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A Third Force for the Third World

Pub.

A study of the channels for investment of Church Trust Funds in economic development

Report of a working party
sponsored jointly by Christian Aid and the
Catholic Fund for Overseas Development

Christian Aid and the Catholic Fund for Overseas Development are chiefly concerned to create new opportunities in the less developed countries, so that men and women there can further their own economic advance. This sort of economic development calls for capital to be injected at the right point. And however assiduously we make our annual collections we recognise that they are never going to generate enough capital for the job. That is why the Directors of these two church charities turned their minds to the recruiting of capital for economic development, and first to the question whether the capital accumulated in the trusts of the churches could be used also to benefit the economies of the less developed countries.

We asked a working group to advise as to whether any relevant channels for such capital flow existed, to assess their efficiency, and to propose, if desirable, what additional channels should be created. This is the result of that enquiry, and we record our indebtedness and gratitude to those who have conducted it for us.

Our hope is that if a start can be made at this particular point, the way will be opened for other kinds of capital flow – from individuals or funds not restricted by trustee obligations – which could increasingly reach the poorer sections of the community in developing nations.

Alan R. Booth
Director, Christian Aid

Noel Charles
Administrator
Catholic Fund for Overseas Development

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Overseas Development Institute Ltd.
10-11 Percy Street London W1P 0JB

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Foreword

Having been invited to give our advice as to how the Churches might best invest a part of their funds in the developing countries, we arranged for a report to be drawn up setting out the existing channels of investment in developing countries and some courses open to persons or bodies in the position of trustees of church funds to help them add to those channels of investment. The report took as its starting point two of the resolutions passed at the Swanwick Conference in September 1969. On that basis, and after suggesting certain amendments to the early draft, we commend it as a basis for action.

We are, all of us, aware of the wide considerations which prompt Christians in Britain and elsewhere to encourage gifts, grants in aid, investment and loans to developing countries. This report is concerned only with a narrow, but very important, part of those wider considerations. Proposals in it relate to investments and loans made so as to secure appropriate return for trust funds, whose income is required for essential church services and whose capital must be safeguarded in real terms.

If the proposals meet with general support, we would be very ready to give further advice and to arrange for drawing up the outlines of the scheme. It has seemed to us that our principal task was to suggest a practicable scheme for the investment of church funds in developing countries. Once such a scheme has been established, we would expect that it could be so adapted as to assist charitable bodies or individual church people to channel their funds to suitable projects in developing countries also.

Funds raised from such charitable sources could be deployed in projects such as rural development, public works, and low cost housing, which require softer terms of interest and repayment. Thereby they could contribute to easing the most difficult sectors of poverty and unemployment for which trust funds in the main would not be available, although some part might be, if the loans were well secured and for welfare purposes.

Lord Aldington (Chairman)

Sir Philip de Zulueta
D. E. M. Fiennes
Sir Arthur Gaitskell
D. A. Hunter Johnston
The Earl of March
Sir Duncan Oppenheim
The Earl of Perth
Lord Seebohm
Antony Tasker
Charles Villiers

Introduction

Since the Second World War, and more particularly over the past decade, there has been a growing awareness of and concern at the difference in living standards and opportunities that exist between the industrialised Western nations and the developing or Third World. This awareness and concern, coupled with the realisation that the world possesses the technological capability of improving living standards in developing countries, has resulted in two main types of deliberate economic action – official assistance by way of Government grants and loans (both bilateral and multilateral through such institutions as the World Bank) and grants by private voluntary agencies; in 1970 the flow of funds under these two heads amounted to $8,000 million and $800 million respectively. Although prompted by very different considerations, foreign private investment (including the financing of imports) also makes a significant contribution to the flow of financial resources from developed to developing countries ($6,750 million in 1970); it is included in the overall commitment through which the developed countries have undertaken to increase this flow of financial resources in the future, although it is accepted that the scope for Government action in this particular instance (as also in the case of private voluntary grants) is necessarily limited.

It is also generally accepted, despite the frustration that is often expressed with the slowness of the results which have apparently been achieved to date, that a large number of developing countries have in fact successfully accelerated their rate of economic development over the past 10 years and that further and more rapid progress can be achieved over the next decade, provided that adequate assistance is forthcoming. In the words of the authoritative Pearson Report, which published its findings in 1969, 'studies of development requirements indicate that realistic policies compatible with a 6% target (for economic growth) should give rise to a need for external resources, including both official aid and private investment, of the order of 1% of the Gross National Product of the wealthier countries'. At 1970 levels of output this implies a transfer of not less than $20,000 million per annum (i.e. 50% greater than actual transfers).

Despite this difference and the widespread acceptance of the fact that a significant raising of living standards in the developing countries and bringing their economies to a point where growth becomes self sustaining can be achieved (perhaps even within a generation), the task still seems so colossal that for many it is perhaps natural for it to be seen as a matter for governments and the United Nations. By contrast, the power of the individual appears so limited that little can be done on a personal level except to contribute to charities or disaster funds. The involvement of the Churches and Christian individuals has therefore been largely through missionary societies in such traditional fields as health and education and in efforts to alleviate the worst symptoms of poverty and hunger. It is true and admirable that some aid agencies, of which Christian Aid and Oxfam are typical examples, have long based their policies on the conviction that the causes rather than the symptoms of poverty must be tackled, but dependence on charitable funds (however generously given) has nevertheless in many cases caused the results to be quite incommensurate with the will and devotion at one end and the needs at the other.

