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ALAN G. HEVESI
COMPTROLLER

April 12, 1995

President Bill Clinton
White House
Washington, D.C. 20500

Dear Mr. President:

In July, 1994, when I travelled to Northern Ireland, I suggested that one of the ways Americans and others could be helpful to the emerging peace process was through an "Ireland Peace Bond" program to finance economic development in Northern Ireland and the Republic of Ireland.

Attached is a formal proposal outlining the peace bond program and the creation of an Ireland Development Bank. I am very hopeful, as are the many people who have indicated support for the concept, that this idea can be helpful in strengthening the peace process.

Ultimately, the creation and character of such a program will be determined by all the governments and parties now moving towards peace. May I request your support for the plan?

Many thanks.

Sincerely,

Alan G. Hevesi

Alan G. Hevesi

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III. Scheduling Request -- Forward to Bill Daley, rm. 110

___ regret ___ pending ___ prepare scheduling proposal

IV. Personnel Recommendation -- Forward to Ana Duque, Office of Presidential Personnel, rm. 135

V. Request for a Presidential Message (letter of greetings for an event) or Proclamation -- Forward to Carmen Fowler, rm 91

PROPOSAL FOR IRELAND PEACE BONDS AND DEVELOPMENT BANK

by Alan G. Hevesi
Comptroller of the City of New York

CONTENTS

Appendices

Executive Summary

Proposed Ireland Peace Bonds. The proposal calls for the issuance of Ireland Peace Bonds for the purpose of promoting economic development in Northern Ireland and the Republic of Ireland (especially the six "border counties"). The bonds would be marketed in the United States and elsewhere in two forms: (1) fixed-rate bonds in small denominations to individuals wishing to support the peace process, and (2) variable-rate bonds carrying competitive rates and marketed to institutional investors such as corporate and union pension funds.

Like Israel Bonds, the Ireland Peace Bonds would tap into the warm feelings of many Americans for a foreign country with which they have ties. The loyalties of Irish-Americans are different, but can be expected to provide some level of support for sales of Ireland Peace Bonds.

Proposed Ireland Development Bank. The proposed mechanism for issuance of Ireland Peace Bonds would be a new regional development bank, the Ireland Development Bank (IDBank). The IDBank would issue Ireland Peace Bonds as a way of leveraging the cash and guarantees of the members providing the IDBank's capital. Each member would subscribe capital, half to be paid in cash and an additional equal amount in the form of a guarantee.

The IDBank in turn would guarantee and/or purchase debt in businesses underserved by existing financial institutions. The IDBank would be held to strict accountability with detailed reporting, independent audits, and a board structure that encourages business-based loan decisions and checks against possible abuse.

The IDBank's governing body and policies should reflect the diversity within N.I. and be structured on a cross-community/cross-border basis. The IDBank should give priority to loans that encourage growth of businesses that fill the void created by cuts in security-related expenditures.

The IDBank would generally lend to small businesses and occasionally larger businesses where both a need and a potential for leveraging other funds exist. Loans would be originated by existing institutions. The IDBank would encourage these institutions to make loans by assuming a share of each loan's risk.

Ireland's Business Needs and the IDBank's Mission. Ireland is at a competitive disadvantage because it is relatively weak in entrepreneurial skills and access to capital. Establishment of a "Talent Bank" of American executives and management training can help address this entrepreneurial gap.

Although small businesses represent the greatest potential for job growth and economic expansion, both funding and managerial support for small businesses are lacking. A capital gap exists for smaller businesses because lending institutions in Ireland, N.I., and the European Union are conservative in their lending, somewhat inflexible in their requirements, and therefore usually averse to lending to small businesses. This situation has been exacerbated by the entrepreneurship gap as well as the political uncertainty and the threat of violence in N.I.

Some government-funded institutions exist to meet the capital needs of small businesses such as the Local Enterprise Development Unit, but they tend to be under-financed, poorly utilized, and overly conservative. Funds should be channeled to disadvantaged borrowers, disadvantaged neighborhoods, and export industries.

Proposed IDBank Organization and Financing. The IDBank would be owned by its constituent members, which could include the Republic of Ireland, the United Kingdom, the United States, the European Union and international financial institutions. Members would be represented on the board of directors.

A strong investment-grade rating from bond-rating services is critical to all shareholders and permits the IDBank to provide loans at the lowest cost and ensures the IDBank's continued access to capital markets.

A $400 million institution is envisioned after five years, starting with four members contributing $5 million each annually in cash and subscribing an equal amount on a "callable" basis. Thus each member will subscribe $50 million, consisting of $25 million in cash and $25 million in guarantees over a five-year period.

The IDBank is intended to supplement rather than replace existing private funding sources such as commercial banks or public institutions.

Proposed Lending and Loan-Guarantee Policies. The IDBank should not be an aid-granting institution; loans and guarantees must be serviced fully and on time.

The IDBank should (1) engage in cross-border and border-region connections, (2) facilitate new programs for community development, (3) address long-term unemployment and (4) provide special assistance to communities that have suffered directly from violence and from a reduction in security-related spending. Lending programs should address traditional sectarian imbalance in employment and use fair-employment principles as criteria.

The IDBank should look for ways to raise the success rate of businesses that borrow from it. To improve its return relative to the risk, the IDBank may want take equity positions in some companies to which it makes loans.

Foreword by Comptroller Hevesi

In July 1994 I visited England, the Republic of Ireland and Northern Ireland as part of my legal responsibilities to monitor compliance with New York City's fair-employment regulations, which extend to those who provide services to the City and to companies in which the City's $50 billion in pension-fund assets are invested.

During my mission I spoke of the great good will in America for the people of Ireland and of my belief that the American people, especially the millions who trace their ancestry to Ireland, would be very supportive of peace in Northern Ireland, particularly a peace built on principles of fairness, equity and justice. In this context I offered my idea for an "Ireland Peace Bond" program, loosely based on the Israel Bond program, with which I have some familiarity. The intent would be to market the Ireland Peace Bonds in the United States and internationally to raise capital for needed economic development and job creation in all of Ireland. Loans would be focused on the six counties of Northern Ireland and the Republic's six border counties, which have been especially affected by the troubles.

My proposal calls for the creation of an Ireland Development Bank to issue these bonds and to ensure that government and private contributions are productively utilized. The IDBank's primary mission would be to stimulate economic growth within Ireland's business communities by making job-creating loans that supplement existing economic-development programs of the British Government and Irish Republic.

Of great concern to those of us who have monitored the employment situation in Northern Ireland is that any project funded by the bond proceeds would have to be operated in compliance with rigorous fair-employment standards. In addition, a competitive return for investors would be required to encourage involvement by institutional investors.

All people of good will who follow events in Northern Ireland are hopeful that the current period of non-violence can be made permanent through good-faith negotiations to address the issues that divide the people of Northern Ireland and the governments of Ireland and Britain. Many observers believe that, should a negotiated settlement result in a permanent demilitarization, then investment on a scale heretofore unknown could follow.

After 25 years of violence, the promise of a permanent cease-fire makes real peace possible. The September 1994 cease-fire by the Irish Republican Army and the subsequent cease-fires announced by the loyalist paramilitaries have created opportunities for critically important negotiations and, subsequently, the possibility that the international community could play a vital role in strengthening Northern Ireland's civilian economy.

This proposal is intended to help make tangible the social and economic benefits that can result from peace. Promoting prosperity is a powerful method for ending division and conflict, especially if programs created for this purpose are administered with the full and equal participation of the different communities of Ireland. We must seize the opportunity that now presents itself.

In addition to suggesting creation of an Ireland Development Bank to issue Ireland Peace Bonds, this proposal calls for the establishment of a Talent Bank of American executives willing to volunteer to assist Irish entrepreneurs.

I am submitting the plan to the Clinton Administration, key Congressional leaders and community, business and governmental leaders in Ireland and the United Kingdom for their review. This proposal provides details and background so that the plan is accessible to those who are not familiar with international finance. We look forward to receiving the reactions of those with whom this proposal is being shared and ultimately to the adoption of the proposal.

Alan G. Hevesi
March 30, 1995

1. Proposed Ireland Peace Bonds and Development Bank

To assist in laying a firm foundation for peace in Northern Ireland and the Irish Republic, the Comptroller of the City of New York has proposed the creation of Ireland Peace Bonds. The Bonds would be sold to individual and institutional investors around the world, especially to those of Irish heritage who would appreciate the opportunity to support peace in Ireland. The proceeds from the bonds would be used to promote economic development in all communities in the north and south. Just as poverty and deprivation often contribute to hatred and bigotry, the hope is that prosperity can lead to cooperation, tolerance and understanding.

The Peace Bonds would be issued by a new regional development bank, the Ireland Development Bank ("IDBank"). The IDBank would use the proceeds of the bond sales to make loans to businesses to help create jobs. The main focus of the IDBank would be to provide or guarantee loans to small businesses or other businesses currently underserved by existing financial institutions.

Since the Peace Bonds must be repaid and must pay a market interest rate, a bank-like environment is required. The funds must be invested and provide an appropriate return utilizing a structure that provides for strict accountability for use of the funds. This is the function of a development bank. It would have (1) detailed reporting requirements, (2) a strong independent audit function, and (3) a board structure that encourages business-based loan decisions and checks against possible abuse.

A regional development bank differs from a grant-making institution in at least two important ways:

- First, unlike one-time grants made by governments or their agents, capital deposited by participating governments in a regional development bank can be leveraged by issuance of bonds. With equity guarantees of $200 million (of which half would be paid in), the IDBank could grow to $400 million in assets and still be positioned to engage in aggressive lending.

- Second, we believe a development bank is most likely to steer the funds to the most productive uses, and thereby is most likely to lead to the *creation of new jobs.*[1]

The IDBank's governing body and policies must reflect the religious and political diversity within N.I. and on the island as a whole and as a regional development bank it

1. Appendix A describes three examples of multilateral development banks.

must be structured on a cross-community/cross-border basis. It thereby achieves the goal of Article 9 of the Downing Street Declaration, "to create institutions and structures which, while respecting the diversity of the people of Ireland, would enable them to work together in all areas of common interest."

The IDBank also achieves the goal of *A New Framework for Agreement*, paragraph 24, which discusses "North/South Institutions:"

> Both Governments consider that new institutions should be created to cater adequately for present and future political, social and economic inter-connections on the island of Ireland, enabling representatives of the main traditions, North and South, to enter agreed dynamic, new, co-operative and constructive relationships.[2]

The IDBank should be overt about its peace-making mission by giving priority for loans that encourage growth of businesses that would replace the reduction in economic activity resulting from cuts in security-related spending.

As a basic element, the IDBank should provide for enough specificity in the use of the funds to ensure that its loans will work toward peace and reconciliation through economic development, **and can be seen to do so.**

These loans would be of two kinds:

1. Incubation of small businesses through a small-loan program that would be administered through banks and community-based organizations that would also provide business training and backup services to be financed by government programs. It is envisioned that some existing community-service organizations will be trained to originate small loans.[3] **This "microbanking" approach is recommended as the initial focus of the IDBank.**

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2. *A New Framework for Agreement: A Shared Understanding between the British and Irish Governments to Assist Discussion and Negotiation Involving the Northern Ireland Parties,*" February 22, 1995, p. 6.

3. Some commercial bank executives in Ireland claim it is not cost-effective to make small-business loans of under £15,000. Yet experience in other countries suggests that aggressive lending to small businesses can help create entrepreneurs and revive communities. Muhammad Yunus, founder of the Grameen Bank in Bangladesh, pioneered the small-loan concept; he reports that he now has branches in 35,000 villages, with $500 million in loans to 2 million borrowers, 98 percent of whom repay on time. Barbara Crossette, "U.S. to Help Girls in Poor Lands Stay in School," *The New York Times*, March 8, 1995, p. A-12. In the United States, Chicago's South Shore Bank is considered a pioneer in community lending, frequently cited by President Clinton. The South Shore Bank has been a consultant to the Shannon Airport Authority.

2. Loans to larger businesses where a need and the potential for leveraging other funds exists.

The IDBank would probably not seek to make loans directly but would work through existing institutions by sharing the risk and the return to support loans that would otherwise not be made. This could be done by guaranteeing 30 percent, 70 percent or even 80 percent of a loan processed by a bank or other financial institution. This guarantee could permit these loans to be bundled like mortgages and financed by long-term debt. In the United States, the Small Business Administration provides such a guarantee and the Comptroller's Office has used the guarantees and the ability to resell the loans to convince several banks to begin making small-business loans.

Development planning is not envisioned as the role of the IDBank. Another entity, a development authority, could be introduced at the same time for this purpose, working under the direction of the N.I. and Republic of Ireland governments to harmonize governmental activities toward common economic goals.

2. Ireland's Business Needs and the IDBank's Mission

Ireland is at a competitive disadvantage in world markets because it is relatively weak in entrepreneurial skills and access to capital.

The Entrepreneurship Gap

The existence of what we are calling an "entrepreneurship gap" is alluded to early and often by many officials in N.I., the Republic, and people in the United States familiar with the economies in N.I. and the Republic, when the topic of economic development arises.[4]

Observers familiar with business practices in Ireland say that the entrepreneurship gap can be described or explained by the following phenomena:

- A "grant mentality," particularly applicable to N.I. Observers on both sides of the border say that as a ward of Westminster, N.I. residents have come to expect grants as part of the process of securing political support. This has had the effect of undermining public accountability for funds provided to N.I. enterprises. It has also created resistance to programs that require stringent accountability.

- A sense of despair, some believe, among Catholics in N.I., stemming from years of discrimination against them.

- More broadly, a history of Irish values that serious scholars have argued conflict with entrepreneurial goals. Some 19th-century British economists argued with conviction that a prerequisite for economic development in Ireland would be "a taste for other objects besides mere food."[5] But the rapid outward flow of emigrants from the countryside to the cities and from Ireland to wealthier countries in the 19th and 20th centuries suggests that the alleged Irish enthusiasm for "non-economic social values"

4. Symptoms of the problem are suggested by the N.I. Department of Economic Development's Local Enterprise Development Unit (LEDU), which says that in FY 1995 it was able to use only 80 percent of its funds in one seed-money operation. Although LEDU believes the potential for business startups is strong, it has found it a problem to find businesses that have done all their homework and are ready to go. Interview with Kevin McCann, Regional Operations Director, LEDU, Belfast, February 13, 1995.

