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Transnational Corporations

THE ROLE OF THE TRANSNATIONAL CORPORATIONS FINANCIAL SECTOR: THE CASE OF THE UNITED REPUBLIC OF TANZANIA*

A Technical Paper

* This paper has been prepared by ECA consultant of the Joint ECA/CTNC Unit on Transnational Corporations. The views expressed herein are those of the author and do not necessarily represent the views of this organization.

CONTENTS

CHAPTER I

INTRODUCTION

1. The purpose of this report is to present a theme basic in the controversy over the role of transnational banks and transnational corporations in developing countries with special reference to the United Republic of Tanzania. This topic has stimulated heated discussions over the last few years in a number of meetings.

2. The issue of transnational banks in the construction of the transnational financial sector has been a hornet's nest in Africa since independence in the early 1960s. At the international level, this matter led to the recommendation by the Commission on Transnational Corporations to carry out a study on the "evolution, structure and activities of the major transnational banks," and secondly, the examination of the "international and local operations of transnational banks and their implications for developing countries." 1/

3. The first and perhaps most important point is the meaning of transnational banks. The Commission on Transnational Corporations defines transnational banks as "deposit-taking banks with branches or majority-owned subsidiaries in five or more different countries and/or Territories." 2/ This report endeavours to highlight the activities of these banks together with other foreign non-transnational banks in the structure of the Tanzanian transnational financial sector.

4. The second comment on the subject is that, whatever analysis is adopted, it should be appropriate within the structure of the country concerned and appropriate also to the underlying purposes for which the financial sector exists. Observing transnational financial sector activities in other countries and examining the effectiveness of these activities in industrial development is useful largely in the context of identifying a set of problems and solutions; but in the end what is chosen must be suitable for the country concerned. There is no right or wrong method of controlling activities of transnational banks, only ways which are appropriate or inappropriate within that country, given the underlying purposes and the political philosophy of the host country.

5. The third and equally important consideration, is to understand that transnational banks operate not only in one geographical location but beyond the frontiers of one nation. This means that a better understanding of the transnational financial sector implies a wider appreciation of the perspectives of the global policies of transnational banks.

6. The logical starting point, therefore, should be this awareness of the underlying purposes for which the transnational banks including their branches, subsidiaries, affiliates and representative offices, exist. This is extremely important because the underlying objective should be articulated in some form so

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1/ E/C.10/67, 10 April 1980.

2/ Ibid., p.5.

that those concerned with their operations in host countries can know what is expected of them at the highest policy level to ensure that the contribution of the transnational financial sector is not detrimental to the national economy.

7. The reconciliation of conflicting transnational activities and national objectives frequently causes several problems. It may be difficult to determine precisely in advance and to think up clever ways of ensuring that transnational banks and transnational corporations bring maximum development benefits to the host country.

8. This paper represents an attempt to assess the role of the transnational financial sector but lack of data limits the scope of its investigation and analysis. Estimates of capital inflows generated by the transnational financial sector are of interest in their own right as descriptive statistics. If adequate data were available, of course, such information would have been more useful for detailed examination. Knowledge of country-specific policies such as investment licensing, quantitative restrictions upon trade and import prohibitions, price controls, remittance of dividends, profits, royalties, management fees and political factors have a direct bearing on the capital inflows arising from transnational financial sector activities. In addition, the role of the transnational financial sector is controlled by innumerable policies of parent transnational banks. Again, knowledge of their global as well as country-specific policies for lending operations is necessary.

CHAPTER II

AN ANALYTICAL PERSPECTIVE OF TRANSNATIONAL FINANCIAL SECTOR

9. There are four aspects of the transnational banking network:

(a) Stimuli to establish branches in developing countries;

(b) Advantages and disadvantages;

(c) Constraints;

(d) Consequences.

10. Many of the issues raised concerning the role of the transnational financial sector are related to the movement of capital across national boundaries. The general comments made in relation to foreign banks, and particularly those stemming from the powerful industrialized countries, are connected with their development impact on host countries. Perhaps it is not surprising that hitherto many of these aspects were taken for granted; but this trend has now completely changed. All countries today are development conscious.

(a) Stimuli

11. From the perspective of parent transnational banks and non-transnational foreign banks, there could be several operative stimuli. The general ones are:-

(a) Inadequate domestic margins in the home country induced the establishment of many branches abroad where, at least, the margins were attractive;

(b) For smaller banks, overseas locations offered better grounds for flourishing than the home market where competition with senior banks was very intensive;

(c) Historically, activities of transnational corporations and other private investors in colonies which were under the major Western Powers provided an impetus for opening branches to render services to settlers;

(d) The potential for development and the demand for loan funds in some developing countries offered strong incentives;

(e) Liberal fiscal and monetary incentives offered by some developing countries provided a strong temptation for opening overseas branches etc.;

(f) The need to diversify investment risks through the creation of external buffers against home fiscal or other measures;

(g) Attraction in the colonies of low-risk profit and stable costs.[3/]

3/ UNIDO/IOD.325: International Industrial Enterprise Co-operation. Volume 2 provides more details.

12. The above list is not exhaustive. There were other motivations which were of a political, social and economic nature.

(b) <u>Advantages and disadvantages</u>

13. The thrust of this section is to indicate the opportunities offered by the transnational financial sector. It is always implied that foreign banks have the advantage of bringing into the country capital resources and also they are well placed for external mobilization of resources. While this may be true, it is pertinent also to ask whether the activities of these banks may not be detrimental to host countries. Exports of capital, for example, can be injurious to the economy concerned.

14. The operations of all foreign banks overseas are backed by their home Governments. Home governments are not therefore indifferent to the excessive outflow of capital from poor developing countries. It is always assumed that the activities of transnational banks would not affect adversely the host's domestic economy.

15. The foregoing aspects are crucial to an evaluation of the performance of the transnational financial sector and also the analysis of the question for whom foreign banks cater. Of course, a critical view of the 'for whom' issue will vary from country to country. Conventional analysis treats this issue essentially as a matter concerning the interpretation of impact by each country and the parameters used in evaluation.

16. The approach to the transnational financial sector in developing countries is, by and large, based on the effectiveness of foreign banks in mobilizing external and domestic resources for the economic development of host countries. These two aspects constitute a useful area for the operations of transnational and non-transnational banks. The main reservation is when domestic resources are all exported. This was the situation prior to independence in most developing countries. To-day, financial transactions most frequently subject to regulation are repatriation of capital and profits, reinvestment profits and borrowing by foreign enterprises. 4/

17. The most common advantage of the transnational financial sector is the mobilization of foreign exchange which is deficient in almost all non-oil-producing developing countries. It should be added that, with the establishment of branches, transnational banks command an effective position for world-wide foreign exchange mobilization.