Partly for this reason, and also perhaps because of the doubts which have arisen as to whether the political will exists to ensure a further substantial increase in official assistance, it is increasingly through the Christian Churches that a call for faster and more radical action is now being expressed. The World Council of Churches, for example, through the Commission on the Churches' Participation in Development and through the Ecumenical Church Loan Fund, is already examining and taking new lines of action, while in Britain the Swanwick Conference, organised in October 1969 by a committee representative of all the churches and missionary societies, focused attention on new possibilities for Christian action when it passed the following resolutions:

(i) That British Churches should take the lead in creating an independent fund for investment in the creation of wealth in developing countries by devoting, before the end of 1972, 5% of their invested funds for that purpose . . . to be administered professionally and according to criteria agreed in partnership with developing countries as to the investments best suited to the creation of wealth in those countries and to the equity of its distribution.

(ii) That all Christians should be asked by their churches to commit 1% of their personal income for the purpose of development, over and above all gifts for world mission and service.

Since then these resolutions have been closely studied by appropriate committees in the Methodist Church, the Episcopal Church of Scotland, the Church in Wales and other Churches with a view to finding means of creative investment in developing countries. Moreover, some Churches, including the Presbyterians, Congregationalists, Methodists, and some dioceses of the Church of England have held special 1% and one day's pay appeals for development; and the Church Commissioners of the Church of England have made a loan of £1,000,000 to the Commonwealth Development Finance Company Ltd. On the part of many individual Christians, there is an evident desire to find ways of acting on the Swanwick resolutions.

This pamphlet should therefore be regarded as arising directly out of these same resolutions and has the following purposes:

(a) To act as a guide to the channels which are already available for church and individual investment in the developing world (pages 4 to 11).

(b) To propose new channels or new institutions which could complement the existing framework to meet the commitments implicit in the resolutions outlined above, while at the same time drawing attention to some of the financial considerations which are likely to arise out of any such initiative (pages 12 to 17).

It requires to be emphasised at the outset, however, that much of the accumulated capital of the Churches is in the care of commissioners or trustees who are bound by the law and the terms of their trusts. They have a duty to conserve the capital entrusted to them, and by the same token most have a duty to earn income on that capital to pay stipends of clergy, to maintain hospitals or schools, to meet the out-goings of missions or for other purposes. As a result, whereas an individual is free to dispose of his assets in any way that he considers best, a trustee is not free to take such action with the property of others. There are some who say that such rules are wrong, that the law should be changed and that accumulated wealth should be liberated for new purposes, but whether such views are justified, they are taken to be outside the terms of this study. Furthermore, since the Swanwick resolutions called for action by the end of 1972, it is assumed that guidance is needed on investment opportunities in the Third World open to organisations and individuals in Britain within the political and legal framework as it exists today.

The existing channels

It is also fully recognised that a number of channels are in fact already present through which private individuals, commissioners and trustees can currently commit, or may in future be able to commit, funds for investment in the developing world, while at the same time meeting any self-imposed or legal requirements to earn an adequate rate of return on those funds commensurate with the risks (real or imagined) attached to such investment. These channels fall broadly into the following categories, each of which is analysed in greater detail in subsequent paragraphs:

(A) International governmental institutions operating world-wide (e.g. the World Bank and its affiliated organisations).

(B) International governmental institutions operating in specific regions of the Third World (e.g. the African and Asian Development Banks).

(C) International private-enterprise institutions operating in specific regions of the Third World (e.g. the Private Investment Company for Asia).

(D) Institutions, corporations and companies established in developed countries with the main purpose of promoting development in the Third World, such as the European Investment Bank and (in Britain) the Commonwealth Development Corporation and the Commonwealth Development Finance Company Ltd.

(E) National development corporations and development banks in the Third World, some of which are entirely publicly owned, but others entirely or partly privately owned. Many are general purpose financing organisations; whereas others specialise in agriculture, industry, housing or another specialised function of development; others specialise by method rather than by function, such as co-operative banks.

(F) The shares or debentures of companies quoted on the stock exchanges of developed countries and the public (i.e. Government or para-statal) loans of developing countries similarly quoted.

(G) The shares or debentures of companies quoted on the stock exchanges of developing countries.

It may be noted, however, that although all seven categories are actually or potentially channels for individual investment, only category F has in practice so far proved readily available to the British investor, and that even in this case its importance has declined since World War II for the reasons outlined later.

World Bank Group. The group consists of the International Bank for Reconstruction and Development (World Bank), the International Development Association (IDA) and the International Finance Corporation (IFC). The World Bank itself makes loans to the governments of developing countries and, with government guarantee, to their development institutions; most of its credits are for public utilities, transport and similar infrastructural development, but an increasing proportion is now being diverted to agriculture (especially irrigation and drainage), education and industry. The IDA is the so-called 'soft-loan' affiliate of the World Bank, operating with special government subscriptions and an allocation of World Bank profits, making loans for periods up to 50 years at a nominal service charge. The IFC invests in and lends to private sector development, mainly in industry.