5. R. D. C. Black, *Economic Thought and the Irish Question* (Cambridge University Press, 1960), p. 137. Examples of economists and other writers who wrote along these lines: David Ricardo, Robert Malthus, Sir Horace Plunkett. Many writers were Protestants who blamed Catholicism and its clergy with varying degrees of invective for destroying incentives among the poor to better their lot; Max Weber's *The Protestant Ethic and the Spirit of Capitalism* enshrines this point of view. But Arthur Griffith, in *United Irishman*, July 5, 1902, preferred to attribute the relative apathy toward wealth of the Irish not to Catholicism but to the nation's Celtic origins, its "Celtic heart."

has declined if not disappeared; apathy toward large wealth may simply be resignation to the fact that few people in Ireland have successfully climbed out of poverty to make a fortune.[6]

Whatever the origins of the gap, resources need to be devoted to closing it and encouraging entrepreneurship. Small businesses that have become used to obtaining limited grants from governments need to be encouraged to prepare business plans so as to open up access to the much larger potential of conventional loans and equity.

The gap can be met at the secondary-school level with programs like that of the U.S. Junior Achievement Program,[7] government training programs and exchanges with countries like the United States that permit N.I. students to learn from U.S. entrepreneurship and U.S. business executives to bring their expertise to N.I. businesses. This could be tied to the "Talent Bank" suggested at the end of this proposal.

Business Capital Gaps in Ireland

U.S. experience suggests that small businesses have a key role to play in job creation and in providing a mechanism by which entrepreneurship can thrive. Capital gaps appear to exist in the financing of small businesses[8] and other categories of businesses, according to sources in N.I. and the Republic of Ireland.

U.S. Experience: The Importance of Small Businesses. An examination of new jobs created in the United States reveals that small- and medium-sized businesses can be very important job creators. For example, small enterprises with fewer than 20 employees were responsible for 9 out of every 10 net new jobs in the first half of the 1980s. The rest of the net new jobs were accounted for by medium-sized enterprises with 20 to 99 employees.

In the 1986-1988 period, small firms with 1-19 employees were again responsible for the big growth in jobs (1.5 million). During that same period, only .6 million new jobs were created by firms with 20-99 employees, and .7 million by firms with 100-499 employees. However, during that period large firms (500 or more employees) interrupted their

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6. Mary E. Daly, "The Economic Ideals of Irish Nationalism: Frugal Comfort or Lavish Austerity?", *Eire-Ireland*, 29:4 (1994), pp. 96-97.

7. In both the Republic of Ireland and N.I., many schools have entrepreneurship programs that encourage young people to set up their own businesses and provide training in business basics. The Republic program is sponsored by Smurfit (Dublin) and involves many students.

8. "Small business" is defined in Ireland as establishments with fewer than 50 employees.

downsizing to add 3.4 million new jobs.[9]

In the 1988-1990 period, U.S. small businesses with fewer than 20 employees added 4 million new jobs. *Medium-sized and large firms lost jobs.* The bulk of the new jobs, 2.1 million, were in services.[10] The Small Business Administration has not released new job-creation data since 1990.

We believe small businesses are essential for long-term job creation in a community because home-grown small businesses are more reliable as long-term employers than branches of large firms.

Measures are needed to support potential entrepreneurs with little or no entrepreneurial background but with good ideas and business acumen. This requires both startup funds, adequate training and some screening. Hence one focus might be on startups and "small-business incubators."[11] Once small businesses have been formed, they need capital to grow. Providing such capital should be a major role of the IDBank.

Although small businesses represent the greatest potential for job growth and economic expansion in the Republic and in N.I., unfortunately both funding and managerial support for small businesses are lacking.

Northern Ireland Capital Sources. Capital gaps exist in N.I. in that some kinds of businesses -- larger ones, for example, or those in certain types of business -- find it easier to borrow money than others. Projects by small businesses have special difficulty in getting off the ground because the terms and conditions of loans often cannot be met. This is explained by the uncertainty and violence that has clouded N.I.'s recent past, and by the entrepreneurship gap already discussed.

Some would include in the equation the innately conservative lending practices of the four N.I. commercial banks -- the Ulster Bank, the Northern Bank (the only one that operates exclusively in N.I.), First Trust Bank (a merger of the Allied Irish Bank in N.I.

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9. Small Business Administration, *The State of Small Business, Report to the President*, 1991, p. 44, and *Statistical Abstract of the U.S. 1993*, Table 867, p. 541.

10. *Statistical Abstract of the U.S. 1992*, Table 851; *Statistical Abstract of the U.S. 1993*, Table 867.

11. This approach has been endorsed by Bill Jeffrey, the regional chair of the Federation of Small Businesses in N.I. He believes that the best approach is to focus on industries that have the capacity to export, and provide incubation facilities to encourage their creation and growth. It is a concern however, that startup firms pose an even greater r of failure than small existing firms. Consequently, the IDBank may form a component to take a minority equity ownership position of 30 to 40 percent in the startup firms that it elects to fund, as a way of offsetting the likely heavy loss rate. The N.I. Innovation Program may be used as a model in this regard.

with the former Trustees Savings Bank, known as TSB) and the Bank of Ireland.

The banks are reluctant to make loans to small businesses[12] because many of these firms cannot meet the bank requirement of being fully secured with one dollar of equity or property for every dollar of the loan and having a letter of guarantee. Requirements for startups are especially stringent. Applicants must routinely be able to prove they have previously run a successful business, showing such evidence as past bank statements and audit opinions.[13]

The commercial banks consider loans in the £15,000 to £50,000 range to be small business loans to be handled by the branches. At the Bank of Ireland, loans of between £50,000 and £500,000 are processed centrally by the small business department. The middle-range and large-corporation loans (£500,000 and up) are handled by the corporate department in Belfast. From the banks' perspective, they find that the cost of examining applications for loans of under £15,000 is too high to justify the return. They feel that in many cases loans of this size must be secured with personal guarantees and that in many cases personal credit from suppliers or credit-card companies can handle the problem.[14]

On the other hand, some government-funded institutions exist to meet the capital needs of small businesses in N.I. The main one is the Local Enterprise Development Unit ("LEDU"),[15] a UK-N.I. government agency, set up in 1971 within the N.I. Department of Economic Development to assist small businesses (defined as 50 or fewer employees) by issuing grants and some loans, and providing a modicum of managerial and technical assistance. LEDU tries to serve as a one-stop shop for any other small-business funding.[16] LEDU provides three types of financial assistance to startup companies: (1) encouragement of startups by individuals (whether employed or not), with training in business and assistance that ranges from £500 to £4,500; (2) aid to startup businesses serving the N.I. market solely, with maximum assistance of £16,000; and (3) aid to startup businesses that export from N.I.,

12. Small businesses in Ireland are considered the most important job creators; see, for example, statements of the Northern Ireland Economic Research Center, *The Guardian*, January 31, 1994.

13. Interview with Ann Busby, lending officer at the Bank of Ireland, December 29, 1994.

14. Interview with David McGowan, Bank of Ireland, Belfast, February 13, 1995.

15. Interviews with Elspeth Mackey, Information Officer, LEDU, December 29, 1994 and January 6, 1995 and with McCann, previously cited.

16. Interview on December 29, 1994 with David Webb, Department of Economic Development. Any government funds to small businesses must go through LEDU. Webb also noted that LEDU will direct small business firms to 30-40 local enterprise agencies (LEAs) in N.I. The LEAs are autonomous and support small firms by providing seed funding, small loans (usually up to £5,000) for work-space facilities and central administration.

with maximum assistance normally of £40,000.[17] The grant amount is 40 percent of overall projected costs. A minimum 20 percent financial commitment is needed from the entrepreneur. This amount can be borrowed.

Compared to the overall challenge of promoting small business, LEDU's financial resources are limited.[18] On the financial side, as noted, support to any one startup company is ordinarily limited to a maximum of £40,000. On the technical-assistance side, some argue that LEDU provides inadequate managerial, technical and administrative support to its clients.[19] Non-manufacturing jobs generated by LEDU are said to be of low quality and to displace existing jobs.[20] LEDU concedes it doesn't do much for small businesses outside of the manufacturing sector that is its focus.[21] The *Irish Times* concluded that only 23 percent of jobs created were still in place after one year,[22] but LEDU asserts 70 percent of jobs are still in place after 5 years -- a wide disparity of assessments.[23]

Strong sales growth in external markets (exports) is LEDU's prime focus. LEDU considers new business growth to be the most important contributor of actual job creation. In FY 1994, LEDU's budget was £31.4 million, of which £18.4 million was for grants, and £5.6 million was for "other specific initiatives" (managerial and technical support). Together, LEDU allocated £24.0 million of its budget to financial support of small and startup businesses -- 8 percent to pre-startup programs, 36 percent to startups, 24 percent to established businesses, and 32 percent to growth businesses. Export potential exists at each stage of development.[24]

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17. A large-scale project might secure more than £500,000, although loans of more than £40,000 have not yet been made. Interview with McCann, previously cited.

18. Ronnie Scott, Northern Ireland Economic Research Center, and Elspeth Mackey, Information Officer, LEDU, interviews on January 5, 1994. LEDU's annual budget for FY 1994 was £31 million, of which a portion was used to distribute grants. During that same year, LEDU assisted 6,648 companies with a total of 28,000 employees.

19. Interviews with Ian Morrow, Marketing Director, N.I. Innovation Program, January 5, 1995; and Bill Jeffrey, Regional Chairman, Federation of Small Businesses, January 4, 1995.

20. Ronnie Scott, Northern Ireland Economic Research Center, *Irish Times*, December 6, 1994, Business and Finance Section, p. 17.

21. Interview with McCann, previously cited.

22. *Irish Times*, May 25, 1994, Home News, p. 3.

23. Interview with McCann, previously cited.

24. Of startup businesses, 30 percent sell a very small amount of output externally, but 90 percent of the growth businesses sell exports, which account for 42 percent of sales. LEDU's task is to help companies sell actively to external markets, thereby increasing the proportion of their sales. The two most important external markets for

In FY 1994 LEDU assisted 6,648 companies, creating 5,905 jobs, or fewer than one job per company assisted. Of the jobs, 2,465 were created from startups and 3,440 from expansion of existing businesses. Subtracting losses from contractions and closures, 1,630 net new jobs were created. This is fewer than one job for every four companies assisted and a cost of £19,264 per job. On the other hand, the FY 1994 job-creation rate is twice the 730 net jobs created in FY 1993, and four times the number in FY 1991! (In FY 1992, 650 net jobs were *lost.*)

LEDU argues that even when businesses fail, the individuals involved have received valuable management training and are in a much better position to create, or participate in creating, another new company. LEDU businesses also added 1,300 new part-time employees in FY 1994. LEDU's aim is to give a high priority to the areas of greatest need and particularly the areas with highest levels of unemployment.

Although FY 1995 holds great promise for new business generation, LEDU was able to make only 40 loans at the £10,000 level, when it had funds to make 50 loans. Thus, in this range, during this period, LEDU feels there was no capital gap.[25]

The UK Government runs a Small Firm Loan Guarantee program in conjunction with the N.I. banks, but it has been poorly utilized. The reason is that to obtain a guarantee, a bank must ensure that an applicant's business plan meets stringent criteria. If the project is approved by the bank, the applicant may apply for a loan with a government guarantee of 70 percent of the loan (maximum £100,000) for a start-up business and 85 percent of the loan (maximum £250,000) for an established business (in operation more than three years). The minimum loan for either a start-up or an established business is £15,000, and additionally there must be no more than 200 employees involved in the business, it must be in manufacturing, and it must generate no more than £3 million a year. Small firms that have received funding through this guarantee program have a very high success rate; but only a few firms have been funded.[26]

LEDU clients (and N.I. companies generally) are Great Britain and the Republic of Ireland.

25. Interview with McCann, previously cited.

26. Very few businesses are approved for the Small Firms Loan Guarantee because many of these firms do not have sufficient security. Although the government will guarantee either 70 percent of a £100,000 loan or 85 percent of a £250,000 loan, many firms find it very difficult to provide adequate security for their respective share. Moreover, retail businesses are not eligible for the Small Loan Guarantee Program (e.g., agriculture, banking and finance, education, gambling, forestry, hair dressing, insurance, estate agents, medical and health services, night club, and travel agents). It is noteworthy that firms funded through the Guarantee program have a much higher success rate than LEDU-funded firms. Some of the reasons for this result may be that the banks are stricter in making determinations of the feasibility of projects, and additionally, the Guarantee-funded firms receive more capital and are more sophisticated with regard to business matters. This information is based on an interview with Bes Brown,

Another private funding source for small firms in N.I. is the Northern Ireland Innovation Program, which was created in 1989 with EC funding to assist small manufacturing businesses (under 50 employees, usually under 25 employees).[27] The Innovation Program receives investment funds from the EC and International Fund for Ireland and private subscriptions,[28] and receives administrative funds from LEDU.

The Innovation Program differs from LEDU; it is a venture-capital program. The Program takes a minority share (usually 30-40 percent) in the sponsored company and provides intensive advice and guidance. The success rate of these companies is very high (80 percent). A company may opt to buy out the shares that Innovation owns in it (usually after 5 to 7 years), but many opt not to. The total Innovation program investment depends on the individual situation and is usually around £50,000. The Innovation Program gives preference to projects in areas of high unemployment. The Innovation Program is currently working with 20 clients, many fewer than LEDU.

Other sources of small-business funding in N.I. are very limited. Also, the capital gaps are not limited to small businesses. The Director of the N.I. Innovation Program observed that a manufacturer of jeans in Armagh went out of business even though the firm had a **"full order book."** The company needed to expand but couldn't get the financing.[29] This admittedly anecdotal evidence suggests that while small business should be the IDBank's main focus, the option to fund middle-sized or even large businesses should be left open.

The N.I. Government previously provided financial assistance to large corporations setting up facilities in N.I. through the N.I. Development Agency (NIDA). While NIDA lost its support with the ill-fated financing of DeLorean and Learjet, other projects were not so immediately unsuccessful. Sperrin Textiles, for example, provided jobs for 10 years before it closed its doors. Warren Surgical was successful and was bought by a U.S. company.[30]

NIDA has been succeeded by the Industrial Development Board (IDB), which has succeeded in attracting BCO Technology and Fruit of the Loom to N.I. One issue for the IDBank to be concerned about is that it should not fund businesses that are simply displacing

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Marketing Department, First Trust Bank, January 5, 1995, and interview with McCann, previously cited.

27. All information regarding the N.I. Innovation Program is from a January 5, 1995 interview with Ian Morrow, its Marketing Director.

28. Including £300,000 from the Presbyterian Church USA.

29. Interview with John Stringer, Director of the N.I. Innovation Fund, when visiting New York City, February 8, 1995.

30. Interview with McGowan, previously cited.

jobs in one country with jobs in another. That is, no businesses should be funded to create jobs in N.I. if it means a loss of a corresponding number of jobs in a member country, such as the Republic, the United States, or the U.K.

An example of the potential for large-company financing was provided by a Bank of Ireland executive in Belfast.[31] With the promise of peace and the potential for greatly increased tourism in N.I., at least five hotel chains or developers are interested in building hotels and the N.I. Tourist Board is encouraging their plans. A likely bottleneck is the financing, since the chains will look to N.I. sources for some or all of the funds to build the hotels and the amount of money needed, at about £30 million per hotel, will be substantial and all at once. The IDBank could make the difference in one or more hotels getting built.

