation, you will be aware that a South-South Bank was mentioned in the final communique of the recent Non-Aligned Summit in New Delhi. The second report of the Brandt Commission has referred to the theme of South-South financial co-operation. At the recent South-South Conference in Beijing jointly organised by the Chinese Academy of Social Sciences and the Third World Foundation, the theme of co-operative financial action by the South was given the highest priority. Again, the proposal by UNCTAD for a Bank of Developing Countries is a powerful and comprehensive concept and I



must say here that our proposal neither conflicts with it nor pre-empts it in any way: on the contrary it is complementary to it. If the Group of 77 decide to implement the UNCTAD proposal we shall be only too willing to become associated with it as a window. But, and I stress this, the UNCTAD proposal has not yet any committed protagonist willing and able to see it through.

Ladies and Gentlemen, I hope you will agree with me that an idea remains an idea and, at best, a perception, however powerful it may be, and whatever be its possibilities and potential, unless it interfuses and becomes the one ingredient of our desires, our aspirations and our will. And the translation of an idea into a tangible form and its success is relative only to the degree of fusion of the concept and the will of human beings. I am proposing a bank of the Third World based on a private initiative which has already earned the support and goodwill of some eminent persons and bankers from the Third World.

Ladies and Gentlemen, this bank would be relatively free from government constraints and it would have a built-in commercial bias that would not only provide incentives for private capital but also ensure its

long-term survival and growth. What I am proposing is something modest, something small, but which as time goes by would evolve into a valuable and formidable institution; one uniquely equipped to help developing countries solve their economic problems, to at least some extent.

Ladies and Gentlemen, the proposal being made to you is for the establishment of a new Third World bank, jointly owned by Third World commercial banks and designed to fill a major gap in the present structure of financial institutions. I now propose to put before you the broad outlines of the Bank.

The key objectives are as follows:

1. Short-term balance of payments support unrelated to any specific purpose but provided against assigned foreign exchange earnings over a period of 6-12 months;
2. Bridge financing against arrangements with international financial agencies, such as the World Bank, IMF, Regional Development Banks or international banking consortia;

3. Short-term financing of very essential imports;
4. Short-term pre-export financing of principal exports;
5. The establishment of mechanisms to finance trade and to make arrangements enabling the new Bank to become a vehicle for financing counter trade and barter business between developing countries. The creation of a Third World dollar is central to this entire initiative.

Essentially what is being proposed under this last function is a system that will overcome the problems created by the severe shortage of convertible currencies that affect all developing countries. Trade between developing countries is declining partly because of the absence of a commonly accepted system of settling trade deficits other than through convertible currencies or in a limited way through bilateral arrangements. The Bank will seek to overcome this deficiency by organising clearing arrangements both bilaterally and multi-laterally that will allow the creditor country or countries to be given convertible currency for the net amount at the end of the settlement period. By this device the Bank will be

able to finance trade of value many times the resources that will be needed to satisfy the requirements of creditor countries on a transaction by transaction basis.

But more than this the Bank will consider issuing a common unit of account called Third World dollars backed by convertible currencies and other liquid assets for use in settlement of transactions. The Third World Dollar would have a value equivalent to one US dollar and the currency of every developing country would be expressed against it on a formula to be agreed. The Bank will act as an issuing and accounting agency for this unit for settlement purposes.

The question of a common unit of account is a complex technical matter which no doubt will be considered by experts in all its aspects and attendant implications.

The Bank will also guarantee payments against acceptable security or within agreed limits of net deficits of counter-trade in US dollars at the end of the settlement period.

This is by no means an exhaustive list of functions. It only highlights a major deficiency in the

availability of the sources of financing for a large number of developing countries even for short-terms of 3-6 months.

This bank is commercial in so far as it will be bound by commercial disciplines but it will be a unique institution, for it will not only be a trade-financing bank but, equally, a bank that will create new patterns of trade which it will both promote and nourish between developing countries: thereby conjoining the virtues of a commercial bank with the character of a development agency.

#### Capital and Shareholders

The new Bank will be owned by commercial banks (whether public or private sector) from developing countries on the principle of the consortium bank, and will also be open to the participation of Central Banks and other financial agencies. It will have an initial authorised capital of at least US\$1000 million and a fully paid-up capital of US\$500 million. Each US\$1 million of subscribed capital would constitute one share in the Bank's equity. The capital will have to be subscribed in a convertible currency, preferably the US dollar. The decision to proceed with the establishment of this

Bank would be taken by founding members contributing not less than US\$ 25 million to the capital. It is intended to obtain eventual participation as shareholders by at least 100 commercial banks and as many Central Banks and other financial institutions as would be willing to participate.