4/ United Nations National legislation and regulations relating to transnational corporations ST/CTC/6 p.4.

18. The relevant financial variables for any foreign economic activity are: repartriation of profits, dividends, remittance of earnings by expatriates and so forth. The net foreign exchange impact or gain over time arising out of the totality of operations of foreign banks must take into account all the outflows. The overwhelming impression of all transnational banks is that their inflows are outweighed by outflows. 5/

19. The existing financial discipline in the national banking system is attributed to banking culture introduced by expatriate banks. This is an obvious advantage to national economies. Direct evidence of this quality is difficult to measure but it is known that all transnational banks operating in developing countries adopt similar credit terms and conditions inherited from parent banks. This discipline has been transmitted to national banks.

(c) Constraints

20. What are the constraints to transnational banks opening branches in developing countries to-day? The major barrier during the colonial days was the oligopolization structure itself which was supported by the colonial system. It would seem that most of the early transnational banks established in developing countries originated from the colonizing home country.

21. Today, the main constraint is the international business structure itself. Within the prevailing international structure of business operations, there are at least three kinds of barriers: legal, economic and political.

22. The legal obstacles affect both the host and the home countries of transnational and non-transnational banks. Capital export, for example, in the form of cash is strictly controlled by many countries i.e. both developed and developing countries. This is probably reflective of the problem of international liquidity. The existing direct investment laws and regulations in developing countries vary in content and scope. Some legislation and regulations do not permit the establishment of foreign banks under the pretext of foreign exchange restrictions.

23. The economies of most developing countries are limited in size. Their markets are small. They do not require a multiplicity of large foreign banks. The economic barriers arise from lack of information on market structure and possibilities for good business.

24. Political barriers are another constraint. The obvious purpose is to protect national banks against competition from foreign banks in the doemstic markets of host countries. The underlying issue is a fear of possible political domination by the home countries of transnational banks.

5/ This point is illustrated by the activities of foreign banks in the United Republic of Tanzania between 1950 and 1965.

(d) Consequences

25. The observations made in the foregoing suggest that the role of the local transnational financial sector may diminish over time; but direct borrowing from parent transnational banks will continue to expand.

26. In the late 1960s and early 1970s some shocks shook transnational banks. These shocks arose from nationalization policies and the move by several countries to control their major means of production. These policies had an impact on the developmental expansion of the local transnational financial sector. Indeed, the scope of expansion of the domestic money market was diminished.

27. Using this summary as a basis for prediction, it could be said that barriers to growth of local transnational financial sector would be stronger in the future.

CHAPTER III

INSTITUTIONAL SETTING

(a) Evolution

28. The history of transnational banks in Africa dates back 80 years. All of them oriented from Western Europe - france, the Federal Republic of Germany and the United Kingdom. Their process of formation and involvement in Africa was linked to precolonial economic activities. The growth of the market economies in African countries from relatively dispersed rudimentary colonial economies to an integrated global economy stimulated the expansion of transpational banks from the United States of America, Japan and Canada.

(b) Assessment

29. The consensus which emerged during the post-War decades and particularly in the 1960s has recognized the pivotal role of the transnational financial sector as a powerful instrument for resource mobilization for developing countries. But experience has also shown that the eventual end product of resource mobilization may not necessarily be beneficial to the host countries. Evidence of the export of capital from the United Republic of Tanzania by commercial banks shows that there was no net inflow of capital from abroad between 1950 and 1965. 6/

30. From the example cited above, the need to control transnational and non-transnational banks is more than vital. There are substantional grounds to believe that uncontrolled operations of transnational corporations in industrial and service sectors can have detrimental effects on the economies of host countries.

31. At the international level, proposals have been made to restructure the present international order through suitable policies and instruments that should strengthen the negotiation capacity of Governments in developing countries in their relations with transnational corporations.

32. What is now realized is that transnational banks, as the major capital resources allocators, have established and centralized their power to apportion global financial resources over geopolitical boundaries and to direct their flows in the direction appropriate to their global strategy and policies.

6/ The first ten years of the National Bank of Commerce, 1977, p.6.

33. As in macro-economic planning, transnational financial sector planning falls under the public domain. However, to minimize misallocation of capital resources to sectors of less priority in the national economy, all transnational sector financial resources need to be incorporated in a comprehensive national credit plan. This approach presupposes suitable working relations with transnational banks.

34. The broader effects of transnational financial sector flows of resources have been the subject of much concern and controversy. Some of the general criticisms against transnational and non-transnational foreign banks are that:

(a) Financing by transnational intermediaries has been inappropriate, in some cases, for the general purposes of economic development. Financing of merchandise operations, for example, at the expense of development projects may not be suitable for long-term structural change in the economy;

(b) Excessive exports of capital generated from internal resources by transnational banks can be harmful to the host economy;

(c) Transnational lending has sometimes been introduced to produce industrial countries' consumption goods for use in the home country. This type of policy can have deleterious effects in terms of the needs of the majority of the population in the host country;

(d) Discriminatory lending policies have not always conformed to national priorities. The relative low rate of profits in relation to risk in the field of industrial investments has made transnational banks accord low priority to industrial projects compared with alternative uses of financial capital such as loans for construction, land speculation, trade and loans for consumption purposes.

35. The controversy has yielded at least one general conclusion: the need for selectivity in relations and the conditions under which the transnational financial sector can be synchronized with the national economy's long-term industrial strategy. So, in considering the role of the transnational financial sector in the formulation and implementation of development strategies, co-operation with transnational local branches is vital. Both quantitative and qualitative aspects of total national resources need to be looked upon as one component or input for optimum use.

(c) Implications for the United Republic of Tanzania

36. In examining the contribution of the transnational financial sector to the economic development of the United Republic of Tanzania, a wide variety of statistics would need to be collected and analysed, say, from 1900 to 1967 when the locally based transnational banks were very active.

Such data would then be organized in profiles or norms based on a number of variables such as total capital inflows and outflows; the share of the banks' resources in the agricultural and manufacturing sectors; the share of these two sectors in GDP; the extent of import-substitution arising out of financing by these foreign banks; export promotion; employment generation; improvement in the standard of living; growth in per capita income, etc.