Republic of Ireland.[32] The Republic of Ireland's banking system is similar to that of N.I. in part because historically, before the creation of the Republic's own independent currency, both systems were under the direction of the Bank of England.[33] A major problem with the retail banking system for entrepreneurial finance is that the standard minimum size of loan is £15,000 and the terms and conditions of bank loans can be difficult for small businesses to meet.[34]

The *Central Bank of Ireland* makes private loans only to retail banks, which are major sources of business financing but only for intermediate-sized companies. They make term loans with a maturity of seven years, sometimes longer. They provide mortgage and trade finance, syndicated lending, factoring, leasing, Section 84 financing (tax-based lending), and provide corporate finance advice. But the high minimum-loan size leaves a large gap for businesses that require modest infusions of capital.

Wholesale banks make large loans to larger companies, manage investment funds and provide corporate finance advice. *Building societies* accept deposits mostly from the public and provide long-term mortgages for private houses and some commercial mortgage loans.

State-sponsored financial institutions attempt to fill the gaps. The *Industrial Credit Corporation PLC* provides short, medium and long-term capital for Irish industry, and is the vehicle through which EIB lending is routed. The *Agriculture Credit Corporation PLC* provides short- to long-term credit facilities to farmers and agribusiness. *Trustee Savings*

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31. Interview with McGowan, previously cited.

32. Source: Price Waterhouse Information Guide, *Banking & Finance in the Republic of Ireland, 1994*, supplemented by interviews with banks in Ireland and New York City.

33. The Irish punt was linked to the pound sterling from 1921 until 1979.

34. Sources: Interviews with AIB, First Trust Bank and the Federation of Small Businesses in N.I.

Banks are private entities managed by boards of trustees and supervised by the Minister of Finance that accepts personal deposits through a network of branches. The *Post Office Savings Bank* accepts deposits and offers a range of tax-efficient investment schemes.

With funds from Irish investors and insurers, *Unit Trusts* and *Insurance Companies* provide equity finance to public and some private companies. The *Smaller Companies Market* provides capital to small, growth-oriented companies with or without a track record. *Credit Unions* make loans to individuals that are sometimes used to support small-business capital needs. *Individuals* also often finance small businesses -- either the entrepreneurs themselves if they have access to credit, or wealthier individuals in the community.

While all these sources of funding have played a role in assisting business startups and growth, the financial sector in the Republic, as in N.I., is considered more restrictive in its business lending than its counterparts in the United States or Britain. Capital gaps remain, especially in the six border counties[35] that have been most affected by the troubles.

In recognition of this gap, the Republic Government has recently allocated £300 million to fund small businesses, with the program to be administered by the Bank of Ireland.

Whatever the capital gap is today, it is likely to widen if efforts to close the "entrepreneurship gap" succeed. As new entrepreneurs start preparing their business plans, new and larger capital gaps are expected to emerge. Without evidence of adequate financial support for small businesses, new ideas from budding entrepreneurs will wither before they have been given a chance to bloom.

European Funding in Ireland: The EIB.[36] The European Investment Bank (EIB) has experience with funding small and medium-sized enterprises (SMEs) in the EC. Between 1989 and 1993, the EIB made loans of approximately ECU 22 billion for investment in more than 37,000 projects in the industry and service sector. In 1993, in response to the economic difficulties of that year in the EC, the EIB stepped up loans to SMEs, providing interest subsidies for loans of approximately ECU 1 billion. In addition, the EIB loaned ECU 1.6

35. Five of the six border counties in the Republic are contiguous to N.I. -- Cavan, Donegal, Leitrim, Louth and Monaghan. The sixth, as defined by the European Commission, is Sligo, which is contiguous to Leitrim. At its northernmost point, Sligo is only a few miles from Ulster. The European Commission definition is incorporated in aid provided to Ireland in early 1995 as an extra "peace dividend." Lionel Barber, "EU Chief Comes Bearing Fresh Peace Dividend," *Financial Times*, February 27, 1995.

36. Sources: (1) Publications by the European Investment Bank: *The EIB: European Community's Financial Institution*, *Financing Europe's Future*, *Financing Facilities under the Fourth Lomé Convention*, *Annual Report 1993*. (2) Publications from the Consulate General of Ireland, New York City: *Information Note on the European Investment Bank*, *EIB Loan Activity Outside the Community*.

billion to 5,200 SMEs, 80 percent of which had fewer than 50 employees.

The EIB uses its own resources as well as specially budgeted capital for risky investments to fund *direct loans* for larger-sized projects either in the private sector, or public sector projects deemed indispensable to developing private projects; and *global loans* to national or regional financial institutions or development banks for indirect financing of privately owned SMEs. EIB funds are made available to intermediary institutions that maintain contact with the private sector and with governmental bodies, and are familiar with locally based markets and economic development priorities. Subject to EIB approval, the intermediary institutions channel the funds to individual business ventures. In 1993 Ireland received allocations for 8 SMEs from global loans.

How the IDBank Would Address the Gaps

The IDBank could contribute to closing both kinds of gaps facing small businesses in N.I. and by extension the six border counties in the Republic of Ireland -- both the entrepreneurship gap and the capital gap.

The most obvious way that the IDBank could help is by addressing the private capital gap that seems to exist in N.I. at all levels -- small, middle-range and large corporations. LEDU is helping to fill the small-business gap, although its programs appear to be costly in part because it doesn't have a critical mass of grants and management support to address fully the emerging needs of this sector.

By helping to build a critical mass of financial support for businesses in N.I. and the Republic, the IDBank could also help address the entrepreneurship gap, working with those who are encouraging the growth of entrepreneurship and helping to meet the capital needs that will follow from such growth.

To address successfully both gaps, the IDBank must implement appropriate lending-selection criteria and adequate funding tied to existing measures for management support. If necessary, the IDBank should be prepared to offer debt financing with an equity "kicker." Such creative measures that make loans more accessible to small firms need to be developed.

The IDBank's mission should be to boost community economic development in a peaceful environment. The IDBank would achieve its goal of promoting economic and social progress by lending funds, especially to companies that have benefitted from technical assistance programs created by the Irish Republic, U.K. Government or the European Union. The IDBank should give special attention to the needs of small enterprises and community institutions that assist in the growth of such enterprises, because the needs and opportunities for the region are greatest in this sector of the economy. According to the Northern Ireland

Economic Research Center, small businesses of fewer than 50 employees account for more than 30 percent of jobs and represent the region's best opportunity for job creation and economic expansion.[37]

Since Ireland's business needs include that of strengthening the entrepreneurial and business motivation and skills, the IDBank should cooperate with all public and private programs that have this purpose, without diverting significant staff resources from lending to this activity.

To minimize disruption to existing, unsubsidized areas of the economy, the IDBank should seek to channel its funds to (1) disadvantaged borrowers and (2) disadvantaged neighborhoods. It should pay special attention to areas in N.I. and the Republic that have high rates of unemployment, whether Catholic or Protestant, and the potential for high unemployment in areas that employ a large number of security personnel. Total employment in military, police and corrections in N.I. is reportedly more than 30,000.[38]

The traditional banking infrastructure in Ireland is well developed and could be useful in implementing lending programs. However, this traditional lending infrastructure does not always reach down to the community level. Therefore, the proposal encourages the IDBank to include a community development corporation structure with locally based offices for loan production, technical assistance and business advice, networked into either the headquarters of the IDBank or through commercial banks.

Additionally, the IDBank should create an advisory and review committee which could be comprised of representatives from local governments, nonprofit organizations, labor, and business. This committee could serve as a planning mechanism to harmonize economic development efforts on an island-wide basis.

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37. *The Guardian*, January 31, 1994. Seamus Brennan TD, Minister of Commerce, said: "Ireland is a nation of small businesses; 98 per cent of our 160,000 businesses are small. Half of our private sector employment is in small business. These companies are the embodiment of enterprise and represent the greatest potential for job growth (particularly insofar as services are concerned)." From *The Small Business Development Conference*, Dublin Castle Conference Centre, September 27, 1994.

38. The British Information Services in New York City reported on January 5, 1995 that the total employment of police, army, Royal Irish Regiment and prisons is slightly less than 32,000. Of this number, the staff of the prisons is 3,350. These numbers are somewhat lower than the 38,000 people claimed to be directly employed in security in N.I. given by Mike Tomlinson in the 2nd Annual Frank Cahill Lecture, August 8, 1994, p. 14. It is possible that the 6,000-person difference is accounted for by private security personnel or by reductions in the number of people in security since August 1994.

3. Proposed IDBank Organization and Financing

The IDBank would be owned by its constituent members, which could include the Republic of Ireland, the United Kingdom, the United States and the European Union (EU). The members would be equity investors in the IDBank, playing a role like that of members of the World Bank and other regional development banks. Members would be represented on the board of directors[39] and can in this way monitor the fairness with which loans are made, paying special attention to fair loan policies, fair employment and equitable job creation in the two communities of Ireland.

The maintenance of a strong investment-grade rating from the bond-rating services is critical to all shareholders, since it reflects the IDBank's financial strength. A strong credit rating permits the IDBank to provide loans at the lowest cost and ensures the IDBank's continued access to capital markets.

The proposal envisions a $400 million institution after five years, starting with four members contributing $5 million each in cash annually during that period and subscribing an equal amount on a "callable" basis (i.e., a guarantee).

The gradual buildup of the institution over five years could be shown in pro forma cash flow statements, but preparation of credible statements of this kind must await the passage of legislation by participating members detailing the character of their involvement and the structure, governance and operations of the IDBank.

The prospective makeup of the IDBank's capital when mature is shown in Chart 1. It assumes for the sake of example the IDBank's fourth member (besides the United States, Republic of Ireland and U.K.) is the European Union. But it could as easily be Germany, Japan, South Korea (which has undertaken considerable investment in N.I.) or some other country, combination of countries or multinational financial institution.

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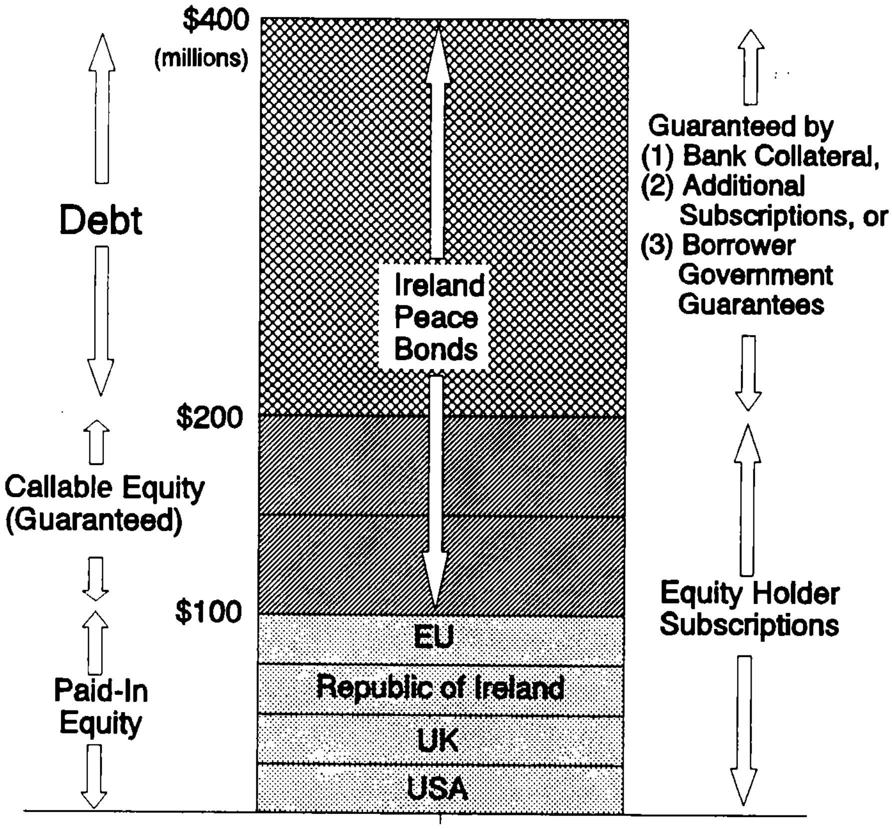
39. Other U.S.-supported funds -- for example, the funds created to support the member countries of the Former Soviet Union -- are basically bilateral institutions with U.S. and recipient-country representation. In this light, Congress is unlikely to approve money for N.I. without U.S. representation, especially in light of charges of lack of oversight of previous U.S. aid.

Chart 1

Proposed Capital Structure 2001, Ireland Development Bank



The IDBank is shown using the paid-in equity capital of $100 million and guaranteed callable subscription of $100 million as a base from which to borrow in the capital markets, through the issuance of Ireland Peace Bonds ("IPBs"), as of 2001. Chart 1 shows a one-to-one ratio of debt to subscription (or a three-to-one ratio of debt to paid-in equity). It would probably not be advisable to go beyond this ratio given the nature of proposed lending activities described in the next section.

The IDBank is intended to supplement rather than replace existing private funding sources such as commercial banks, or public institutions like the N.I. Department of Economic Development (notably its previously mentioned arm, LEDU), the International Fund for Ireland and the European Investment Bank.

4. Proposed Lending Policies

The IDBank should not be an aid-granting institution; loans and guarantees must be serviced fully and on time. The lending program should have clear criteria, with active community involvement. Lending targets should be prioritized according to degree of economic viability and geography. On the latter score, the level of local deprivation and unemployment in an area should be taken into account as factors that make the IDBank's role more essential. Projects should be encouraged that (1) engage in cross-border and border-region connections, (2) facilitate new programs for community development, (3) address long-term unemployment, and (4) provide special assistance to communities that have suffered directly from violence.

The lending program must also address the traditional sectarian imbalance in employment, by seeking better representation overall and within management ranks. The bank must factor in specific and measurable fair-employment principles as a criterion in deciding whether or not to issue a loan. Enterprises that do not satisfy these and other loan criteria should be given practical recommendations on how to comply with the IDBank's policy.[40]

The IDBank is expected to consider both privately originated projects and projects that have a mix of public and private funds. The potential for leverage with EU funding should be sought.

The Charter of the IDBank[41] should include provisions to support progress on the difficult social/political issues facing the people of Ireland. For example, the IDBank should:

- Engage in fair lending practices, excluding no applicant based on religious or political background, with adequate monitoring and review.