The only channel for individual investment in the activities of the World Bank and its affiliates is through the purchase of World Bank Bonds. The World Bank obtains its funds from the subscriptions of its member governments, from repayments of past loans, from sales of its outstanding loans to other institutions, and from the issue of its own bonds. World Bank funded debt outstanding in mid-1971 amounted, in round figures, to US $5,400 million in eleven currencies of which some US $24 million (£9.1 million)* was in pounds sterling. This low proportion of sterling borrowings can largely be attributed to the reluctance, over a number of years, of the UK authorities to allow foreign borrowers access to the London market, for balance of payments considerations, and to the higher cost of borrowing in London, also over a number of years, compared with other financial centres. The Bank admittedly raised £10 million on the London market in August 1971, but at an interest rate of 8% (well in excess of the Bank's lending rate) with the result that it seems unlikely that it will greatly increase its borrowings in London until such time as interest rates decline further. For the time being, therefore, opportunities for investment by sterling area residents are basically restricted to buying bonds from existing holders. Institutions with large sums to invest can, however, explore the possibility of buying World Bank loans, and also IFC loans and equity investments, which in turn have the effect of replenishing the funds of those institutions for new investment. Such investments give maximum security and normally a fixed return on capital, but cannot of course be associated with any identifiable new development. Nevertheless, an important

* $2.63 = £1.00

advantage for United Kingdom charitable funds not subject to United Kingdom tax is that World Bank and IFC investments are normally exempt from tax in the country of investment. Another possibility is to invest in specific projects alongside the World Bank or IFC, following their terms of investment.

Regional Governmental Development Banks. Based to some extent on the precedent of the Inter-American Development Bank, which began operations in 1961, several new institutions have recently been formed as co-operative ventures of regional governments, often with the support of governments of developed countries outside the region. The most important established to date are the African and Asian Development Banks, the East African Development Bank, the Caribbean Development Bank and the Central American Bank for Economic Integration, while there is also the Arab Development Fund and a fund established by the governments of Francophone West Africa. However, apart from the old-established Inter-American Development Bank these institutions are new and in many aspects still feeling their way, with the result that their need for additional funds (i.e. over and above that subscribed by their founder members) has so far been limited. It is nevertheless reasonable to suggest that in time they might well emerge as important channels for institutional (and perhaps even individual) investment in development.

Regional Private-enterprise Development Banks. There are three such banks – Atlantic Community Development Group for Latin America (ADELA) operating since 1964 in Latin America, the Private Investment Company for Asia (PICA) operational since 1969, and Société Internationale Financière pour les Investissements et le Développement en Afrique (SIFIDA) established in 1970 for Africa. Shareholders are major banks and industrial companies from most of the developed countries. They invest in private enterprise developments (mainly industrial) and constitute the privately-owned counterpart of, and are often co-investors with, the IFC. They operate on strict commercial principles and can only expand on their own credit as borrowers. They do not yet provide a channel for investment by individuals, although ADELA is now a potential borrower of institutional funds for development, and no doubt the other two will be later.

Development Corporations and Banks established in developed countries for Third World Development. There is a large number of such organisations set up in many different forms in many countries. Some are wholly backed by governments; some are wholly private. They vary in both purpose and method, in the degree to which their operations are based on commercial criteria or on considerations of aid for development which are softer than those of the market. Some tie their funds to home purchases; some do not. Some take initiatives and are promotional; some wait for and screen applications. Such bodies may be found in North America, in most of the developed countries of Europe and elsewhere, but as investment by United Kingdom residents in the national aid agencies of other countries is unlikely to be either offered or accepted, mention is made below of the two main British agencies (CDC and CDFC) and one Church-inspired international agency (ECLOF). It should, however, be noted that relationships between national agencies are often close and cordial. CDC and CDFC are in many instances joint investors in overseas development banks and in development projects with their German, Dutch and other sister agencies.

The Commonwealth Development Corporation (CDC), a statutory corporation established by the British Government in 1948, was originally confined in its area of operation to the then dependent territories of the United Kingdom. It may now operate to a limited extent outside the Commonwealth. It has made large loans to public utility corporations, but its main and in many ways unique contribution to development has lain in its ability to take initiatives in development through its locally-established regional offices. It was the first (and until recently the only) major development agency which understood that capital is an effective means of development only if used to back enterprise and skilled management. CDC has in many cases provided all three elements.

The Commonwealth Development Finance Company (CDFC) for its part has as its shareholders a large number of British public companies, with the Bank of England and Commonwealth Central Banks as additional shareholders. It invests mainly in industry and is at present concentrating on the provision of risk capital. Like CDC, it will now invest to some extent outside the Commonwealth. CDFC has recently borrowed £1 million from the Church Commissioners.

CDC obtains most of its funds from the United Kingdom Treasury at current interest rates fixed at the time of borrowing, although some funds are made available on concessionary terms. But whereas it also borrows a small proportion of its funds in the City of London, CDFC obtains all its funds from non-government sources on market terms. Both institutions, however, have a large network of associate organisations overseas in developing countries, in the case of CDC often managed by their own staff, both British and indigenous. CDC and CDFC may therefore ultimately be used much more extensively than they are now as channels for institutional investment in development, whether in a general sense or directed specifically to certain countries or types of development project. Neither has yet set out to mobilise individual savings in Britain, however, although CDC through its associate building societies and other agencies has done much to mobilise indigenous savings in the countries in which it operates.