37. These data would naturally be descriptive statistics and would certainly not yield insights into the real development contribution of the transnational financial sector in the classical sense; other suitable variables for measuring the development impact or contribution would still be necessary.

38. The problem of undertaking a detailed analysis of the contribution of foreign banks in the United Republic of Tanzania stems from a paucity of data. In considering the impact of the transnational financial sector an analysis of data has to start with the colonial era.

39. Under German rule, the operations of the foreign banks were very rudimentary. Their operations were of a small scale and limited to the activities of a few settlers.

40. The appearance of modern transnational banks took place between 1919 and 1962 when the country was administered by the United Kingdom as a Mandated Territory under the League of Nations and then a Trust Territory under the United Nations.

41. The postindependence period, 1962-1967, witnessed the emergence of a new role for the transnational financial sector. This was a development period guided by specific national policies. The accent on accelerated development was loud and very pressing. Both local and foreign funds were needed very urgently. The Government itself had taken the lead in development financing. Looking back today, there seems little doubt that without such push it would have been far more difficult for the enterprises present today to undertake the necessary groundwork. The establishment of the National Development Corporation and the Bank of Tanzania was intended to assist the Government in monitoring and steering the development process.

42. Following the Arusha Declaration of 5 February 1967 all large domestic firms and foreign banks were nationalized. The post-Arusha Declaration period marked, therefore, the disappearance of local foreign banks and increased requirements for external resources through bilateral aid, suppliers credits, multilateral financial institutions and direct borrwoing from parent transnational banks abroad.

CHAPTER IV

EVOLUTION OF THE TRANSNATIONAL FINANCIAL SECTOR IN THE UNITED REPUBLIC OF TANZANIA

43. Like in most developing countries, initial development policies and programmes in the United Republic of Tanzania were formulated by the colonial Powers and were carried out in the context of a predominantly rural and retarded economy. Until the beginning of the twentieth century, the traditional form of commercial transactions was barter trade. Investment in enterprises located in the country but controlled by residents of another country began during the German period. The notion of money as a medium of exchange of goods and services effectively started when the country was under German occupation. However, the evolution of money itself had a long history.

44. For purposes of understanding the environment in which the transnational financial sector evolved, four phases of developments are discussed below:

(a) <u>The German colonial period</u>

45. Until 1913 when the Germans were defeated in the first world-war, economic development policies in the country were developmed primarily by them. The structure of the economy was basically rural. The major economic activities were limited to agricultural activities.

46. The German administration marked the beginning of organized enterprises and naturally this necessitated the introduction of a commercial banking system. With regard to the business environment itself, the extensive use of the Indian rupee, which were introduced by immigrants from India, prepared the ground for commercial banking operations.

47. In addition, the Indian immigrants were mainly engaged in trade and provided a basic service to this sector. What little growth in trading enterprises existed was very unevenly distributed. A number of them were in a few towns which were easily accessible from the coastal towns.

48. Another noteworthy development was the coming of German settlers. These early business pioneers were engaged in commercial agricultural activities. Large-scale farming projects by the European settlers and their combined needs for insurance or guarantees had to be accommodated either by banking industries from overseas or in the host country. This trend underlined the need for commercial banking in the country.

49. Thus, 1905 constituted a milestone when the DEITSCH - OSTAFRIKANISCHE BANK of Berlin opened a branch in the country. This branch was located in Dar-es-Salaam and constituted the first foreign commercial bank in the country. The branch office was given authority by the home Government to operate as a commercial bank as well as to issue its notes and coins.7/ Particular attention was supposed to be paid to its commercial viability and its quosi-central banking function. The government authority, responsible for the practical implementation of its commercial aspects was still being monitored from the Imperial Government of Germany. In the area of banking operations, its principal clients were German settlers. Technically, import programmes were worked out by the settlers themselves but in close consultation with the branch officials and the Imperial German colonial administration. The arrangement of issuing notes encountered some problems right from the start because the notes could not be redeemed.8/ The consequence was the closure of banking operations later in 1905.

50. In response to the challenges created by the settlers' activities and Indian traders, a second bank was started in 1911 in Tanga where the settler population was relatively large. As has been noted, the first bank had both commercial and central banking functions. The recognition of the causes of the failure of the first bank had a bearing on the role of the second bank. For this reason, the HANDLESBANK FUR OSTAFRIKA established in 1911 a commercial branch in the country but had no powers to issue its notes and coins. Its second difference was that its policy was to provide financial facilities to both European and Asian businessmen. The DEUTSCH - OSTAFRIKANISCHE BANK had catered mainly for the European clients.

51. As the settler population increased particularly in Tanga, demands for loan funds to finance enterprises increased also. The dynamics of increased financial resource requirements was linked to development at home and not in the host country. There were obvious problems and dangers associated with the expansion of financial sector activities. This does not mean that the process of establishing several branches would have been without value. On the contrary, it would seem that the strongest argument against the expansion policy of the German administration was that the enterprises in the economy were still very rudimentary and the monetary sector was still in its embryo. This view manifested itself in the refusal to create a co-operative bank which was proposed by some European entrepreneurs in the 1910s.

52. Awareness of the complex war issues in which the home Government was involved might have indeed been a second reason for the refusal by the Imperial authorities to allow many banks to open branches in the country. Nevertheless, it would seem that there was need to justify the establishment

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7/ Ibid., p.1.
8/ Ibid., p.2.

of a local Savings Bank for local resource mobilization. It is not difficult to imagine that additional local resources could have been mobilized from the local population and foreigners living in the country. In essence, the proposal to establish a Savings Bank in Dar-es-Salaam was most appropriate. The city registered a marked growth in trading activities and enterprises with a recognizable employment generating effect.

53. There is a significant circumstantial evidence that the establishment of these two banks was very effective simply because they focused on the nucleus of economic activities which pioneered the process of increasing the role of the transnational financial sector in the later periods. One point which deserves emphasis is the fact that the two banks cannot be categorized strictly as transnational banks. It seems safe to say that, at least in Tanganyika, the initiatives taken by German Banks represented a major breakthrough in the concept and implementation of transnational development activities.

54. Data constraints make it impossible to explore fully the impact of the early foreign transnactions in the country. It should always be remembered that the emphasis on the regulation and control of these early foreign banks was the product of particular economic and political circumstances in the colonial countries concerned. Parent banks and home political support was vital to the establishment and functioning of these bank agencies which had very limited business compared to the present situation.