### Resources

The resources of the Bank will consist of:

1. Initial equity capital;
2. Borrowings from Banks;
3. Raising deposits from Central Banks, Government and Semi-Government institutions (where available) and from other financial institutions in convertible currencies.

The initial paid-up capital of the Bank of US\$ 500 million will be augmented by credit lines arranged from outside banks for US\$ 500 million in addition to credit lines which may be extended by member banks. This would give the bank a resource base of over US\$ 1 billion with which to start. The Bank would also

issue its own bonds, CD's and other money market instruments in the financial markets. As it grows the Bank will increase its capital both by additions to the list of shareholders and by rights issues.

#### Board of Directors

The Board of Directors will be elected by Shareholders and limited in number to 20 Directors. Each founder member will nominate a permanent representative on the Board. The Board will exercise all executive powers.

#### Domicile and Incorporation of the Bank

Once the decision to establish the Bank is made, the sponsor's committee will need to decide where the Bank should be domiciled. The sponsor's committee might consider obtaining a special charter from national authorities which could grant the bank exemption from corporate income taxes or some other equivalent privileges available to comparable international financial agencies that are domiciled in such centres.

Management of the Bank

The Board of Directors will be responsible for the management of the Bank. It will delegate necessary powers to the Chief Executive Officer. The Chief Executive, and the management of the Bank, will be drawn from eminent persons with wide knowledge of, and genuine interest in, the solution of Third World problems, and bankers of high standing. The management structure of the Bank, and other details, will form part of the eventual Articles of Agreement of the Bank.

Ladies and Gentlemen, the proposal I have placed before you today is a modest one. It embodies sober and realistic aspirations with a clear possibility of their being fulfilled. The problems are enormous. We must be content to begin on a small scale rather than put our trust in over-ambitious plans that seldom materialise. Of necessity it cannot be the only solution to the problems of developing countries but will be an eminently worthwhile enterprise, capable of growth and development as it serves the needs of such countries. So I have brought this proposal to you for your consideration. Do not, I request you, look on it as a mere academic exercise; some of you come from countries that have given (and continue to give) aid



willingly. We are asking for something wholly different in character. Namely, a modest investment (which remains, of course, your own property) in a solidly based enterprise the benefits of which to the Third World are likely to be of far greater value than its equivalent in aid.

I would like to return briefly to the moral dimension of our initiative. In BCC we have a realisation of truth - transparent as faith - a realisation that there is unity in the moral and the material; all that is material flows from its moral fountain-head, from pure nature, from the laws of nature. And real success flows only from the moral quality of our desires and actions. The very nature of our aspirations for the South Bank and our desire to solve the kind of economic problem I have been describing and the people for whom it is meant will generate its own moral and spiritual energy which, once embodied in an appropriate corporate structure, will enable us to unite our efforts and our visions in the common cause - not only economic but spiritual - of mutual aid and mutual compassion: in a phrase, - of the love each man must bear his brother. In the end I may sum up by saying that the heart of our proposal is in the quality of our objectives, and in the vitality of the hopes, aspirations and will of the

sponsors, combined with the relative freedom of the proposed shareholders to make their own decisions.

Ladies and Gentlemen, I hope you will feel able to share my commitment to what I see as a Moral Imperative.

Ladies and Gentlemen, as I have reflected on these problems, I have had at the back of my mind the memory of that great Frenchman Marechal Lyautey: More than half a century ago in Morocco he determined to do something to arrest the encroachments of the desert. So he sent for some hardwood saplings from France and had them planted. But before this happened an aide said to him: "Sir, these trees will take a century to mature". Lyautey looked at his young aide and replied simply "Then we must start now!"

Well, like Lyautey's trees, the saplings I hope we will shortly be planting in this desert of poverty, hunger and misery may also take a century to mature and may be much less. But what matter so long as a start is made and some misery alleviated, some hope given where little or none was?

Finally, may I ask one last question. Should we go ahead through our joint wisdom and faith to plant the sapling of this Bank which is well within our means or put it on the shelf like many other proposals for another ten, twenty or twenty-five years dusting it every year to have a clearer view and then forgetting all about it.

Your Excellency, Ladies and Gentlemen, may I now once again offer my grateful thanks to those responsible for the admirable organisation of this Conference and in particular to Dr Cizelj for so kindly inviting me to address this opening session.

And may I thank you, Ladies and Gentlemen for being such a patient and considerate audience.