The Ecumenical Church Loan Fund (ECLOF) is established in Geneva as a close associate of the World Council of Churches. It is the focus of some twenty National ECLOF Committees of which only about half are in non-European developing countries within the scope of this study. The national committees operate loan funds within their own countries, the funds having originally been provided as gifts from church sources in developed countries. The scale of operations has so far been small – 1,600 loans in 21 countries over 24 years with a maximum of US $5,000 (£1,900) for each loan. Interest at 3% is charged to cover administrative overheads and to add to the size of each national fund. The largest national revolving fund is less than US $100,000 (£38,000). The scope of the operation is therefore limited by its dependence on free charitable funds for its capital, and ECLOF as at present constituted is thus outside the terms of this study which is concerned with the raising and use of investment funds. But within its limitations ECLOF has undoubtedly been successful and has built into it excellent principles of self-help joined with a proper regard for management. The present executive of ECLOF is investigating the extension of ECLOF's activities into the use of church investment capital. If sound plans are developed to use the ECLOF machinery and national committees for that purpose, ECLOF could become a development agency of significance for the Third World.

National Development Corporations and similar bodies in the Third World. This category of investment institutions comprises a large number of development corporations and banks which have been established in the developing countries themselves, mostly, but not exclusively, since 1945. They vary widely in function, constitution and method of operation, such differences reflecting both the varying sizes of the countries concerned and the political inclinations of their governments.

In large countries such as India, and in those with federal constitutions such as Malaysia and Nigeria, there are also normally development organisations at both central and local or state levels. A typical pattern is for two types of development institutions to co-exist, one wholly owned by the central or state government, and the other open to private (usually institutional) investment with or without government or central bank participation; the emphasis, whether on government or private ownership, depends mainly on the political attitudes of the government, although the level of development and sophistication of the economy are also relevant factors.

In most cases these institutions receive international financial support through World Bank loans, IFC investment, bilateral inter-government aid, foreign private shareholding or loans, and in other ways. Many were established jointly with overseas development institutions such as CDC, through whom at their inception they received support in organisation and management.

In small countries these institutions may serve general purposes, supporting agriculture, industry or any other form of development. But in the larger countries there is increasing specialisation. There are large numbers of specialist industrial development corporations and banks in public, private and mixed ownership; there are land development corporations, tourist development corporations, and agricultural mortgage and loan corporations. There are specialist organisations to establish industrial estates, and an increasing number of housing development and mortgage companies. There is at the same time a large number of publicly-supported companies and authorities for the development and operation of public utilities – power, ports, water resources, telecommunications and so on. Specialist organisations, some of them co-operative, look after the needs for loans and advice of small family businesses, in agriculture, industry and commerce. There are institutions investing in and lending for long-term developments; others provide working capital including seasonal crop finance.

The total number of such institutions is very large indeed, numbered in hundreds in sterling area Commonwealth developing countries alone, many of which have proved effective in achieving sound development and also financially sound. In other countries tax-payers' or aid money is deliberately channelled through development institutions which are subsidised and employ their funds for social and political objectives, or for economic objectives which are not revenue-earning in the short-term. An overseas investor, in selecting a channel for investment, will first of all be concerned with the objectives of the institution in which he will invest; next he will be interested in performance, if the institution is old enough to have a 'track record'; always he will be interested in management, since it is the quality of management which decides whether the investment of money in, or through, a given institution will help to achieve the chosen objectives of that institution, whether or not those objectives include a large return on investors' capital.

Shares, debentures and loans quoted on the Stock Exchanges of developed countries. Early in this century a large number of companies raised money on the London capital market for overseas development; plantation agriculture, mining and public utilities were the main activities so financed, with a smaller number of trading companies and banks. To-day about 150 such companies, in the main successors of the larger number of original companies resulting from amalgamations, can be identified in the lists of Stock Exchange quotations published in the financial press, if one takes as the criterion companies whose sole or principal activity lies in one or more developing countries; over 130 of these are engaged in plantation agriculture or mining. However, it needs to be emphasised that although the purchase of shares may provide the investor with an interest in a developing country, it does nothing to increase the capital flow to that country; it merely transfers ownership from one shareholder to another, both probably in Britain.

There are also forces at work which make investment in such companies decreasingly important as vehicles of development. Public utilities, as a class of activity, are in most countries now nationalised and the few remaining in private hands are seldom attractive as investments. Trading companies and banks (also partly or wholly nationalised in some countries) are tending to diversify world-wide, while many plantation and mining companies are diversifying into other activities in developed countries. In any case, it is rare for any of these companies to raise new capital in London for extension of their activities in developing countries, however much they may continue to expand through the reinvestment of profits.