40. While unemployment rates among Catholics are unquestionably higher than among Protestants, some care must be taken in assessing unemployment rates. One article reports that 43 percent of Catholic men aged 20 to 60 are unemployed, compared with 26 percent of Protestants ("World Businessmen View Investments as Key to Irish Peace," in *The Christian Science Monitor*, Economy Section, December 19, 1994, p. 8). But according to British Information Services, the 1991 Census shows that the Catholic male unemployment rate was 28.4 percent and the Protestant rate was 12.7 percent, a ratio of 2.2 to 1, down from a ratio of 2.6 in 1981, but higher than the 1.8 figure for females. In an article entitled "Northern Ireland's Catholics: We're Not Going Back" in *The Economist* ("World Politics and Current Affairs," July 2, 1994, p. 55), the proportion of Catholic males unemployed in N.I. is reported as the highest of any region in Britain, while unemployment among N.I.'s Protestants is said to be the lowest. In some parts of Belfast and Derry, only two men in ten are reported to have a job. High unemployment should be the focus of remedial programs, whether in Catholic or Protestant areas.

41. See Appendix B.

- Ensure that loan recipients adhere to fair-employment principles to be established by the Board of Governors.

- Target capital to strengthen the civilian economy, replacing security-related activities with new employment in a private peace economy.

- Offer incentive loans to those who employ and train people laid off because of the shifting priorities and policies resulting from peace.

- Target investment capital to communities with higher-than-average long-term unemployment rates with the goal of creating new jobs.

- Use Ireland Peace Bond proceeds for economic-development projects in N.I. and in the six border counties in the Republic to encourage economic growth and island-wide harmony.

- Focus on the needs of small- and medium-sized businesses and seek to encourage the growth of microbanking institutions that provide both small loans and expertise.

If, as appears to be the case, the economic requirements of Ireland point toward expansion of credit potential for small businesses, the IDBank could devote its resources to this purpose by making loans or guarantees[42] either directly to small businesses or indirectly through banks and other lenders to small businesses.

The IDBank might add loans for broader purposes (such as infrastructure investment) when its financial structure is strong. Loan-making skills for community needs require a different kind of expertise than will initially be available at or to the IDBank.

Because of high failure rates among small businesses, especially startups, the IDBank must work to raise the success rate of the businesses that borrow from it. This will clearly take careful planning. The IDBank must pay careful attention both to selection of borrowers (or of intermediaries who will in turn make loans) and to provision of training and support programs to the borrowers to ensure that the loans are made to businesses with a high likelihood of repayment.

One way for the IDBank to offset partially the high risk of small business loans would be to take equity positions in some companies to which it makes loans. While most small-

42. The U.S. Small Business Administration has an extensive small-business loan guarantee program, guaranteeing up to 80 percent of the losses on small-business loans made by banks. The U.K. system works the opposite way, as the banks provide the guarantees (for a fee that comes out of the loan) and the government provides the funds.

business startups fail within a year or two, a few become large successes. By taking equity positions, the IDBank can use the high returns from the "winners" to offset non-performing loans. Venture capitalists typically lend money to small businesses in return for equity participation -- i.e., ownership of a portion of the business in addition to or instead of a straight loan. Some argue that it is inappropriate for a development institution to ask for participation in borrowers' equity. When development banks make loans with government guarantees, there is no need for the banks to take equity. When there are no such guarantees, the fact that 60 percent of small businesses fail in their first year[43] must be taken into account. The European Investment Bank,[44] the multilateral International Finance Corporation and the various U.S.-created funds for the countries that were members of the former Soviet Union do take equity positions.

To have maximum impact, the IDBank must look for loans that are not currently being made, for example loans to small companies that are not now "bankable." To succeed with that type of lending, the IDBank (1) must encourage the provision of business assistance as well as financing, and (2) may have to take equity participation so that the 10 percent or so of businesses that become significant winners pay for inevitable losses from failing companies.

Therefore the Comptroller proposes that equity participation be included as an option if needed to ensure the solvency of the small-loan concept.

43. This figure seems to correspond to experience in both the United States and elsewhere in Europe.

44. See Appendix A for a description of this bank and its use of equity.

5. The Role of, and Markets for, Ireland Peace Bonds

Simply by matching its $200 million paid-in and guaranteed equity-capital base with borrowed funds on a 1-to-1 ratio, the IDBank could double its assets to $400 million, as was shown in Chart 1 and still be in a position to undertake some risky loans. Since half the equity would be in the form of guarantees, the amount to be borrowed would be $300 million, a 3-to-1 ratio to paid-in equity.

Marketing Ireland Peace Bonds is expected to be facilitated by the fact that many Americans who trace their ancestry to Ireland retain their ties to Ireland and support peaceful settlement of north-south disagreements and cross-community hostilities. The promise of peace will allow Americans to build on the strong business, trade, political, and cultural links they already share with northern and southern Ireland.

As economic, political, and social conditions in N.I. continue to improve, investor confidence should grow, especially in long-term financial instruments. Institutional investors will be attracted if the bonds are guaranteed and the return is competitive, as is the case with other internationally recognized regional development bank debt instruments. To attract the largest possible market, bond denominations should be targeted to different markets. The IDB should cooperate with any efforts to create a secondary market for its securities.

In assessing the markets for Ireland Peace Bonds, we first review the experience of the sales of Israel Bonds in the United States and then examine the transferability of this experience to the potential sales of Ireland Peace Bonds.

Israel Bonds

The Israel Bonds program was launched by Israel's first Prime Minister, David Ben-Gurion, to infuse capital into the young nation and defray the costs of industrial, agricultural, and technological development. The State of Israel Bonds Corporation, based in New York City, supervises the issuance of about $1 billion in debt per year.[45] In 1951, $52 million of bonds were sold. Since then, more than $14 billion of Israel Bond securities have been sold. All bonds are guaranteed by Israel, which has made every interest and principal payment in full and on time throughout the program's history. The bonds are currently given an investment-grade rating (BBB+ by S&P and Baa-1 by Moody's). To date, Israel has paid out $7 billion to those who have submitted bonds for redemption.

All proceeds of bond sales go directly to the Israeli budget for infrastructure

45. Source: Saul J. Freedman, State of Israel Bonds, New York City.

development and immigrant absorption. Since 1990, the bulk of bond proceeds has been channelled into the absorption of new immigrants to Israel from such countries as those of the former Soviet Union and Ethiopia. Projects include:

- National Water Carrier System for agricultural self-sufficiency
- Oil pipelines
- Construction of roads, highways, harbors and port facilities
- Communication and transportation networks
- Construction of power plants and railroads
- Research and development for high-technology industries

Purchasers of Israel Bonds come from two main groups. Approximately two-thirds of bonds are purchased by individuals in Jewish communities around the world. The remainder are purchased by other individuals or enterprises such as financial institutions, insurance companies, state and local pension funds, and labor unions interested in expanding their portfolios with an investment demonstrated to be reliable and lucrative. Within these two main groups are subgroups to which the bonds are marketed, as shown in Table 3.

Table 3. *Types of Israel Bonds and Their Markets*

	Economic Development	**Floating Rate**	**Individual Variable Rate**	**Zero Coupon**	**Current Income**
Minimum Purchase	$25,000	$25,000	$5,000	$2,745	$500
Maturity	10 years	10 years	12 years	10 years	15 years
Interest Rate	Varies with issue	.75% below prime	5% + 1/2 excess of prime rate above 5%	Imputed	4%
Value at Maturity	$25,000	$25,000	$5,000	$6,000	$500
Target Market for Bonds	Retirees seeking a steady income	Long-term holders seeking income	Long-term holders seeking income	Gifts or retire-ment	Indivi-duals

Source: Table prepared by the NYC Comptroller's Office based on data from Saul J. Freedman, State of Israel Bonds, New York City.

To appeal to special markets within these groups, Israel Bonds offer certain special concessions. For example the minimum bond purchase for Individual Variable Rate bonds is lowered for Individual Retirement Accounts from $5,000 to 2,000. Also, employee benefit funds (Keoghs and union funds as well as Individual Retirement Accounts) may redeem their Floating Rate or Individual Variable Rate bonds earlier than otherwise required. Current Income bonds, after having been held at least one year, may be redeemed in Israel to help pay for tourist expenses, thereby encouraging tourism.

In 1992, Israel Bonds were purchased in the United States by 2,367 corporate, professional, and union pension and profit sharing plans; 193 corporations; 302 foundations; 94 institutions such as hospitals and universities; 169 banks and insurance companies; and more than 55,000 individuals.[46]

Transferability of Israel Bonds Experience to Ireland

Israel and Ireland have some important similarities. Both are small countries with long histories in which religion has played a significant role. Both have intensely loyal emigre populations in the United States. Both have recently embarked on negotiations for settlement of old conflicts. Both have populations of about 5 million people. Both have a gross product of a little more than $60 billion. (See Table 4.)

Table 4. *Republic of Ireland, N.I., and All Ireland, Compared to Israel*

	Republic of Ireland	*N.I.*	**All Ireland**	**Israel**
Population in millions, 1994	*3.52*	*1.57*	**5.09**	**5.05**
Pop. Growth, % per year, 1980-90	*0.3*	*0.3*	**0.3**	**1.4**
Pop. Growth, % per year, 1990-2000	*0.3*	*0.3*	**0.3**	**2.5**
Gross Product, $ billions, most recent year	*43 (1993)*	*18 (1992)*	**61** (1992-93)	**62** (1991)

Sources: *Statistical Abstract of the U.S. 1994*; Irish Consulate, New York City; British Consulate, New York City.

The major differences between Israel Bonds and the proposed Ireland Peace Bonds are:

(1) Israel Bonds have been issued by a single state, whereas the proposed Ireland Peace Bonds are to be issued by a multi-state entity; however, with multiple

46. Source: Development Corporation for Israel.

guarantees this should strengthen, not weaken, the salability of the bonds.[47]

(2) Israel Bonds have been issued mostly for public infrastructure, whereas Ireland Peace Bonds are being issued to support private initiatives. In the context of a bank depending on the private sector for repayment, it is readily acknowledged in Ireland that entrepreneurial roots go deeper in Israel, so that faith in Ireland's entrepreneurial skills is likely to be weaker than in Israel's.

(3) Individuals purchasing Israel Bonds often do so to help guarantee the nation's survival, as suggested by the fact that purchases of the bonds increase during periods of severe external threat. That life-or-death situation does not exist in the Ireland of 1995.

47. The United States has also co-guaranteed some Israel bonds not issued by State of Israel Bonds. Since the U.S. Government provides a full guarantee, this paper is considered gilt-edged. A limited guarantee of the kind proposed for the IDBank would not necessarily ensure gilt-edged quality for the Ireland Peace Bonds.

6. Getting Started: Proposed Talent Bank

A major task both for an economic development strategy for N.I. and the Republic, and for the IDBank itself, should be the broadening of entrepreneurial training and business education in Ireland. While the long-term institutional basis for such a program will take could take many years, individuals in Belfast are eager to benefit from U.S. expertise as quickly as possible.

It would be useful to create an entrepreneurial "Talent Bank" made up of business leaders in the United States who would be willing to volunteer some of their time and talents to assist small and medium-sized enterprises in Ireland with strategic planning, marketing or financial planning.

Such a Talent Bank might be operated by a government entity, a foundation, a private business organization or a university with some outside funding. It need not be expensive if the process of matching up names with companies is handled in Belfast or Dublin, or both.

Appendix A
Development Bank Models

To create jobs, we conclude that a development banking framework is optimal. To obtain funding from more than one constituent member, a multilateral institution is required. Brief descriptions of three multilateral development-banking models follow: (1) the global World Bank, (2) the regional European Investment Bank, and (3) the regional Inter-American Development Bank.

The World Bank

The International Bank for Reconstruction and Development (IBRD or World Bank) was created in 1944 as part of the Bretton Woods Agreement, which also created the International Monetary Fund. Each of the subscribing countries agreed to be responsible for a certain portion of the total capital of the institution. Some of this "equity" capital was called and paid, upon formation, to the World Bank. Additional capital was then raised in capital markets; the first bond was issued from the offices of the Federal Reserve Bank of New York.[48]

In theory, the money beyond government equity that the World Bank borrowed in the capital markets was guaranteed by the non-called portion of the capital subscription. But in practice, privately raised debt was backed by the credit of the World Bank. Loans against this additional debt were carefully watched to ensure that they were paid back without losses to avoid the World Bank having to go back to member countries to collect on the guarantee implicit in the existence of non-called subscriptions.

The European Investment Bank

The European Investment Bank (EIB) was formed in 1958 when the Treaty of Rome created the European Community. It is a non-profit institution that channels funds into investments promoting balanced development in the EC.[49]

The majority of loans are made to Member States of the EC, but, as of 1993, 9.6

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48. Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington, DC: The Brookings Institution, 1973), p. 130.

49. As EC agreements move from economic to political issues, the EC is being renamed the European Union (EU). We use EC here because most of the agreements we discuss are economic in nature.

percent of total lending had been to less developed nations outside of the EC. The EIB also makes some direct loans to private individuals. The Bank has outstanding loans of ECU 98 billion,[50] and has a "Triple-A" bond rating.

The Bank's equity capital is owned by the 12 EC Member States. The EIB uses its own resources -- equity capital plus the proceeds of the Bank's borrowings -- and in addition "risk capital" from the European Development Fund or EC budget to make:

- *direct loans* for larger-sized private-sector projects (or public sector projects deemed indispensable to developing private projects); and

- *global loans*[51] to national or regional financial institutions or development banks in the African, Caribbean, and Pacific (ACP) states for indirect financing of privately owned small and medium-sized projects. EIB funds are made available to intermediary institutions that maintain contact with the private sector and with governmental bodies and are familiar with local markets and economic-development priorities. Subject to EIB approval, the intermediary institutions channel the funds to individual business ventures.

In 1993, EIB loans helped finance more than 5 percent of the EC's total capital investments.

Capitalization. The EIB borrows almost all of its financial resources on the capital markets in the form of public bond issues. In 1993, the EIB raised funding through 63 medium- and long-term borrowings, including 11 percent at floating rates.

The EIB made loans in 1993 of ECU 19.6 billion, and ended the year with a profit of ECU 9.1 billion. The EIB's total assets were ECU 61 billion. The portion of Member States' subscribed capital actually paid in is just over 9 percent (ECU 4.3 billion); the remaining callable 91 percent serves as a guarantee of the Bank's capital. Member States receive no interest on their subscribed and paid-in equity capital. The States may not use subscribed capital as security for loans they may receive. The EIB invests the paid-in equity to generate income to pay for its own administration, thus avoiding the need for a separate item in the EC budget for expenses.

As of 1993 the Republic of Ireland had provided 0.67 percent of the Bank's subscribed capital. The Republic's paid-in capital was IR£14 million,[52] and the Republic

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50. 1 ECU = $1.25.

51. Global loans are similar to our proposed targeted loans to designated areas in Ireland.

52. 1 Irish £ = $1.60.

had also contributed IR£0.7 million to the Bank's reserves.

Special Loan Program for N.I. On February 27, 1995 the European Union announced a new ECU 173.9 million ($222.6 million) aid package targeted at N.I. and mostly devoted to strengthening cross-border links with the Republic. The package is separate from the ECU 300 million ($384 million) "peace dividend" the European Union agreed to in December 1994.