55. General development in the foreign financial sector during the German period indicate that private foreign direct investments were minimal. In addition, what little growth occurred was very unevenly distributed. A large portion of the country was cut off from commercial and industrial investment financing. Most of the early developments took place along the coast and the immediate hinterland. The reasons for the small contribution of private investors and private foreign lending from the colonial home country were threefold: first, private direct foreign investment in the country was certainly perceived by investors from Europe as a risky operation; second, the transnational banking system was beginning to shape up but had no previous experience in operating away from the headquarters of the main banks; third, the war during this period hampered foreign investment activities on any significant scale both at home and overseas.

(b) <u>The United Kingdom colonial period</u>

56. When Tanganyika was entrusted to the United Kingdom following the defeat of the Germans after the First World War, several reforms were introduced in the commercial banking structure. The precise scope of actions was intended to stimulate economic activities in the country.

57. One very important step taken after the country was handed over to the United Kingdom Government was to wind up all the banking operations of the previous Administration. Accompanying this move, was the immediate introduction of branches of United Kingdom which were already operating actively in Kenya and Uganda. In this transnational period three main United Kingdom banks were opened in the country. These were:-

(i) National Bank of India or National and Grindlays Bank;

(ii) National Bank of South of Africa or Barclays Bank;

(iii) Standard Bank of South Africa or the Standard Bank.9/

58. Recognizing that financing services were virtually absent in all upcountry towns, these banks opened branches in several other towns in the country. The main task was to foster savings mobilization from the local people and enterprises. The process of developing such financial strength was desirable for the promotion, strengthening and development of trade and industrial activities.

59. The financial arrangements and instruments developed in the United Kingdom and other Western countries in the late ninettenth and early twentieth, century, came into being to serve the much broader economic need of developing raw material-oriented industries which fed the home industries. There was, however, a need for financing trade in order to promote the market of manufactured goods from the cosmopolitan industries.

60. An important element of finance provided by these branches of transnational banks was that their financial facilities were offered on terms comparable to the terms of credit made available to their own industrial capital goods producers at home. While these branches would finance trade and industries, their second main task would be to foster resource mobilization through local savings. It must be recognized, however, that all the profits generated from these operations were siphoned off to the home base.

61. In the context of the expansionary process of the monetary sector in the country, a number of new foreign banks were established during this period. The Banque du Congo belge, a Belgian bank, was allowed by the United Kingdom Government to open one or two branches in Tanganyika. At the time of nationalization of banks on 6 February 1967 the following banks were operating in the country:-

- National and Grindlays Bank
- Standard Bank Limited
- Barclays Bank D.C.O.
- Algemene Bank Nederland N.V.
- Bank of India Limited
- Bank of Baroda Limited

9/ Ibid., p.2.

- Commercial Bank of African Limited
- National Bank of Pakistan Limited
- Tanzania Bank of Commerce Limited.10/

62. The network of foreign banks provided for the sharing of experience from Europe and Asia. The structure of these banks was broadly international but from the standpoint of an extensive transnational network system only Standard Bank, Barclays Bank and National and Grindlay's Bank were truely transnational banks. The most obvious feature of these banks was deposit-taking and advancing of medium- and short-term credits to individuals and enterprises in the country. Their principal source of subscribed capital was from home-based transnational banks. The thrust of their operations was to mobilize local savings cheaply and to lend at high margins which provided them with very reasonable profits. Thus most of these foreign banks were started with very little capital. The bulk of their lending operations were funded by locally generated savings.

63. The establishment of transnational banks between 1920 and 1967 represented, in part, an attempt to mobilize maximum resources for trade financing more than for development purposes. To the extent that these banks promoted trade and a handful of other economic activities such as housing financing, they played an important catalytic role in development financing. Conditions associated with their lending policies did not differ very significantly among the banks. In terms of competition, Standard Bank, Barclay's Bank and National and Grindlay's Bank were leading in the country.

(c) Independence period

64. The establishment of transnational branches in Tanganyika was motivated by several factors which made investments in the colonies more attractive than at home. The general development situation in the less industrialized countries demanded enormous resources in order for the Governments to meet the requirements for industrial, agricultural and infrastractural needs. But the major tasks of these Governments usually extended beyond those mentioned above. It was, therefore, natural to expect the transnational financial sector in the United Republic of Tanzania to play a significant role after the country's independence in 1961.

65. In the independence period there was no new foreign banks but existing ones increased the volume of their activities. Because of definitional problems, a discussion on the establishment of foreign insurance agencies has been deliberately omitted. In the field of insurance activities, several transnational insurance agencies were started during this period.

10/ Ibid., p.2.

56. A study of the branches of these banks shows that their operations were located in the northern trunk of the country where investments were strongly concentrated in zones 80 per cent controlled by foreign investments. Certainly evidence indicates that the powerful settler influence in the northern zone provided the basis for incredible expansion of the transnational financial sector during the pre-independence period.

57. The third phase of growth of the transnational financial sector beginning in 1920 and continuing up to 1967 was one in which foreign trade and investment were internalized in the transnational corporations in most colonial countries.

58. In this phase, therefore, the international economy as such was characterized by competition emanating from the growing oligopolization of markets and rapid increase in the concentration of power across markets mainly by France and the United Kingdom. These developments were not confined to manufacturing. Extractive industries, trade and finally agriculture itself were pulled into the network so that no aspect of economic activity today can claim to be free from transnationalization, which also extended to the financial sector. The evidence observed so far suggests that the colonial Powers supported all sorts of 'voyages of commercial exploration' whose basic purpose was to obtain greater suppliers of species and raw materials and to increase the size of markets for the home industries.

69 Hence the transnational financial sector grew markedly. Certainly much of its structure is associated with the initial pattern of financing the colonial economy in which colonial political support played a major role. In terms of the actual groundwork in the critical formative period of the transnational financial sector transnational banks based in the United Kingdom assumed a very large role.

(d) The Post-Arusha Declaration period

70. Measures to strengthen national economic capabilities in all sectors have preoccupied the policy makers in the United Republic of Tanzania since the early 1960s. Broad areas of policy to be examined by the politicians ranged from educational and science structures, the setting of the broad industrial strategy, the control of direct investment, mobilization of resources for accelerated industrial development and so forth. Clearly, most of these depended on social, political and economic factors much broader than the issue of promoting the role of the transnational financial sector.

71. In the context of economic development, the general political thinking in the late 1960s was that the relationships between control of major means of production and self-reliance were intertwined.