At one time it was also common for British Colonial, Commonwealth and even foreign governments and city councils to raise loans on the London market. Since the war the raising of funds in this way has been severely rationed, and as previously noted London has in any case been an expensive market in which to borrow. Some of these loans are quoted and can be bought in London to yield slightly more than British government securities of similar maturities. Nine such loans of developing Commonwealth countries are included in the *Financial Times* daily list, and a few of the non-Commonwealth developing countries. But while the purchase of existing stock certainly improves the marketability of such issues, many investors still regard such investment as falling short of a positive contribution to new development; those who hold this view (and who therefore wish to subscribe to new issues) will however not readily find a channel on the London stock market, nor on that of any other developed country, until such time as new placing facilities are created for overseas loans and share issues.

Shares, debentures and loans quoted on the Stock Exchanges of developing countries. One reason for the lack of new issues in London has been the development of stock exchanges in the developing countries themselves. In those countries where a substantial middle class has created itself with the capacity to save, company flotations inevitably take place locally rather than in London; national governments, or at least those which favour private enterprise as an ingredient in development, encourage this development of local money markets both as a way of stimulating internal savings and as evidence of economic sovereignty and maturity. It has thus come about that the older-established types of development such as plantations and mining tend to be represented by companies quoted in London; new developments such as industry, hotels and city property have been locally promoted (even though they may be subsidiaries of overseas international companies), their shares being quoted in Singapore, Nairobi, Bombay, Kingston, etc, but not in London. It is true that certain London brokers will buy such shares for clients, and abbreviated Singapore and Hong Kong share lists are quoted weekly in the *Financial Times*; but an investor needs to be both determined and sophisticated to use such a channel for investment in development.

There are in fact stock exchanges or share markets of various degrees of activity and sophistication in about a dozen developing countries of the Sterling Area. Latin America and a few other non-sterling countries such as Thailand, Turkey and Iran also have investment opportunities for those who have non-sterling funds to invest, but compared with the sophistication of London and New York these exchanges can only be described as embryonic and have so far been established in only 33 out of the 95 developing countries of the world. However it can be suggested that any investor who believes in private entrepreneurship as an important element in development would do well to support them, if he can find the means, provided they are well and honestly regulated, and are located in countries whose governments understand the proper balance between wealth creation by private enterprise and wealth distribution through public legal and fiscal channels, and act in accordance with that understanding. But even in such cases it goes without saying that local knowledge is an essential pre-condition of such investment, and that such knowledge is rarely easy for the individual or even the institutional investor to acquire.

* * * *

On the basis of the foregoing review, it is suggested that although a number of channels or institutions exist, the ways effectively open to the individual or trustee wishing to invest in the developing world are still limited in number for one reason or another, and that even in the case of World Bank Bonds (which offer the largest single outlet that is readily available) many charitable bodies will continue to regard the purchase of such bonds as only a marginal contribution to development and one from which it is difficult to derive any specific feeling of commitment. In the case of the purchase of the shares in development institutions – or even loans to such institutions – a greater sense of participation might be possible in theory, but on present trends it must be considered doubtful whether opportunities to subscribe new capital will arise on a significant scale in the foreseeable future.

A new institution

In this situation, there seems to be a strong case for proposing that one or more new institutions could well be established which could not only fill the gap apparent in the foregoing analysis, but could at the same time provide a management 'centre' or 'forum' through which specialised knowledge or investment advice could be made available to potential investors at low cost. This last remark is intended to emphasise the recommendation that the establishment of any new investment institution should, at least in its early stages, be geared to meeting certain clearly defined objectives, while at the same time taking into account the fact that the requirements of different investors will always vary quite markedly. The following proposals should therefore be viewed in the context of the needs of one specific group of potential investors, i.e. those who have a need or are faced with the legal requirement not only to preserve the real value of their capital (which in all cases must be considered a minimum requirement) but also to earn an adequate rate of return on such capital. Most church funds, whether or not managed under trust deeds, are of this type and it seems no more than realistic to assume that the majority of managers and trustees will only consider making investments in Third World development of a part of their funds – e.g. 5% under the terms of the Swanwick resolution – if they can be assured of the security of their capital and a rate of return broadly in line with that obtainable in the United Kingdom. At the time of writing a 'mixed' UK portfolio (i.e. one comprising 50% equities and 50% long term Government fixed interest stocks) would give an immediate yield of just over 5¼%.

Fortunately there is no reason to suppose that a similar rate of return (at the gross level) cannot be obtained from investments in the developing world, with the result that the most obvious innovation would appear to be the establishment of a trust whose activities would be confined (if necessary by its Articles of Association) to investments in the Third World and for which the necessary management would be available, at or free of cost, from persons already employed in institutions with substantial business interests in the countries concerned.

The type of trust best suited to meeting this requirement can obviously be ascertained only after specialist advice has been sought, but there is no doubt that the need for maintaining an adequate degree of liquidity would represent one important consideration in the final decision. Liquidity is by no means the only consideration, however, and although specialist advice would again have to be sought, a number of other factors may usefully be mentioned at this stage – namely the security of capital, the incidence of taxation, and investment policy (including one type of economic activity, housing, which seldom receives support from international finance but which, it is understood, is of particular concern to the Churches). The following comments on each of these points should nevertheless be regarded as no more than an outline of the issues involved, rather than specific policy recommendations.