The new aid package for N.I. is designed to support local initiatives in reinforcing the cease-fire between the Protestant and Catholic communities and to underpin efforts by the London and Dublin governments to reach a constitutional settlement. The money will be spent over three years from 1995-98 with up to 80 percent to be spent within N.I. and the remainder in the Republic's six border counties. The EU's regional commission has recommended that at least 15 percent of the total go to cross-border activities. The funds will provide 75 percent of the spending, with the rest coming from the Republic and U.K. governments.[53]

Loan Application Process. The EIB does not require a standardized loan application but asks applicants to submit the following:

1. General information about the project.
2. Financial data such as balance sheets, financial statements, and breakdown of costs.
3. Legal documentation of its principal partners and promoters.
4. Technical data regarding production capacities, site development, and equipment.
5. Organizational structure, and work operations.
6. Detailed estimate of investments and itemization of proposed expenditures.
7. Financing plan for the project.
8. Policy on the return of the project's capital.
9. Economic data showing present and forecasted supply, demand, prices, and position of company in relation to competitors.
10. Expected production levels.
11. Number of jobs to be created.
12. Role the project will play in development of the country's economy.

Types of Loans. The EIB provides loans both from its own resources obtained from its own borrowings on the capital market, and through specially designated "risk capital" investments. Loans from the EIB's own resources must always be accompanied by funds obtained from the borrower's bank or other sources. These matching funds are often harder to obtain than the EIB funding. The EIB's loans may not cover more than 50 percent of a

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53. Lionel Barber, "EU Chief Comes Bearing Fresh Peace Dividend," *Financial Times*, February 27, 1995, p. 8.

project's total cost.

Funds can be provided as

1. *Straight loans* to a company.

2. *Equity investment* in a company on behalf of the EC, usually combined with a loan from the EIB's own resources or with quasi-capital[54] assistance. This type of equity subscription involves minority holdings that are intended to be temporary and that are to be disposed of to venture-capital institutions.

3. *Quasi-capital assistance* to a company through
   a. subordinated loans, the interest and principal of which must be repaid only after other claims have been settled;
   b. conditional loans, interest and principal of which are linked in the loan agreement to the performance of the project based on such measures as a profit threshold or a target output.

4. *Pre-startup assistance* ("risk capital" assistance) for example to pay for studies to identify projects, or to provide assistance during the pre-investment and startup phases.

Loan Guarantees. While the EIB provides loan guarantees, in such cases the Bank requests security from the state in which the project is located, although the Bank will consider other proposed alternatives.

Loan Terms. The limit of a loan amount is up to half the gross project investment costs. The term of an EIB loan depends on the nature of the project being financed. For industrial projects financed by risk capital, the term is generally 10 to 12 years. For infrastructure projects, the term is usually longer, some up to 20 years.

The Bank's interest rates are independent of the type of project financed or the nationality or status of the borrower. Fixed rates are governed by the rates prevailing on the capital markets, the term of the loan, the currency in which the loan is made, plus a margin of approximately 0.15 percent to cover its own costs. Floating rates are determined quarterly. There are usually no other fees associated with the loan.

Loans from the EIB's own resources receive an interest subsidy from the European Development Fund. The subsidy is then reflected in the interest rate, so that the borrower ends up paying a below-market interest rate. For a project receiving quasi-capital assistance,

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54. Quasi-capital is the European term for subordinated debt and conditional loans.

the interest rate will be less than 3 percent, while the term may extend up to 25 years.

The start of the repayment of the principal is normally deferred at least until the end of the construction period of the project. Repayment usually takes place annually or semi-annually.

Coordination with Other Agencies. The EIB coordinates some of its regional development activities with the EC's Commission, which provides grants from the EC's Structural Funds. The Bank also cooperates with the bilateral financial aid agencies in EC Member States, with financial institutions in the ACP states, and with international development aid organizations.

Principal co-financing partners include the Caisse Centrale de Cooperation Economique (France), the Commonwealth Development Corporation (UK), Kreditanstalt für Wiederaufbau and DEG/Deutsche Investitions und Entwicklungsgesellschaft (Germany), Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands), the World Bank Group (IBRD, IDA, and IFC), the African Development Bank, and the Inter-American Development Bank.

During FY 1994, the EIB established the European Investment Fund to guarantee financing for major infrastructure projects and smaller businesses.

Areas of Activity. The EIB has four main areas of activity.

- **Infrastructure:** ECU 12.5 billion in 1993 (over two-thirds of its financing) to investments contributing to the infrastructure of underdeveloped regions where per capita income is low and unemployment is high.

- **Telecommunication:** ECU 6.2 billion spent in 1993 on upgrading telecommunication and integrating networks Community-wide.

- **Environment:** ECU 4.4 billion spent in 1993 for developing natural resources, drinking water supply, waste collection, and environmental protection.

- **Industry:** The EIB has provided assistance to EC member countries to develop the competitiveness of their capital markets.

By 1993, the EIB had provided loans of IR£3,156 million to the Republic of Ireland. The majority of these loans went to state-sponsored bodies and to the Exchequer. (The figures for N.I. are combined with those for the U.K.)

Governance. The key features of EIB's governance follow.

- **Charter/Documentation:** The EIB is managed according to the provisions of the 1958 Treaty of Rome, the EIB's Statute, and general directives from the Governors.

- **Board of Governors:** The Board consists of one Minister from each Member Country (usually Finance Minister). It lays down general directives on credit policy, approves the balance sheet and annual report, decides on capital increases and appoints the *Board of Directors* and members of the *Management and Audit Committees.*

- **Board of Directors:** The Board consists of 22 Directors from the spheres of public sector banks, finance, economy and industrial ministries; 21 directors are nominated by the Member Countries and one by the Commission of the European Communities; 11 alternates are nominated by the Member Countries and one by the Commission. The Board of Directors is responsible for ensuring that the Bank is managed in accordance with the provisions of its charter. It has overall responsibility for deciding on loan and guarantee policies, raising funds, and setting interest rates.

- **Management Committee:** Members of this Committee control all current operations, recommend decisions to Directors and carry them out.

- **Audit Committee:** The Committee verifies that the Bank's operations and books are kept properly.

The Inter-American Development Bank[55]

Administration. The Bank has a Board of Governors, Board of Executive Directors, President, Executive Vice President, other officers and staff.

All powers of the Bank are vested in a Board of Governors that consists of one Governor and one Alternate appointed by each member country. The Board of Governors delegates all responsibility for operating to a smaller Board of Executive Directors, each member of which serves for a three-year term.

Member countries are grouped by region and agree upon the Executive Director and Alternate for their region, except for the three largest subscribers of capital -- the United States, Canada and Japan -- which each select their own Directors.

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55. Information Statement of the Inter-American Development Bank, September 30, 1994, and interview with Dan Martin, Public Information/External Relations Bureau, IADB, January 1995.

Ordinary (Equity) Capital. The Bank has two kinds of equity capital: paid-in and callable. A member country's total capital subscription is the sum of its paid-in and callable capital. Total ordinary capital subscriptions from all member governments as of June 30, 1994 totaled $60.7 billion. The U.S. share of this ordinary capital is approximately 30 percent, Canada's is 4 percent and Japan's is 5 percent. The paid-in portion is 2.5 percent of a member country's ordinary capital subscription, so the callable portion is 97.5 percent. This portion of capital is called upon only if needed to repay guaranteed privately financed debt.

Capital Replenishment. Currently the Bank is on its 8th "replenishment." Every four years member countries must pay their share of ordinary capital and agree to have their callable capital available for guarantee.

Fund for Special Operations. Separate accounts are set up in a Fund with cash coming from member countries agreeing on a specific contribution. The Fund's total is currently $9.5 billion. This is equivalent to the World Bank's Concessional Lending Fund and International Development Association in that it makes loans to poor or developing countries with longer grace periods and maturities.

Loans. Priority is given to poverty reduction, modernization and integration and the environment. Loans from ordinary capital are given at market interest rates with maturities of 15 to 25 years and with 5-year grace periods.

"Soft Loans" from the Fund for Special Operations are given at interest rates of 1 to 4 percent, with maturities from 25 to 40 years and grace periods of 4-10 years. Soft loans are primarily for special projects and development in poor countries.

All loans are guaranteed by the borrowing country and there is no refinancing of loans. By the end of 1994 the Bank will have issued $68 billion in loans.

Constraints on Lending. The following constraints should be observed in the making of loans:

1. An applicant for a loan must have submitted a detailed proposal.
2. The Bank must take into account the ability of the borrower to obtain the loan from private sources.
3. Applicants must demonstrate that they are in a position to meet their obligations under the loan contract.
4. Rates of interest, charges and schedules for repayment of principal must be established that are appropriate for each type of the project.
5. The Bank must receive suitable compensation for its risk.
6. Loans made or guaranteed by the Bank must be principally for financing specific projects.

Appendix B
Proposed Ireland Development Bank Charter

Purpose

The Ireland Development Bank ("the IDBank") is a development-finance institution owned by its member countries and subject to the provisions herein and international law.

The purpose of the IDBank is to help achieve the peace objectives of the Downing Street Declaration by promoting economic development in the context of the ongoing peace process and to encourage harmony between the northern and southern economies on the island.

The IDBank will achieve this goal by improving the quality and increasing the number of links between the two parts, and promoting the prosperity of both. The IDBank will focus on the counties of N.I. and the six border counties of the Republic, but not to the exclusion of the other counties on the island. It will achieve its goal of promoting economic and social progress by lending funds in conjunction with the services of volunteer and professional technical assistance programs and university-based business education, with special attention to the needs of small and medium-sized enterprises and the empowerment of entrepreneurs for job creation.

Organization and Management (Boards, Location, Staffing)

The IDBank shall have a Board of Governors, a Board of Directors, a President and one or more Vice Presidents and other officers and staff as the Board may determine. The appointment of Governors, Directors, officers and staff shall take due note of, and be representative of, the population being served by the IDBank. However. the IDBank's Directors and officers shall recruit a small staff with the IDBank's skills needs as their paramount concern.

Boards. The IDBank shall have a Board of Governors, Board of Directors, a President, Vice Presidents, Heads of Departments/Offices, and other officers and staff if and only if their recruitment is within a budget approved by the Board of Directors following guidelines set by the Board of Governors. Each member country shall nominate one Governor and one Alternate Governor; Governors shall meet at the IDBank's regular annual meetings, to rotate among Belfast, Dublin, New York and possible other cities to be determined by the Governors.

The Board of Directors shall be elected by the Board of Governors. The President shall be elected by the Board of Governors for a term of five years and may be re-elected. The President serve under the direction of the Board of Directors to conduct the business of the IDBank. The President shall be assisted by Vice Presidents appointed by the Board of Directors on the recommendation of the President.

Staffing. In its character as a multinational institution, the IDBank shall staff itself as follows:

1. The President may participate in meetings of the Board of Governors but shall not vote at such meetings.[56]

2. The President shall be chief of the operating staff of the IDBank. Under the direction of the Directors, the President shall conduct the ordinary business of the IDBank and under their general control shall be responsible for the organization, appointment and dismissal of the officers and staff.

3. The President, officers and staff of the IDBank, in the discharge of their offices, shall owe their duty entirely to the IDBank and to no other authority. Each member of the IDBank shall respect the international character of this duty and shall refrain from all attempts to influence any officers of the IDBank in the discharge of their duty.

4. Governors and Directors who serve as salaried representatives of other governments shall not be compensated other than for reasonable expenses incurred for the purpose of attending IDBank meetings. Governors and Directors not otherwise salaried shall be paid a modest per-meeting fee as well as expenses for attendance at meetings.

5. Staff salaries shall be kept to the lowest levels compatible with hiring skilled staff.

Location. The offices of the IDBank shall be jointly located in Belfast and Dublin, along the model of the International Fund for Ireland. Meetings shall be held alternately in the two locations. If the United States and Great Britain provide funding, a representative

56. The purpose of this clause, common among multilateral institutions, is to limit the power of the President relative to the Board and prevent the CEO from overwhelming the Board's oversight. In some institutions the Board appoints an Executive Vice President and possibly a third staff member immediately below the President. This option would allow the President to be from the south and the Executive Vice President from the north, or vice versa.

office shall also be established in New York City[57] and another in London for purposes of raising funds and maintaining communications from, and visibility of, the IDBank among investors. Office space and furnishings in any location shall be modest, befitting an agency that is operating primarily in conjunction with existing organizations.

Functions and Operations

Lending and Loan-Guarantee Functions and Operations. The IDBank shall be empowered to make and guarantee loans, but shall be encouraged to carry on its lending functions through existing institutions wherever possible so as to minimize the need for in-house staff. It will make or guarantee loans or equity investments in private companies with proposals for projects that appear likely to create jobs among the residents of N.I. or the Republic.

Although the IDBank will seek equity investments in startup cases as a means of protecting its capital and obtaining an adequate return on it, it shall also seek to minimize responsibilities associated with ownership by aggregating its equity investments and periodically selling them.

The objective of the IDBank's financial policies will be to provide the capacity to be an efficient intermediary of short- and long-term funds borrowed from international capital markets to support development in Ireland, north and south. The maintenance of a strong investment-grade rating from the bond-rating services is critical to shareholders, since it advertises the IDBank's financial strength, permits the IDBank to provide loans at lowest cost and ensures the IDBank's continued access to capital markets.

The Board of Directors shall determine such IDBank guidelines as the lending rate for loans, required collateral and loan-to-value rates, and repayment and grace periods. They shall be enforced by the IDBank's loan officers and participating financial institutions.

Priority for Peace-Related Loans. The IDBank should be overt about its peace-making mission by giving priority to loans that encourage growth of businesses that would replace the reduction in economic activity resulting from cuts in security-related expenditures. Such loans should be identified in reports.

Fair Lending and Employment. The IDBank shall engage in fair lending practices, excluding no applicant based on religious or political background. The IDBank shall ensure through every feasible means that lenders and loan recipients adhere to fair-employment

57. Since the primary purpose of the U.S. office would be to market the Ireland Peace Bonds, New York City is most appropriate as the nation's financial center.

principles to be established by the Board of Governors to encompass the goals of the Fair Employment Act and other relevant standards.[58]

Non-Displacement Policy. No loans shall be made to companies that create jobs in N.I. or the Republic through displacing another member's jobs. This condition shall be implemented through guidelines to be established by the Board of Directors.

Foreign Investment Functions. By guaranteeing private debt, the IDBank will provide a mechanism by which small-business loans can be aggregated and made available to foreign investors as an all-island investment.

Advisory and Technical Assistance Functions. The IDBank shall maintain access to volunteer and professional advisers and encourage both the Republic and the N.I. Governments to obtain technically proficient studies of economic development issues that address the concerns of the whole island.