72. A strategy begins with the capability to identify the sectors and activities which suit the achievement of the objectives. This, in turn, is necessarily related to two critical and essentially political variables: (a) the institutions that can undertake project identification and have the power to implement projects and (b) the institutions to provide funds according to national priorities and criteria. More specifically, foreign controllers of funds which owned the transnational banks and foreign investors normally invested their resources in activities which best fitted their global strategy of maximizing benefits. Any dependency on such a process of development was considered by the policy makers to be fraught with difficulties. The development that had taken place since the colonial period was rather unsystematic and unco-ordinated. It was considered that the development of social economic strategies required different political imperatives.

73. In the area of development financing, which was very pressing, the view was that it covered a wide spectrum of area's for discussion and could not be divorced from government control. The range of issues were innumerable and complex. Some of them are indicated below:-

- mobilization of domestic sources of funds, (capital, loans, deposits) and the problems involved in raising these resources;
- effect of the structure of interest rates and other government policies on resource mobilization; policy changes needed
- transformation of short-term and medium-term loans; the scope of integration of commercial and development banking systems;
- financial instruments that can be used for topping the capital market;
- various external sources of foreign funds, their advantages and disadvantages;
- financing by international commercial banking, potential and problems, techniques of mobilization; variable rates of interest; matching maturities of liabilities with those of assets; government regulations or procedures which inhibit foreign investment or borrowings; other policy changes necessary to attract foreign sources of funding;
- effect of foreign exchange risk on repayment obligations; how to handle this risk;
- the impact of disbursement policies and practices of multilaterial agencies and foreign commercial banks;
- mobilization of third-party resources for specific projects (parallel or joint financing, underwriting, deferred payments by suppliers of machinery, participation certificates;
- mixed enterprises and joint ventures;
- assessment of protfolio risk and its implications for financial policy of a development bank and so forth.

74. These factors have considerable bearing on development financing strategies of enterprises and for this reason it was considered useful to understand their impact on decision making. It was realized that the critical aspects could not be reviewed in a fragmented fashion. Thus, in the implementation of the Arusha Decleeration which nationalized the commanding heights of the economy, all commercial banks operating in the United Republic of Tanzania were placed under the National Bank of Commerce which is owned and controlled by the Government. "The National Bank of Commerce was expected to ensure harmony between the country's political and economic policies and also full commitment in the diversification of its lending activities, particularly in favour of the rural sector which is the backbone of the country's development policy". 11/

75. The disappearance of the foreign Banks meant also the end of the era of the transnational local financial sector created local branches of foreign transnational banks.

76. The development in the domestic financial sector which took place between 1967 and the present witnessed the birth of the new non-foreign local financial sector. Recently, the World Bank appraisal mission to the Tanzania Investment Bank remarked that in terms of appropriate institutional financial structure, the country's financial system has been rated well developed. 12/ There are in all ten financial institutions including the Central Bank comprising the financial sector today: the National Bank of Commerce with branches and agencies covering the whole country; Tanzania Investment Bank; Tanzania Rural Development Bank, Bank of Tanzania; Tanganyika Development Finance Company, which is jointly owned by the Government and bilateral aid agencies of the United Kingdom, the Federal Republic of Germany and the Netherlands; the East African Development Bank (EADB), the majority of whose shares are held jointly by the United Republic of Tanzania, Uganda and Kenya; Post Office Savings Bank, Tanzania Housing Bank; the National Provident Fund and the National Insurance Corporation.

77. Of these institutions, six carry out development lending operations. These are Tanzania Investment Bank, Tanganyika Development Finance Company Limited, East African Development Bank, Tanzania Rural Development Bank and the National Bank of Commerce. The Tanzania Housing Bank (THB) provides for commercial and residential buildings including low-cost housing. TRDB concentrates mainly on the rural sector. The bank normally makes short-term loans for seasonal inputs and also provides medium- and long-term loans for machinery, transport, storage and livestock.

11/ Ibid., p.9.
12/ The World Bank: Appraisal of the Tanzania Investment Bank, August 1977, annex 3.

78. Medium- and long-term financing for the modern industrial sector including tourism, transport, agro-business, etc. are provided by EADB, TDFL and TIB. There is very close co-ordination among these institutions. Resource mobilization from the public and private sectors is carried out by five institutions, namely, NBC, THB, TPUSB, NIC and NPF.

79. The rationale for the development of this new financial sector is very clear. The basic reasons are:-

(a) To pool resources including investment capital and 'financial technological knowledge';

(b) To channel resources in the priority productive facilities in a concentrated and co-ordinated rather than in a fragmented fashion;

(c) To distribute the banking benefits through the mechanism of loan financing;

(d) To influence industrial location directly through financial instruments.

CHAPTER V

PRE-INDEPENDENCE ACTIVITIES OF THE FOREIGN BANKS

80. Prior to independence following characteristics were noticeable:

(a) Absence of private markets for raising equity and long-term loan capital;

(b) Existence of commercial banks unwilling to provide even short- and medium-term loans to any but well established foreign and domestic firms;

(c) Relatively low rate of profits in relation to risk in the field of manufacturing industries compared to alternative uses of financial capital such as construction, land speculation, trade and loans for consumption purposes;

(d) Unfavourable climate for foreign investments owing to the lack of economic infrastructure and small markets;

(e) Shortage of skilled labour, technicians and managerial competence;

(f) Absence of institutions to conduct pre-investment surveys and to assess the viability of industrial projects.

81. In the light of the foregoing, all existing commercial banks were thus oriented to financing foreign trade. Specifically, credit financing was geared towards exports of agricultural commodities and imports of consumer goods. In other words, the credit financing pattern was that of the import and export trade. Limited local markets and high industrial production costs contributed to the insignificant level of domestic trade. It is primarily because of this that all foreign commercial banks gave very low priority to domestic trade and industrial financing. The result was that there was virtually no financing in this direction during the period under review.

82. In the sphere of credit evaluation, the criteria of credit worthiness and profitability were as rigid for local borrowers as they were for investors in the United Kingdom. Naturally, this did not encourage the establishment of many local manufacturing units. Seen from the perspective of the banker, the approach could be a way of creating very high standards of integrity in

banking operations right from the start and thereby avoiding the problem of dealing with loan defaultors and providing a big cushion or provision for bad debts. It was also one way of ensuring that expanding returns on equity investments were not jeopordized by marginal projects.

83. From the perspective of the host country, the requirement of a high standard of integrity in these local branches similar to the parent banks in the United Kingdom, the insistence on conventional loan securities other than land and the minimum rate of return based on the average obtained in the United Kingdom were quite inappropriate to the pressing development needs of the country. With regard to land as the only real asset for security, again, the problem was that it was not, in most cases, surveyed. The combination of these problems together with the lack of a branch network system in the country made the expansion of local credit impossible.