Liquidity. Although it is not difficult for large institutional investors to make arrangements for fixed term loans with negotiated repayment dates to suit their own requirements, the majority of investors (individuals or trustees) are not generally in the same position; and if they are to be invited to contribute a part of their capital to overseas development, there must obviously be a means for them to withdraw their funds at some future date. The establishment of a closed-end investment trust has obvious advantages in this respect, since liquidity would be readily available to all investors by the simple method of selling shares (or loan stock) in the market. Against this, it must be recognised that a closed-end fund is by definition one with a fixed capital at any given point in time, and it may be felt that this would prove unsatisfactory if a steady flow of new funds could be expected. In this case an open-ended trust might prove preferable, and although this would undoubtedly create a greater liquidity problem for the management, one obvious solution could be to keep 10% or 15% of the fund permanently invested in World Bank Bonds, which are of course also marketable at any time. In practical terms, such a solution would probably prove more than adequate to meet the requirements resulting from the possible withdrawal of funds by individual investors over a given period of time. The fact that no more than 5% of Church funds was envisaged in the Swanwick resolutions in itself suggests that the possibility of a large scale withdrawal of such funds at short notice could be largely discounted.

Security of Capital. As previously noted, security of capital represents the minimum requirement of any investor, and in recognition of this fact the governments of a number of developed countries now operate insurance schemes to guarantee the security of investments in developing countries against the risks of expropriation, war and currency inconvertibility. The United Kingdom Government is currently enacting legislation for a scheme which, although primarily geared to guaranteeing direct as opposed to portfolio investment, will nevertheless include the latter to the extent that it involves a substantial 'investment', currently defined as 10% of the equity subject to a minimum of £50,000 in amount. In the case of loans (or combined equity plus loan investment), the minimum will be 10% of the equity plus loan capital in the enterprise subject to a minimum of £50,000 in amount. In addition, the scheme will basically apply only to those funds invested in an overseas enterprise for a period of three years.

At this stage it is impossible to gauge the potential relevance of the UK Government's scheme to the trust which this paper proposes. The three year time limit is unlikely to prove a limiting factor, and normal trust practice (which is based on the policy that not more than 5% of a fund be invested in any one security) is also unlikely to pose a problem, since the 'break even' size of the whole fund would be no more than £1 million. The 1% per annum insurance premium on the other hand would have some impact on the yield of the fund, but in this context it may be noted that threats of nationalisation, and indeed the whole history of recent acts of nationalisation, have usually been directed against concerns which are controlled by foreign interests; the same has not applied to foreign minority shareholdings in the capital of locally incorporated companies.

It therefore seems reasonable to suggest that, although the new insurance scheme has a number of advantages in so far as the investment policy of the proposed trust could be more flexible and less constrained by political considerations than would otherwise be the case, it is unlikely that its investments would require blanket insurance cover under the scheme.

Taxation. Overseas investment (in both developed and developing countries) poses a particular problem to charitable organisations which are not subject to UK tax. Both direct and portfolio investment in developing countries are likely to attract corporation tax or withholding tax, unless special exemption can be obtained; even where this is the case, it would appear inevitable that lengthy (and probably costly) negotiations would be involved. In other words, a charitable fund would invariably have to lend overseas at a higher rate of interest, or anticipate a higher rate of dividend income, than it would in the United Kingdom, to obtain the same net return: although this difference would accrue to the Government of the developing country in question, it is probably not a situation which would immediately appeal to many contributors of charitable funds. But while it is correct to recognise this potential problem, its significance can be over-emphasised. In the first place, similar considerations apply (to a greater or lesser degree) to virtually all forms of overseas investment by virtually all classes of investor; and in the specific case of investment in Third World development, the purchase of World Bank Bonds or of the London loans of Commonwealth Governments is probably the only outlet on which income is not subject to tax at some stage. Secondly, with the average dividend yield on UK equities now no more than 3·2% (gross), and on the assumption that a 40% rate of corporation/withholding tax is applied in a typical developing country, the need to obtain a return of little more than 5% to eliminate this differential seems unlikely to pose a serious constraint on investment policy. Thirdly, there appear to be no complications with respect to the taxation of a UK based trust itself, since a number of trusts are already in existence which cater exclusively for recognised charities, are therefore exempt from both income tax and tax on capital gains, and can as a result make gross distributions of income.

Investment Policy. Over and above the complications regarding taxation outlined in the preceding section, two other factors currently restrict the scope for investment in the developing world. The first (which is specifically related to trust funds) concerns the range of securities (quoted or unquoted) in which trustees are authorised to invest funds, and the second – and more general – problem of exchange controls as currently enforced in the UK.

Trustees of charitable or other trusts must obviously observe the terms of their trusts, and while there can be no generalisation as to the powers of trustees, which vary greatly, many are simply governed by the United Kingdom Trustee Investment Act 1961. Briefly that Act provides, in the paragraphs relevant to overseas investment, that trustees may invest:

> in fixed-interest securities issued in the United Kingdom by the government of any overseas territory within the Commonwealth or by any public or local authority within such a territory, being securities registered in the United Kingdom;
>
> in fixed-interest securities issued in the United Kingdom by the International Bank for Reconstruction and Development, being securities registered in the United Kingdom;
>
> in debentures issued in the United Kingdom. (This provision is restricted to companies with an issued and paid-up share capital of £1 million or more and a continuous 5 year dividend record.)