The IDBank will also facilitate the provisions of business advice, assistance, training and education to its borrowers and other businesses and for this purpose will seek volunteers from the United States and other countries to assist companies to identify, formulate, implement or operate profitable projects; improve the capability of institutions; formulate development strategies, plans and programs; undertake studies; promote technology; and foster regional cooperation by assisting in preparing regional studies or participating in or organizing regional conferences.

Capital Resources

The financial resources of the IDBank will consist of equity capital, comprising subscribed (paid-in and callable) capital from members and funds borrowed through Ireland Peace Bonds, and such changes as shall be determined by accumulated net income.

In making loans, the IDBank will provide funds either from its equity capital resources or from the resources provided by Ireland Peace Bonds. The proposed eventual capital structure for the IDBank after a 5-year startup period is illustrated in Chart 1 (p. 6).

Equity Capital. Initial equity shall consist of **paid-in** capital of $15 million ($5 million from each of three members) and **callable** capital of $15 million ($5 million from each of three members). A member's total capital subscription will be the sum of these two. The IDBank's equity resources will include the subscribed capital stock and any reserves or

58. This is essential if the IDBank is to be a success in the United States, particularly with Americans of Irish descent and other investors concerned about human rights issues.

surplus set aside from net revenues by the IDBank's management.

The subscribed capital stock is projected to consist of funds provided by four members, one of which shall be added after formation. Equity capital shall be subscribed 25 percent from the Republic of Ireland, 25 percent from the U.K., 25 percent from the United States, and the remaining 25 percent from the European Union or a fourth country or group of countries.

Ireland Peace Bonds. Additional long-term resources will be raised by selling Ireland Peace Bonds to private investors. These bonds will be partially guaranteed by callable ordinary capital. They may be further guaranteed to special classes of borrowers by member countries.

Limitations on Guarantees and Borrowings of the IDBank. The total amount outstanding of guarantees, participation in loans and direct loans by the IDBank shall not be increased at any time, if by such increase the total would exceed 100 percent of the unimpaired subscribed (paid-in and callable) capital of the IDBank, plus any reserves or surplus that may be created.

Internal Controls

Reports. Regular reports will be required on loans made and repayment records.

Audits. A strong **independent** audit function is required that will audit on a sample basis **both** loan recipients and intermediaries, as well as the IDBank itself.

Ombudsman. The Office of the Ombudsman shall be created as a way for individuals and organizations to report and investigate misuse of funds.

Underwriting Guidelines. Loans shall be made pursuant to published underwriting guidelines approved by the Board of Directors that specify such considerations as minimum loan-to-value ratios and collateral policies.

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COMPTROLLER OF THE CITY OF NEW YORK
1 CENTRE STREET
NEW YORK, NY 10007-2341
(212) 669-3500

ALAN G. HEVESI
COMPTROLLER

April 12, 1995

President Bill Clinton
White House
Washington, D.C. 20500

Dear Mr. President:

In July, 1994, when I travelled to Northern Ireland, I suggested that one of the ways Americans and others could be helpful to the emerging peace process was through an "Ireland Peace Bond" program to finance economic development in Northern Ireland and the Republic of Ireland.

Attached is a formal proposal outlining the peace bond program and the creation of an Ireland Development Bank. I am very hopeful, as are the many people who have indicated support for the concept, that this idea can be helpful in strengthening the peace process.

Ultimately, the creation and character of such a program will be determined by all the governments and parties now moving towards peace. May I request your support for the plan?

Many thanks.

Sincerely,

Alan G. Hevesi

Alan G. Hevesi

AGH:ejf

106507

June 22, 1995

Mr. Alan G. Hevesi
Comptroller of the
City of New York
One Centre Street
New York, New York 10007-2341

Dear Alan:

Thank you for your letter regarding a development fund for Ireland and Northern Ireland. As you know, my Administration is actively committed to seeking ways for United States to support the economic and political revitalization of Northern Ireland and the border counties.

I appreciate your involvement in this process, and I have passed along your suggestions to my staff.

Sincerely,

BILL CLINTON A 950626

BC/KMB/DNP/bws (Corres. #2276890)
(6.hevesi.ag)

cc: IGA
cc: Kathy Stephens, NSC

O.K.

EC
E.J.M.

June 14, 1995

Mr. Alan G. Hevesi
Comptroller of the
City of New York
One Centre Street
New York, New York 10007-2341

Dear Alan:

Thank you for your letter regarding a development fund for Ireland and Northern Ireland. As you know, my Administration is actively committed to seeking ways for United States to support the economic and political revitalization of Northern Ireland and the border counties.

I appreciate your involvement in this process, and I have passed along your suggestions to my staff.

Sincerely,

BC/KMB/DNP/bws (Corres. #2276890)
(6.hevesi.ag)

cc: IGA
cc: Kathy Stephens, NSC

JUN 20 1995

DRAFT OF BC LETTER

INITIALS: BC / kmb / dwf

DOCUMENT TITLE: /slr/p/hevesi.a.kb

DRAFT DATE / LETTER DATE: Jun 07 1995 /

CORRESPONDENCE #: 2276890

CLEAR WITH:

WHCC:

CC: IGA
Kathy Stephens, NSC

CORRESPONDENCE ADDRESSED TO:
Mr. Alan G. Hevesi
Comptroller of the City of New York
1 Centre Street
New York, New York 10007-2341

APPROVAL/ENCLOSURES/SPECIAL INSTR:
Admin. already is considering-so nothing new. Based on cullinane.f.kb

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Dear Alan:

Thank you for your letter regarding ~~the idea of developing~~ a development fund for Ireland and Northern Ireland, ~~which might seed the development of new technologies in cooperation with U.S. firms.~~ As you know, my Administration is committed to actively seeking ways ~~in which the~~ for United States ~~can~~ to support ~~both~~ the economic and ~~the~~ political revitalization of Northern Ireland and the border counties.

I appreciate your ~~bringing this idea to my attention.~~ involvement in this process, and I have passed along your suggestions to my staff.

JUN 13 1995

INTERGOVERNMENTAL AFFAIRS CORRESPONDENCE TRACKING SHEET

Date received in IGA 4/26/95

Correspondence referred to: MH JE JH LA

5.24.95

I. Presidential Response Needed -- Forward to Mark Miller, rm. 94

___ Brief Acknowledgement
___ Policy Response

KB

Check if applicable:

Personal signature requested ________

Return to IGA for final approval: MH JE JH LA

Approval needed by other staff or office: ______________

Background information to assist the writer drafting response:

____

____

II. Response from Marcia Hale -- Forward to Anna Winderbaum

III. Scheduling Request -- Forward to Bill Daley, rm. 110

___ regret ___ pending ___ prepare scheduling proposal

IV. Personnel Recommendation -- Forward to Ana Duque, Office of Presidential Personnel, rm. 135

V. Request for a Presidential Message (letter of greetings for an event) or Proclamation -- Forward to Carmen Fowler, rm 91

REQUESTING SUPPORT FOR HIS "PEACE BOND" PROPOSAL & CREATION OF AN IRELAND DEVELOPMENT BANK.

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OPID	CJ
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MEDIA	L
STAFF	PRESIDENT CLINTON PRCLIN
NAME	THE HONORABLE ALAN G. HEVESI
TITLE	COMPTROLLER OF THE CITY OF NEW YORK
STREET	1 CENTRE STREET
ADDR	NEW YORK NY 10007
SUBJECT	ENCLOSES A FORMAL PROPOSAL OUTLINING THE "IRELAND PEACE BOND" PROGRAM AND THE CREATION OF AN IRELAND DEVELOPMENT BANK
SUBCODE	CO081 PC BE FO004-03
RPTCODE	IG
ACTION	IGHALE ORG 950418
COMMENTS	CORRESP. REC'D IN ORM FROM MAIL ANALYSIS ON APR 14 95 ADDITIONAL CORRESP. DATED APR 12 95 TO POTUS FROM WRITER REGARDING SAME FORWARDED TO MARCIA HALE ON APR 26 95

I0601 * END OF DOCUMENTS IN LIST. PRESS ENTER OR ENTER ANOTHER COMMAND.

PROPOSAL FOR IRELAND PEACE BONDS AND DEVELOPMENT BANK

by Alan G. Hevesi
Comptroller of the City of New York

CONTENTS

Appendices

Executive Summary

Proposed Ireland Peace Bonds. The proposal calls for the issuance of Ireland Peace Bonds for the purpose of promoting economic development in Northern Ireland and the Republic of Ireland (especially the six "border counties"). The bonds would be marketed in the United States and elsewhere in two forms: (1) fixed-rate bonds in small denominations to individuals wishing to support the peace process, and (2) variable-rate bonds carrying competitive rates and marketed to institutional investors such as corporate and union pension funds.

Like Israel Bonds, the Ireland Peace Bonds would tap into the warm feelings of many Americans for a foreign country with which they have ties. The loyalties of Irish-Americans are different, but can be expected to provide some level of support for sales of Ireland Peace Bonds.

Proposed Ireland Development Bank. The proposed mechanism for issuance of Ireland Peace Bonds would be a new regional development bank, the Ireland Development Bank (IDBank). The IDBank would issue Ireland Peace Bonds as a way of leveraging the cash and guarantees of the members providing the IDBank's capital. Each member would subscribe capital, half to be paid in cash and an additional equal amount in the form of a guarantee.

The IDBank in turn would guarantee and/or purchase debt in businesses underserved by existing financial institutions. The IDBank would be held to strict accountability with detailed reporting, independent audits, and a board structure that encourages business-based loan decisions and checks against possible abuse.

The IDBank's governing body and policies should reflect the diversity within N.I. and be structured on a cross-community/cross-border basis. The IDBank should give priority to loans that encourage growth of businesses that fill the void created by cuts in security-related expenditures.

The IDBank would generally lend to small businesses and occasionally larger businesses where both a need and a potential for leveraging other funds exist. Loans would be originated by existing institutions. The IDBank would encourage these institutions to make loans by assuming a share of each loan's risk.

Ireland's Business Needs and the IDBank's Mission. Ireland is at a competitive disadvantage because it is relatively weak in entrepreneurial skills and access to capital. Establishment of a "Talent Bank" of American executives and management training can help address this entrepreneurial gap.

Although small businesses represent the greatest potential for job growth and economic expansion, both funding and managerial support for small businesses are lacking. A capital gap exists for smaller businesses because lending institutions in Ireland, N.I., and the European Union are conservative in their lending, somewhat inflexible in their requirements, and therefore usually averse to lending to small businesses. This situation has been exacerbated by the entrepreneurship gap as well as the political uncertainty and the threat of violence in N.I.

Some government-funded institutions exist to meet the capital needs of small businesses such as the Local Enterprise Development Unit, but they tend to be under-financed, poorly utilized, and overly conservative. Funds should be channeled to disadvantaged borrowers, disadvantaged neighborhoods, and export industries.

Proposed IDBank Organization and Financing. The IDBank would be owned by its constituent members, which could include the Republic of Ireland, the United Kingdom, the United States, the European Union and international financial institutions. Members would be represented on the board of directors.

A strong investment-grade rating from bond-rating services is critical to all shareholders and permits the IDBank to provide loans at the lowest cost and ensures the IDBank's continued access to capital markets.

A $400 million institution is envisioned after five years, starting with four members contributing $5 million each annually in cash and subscribing an equal amount on a "callable" basis. Thus each member will subscribe $50 million, consisting of $25 million in cash and $25 million in guarantees over a five-year period.

The IDBank is intended to supplement rather than replace existing private funding sources such as commercial banks or public institutions.

Proposed Lending and Loan-Guarantee Policies. The IDBank should not be an aid-granting institution; loans and guarantees must be serviced fully and on time.

The IDBank should (1) engage in cross-border and border-region connections, (2) facilitate new programs for community development, (3) address long-term unemployment and (4) provide special assistance to communities that have suffered directly from violence and from a reduction in security-related spending. Lending programs should address traditional sectarian imbalance in employment and use fair-employment principles as criteria.

The IDBank should look for ways to raise the success rate of businesses that borrow from it. To improve its return relative to the risk, the IDBank may want take equity positions in some companies to which it makes loans.

Foreword by Comptroller Hevesi

In July 1994 I visited England, the Republic of Ireland and Northern Ireland as part of my legal responsibilities to monitor compliance with New York City's fair-employment regulations, which extend to those who provide services to the City and to companies in which the City's $50 billion in pension-fund assets are invested.

During my mission I spoke of the great good will in America for the people of Ireland and of my belief that the American people, especially the millions who trace their ancestry to Ireland, would be very supportive of peace in Northern Ireland, particularly a peace built on principles of fairness, equity and justice. In this context I offered my idea for an "Ireland Peace Bond" program, loosely based on the Israel Bond program, with which I have some familiarity. The intent would be to market the Ireland Peace Bonds in the United States and internationally to raise capital for needed economic development and job creation in all of Ireland. Loans would be focused on the six counties of Northern Ireland and the Republic's six border counties, which have been especially affected by the troubles.

My proposal calls for the creation of an Ireland Development Bank to issue these bonds and to ensure that government and private contributions are productively utilized. The IDBank's primary mission would be to stimulate economic growth within Ireland's business communities by making job-creating loans that supplement existing economic-development programs of the British Government and Irish Republic.

Of great concern to those of us who have monitored the employment situation in Northern Ireland is that any project funded by the bond proceeds would have to be operated in compliance with rigorous fair-employment standards. In addition, a competitive return for investors would be required to encourage involvement by institutional investors.

All people of good will who follow events in Northern Ireland are hopeful that the current period of non-violence can be made permanent through good-faith negotiations to address the issues that divide the people of Northern Ireland and the governments of Ireland and Britain. Many observers believe that, should a negotiated settlement result in a permanent demilitarization, then investment on a scale heretofore unknown could follow.

After 25 years of violence, the promise of a permanent cease-fire makes real peace possible. The September 1994 cease-fire by the Irish Republican Army and the subsequent cease-fires announced by the loyalist paramilitaries have created opportunities for critically important negotiations and, subsequently, the possibility that the international community could play a vital role in strengthening Northern Ireland's civilian economy.

This proposal is intended to help make tangible the social and economic benefits that can result from peace. Promoting prosperity is a powerful method for ending division and conflict, especially if programs created for this purpose are administered with the full and equal participation of the different communities of Ireland. We must seize the opportunity that now presents itself.

In addition to suggesting creation of an Ireland Development Bank to issue Ireland Peace Bonds, this proposal calls for the establishment of a Talent Bank of American executives willing to volunteer to assist Irish entrepreneurs.

I am submitting the plan to the Clinton Administration, key Congressional leaders and community, business and governmental leaders in Ireland and the United Kingdom for their review. This proposal provides details and background so that the plan is accessible to those who are not familiar with international finance. We look forward to receiving the reactions of those with whom this proposal is being shared and ultimately to the adoption of the proposal.