84. Fragmentation of the banks' efforts resulted in lack of co-ordination and conscious effort to promote the evolution of an efficient transnational financial sector for industrial development. It was left to each bank to decide what institutional arrangements for credit advances would best suit requirements of its parent bank policies.

85. A common weakness of these foreign banks was the absence of adequately organized and co-ordinated efforts for the collection and utilization of relevant information for credit evaluation. Such a system could have provided co-ordination, information sharing among banks and feedback of the micro- and macro-economic levels of investment analysis.

86. As there was no in-house capacity, it seemed advisable for these banks to play safe and to apply credit practices used in the United Kingdom which represented, therefore, an investment quality and standard of the Western business community. It is, however, accepted that approaches to credit evaluation could be global and comprehensive, but national and detailed specific norms to reflect local conditions are always essential.

(a) <u>The East African Currency Board</u>

87. One instrument which was used to promote the evolution of the transnational financial sector for the whole of East Africa was the East African Currency Board. This financial innovation was intended to facilitate financial transactions between the United Kingdom and the East African countries together with what was then Aden. This innovative monetary mechanism designed in accordance with the concept of a central banking function was intended to facilitate uninhibited convertability of the East African shilling into sterling and vice versa, in unlimited quantities. In this respect, it was

necessary to carry out the conversion process on the basis of a fixed parity between the pound sterling and the East African shilling which was issued by the East African Currency Board. In so far as the currency was tied to the British pound sterling, any transfer of currency between East Africa and the United Kingdom was suitably insulated from the vagaries of international liquidity or exchange risks.

88. It is evident that this innovative mechanism introduced an element of capital outflow from the commercial banks operating in East Africa. Through such a set up, banks were encouraged to transfer their funds to the United Kingdom without fear of foreign exchange risks.

89. The absence of foreign exchange control further aggravated the situation because these banks could transfer their funds out in unlimited quantities.

90. In commercial transaction terms, this flexibility provided an impetus for the establishment of transnational banks in East Africa. In the more complex economic perspective of the host country, this financial innovation had a negative impact. In so far as the system of flows was excessively fluid and generous to the foreign banks, it served as an instrument for the transfer of capital at the expense of the country's development. The method and mechanisms of these movements of funds discussed in the foregoing were not oriented to establishing a transnational financial sector to operate as a catalyst and as an institutional vehicle for economic development.

91. It is evident that the structure was determental to the country. The practice, for example, of covering total liabilities in the country by assets held in the United Kingdom primarily served the interests of the banks rather than the host country.

92. To the extent that decisions on the management of surplus funds generated from local resources were exclusively and comprehensively governed by the home-based transnational banks, the economic benefit contents of these banks to the host country were marginal, non-existant or questionable.

(b) Investment of funds

93. It is their size, worldwide distribution, financial knowledge and human and physical capital that make transnational banks the most powerful institutions for development capital. The major banks discussed in this report were of United Kingdom origin with a worldwide distribution network.

94. A discussion of these banks in Tanganyika inevitably focusses on the channel through which their funds were utilized. These banks had the ability to attract resources from overseas for channelling them into the productive activities in the country. However, it is also this strength that enabled them to mobilize local savings.

95. The vast savings mobilized from internal banking operations were not reinvested in the country. The main issue regarding the activities of these banks in the country arose from the fact that all their investments were made abroad rather than in Tanganyika. Most of these entities were far from being development - oriented. To take one example, total deposits in East Africa in 1938 amounted to "shillings 80 million; the ratio of local earning assets to total assets was less than 40 per cent, the remaining 50 per cent being accounted for by cash and external balances". 13/ Local lending operations were refused in preference to transferring these savings to parent banks in London. The policy principle that emerge from this illustration is that these financial entities operated on the policy of riskless investment decisions.

96. The question whether increased surplus funds should be reinvested locally in some productive facilities was never the concern of these banks. The pattern of surplus generation from the local banking operations and the composition of industrial output were far from being compatible.

97. On both the supply and the demand sides, issues of finance for industrialization cannot be easily separated from issues of finance for the rest of the economy. Consequently, financial self-reliance particularly after the Arusha Declaration had to be a matter of national rather than segmented sectoral or foreign bank economic policy.

98. A discussion on the impact of the foreign banks focuses also on the growth of lending trends through which resources were channelled into the economy. Nevertheless, it is certainly conceivable for the banks to play a significant role in particular industrial branches or economic activities without necessarily influencing the over-all pattern of economic growth. Moreover, if their contribution is consciously controlled and limited in ways that do not increase domestic capacities, it is obvious that they would make an absolutely insignificant contribution to national self-reliance - which is the guiding principle in the United Republic of Tanzania.

99. A cursory glance at the pattern of lending trends in East Africa during the period under review shows that Tanganyika registered an impressive record as demonstrated by the "ratio of local earnings to total assets which was 0.52 for this country and 0.39 only for the rest of East Africa".14/

13/ The First Ten Years of the National Bank of Commerce, op.cit., p.4.
14/ Ibid., p.4.

100. The trend of lending in Tanganyika by the commercial banks in relation to the rest of East Africa was summarized by the National Bank of Commerce as follows:-

> "The advent of World War II and the accompanying import restrictions led to the creation of permanent export surpluses and a decline in the expansion of local credit. This was due to the fact that import restrictions and the accompanying bulging export surpluses resulted in a decreased opportunity for local bank lending. There was also a general decline in the rate of investment and in consumer goods coupled with almost complete concentration of commodity exports in Government hands. By 1945, the ratio of local earnings assets to total assets had fallen to 0.10 for this country and to 0.13 for the rest of East Africa. This is indicative of the extent to which local capital was being exported to Britain during the War and the resultant starvation of the local economy in respect of loanable funds. After 1950 significant changes started taking place in the commercial banking field. Deposits as well as lending started to expand rapidly. The period between 1950 and 1965 was the most significant era in the laying the groundwork for modern commercial banking in this country. It is therefore appropriate to examine this period fully and to observe what changes took place". 15/

The performance for selected years is indicated below:

Table 1. Ratio of local earning assets to total assets of commercial bank

Year end	Tanganyika	East Africa
1938	0.52	0.39
1945	0.10	0.12
1955	0.76	0.77
1960	0.91	0.99
1965	0.87	0.01

101. It has been observed in this report that there was a pressing need for export commodities particularly during the Second World War. Prices for agricultural commodities soared dramatically. In recognizing that agricultural production during the war period offered great scope for expansion and guaranteed returns, other things being equal, the general expectation was that commercial banks operating in Tanganyika would naturally give great attention to the promotion and financing of viable agricultural projects

15/ Ibid., p.5.

which wo ld provide essential export commodities. This general mood was in large part reflected in the demand for local credit. Yet the banking sector did not respond to these demands. Investing in the country was still generally held to involve high risks. Investment of the banks' liquid assets was still concentrated aborad where the protection against foreign exchange risks provided the strongest attraction.