Additionally trustees may invest part of their funds in quoted United Kingdom companies, subject to the same requirements as to size of capital and dividend record, and in the shares of United Kingdom building societies. Trustees may also invest in authorised United Kingdom unit trusts.

The ability of trustees with powers limited by the Act to invest in overseas development is therefore restricted to World Bank sterling bonds, to the sterling securities of Commonwealth governments and their public authorities, and to the quoted securities of United Kingdom companies operating overseas (Commonwealth Development Finance Co Ltd debentures are in this category). As a result, if it can be shown that there are trustees with substantial funds to invest in overseas development, wider facilities are plainly required before such funds can be effectively encouraged and tapped.

A number of precedents nevertheless suggest that this should not prove an insurmountable obstacle. The first is the Investment Fund set up by the Central Board of Finance of the Church of England under the Church Funds Investment Measure of 1958. Another is the Charities Official Investment Fund created by a Scheme of the Charity Commissioners in 1963 and run for them (along with The Local Authorities' Mutual Investment Trust) by the Investment Office of the Central Board of Finance of the Church of England. The Methodist Church likewise promoted a private Act of Parliament to give itself powers similar to those taken by the Church of England through the Church Funds Investment Measure, and set up a simplified unit trust exempt from income tax and tax on capital gains; at least one trust enjoying these latter exemptions is currently run by a commercial institution, having been authorised by the Department of Trade and Industry under the Prevention of Frauds Investment Act.

Any investment policy would also have to take account of the fact that the purchase of securities outside the Sterling Area has to be financed through 'investment dollars' (which currently command a premium of 30% over the commercial spot rate) and that a quarter of the relevant dollars have to be surrendered at the official rate as and when such securities are sold. To what extent this would pose a handicap to an effective investment policy is not easy to gauge however, even assuming that the present regulations will continue to be enforced indefinitely. A large number of developing countries are still members of the Sterling Area, and in terms of population they account for an even greater proportion of the Third World. When account is also taken of the likely preferences of trustees, and the management skills which would be available in the United Kingdom, it seems reasonable to suggest that the investment of funds would be largely directed to the Outer Sterling Area, almost as a matter of course. As a result the only major area of the world where problems might arise in this connection would appear to be investment in Latin America.

Previous paragraphs in this pamphlet have suggested – in most cases implicitly – that in the early years of the proposed trust, investment policy would be largely based on the purchase of shares in quoted companies. The direct financing of specific projects (or more probably contributions to the financing of specific projects in conjunction with such institutions as the International Finance Corporation, the Commonwealth Development Corporation and the Commonwealth Development Finance Company) might have to be delayed until such time as sufficient expertise and experience in managing the trust had been gained. However, even at that stage, the direct financing of projects might well in some cases prove incompatible with considerations of liquidity, as previously noted, and the requirements to produce an adequate return to investors by way of annual dividends. Despite these reservations, it has been suggested that certain investment possibilities could well exist outside quoted securities which, although they do not meet the strictest requirements of liquidity, may at least yield an adequate return over the relatively short term.

One specific example put forward in this context is housing. In pure development theory housing has traditionally been seen as a social rather than a productive enterprise, and therefore outside the scope of development funds. Since it also uses little foreign exchange (most housing methods being adapted to the use of local materials) it is not thought by many to have priority for overseas investment funds. Housing has for these reasons been much neglected, as evidenced by the rural and industrial slums which now proliferate in the Third World. The CDC is one of the few organisations which have invested substantially in housing, with great effect, and the same area may well have a special appeal to the churches, concerned as they are with the quality of family life. If well managed, it is obviously a safe investment, being secured on solid property which can often be additionally secured by government guarantee, if channelled through public housing corporations. Alternatively, funds can be deployed through building societies or their equivalent in developing countries, with full security available. Through investment in housing the churches might well find a distinctive role, neglected by others except CDC, positively promoting the purposes of family unity and social cohesion for which funds could also be invited from church members.

Recommendations for further action

The preceding sections have drawn three main conclusions from which it seems possible to make specific recommendations for further action.

1. The various institutions through which the investment of funds in Third World development can currently be channelled, or could be channelled at some future date, have been listed on the assumption that the institutions in question will find it necessary, or simply desirable, to raise funds from new sources. Although for one reason or another many of these outlets may appear somewhat limited in scope at this point in time, it is nevertheless suggested that the widest possible publicity can still usefully be given to the existence of these institutions in an appropriate document or pamphlet.

2. In support of this publicity, it would seem to follow that consideration be given to the establishment of a management body or forum which could advise on the ways in which charitable funds can best be invested in Third World development, taking into account the different requirements of investors, whether individuals or trustees. On the assumption that appointments to such a body or forum would be drawn from leading members of the UK business and financial community, it would seem reasonable that such advice could be made available free, or at least at cost, through their respective companies.