Alan G. Hevesi
March 30, 1995

1. Proposed Ireland Peace Bonds and Development Bank

To assist in laying a firm foundation for peace in Northern Ireland and the Irish Republic, the Comptroller of the City of New York has proposed the creation of Ireland Peace Bonds. The Bonds would be sold to individual and institutional investors around the world, especially to those of Irish heritage who would appreciate the opportunity to support peace in Ireland. The proceeds from the bonds would be used to promote economic development in all communities in the north and south. Just as poverty and deprivation often contribute to hatred and bigotry, the hope is that prosperity can lead to cooperation, tolerance and understanding.

The Peace Bonds would be issued by a new regional development bank, the Ireland Development Bank ("IDBank"). The IDBank would use the proceeds of the bond sales to make loans to businesses to help create jobs. The main focus of the IDBank would be to provide or guarantee loans to small businesses or other businesses currently underserved by existing financial institutions.

Since the Peace Bonds must be repaid and must pay a market interest rate, a bank-like environment is required. The funds must be invested and provide an appropriate return utilizing a structure that provides for strict accountability for use of the funds. This is the function of a development bank. It would have (1) detailed reporting requirements, (2) a strong independent audit function, and (3) a board structure that encourages business-based loan decisions and checks against possible abuse.

A regional development bank differs from a grant-making institution in at least two important ways:

- First, unlike one-time grants made by governments or their agents, capital deposited by participating governments in a regional development bank can be leveraged by issuance of bonds. With equity guarantees of $200 million (of which half would be paid in), the IDBank could grow to $400 million in assets and still be positioned to engage in aggressive lending.

- Second, we believe a development bank is most likely to steer the funds to the most productive uses, and thereby is most likely to lead to the *creation of new jobs*.[1]

The IDBank's governing body and policies must reflect the religious and political diversity within N.I. and on the island as a whole and as a regional development bank it

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1. Appendix A describes three examples of multilateral development banks.

must be structured on a cross-community/cross-border basis. It thereby achieves the goal of Article 9 of the Downing Street Declaration, "to create institutions and structures which, while respecting the diversity of the people of Ireland, would enable them to work together in all areas of common interest."

The IDBank also achieves the goal of *A New Framework for Agreement*, paragraph 24, which discusses "North/South Institutions:"

> Both Governments consider that new institutions should be created to cater adequately for present and future political, social and economic inter-connections on the island of Ireland, enabling representatives of the main traditions, North and South, to enter agreed dynamic, new, co-operative and constructive relationships.[2]

The IDBank should be overt about its peace-making mission by giving priority for loans that encourage growth of businesses that would replace the reduction in economic activity resulting from cuts in security-related spending.

As a basic element, the IDBank should provide for enough specificity in the use of the funds to ensure that its loans will work toward peace and reconciliation through economic development, **and can be seen to do so.**

These loans would be of two kinds:

1. Incubation of small businesses through a small-loan program that would be administered through banks and community-based organizations that would also provide business training and backup services to be financed by government programs. It is envisioned that some existing community-service organizations will be trained to originate small loans.[3] **This "microbanking" approach is recommended as the initial focus of the IDBank.**

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2. *A New Framework for Agreement: A Shared Understanding between the British and Irish Governments to Assist Discussion and Negotiation Involving the Northern Ireland Parties,*" February 22, 1995, p. 6.

3. Some commercial bank executives in Ireland claim it is not cost-effective to make small-business loans of under £15,000. Yet experience in other countries suggests that aggressive lending to small businesses can help create entrepreneurs and revive communities. Muhammad Yunus, founder of the Grameen Bank in Bangladesh, pioneered the small-loan concept; he reports that he now has branches in 35,000 villages, with $500 million in loans to 2 million borrowers, 98 percent of whom repay on time. Barbara Crossette, "U.S. to Help Girls in Poor Lands Stay in School," *The New York Times*, March 8, 1995, p. A-12. In the United States, Chicago's South Shore Bank is considered a pioneer in community lending, frequently cited by President Clinton. The South Shore Bank has been a consultant to the Shannon Airport Authority.

2. Loans to larger businesses where a need and the potential for leveraging other funds exists.

The IDBank would probably not seek to make loans directly but would work through existing institutions by sharing the risk and the return to support loans that would otherwise not be made. This could be done by guaranteeing 30 percent, 70 percent or even 80 percent of a loan processed by a bank or other financial institution. This guarantee could permit these loans to be bundled like mortgages and financed by long-term debt. In the United States, the Small Business Administration provides such a guarantee and the Comptroller's Office has used the guarantees and the ability to resell the loans to convince several banks to begin making small-business loans.

Development planning is not envisioned as the role of the IDBank. Another entity, a development authority, could be introduced at the same time for this purpose, working under the direction of the N.I. and Republic of Ireland governments to harmonize governmental activities toward common economic goals.

2. Ireland's Business Needs and the IDBank's Mission

Ireland is at a competitive disadvantage in world markets because it is relatively weak in entrepreneurial skills and access to capital.

The Entrepreneurship Gap

The existence of what we are calling an "entrepreneurship gap" is alluded to early and often by many officials in N.I., the Republic, and people in the United States familiar with the economies in N.I. and the Republic, when the topic of economic development arises.[4]

Observers familiar with business practices in Ireland say that the entrepreneurship gap can be described or explained by the following phenomena:

- A "grant mentality," particularly applicable to N.I. Observers on both sides of the border say that as a ward of Westminster, N.I. residents have come to expect grants as part of the process of securing political support. This has had the effect of undermining public accountability for funds provided to N.I. enterprises. It has also created resistance to programs that require stringent accountability.

- A sense of despair, some believe, among Catholics in N.I., stemming from years of discrimination against them.

- More broadly, a history of Irish values that serious scholars have argued conflict with entrepreneurial goals. Some 19th-century British economists argued with conviction that a prerequisite for economic development in Ireland would be "a taste for other objects besides mere food."[5] But the rapid outward flow of emigrants from the countryside to the cities and from Ireland to wealthier countries in the 19th and 20th centuries suggests that the alleged Irish enthusiasm for "non-economic social values"

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4. Symptoms of the problem are suggested by the N.I. Department of Economic Development's Local Enterprise Development Unit (LEDU), which says that in FY 1995 it was able to use only 80 percent of its funds in one seed-money operation. Although LEDU believes the potential for business startups is strong, it has found it a problem to find businesses that have done all their homework and are ready to go. Interview with Kevin McCann, Regional Operations Director, LEDU, Belfast, February 13, 1995.

5. R. D. C. Black, *Economic Thought and the Irish Question* (Cambridge University Press, 1960), p. 137. Examples of economists and other writers who wrote along these lines: David Ricardo, Robert Malthus, Sir Horace Plunkett. Many writers were Protestants who blamed Catholicism and its clergy with varying degrees of invective for destroying incentives among the poor to better their lot; Max Weber's *The Protestant Ethic and the Spirit of Capitalism* enshrines this point of view. But Arthur Griffith, in *United Irishman*, July 5, 1902, preferred to attribute the relative apathy toward wealth of the Irish not to Catholicism but to the nation's Celtic origins, its "Celtic heart."

has declined if not disappeared; apathy toward large wealth may simply be resignation to the fact that few people in Ireland have successfully climbed out of poverty to make a fortune.[6]

Whatever the origins of the gap, resources need to be devoted to closing it and encouraging entrepreneurship. Small businesses that have become used to obtaining limited grants from governments need to be encouraged to prepare business plans so as to open up access to the much larger potential of conventional loans and equity.

The gap can be met at the secondary-school level with programs like that of the U.S. Junior Achievement Program,[7] government training programs and exchanges with countries like the United States that permit N.I. students to learn from U.S. entrepreneurship and U.S. business executives to bring their expertise to N.I. businesses. This could be tied to the "Talent Bank" suggested at the end of this proposal.

Business Capital Gaps in Ireland

U.S. experience suggests that small businesses have a key role to play in job creation and in providing a mechanism by which entrepreneurship can thrive. Capital gaps appear to exist in the financing of small businesses[8] and other categories of businesses, according to sources in N.I. and the Republic of Ireland.

U.S. Experience: The Importance of Small Businesses. An examination of new jobs created in the United States reveals that small- and medium-sized businesses can be very important job creators. For example, small enterprises with fewer than 20 employees were responsible for 9 out of every 10 net new jobs in the first half of the 1980s. The rest of the net new jobs were accounted for by medium-sized enterprises with 20 to 99 employees.

In the 1986-1988 period, small firms with 1-19 employees were again responsible for the big growth in jobs (1.5 million). During that same period, only .6 million new jobs were created by firms with 20-99 employees, and .7 million by firms with 100-499 employees. However, during that period large firms (500 or more employees) interrupted their

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6. Mary E. Daly, "The Economic Ideals of Irish Nationalism: Frugal Comfort or Lavish Austerity?", *Eire-Ireland*, 29:4 (1994), pp. 96-97.

7. In both the Republic of Ireland and N.I., many schools have entrepreneurship programs that encourage young people to set up their own businesses and provide training in business basics. The Republic program is sponsored by Smurfit (Dublin) and involves many students.

8. "Small business" is defined in Ireland as establishments with fewer than 50 employees.

downsizing to add 3.4 million new jobs.[9]

In the 1988-1990 period, U.S. small businesses with fewer than 20 employees added 4 million new jobs. *Medium-sized and large firms lost jobs.* The bulk of the new jobs, 2.1 million, were in services.[10] The Small Business Administration has not released new job-creation data since 1990.

We believe small businesses are essential for long-term job creation in a community because home-grown small businesses are more reliable as long-term employers than branches of large firms.

Measures are needed to support potential entrepreneurs with little or no entrepreneurial background but with good ideas and business acumen. This requires both startup funds, adequate training and some screening. Hence one focus might be on startups and "small-business incubators."[11] Once small businesses have been formed, they need capital to grow. Providing such capital should be a major role of the IDBank.

Although small businesses represent the greatest potential for job growth and economic expansion in the Republic and in N.I., unfortunately both funding and managerial support for small businesses are lacking.

Northern Ireland Capital Sources. Capital gaps exist in N.I. in that some kinds of businesses -- larger ones, for example, or those in certain types of business -- find it easier to borrow money than others. Projects by small businesses have special difficulty in getting off the ground because the terms and conditions of loans often cannot be met. This is explained by the uncertainty and violence that has clouded N.I.'s recent past, and by the entrepreneurship gap already discussed.

Some would include in the equation the innately conservative lending practices of the four N.I. commercial banks -- the Ulster Bank, the Northern Bank (the only one that operates exclusively in N.I.), First Trust Bank (a merger of the Allied Irish Bank in N.I.

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9. Small Business Administration, *The State of Small Business, Report to the President*, 1991, p. 44, and *Statistical Abstract of the U.S. 1993*, Table 867, p. 541.

10. *Statistical Abstract of the U.S. 1992*, Table 851; *Statistical Abstract of the U.S. 1993*, Table 867.

11. This approach has been endorsed by Bill Jeffrey, the regional chair of the Federation of Small Businesses in N.I. He believes that the best approach is to focus on industries that have the capacity to export, and provide incubation facilities to encourage their creation and growth. It is a concern however, that startup firms pose an even greater risk of failure than small existing firms. Consequently, the IDBank may form a component to take a minority equity ownership position of 30 to 40 percent in the startup firms that it elects to fund, as a way of offsetting the likely heavy loss rate. The N.I. Innovation Program may be used as a model in this regard.

with the former Trustees Savings Bank, known as TSB) and the Bank of Ireland.

The banks are reluctant to make loans to small businesses[12] because many of these firms cannot meet the bank requirement of being fully secured with one dollar of equity or property for every dollar of the loan and having a letter of guarantee. Requirements for startups are especially stringent. Applicants must routinely be able to prove they have previously run a successful business, showing such evidence as past bank statements and audit opinions.[13]

The commercial banks consider loans in the £15,000 to £50,000 range to be small business loans to be handled by the branches. At the Bank of Ireland, loans of between £50,000 and £500,000 are processed centrally by the small business department. The middle-range and large-corporation loans (£500,000 and up) are handled by the corporate department in Belfast. From the banks' perspective, they find that the cost of examining applications for loans of under £15,000 is too high to justify the return. They feel that in many cases loans of this size must be secured with personal guarantees and that in many cases personal credit from suppliers or credit-card companies can handle the problem.[14]

On the other hand, some government-funded institutions exist to meet the capital needs of small businesses in N.I. The main one is the Local Enterprise Development Unit ("LEDU"),[15] a UK-N.I. government agency, set up in 1971 within the N.I. Department of Economic Development to assist small businesses (defined as 50 or fewer employees) by issuing grants and some loans, and providing a modicum of managerial and technical assistance. LEDU tries to serve as a one-stop shop for any other small-business funding.[16] LEDU provides three types of financial assistance to startup companies: (1) encouragement of startups by individuals (whether employed or not), with training in business and assistance that ranges from £500 to £4,500; (2) aid to startup businesses serving the N.I. market solely, with maximum assistance of £16,000; and (3) aid to startup businesses that export from N.I.,

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12. Small businesses in Ireland are considered the most important job creators; see, for example, statements of the Northern Ireland Economic Research Center, *The Guardian*, January 31, 1994.

13. Interview with Ann Busby, lending officer at the Bank of Ireland, December 29, 1994.

14. Interview with David McGowan, Bank of Ireland, Belfast, February 13, 1995.

15. Interviews with Elspeth Mackey, Information Officer, LEDU, December 29, 1994 and January 6, 1995 and with McCann, previously cited.

16. Interview on December 29, 1994 with David Webb, Department of Economic Development. Any government funds to small businesses must go through LEDU. Webb also noted that LEDU will direct small business firms to 30-40 local enterprise agencies (LEAs) in N.I. The LEAs are autonomous and support small firms by providing seed funding, small loans (usually up to £5,000) for work-space facilities and central administration.

with maximum assistance normally of £40,000.[17] The grant amount is 40 percent of overall projected costs. A minimum 20 percent financial commitment is needed from the entrepreneur. This amount can be borrowed.

Compared to the overall challenge of promoting small business, LEDU's financial resources are limited.[18] On the financial side, as noted, support to any one startup company is ordinarily limited to a maximum of £40,000. On the technical-assistance side, some argue that LEDU provides inadequate managerial, technical and administrative support to its clients.[19] Non-manufacturing jobs generated by LEDU are said to be of low quality and to displace existing jobs.[20] LEDU concedes it doesn't do much for small businesses outside of the manufacturing sector that is its focus.[21] The *Irish Times* concluded that only 23 percent of jobs created were still in place after one year,[22] but LEDU asserts 70 percent of jobs are still in place after 5 years -- a wide disparity of assessments.[23]

Strong sales growth in external markets (exports) is LEDU's prime focus. LEDU considers new business growth to be the most important contributor of actual job creation. In FY 1994, LEDU's budget was £31.4 million, of which £18.4 million was for grants, and £5.6 million was for "other specific initiatives" (managerial and technical support). Together, LEDU allocated £24.0 million of its budget to financial support of small and startup businesses -- 8 percent to pre-startup programs, 36 percent to startups, 24 percent to established businesses, and 32 percent to growth businesses. Export potential exists at each stage of development.[24]

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17. A large-scale project might secure more than £500,000, although loans of more than £40,000 have not yet been made. Interview with McCann, previously cited.