102. A further argument by the banks for not investing in local productive facilities was that the money and security markets in the country were non-existant. Thus, surplus funds from the country, for the most part denominated in pounds sterling, were recycled through the norhtern transnational banks both in London and other Western capitals.

103. It is self evident from the figures below that commercial banks in the country had engaged themselves very actively in the export of capital particularly between 1950 and 1965 - with no net inflow of capital from the parent banks or network system.

Table 2. Commercial banks' net foreign surpluses or deficits
(in million of shillings)

Year end	Tanganyika	Rest of East Africa
1950	80	642
1951	84	585
1952	96	732
1953	92	596
1954	85	574
1955	54	212
1956	88	358
1957	12	170
1958	38	252
1959	42	242
1960	2	-120
1961	96	90
1962	62	126
1963	50	-48
1964	118	-176
1965	40	-94

Source:- NBC report, 1977.

(c) Deposits growth

104. In economies with high growth potential, deposit-taking can be extremely profitable. Furthermore, by recycling a significant part of these deposits to productive activities, the country can increase the potential multiplier effect of these funds for real capital formation. Foreign commercial banks were not concerned with capital formation in the country. All their capital surplus arising from local deposits was invested in financial assets in London.

105. The figures below indicate that there was a steady growth in such deposits. The increase can be attributed to three factors, namely, (a) expansion of the network of banks in the country; (b) growth in the agricultural sector, and (c) a boom in the export commodity prices.

Table 3. Commercial bank deposits in Tanganyika

Year end	Deposits (in millions shillings)	Growth rates (in percentages)		
		Annual	5-year	From 1945
1946	188	–		
1947	188	–		
1948	260	39		
1949	263	1		
1950	350	33	86	86
1952	400	14		
1953	420	-1		
1954	416	-1		
1955	422	1	21	124
1956	404	-4		
1957	453	12		
1958	463	2		
1959	516	11		140
1960	470	-11	11	
1961	653	39		
1962	726	11		
1963	816	12		
1964	844	4	80	349
1965	809			
Average growth rate 9%				

Source: NBC report, 1977.

CHAPTER VI

POST-INDEPENDENCE ACTIVITIES OF THE BANKS

106. In the context of economic development particularly during the post-independence period, capital resources were critical to industrialization. The consensus of thought emerging during the post-independence decade was that all commercial banks operating in the country would pay more attention to promoting harmonization in the economic development of the country.

107. Particular attention was expected to be given here to granting preferential treatment to financing industrial enterprises and large-scale agricultural activities. It was evident that the thrust on these two major sectors had to be viewed as a long-term process and one which required assistance through the provision of adequate funds. In order to give effect to the concept of national priorities, the need to prepare a development plan was felt as early as 1961. In other words, it was suggested that a public national plan would enforce the concept of a national development effort.

(a) Investment attitude

108. There were substantial grounds for believing that independence did not mean any change in policies or style of management to most foreign commercial banks operating in the country. Their operational financial picture did not reflect the new perspectives of the country. As observed in table 3, their capital export activities intensified between 1961 and 1965.

109. It seems undeniable that the initial independence period was actually a prolongation of pre-independence period in which the commercial banks in the country continued to play the role of a sleeping partner in industrial development.

110. It is well known that transnational enterprises in the early days of independence in Africa had no confidence in the Governments which assumed power. This naturally meant that expatriate institutions and enterprises were not attracted to invest in these countries except in peripheral activities which guaranteed them quick returns for repatriation overseas.

111. Irrespective of the foregoing, an important element was observed concerning the expansion of the banks' credits particularly during peak periods. This process was facilitated by inter-bank borrowings from other branches in East Africa and also from their balances abroad. The table below provides a picture of the transactions during the peak period in East Africa, i.e. between 1961 and 1965.

Table 4. Sources of finance for peak credits in East Africa

Year	East Africa Inter-bank	Foreign balances	Total highest credit
1961	4	16	20
1962	8	42	50
1963	2	40	42
1964	24	28	52
1965	16	44	60

Source: NBC report, 1977.

112. Undoubtedly, the picture portrayed from the figures above demonstrates the responsiveness to some extent of the banks to the domestic economy's financial requirements for development.

113. From the point of view of the transaction structure of the banks, there was no important global difference between the pre-independence and post-independence periods. The most important aspect of the banks' management was to pursue a policy of investing their surpluses in London where the funds still continued to be insulated against foreign exchange risks. This type of guarantee was actually not changed until the dissolution of the East African Currency Board in 1964. Credit scrutiny continued to be very rigorous. The banks' lending procedures and practices were certainly not in consonance with the pressing development needs of the country.

(b) Domestic money market

114. In a general way the failure to develop the domestic money market and to expand the transnational financial sector was attributed by the unwarranted policy of these banks of countinuing to pursue inflexibily their capital export policy. This meant that these banks were still being managed and monitored from the London parent banks which regularly issued directives on monetary policy. Lastly, although it was easier to make these monetary policy directives from London, the developmental harm inflicted on the economy including the penalties on the growth of the internal market, in these circumstances, was very enormous.

(c) Monetary policy

115. In view of these unsuccessful experiences in terms of harmonizing operations of foreign commercial banks with the developmental requirements of the country and the difficulties of finding a consensus with the parent banks, it became eminently clear that a structural change in the banks' operations was necessary. Thus, the Government initiated a process of change in the direction of monetary policy in order to control the country's scarce financial resources. First of all, it seemed desirable to create the central bank in 1965 in order to control the administration of monetary issues in the country. With the creation of Bank of Tanzania a brake was placed on the capital export.