3. This paper has at the same time recommended that consideration be given to the establishment of a trust for the specific purpose of enabling charitable and other trust funds to invest in Third World development on a greater scale than hitherto. This recommendation is based on the observation that a gap exists in the present institutional framework which is likely to remain in the foreseeable future. It is nevertheless emphasised that the trust should be seen within the context of meeting certain specific objectives, and that in the short run these objectives may well prove somewhat limited. As far as the supply of funds is concerned, for example, it is assumed that the trust would be primarily geared to meeting the requirements of trustees of charitable funds who will seek a return on their funds more or less in line with those obtainable elsewhere (e.g the London market); as far as investment policy is concerned, that the main outlet, during the early years of the fund, would be investments in quoted securities. This in no way implies that other outlets (e.g. participation in the direct financing of specific projects) would not

become available at a later stage, but it seems no more than realistic to assume that management would be a limiting factor, even if a sufficient flow of new projects were forthcoming.

The suggestion that the objectives of the trust may initially have to be kept within clearly defined limits should in no way obscure the financial and other practical considerations which will have to be taken into account before the most appropriate form for such a trust can be finally established. Some of these considerations (e.g. those of liquidity, security of capital, taxation, and investment policy) have been outlined in this pamphlet, and although it may be suggested that the management of the trust's investments could be entrusted to the same central body or forum as recommended in section 2 above, active consideration will inevitably have to be given also to the question of its routine administration. On all these points, it is self-evident that specialist advice will have to be sought.

The concept of such a trust nevertheless appears at this stage as a potentially important and worthwhile initiative. Church and other charitable funds should be, and can be, something different from government investment on the one hand and private investment on the other, and can also be expected to attract some individual private investment in their wake. By keeping themselves apart from (though often in partnership with) established government and private investment institutions in developed countries, church investors could pioneer the use of investment money with a moral purpose, and thus become a third force in the Third World, especially trusted by recipients and especially appealing to the many potential investors typified by those who voted the resolutions at the Swanwick Conference.

Printed by Battley Brothers Limited 37 Old Town Clapham London SW4 0JN

Overseas Development Institute
10-11 Percy Street, London W1P 0JB

The Overseas Development Institute (ODI) is an independent, non-government body aiming to promote wise action in the field of overseas development. Its functions are: to provide a centre for research in development issues and problems, and to conduct studies of its own; to be a forum for the exchange of views and information among those, in Britain and abroad, who are directly concerned with overseas development in business, in government, and in other organisations; to keep the urgency of development issues and problems before the public and the responsible authorities.

Christian Aid
2 Sloane Gardens, (PO Box 1) London SW1W 9BW

Christian Aid is the official development agency of the British churches, having its own Board of Directors but constitutionally being a part of the British Council of Churches. The Council set it up as its agency of practical service to all in need – the world's poor, the refugees, and those afflicted by war and disaster. It helps those of all religions and of none, the criterion being 'need, not creed'. It derives its income – now more than £3 million a year – from the individual donations of Christians and non-Christians alike, though most of its fund-raising and educational work in the United Kingdom is done by and through the churches. The greater part of all it raises is spent on development projects, mainly planned and administered by regional and national Christian Councils in the areas of operation.

Catholic Fund for Overseas Development (CAFOD)
75 Kinnerton Street, London SW1X 8EU

The task of CAFOD is to help the mission of the Church in developing countries by encouraging self-help projects that will change the conditions causing poverty, hunger and malnutrition. Its work is two-fold: (a) it must inform and awaken concern in the Catholic public regarding the poverty and hunger overseas, and raise funds through the bi-annual Family Fast Day appeals and direct donations; (b) it must encourage, analyse and make financial grants to categories of self-help projects that, over a period of time, will make a permanent change for the better in the lives of the people affected. The projects are under the sponsorship of Catholic dioceses and Mission stations so that CAFOD may rely on constant supervision, and the careful use of funds, but it is an essential requirement that they shall be without distinction of race or creed.

ODI Review 5: Edited by Bruce Dinwiddy.
The fifth in the series of ODI Reviews examines recent trends in the world development assistance effort. ODI appraises the British role, and there are commissioned articles on the policies and programmes of the United States and the Netherlands. In addition, Peter Tulloch describes how developing countries may be affected by British entry into the EEC, and Guy Hunter raises some important questions about longer-term development needs and prospects. Appendix tables contain additional information about British aid, the pattern of world trade, and the new General Preference schemes.

(140 pp, tables, index, £1.50)

Britain, the EEC and the Third World
The report, by Tom Soper, and papers of an international conference held at The Royal Society in April 1971 and sponsored by the UK Chapter of the Society for International Development and the Overseas Development Institute. The papers include an official view by Anthony Kershaw, MP, of Britain's attitude to the developing countries in the context of the negotiations, and a contrasting critique of EEC trade policies by David Wall of the University of Sussex. Further papers on trade and aid policies were contributed, in their personal capacities, by Gerhard Schiffler and Charles van der Vaeren from the EEC Commission, Brussels. The volume also includes a note on the EEC's common agricultural policy, and statistical appendices.

(92 pp, tables, £1)

> '[Tom Soper's] report is a model of impartiality in giving fair expression to the critical as well as the favourable views, and yet avoiding the tedious clichés (on the one hand, on the other . . .) that characterise all too many of such "neutral reports". Altogether this volume is excellent value.'
>
> Hans Singer, *Journal of Administration Overseas.*

Regional Development Banks: by John White.
This study analyses the origins, structure and evolution of the Inter-American, African and Asian Development Banks, which were established to give the poor countries a greater say in the allocation of international aid. (204 pp, tables, index, £2)