(d) Development financing

116. The Government was not happy with the development performance of the commercial banking sector. There was a strong feeling that the country needed a reorientation of the banks to match the efforts to promote accelerated economic development. The result of this development tempo was the decision to nationalize all commercial banks on 6 February 1967 and to create the National Bank of Commerce which took over all the lending and resource mobilization activities in the country from the former private commercial banks. The banks which were nationalized were:

(a) National and Grinklays Bank
(b) Barclays Bank D.C.O.
(c) Standard Bank Limited
(d) Algemene Bank Nederland N.V.
(e) Bank of India
(f) Bank of Baroda Limited
(g) Commercial Bank of Africa Limited
(h) National Bank of Pakistan Limited
(i) Tanzania Bank of Commerce Limited.

117. This policy decision was necessary in order to ensure greater efficiency and centralize planning in the direction of monetary and fiscal policies. The creation of the National Bank of Commerce was intended to harmonize political and economic policy objectives particularly in lending activities which were in line with the country's development policy such as rural development and the promotion of small-scale industries.

CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS

118. This report has focused on a number of issues of interest to Governments concerning the role of the transnational financial sector. This report has reviewed the experience of foreign banks in the United Republic of Tanzania up to the time of the Arusha Declaration in 1967. The observations made in the report have indicated several deficiencies in the operation of these banks. The most important ones were:

(a) Too much concentration of domestic credit in the foreign trade sector;

(b) Extremely low levels of finance to the doemstic sector;

(c) Strict and discriminatory loan security requirements;

(d) Scanty efforts to mobilize local savings;

(e) Exports of capital from the country for investment abroad;

(f) Dependence on metropolitan head offices;

(g) Lack of effective financial support for the government deficit.

119. In the light of the above and in order to ensure effective performance in the financial sector, all private foreign commercial banks were nationalized on 6 February 1967 and the National Bank of Commerce was established by an Act of Parliament to carry out the following functions:

(a) Mobilization of domestic savings for national development;

(b) Provision of maximum services to the peasants and workers through an expanded network of branches and agencies throughout the country;

(c) Provision of working capital finance to various sectors of the economy, particularly the priority sectors;

(d) Financing of foreign trade, particularly the export-oriented production activities to promote increased foreign exchange earnings for achieving self-reliance;

(e) Promotion of the country's development financing, namely, through the purchase of government paper, direct equity participation in selected viable public and co-operative enterprises, provision of bridging finance to other development activities pending receipt of their contractual funds from the Government and other sources for the respective projects;

(f) Implementation of the Government's fiscal and monetary policies especially as embodied in the Government's creidt plan;

(g) Provision of facilities for transfer of funds between persons and/or firms;

(h) Provision of consultancy services on investment, export promotion etc.;

(i) Provision of trustee and executor services;

(j) Provision of various kinds of information related to trade transactions through status reports.

120. The establishment of other specialized financial institutions was a subsequent development to increase efficiency in domestic lending operations. Optimal performance of transnational banks operating in a developing country depends to a considerable degree on the capability of operators in working out arrangements which would provide an environment for co-operative development performance and mutual advantage. This task is highly complicated. It involves the establishment of mechanisms which can guarantee and ensure that both parties share costs and benefits. Of considerable importance would be the establishment of strategies and methods directed at financing projects on the basis of sound financial and economic criteria. In-bult flexibility in credit evaluation, however, would need other mechanisms which are subtle and which allow procedurally for a continuous flow of projects for domestic and external financing. As observed from the foregoing, the United Republic of Tanzania ceased to be a host to transnational banks' local operations since the Arusha Declaration on 6 February 1967; but the country still remains an external borrower from the parent transnational banks in the United Kingdom, the United States of America, Japan, Canada and Europe.

121. From the foregoing analysis of the role of transnational financial sector in economic development, it would seem a programme to facilitate and promote co-operation with transnational and non-transnational banks in the 1980s would call for a number of actions. The main recommendations of this report for considerations are:

(a) <u>Host countries should:</u>

(i) Indicate precisely what are their development priorities and what are the pre-conditions for financing projects;

(ii) Prepare pre-feasibility studies of pipeline projects which would facilitate the continuous flow of projects for external financing;

(iii) Establish and monitor contacts and co-operation with transnational banks local management for an exchange of views and experiences on developmental issues;

(iv) Specify in detail the conditions for capital transfer and repatriation, imports of raw materials and capital goods, exports of products, utilization of domestic capital and natural resources;

(v) Provide guarantees for stability of contractual conditions and fair compensation in cases of nationalization;

(vi) Improve their capacity for international loan negotiations with transnational banks;

(vii) Compile information on specific loan negotiations of other countries as reference material for future use in loan negotiations with other banks; and

(viii) Set up relevant information systems on various financing options and establish suitable training programmes for loan negotiation specialists.

(b) Transnational banks should:

(i) Improve their responsiveness to the needs of the host domestic economy;

(ii) Use less stringent credit evaluation criteria which would not discard bankable projects;

(iii) Apply financing principles and procedures which are compatible with the stage of development of the country's economy;

(iv) Lend to projects based on national priorities;

(v) Act as catalysts in promoting national projects through their facility of financial assistance;

(vi) Be flexible in providing technical assistance to the host countries on some specific projects of national importance;

(vii) Should act as mobilizers of domestic and foreign resources needed for to economic development by the host Governments;

(viii) Assist in promoting strategic industries such as iron and steel, pulp and paper, fertilizers etc. which are essential in promoting industrial self-reliance;

(ix) Shoulder responsibilities with host Governments in promoting regional industrial co-operation, multinational industries, joint technological research activities, etc.; and

(x) Assist in the process of transfer of technology, research and development.

121. The foregoing is, however, one side of the complex aspect of the relationship between the host country and transnational banks. There could be other indirect forms of co-operation which are equally important.

(c) The home country

122. The success of transnational branches, subsidiaries, affiliates or representative offices depends essentially on strong support from the parent countries of transnational banks. It seems useful that home countries should:

(i) Establish liberal policies for assisting transnational banks to open offices in developing countries;

(ii) Provide subsidies and relax policies on tied credits on a selective basis;

(iii) Provide reasonable incentive schemes for their transnational banks operating in difficult environments; and

(iv) Compile data and information concerning the background of developing countries which are potential locations for transnational branches.

International institutional setting

123. Action by the international community in pooling resources and rectifying the international imbalance in the transfer of resources is vital. In addition to international programmes for co-financing mechanisms, the international community is obliged to promote proper development system for the transnational financial sector in a host developing country which would facilitate suitable channels for the transfer of resources.

124. The current international turbulence in the monetary system calls for concerted action by the international community to provide solutions. These problems affect transnational banks' strategies and their lending programmes to developing countries where the risk element is very high.

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