18. Ronnie Scott, Northern Ireland Economic Research Center, and Elspeth Mackey, Information Officer, LEDU, interviews on January 5, 1994. LEDU's annual budget for FY 1994 was £31 million, of which a portion was used to distribute grants. During that same year, LEDU assisted 6,648 companies with a total of 28,000 employees.

19. Interviews with Ian Morrow, Marketing Director, N.I. Innovation Program, January 5, 1995; and Bill Jeffrey, Regional Chairman, Federation of Small Businesses, January 4, 1995.

20. Ronnie Scott, Northern Ireland Economic Research Center, *Irish Times*, December 6, 1994, Business and Finance Section, p. 17.

21. Interview with McCann, previously cited.

22. *Irish Times*, May 25, 1994, Home News, p. 3.

23. Interview with McCann, previously cited.

24. Of startup businesses, 30 percent sell a very small amount of output externally, but 90 percent of the growth businesses sell exports, which account for 42 percent of sales. LEDU's task is to help companies sell actively to external markets, thereby increasing the proportion of their sales. The two most important external markets for

In FY 1994 LEDU assisted 6,648 companies, creating 5,905 jobs, or fewer than one job per company assisted. Of the jobs, 2,465 were created from startups and 3,440 from expansion of existing businesses. Subtracting losses from contractions and closures, 1,630 net new jobs were created. This is fewer than one job for every four companies assisted and a cost of £19,264 per job. On the other hand, the FY 1994 job-creation rate is twice the 730 net jobs created in FY 1993, and four times the number in FY 1991! (In FY 1992, 650 net jobs were *lost*.)

LEDU argues that even when businesses fail, the individuals involved have received valuable management training and are in a much better position to create, or participate in creating, another new company. LEDU businesses also added 1,300 new part-time employees in FY 1994. LEDU's aim is to give a high priority to the areas of greatest need and particularly the areas with highest levels of unemployment.

Although FY 1995 holds great promise for new business generation, LEDU was able to make only 40 loans at the £10,000 level, when it had funds to make 50 loans. Thus, in this range, during this period, LEDU feels there was no capital gap.[25]

The UK Government runs a Small Firm Loan Guarantee program in conjunction with the N.I. banks, but it has been poorly utilized. The reason is that to obtain a guarantee, a bank must ensure that an applicant's business plan meets stringent criteria. If the project is approved by the bank, the applicant may apply for a loan with a government guarantee of 70 percent of the loan (maximum £100,000) for a start-up business and 85 percent of the loan (maximum £250,000) for an established business (in operation more than three years). The minimum loan for either a start-up or an established business is £15,000, and additionally there must be no more than 200 employees involved in the business, it must be in manufacturing, and it must generate no more than £3 million a year. Small firms that have received funding through this guarantee program have a very high success rate; but only a few firms have been funded.[26]

LEDU clients (and N.I. companies generally) are Great Britain and the Republic of Ireland.

25. Interview with McCann, previously cited.

26. Very few businesses are approved for the Small Firms Loan Guarantee because many of these firms do not have sufficient security. Although the government will guarantee either 70 percent of a £100,000 loan or 85 percent of a £250,000 loan, many firms find it very difficult to provide adequate security for their respective share. Moreover, retail businesses are not eligible for the Small Loan Guarantee Program (e.g., agriculture, banking and finance, education, gambling, forestry, hair dressing, insurance, estate agents, medical and health services, night club, and travel agents). It is noteworthy that firms funded through the Guarantee program have a much higher success rate than LEDU-funded firms. Some of the reasons for this result may be that the banks are stricter in making determinations of the feasibility of projects, and additionally, the Guarantee-funded firms receive more capital and are more sophisticated with regard to business matters. This information is based on an interview with Bes Brown,

Another private funding source for small firms in N.I. is the Northern Ireland Innovation Program, which was created in 1989 with EC funding to assist small manufacturing businesses (under 50 employees, usually under 25 employees).[27] The Innovation Program receives investment funds from the EC and International Fund for Ireland and private subscriptions,[28] and receives administrative funds from LEDU.

The Innovation Program differs from LEDU; it is a venture-capital program. The Program takes a minority share (usually 30-40 percent) in the sponsored company and provides intensive advice and guidance. The success rate of these companies is very high (80 percent). A company may opt to buy out the shares that Innovation owns in it (usually after 5 to 7 years), but many opt not to. The total Innovation program investment depends on the individual situation and is usually around £50,000. The Innovation Program gives preference to projects in areas of high unemployment. The Innovation Program is currently working with 20 clients, many fewer than LEDU.

Other sources of small-business funding in N.I. are very limited. Also, the capital gaps are not limited to small businesses. The Director of the N.I. Innovation Program observed that a manufacturer of jeans in Armagh went out of business even though the firm had a **"full order book."** The company needed to expand but couldn't get the financing.[29] This admittedly anecdotal evidence suggests that while small business should be the IDBank's main focus, the option to fund middle-sized or even large businesses should be left open.

The N.I. Government previously provided financial assistance to large corporations setting up facilities in N.I. through the N.I. Development Agency (NIDA). While NIDA lost its support with the ill-fated financing of DeLorean and Learjet, other projects were not so immediately unsuccessful. Sperrin Textiles, for example, provided jobs for 10 years before it closed its doors. Warren Surgical was successful and was bought by a U.S. company.[30]

NIDA has been succeeded by the Industrial Development Board (IDB), which has succeeded in attracting BCO Technology and Fruit of the Loom to N.I. One issue for the IDBank to be concerned about is that it should not fund businesses that are simply displacing

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Marketing Department, First Trust Bank, January 5, 1995, and interview with McCann, previously cited.

27. All information regarding the N.I. Innovation Program is from a January 5, 1995 interview with Ian Morrow,, its Marketing Director.

28. Including £300,000 from the Presbyterian Church USA.

29. Interview with John Stringer, Director of the N.I. Innovation Fund, when visiting New York City, February 8, 1995.

30. Interview with McGowan, previously cited.

jobs in one country with jobs in another. That is, no businesses should be funded to create jobs in N.I. if it means a loss of a corresponding number of jobs in a member country, such as the Republic, the United States, or the U.K.

An example of the potential for large-company financing was provided by a Bank of Ireland executive in Belfast.[31] With the promise of peace and the potential for greatly increased tourism in N.I., at least five hotel chains or developers are interested in building hotels and the N.I. Tourist Board is encouraging their plans. A likely bottleneck is the financing, since the chains will look to N.I. sources for some or all of the funds to build the hotels and the amount of money needed, at about £30 million per hotel, will be substantial and all at once. The IDBank could make the difference in one or more hotels getting built.

Republic of Ireland.[32] The Republic of Ireland's banking system is similar to that of N.I. in part because historically, before the creation of the Republic's own independent currency, both systems were under the direction of the Bank of England.[33] A major problem with the retail banking system for entrepreneurial finance is that the standard minimum size of loan is £15,000 and the terms and conditions of bank loans can be difficult for small businesses to meet.[34]

The *Central Bank of Ireland* makes private loans only to retail banks, which are major sources of business financing but only for intermediate-sized companies. They make term loans with a maturity of seven years, sometimes longer. They provide mortgage and trade finance, syndicated lending, factoring, leasing, Section 84 financing (tax-based lending), and provide corporate finance advice. But the high minimum-loan size leaves a large gap for businesses that require modest infusions of capital.

Wholesale banks make large loans to larger companies, manage investment funds and provide corporate finance advice. *Building societies* accept deposits mostly from the public and provide long-term mortgages for private houses and some commercial mortgage loans.

State-sponsored financial institutions attempt to fill the gaps. The *Industrial Credit Corporation PLC* provides short, medium and long-term capital for Irish industry, and is the vehicle through which EIB lending is routed. The *Agriculture Credit Corporation PLC* provides short- to long-term credit facilities to farmers and agribusiness. *Trustee Savings*

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31. Interview with McGowan, previously cited.

32. Source: Price Waterhouse Information Guide, *Banking & Finance in the Republic of Ireland, 1994*, supplemented by interviews with banks in Ireland and New York City.

33. The Irish punt was linked to the pound sterling from 1921 until 1979.

34. Sources: Interviews with AIB, First Trust Bank and the Federation of Small Businesses in N.I.

Banks are private entities managed by boards of trustees and supervised by the Minister of Finance that accepts personal deposits through a network of branches. The *Post Office Savings Bank* accepts deposits and offers a range of tax-efficient investment schemes.

With funds from Irish investors and insurers, *Unit Trusts* and *Insurance Companies* provide equity finance to public and some private companies. The *Smaller Companies Market* provides capital to small, growth-oriented companies with or without a track record. *Credit Unions* make loans to individuals that are sometimes used to support small-business capital needs. *Individuals* also often finance small businesses -- either the entrepreneurs themselves if they have access to credit, or wealthier individuals in the community.

While all these sources of funding have played a role in assisting business startups and growth, the financial sector in the Republic, as in N.I., is considered more restrictive in its business lending than its counterparts in the United States or Britain. Capital gaps remain, especially in the six border counties[35] that have been most affected by the troubles.

In recognition of this gap, the Republic Government has recently allocated £300 million to fund small businesses, with the program to be administered by the Bank of Ireland.

Whatever the capital gap is today, it is likely to widen if efforts to close the "entrepreneurship gap" succeed. As new entrepreneurs start preparing their business plans, new and larger capital gaps are expected to emerge. Without evidence of adequate financial support for small businesses, new ideas from budding entrepreneurs will wither before they have been given a chance to bloom.

European Funding in Ireland: The EIB.[36] The European Investment Bank (EIB) has experience with funding small and medium-sized enterprises (SMEs) in the EC. Between 1989 and 1993, the EIB made loans of approximately ECU 22 billion for investment in more than 37,000 projects in the industry and service sector. In 1993, in response to the economic difficulties of that year in the EC, the EIB stepped up loans to SMEs, providing interest subsidies for loans of approximately ECU 1 billion. In addition, the EIB loaned ECU 1.6

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35. Five of the six border counties in the Republic are contiguous to N.I. -- Cavan, Donegal, Leitrim, Louth and Monaghan. The sixth, as defined by the European Commission, is Sligo, which is contiguous to Leitrim. At its northernmost point, Sligo is only a few miles from Ulster. The European Commission definition is incorporated in aid provided to Ireland in early 1995 as an extra "peace dividend." Lionel Barber, "EU Chief Comes Bearing Fresh Peace Dividend," *Financial Times*, February 27, 1995.

36. Sources: (1) Publications by the European Investment Bank: *The EIB: European Community's Financial Institution*, *Financing Europe's Future*, *Financing Facilities under the Fourth Lomé Convention*, *Annual Report 1993*. (2) Publications from the Consulate General of Ireland, New York City: *Information Note on the European Investment Bank*, *EIB Loan Activity Outside the Community*.

billion to 5,200 SMEs, 80 percent of which had fewer than 50 employees.

The EIB uses its own resources as well as specially budgeted capital for risky investments to fund *direct loans* for larger-sized projects either in the private sector, or public sector projects deemed indispensable to developing private projects; and *global loans* to national or regional financial institutions or development banks for indirect financing of privately owned SMEs. EIB funds are made available to intermediary institutions that maintain contact with the private sector and with governmental bodies, and are familiar with locally based markets and economic development priorities. Subject to EIB approval, the intermediary institutions channel the funds to individual business ventures. In 1993 Ireland received allocations for 8 SMEs from global loans.

How the IDBank Would Address the Gaps

The IDBank could contribute to closing both kinds of gaps facing small businesses in N.I. and by extension the six border counties in the Republic of Ireland -- both the entrepreneurship gap and the capital gap.

The most obvious way that the IDBank could help is by addressing the private capital gap that seems to exist in N.I. at all levels -- small, middle-range and large corporations. LEDU is helping to fill the small-business gap, although its programs appear to be costly in part because it doesn't have a critical mass of grants and management support to address fully the emerging needs of this sector.

By helping to build a critical mass of financial support for businesses in N.I. and the Republic, the IDBank could also help address the entrepreneurship gap, working with those who are encouraging the growth of entrepreneurship and helping to meet the capital needs that will follow from such growth.

To address successfully both gaps, the IDBank must implement appropriate lending-selection criteria and adequate funding tied to existing measures for management support. If necessary, the IDBank should be prepared to offer debt financing with an equity "kicker." Such creative measures that make loans more accessible to small firms need to be developed.

The IDBank's mission should be to boost community economic development in a peaceful environment. The IDBank would achieve its goal of promoting economic and social progress by lending funds, especially to companies that have benefitted from technical assistance programs created by the Irish Republic, U.K. Government or the European Union. The IDBank should give special attention to the needs of small enterprises and community institutions that assist in the growth of such enterprises, because the needs and opportunities for the region are greatest in this sector of the economy. According to the Northern Ireland

Economic Research Center, small businesses of fewer than 50 employees account for more than 30 percent of jobs and represent the region's best opportunity for job creation and economic expansion.[37]

Since Ireland's business needs include that of strengthening the entrepreneurial and business motivation and skills, the IDBank should cooperate with all public and private programs that have this purpose, without diverting significant staff resources from lending to this activity.

To minimize disruption to existing, unsubsidized areas of the economy, the IDBank should seek to channel its funds to (1) disadvantaged borrowers and (2) disadvantaged neighborhoods. It should pay special attention to areas in N.I. and the Republic that have high rates of unemployment, whether Catholic or Protestant, and the potential for high unemployment in areas that employ a large number of security personnel. Total employment in military, police and corrections in N.I. is reportedly more than 30,000.[38]

The traditional banking infrastructure in Ireland is well developed and could be useful in implementing lending programs. However, this traditional lending infrastructure does not always reach down to the community level. Therefore, the proposal encourages the IDBank to include a community development corporation structure with locally based offices for loan production, technical assistance and business advice, networked into either the headquarters of the IDBank or through commercial banks.

Additionally, the IDBank should create an advisory and review committee which could be comprised of representatives from local governments, nonprofit organizations, labor, and business. This committee could serve as a planning mechanism to harmonize economic development efforts on an island-wide basis.

37. *The Guardian*, January 31, 1994. Seamus Brennan TD, Minister of Commerce, said: "Ireland is a nation of small businesses; 98 per cent of our 160,000 businesses are small. Half of our private sector employment is in small business. These companies are the embodiment of enterprise and represent the greatest potential for job growth (particularly insofar as services are concerned)." From *The Small Business Development Conference*, Dublin Castle Conference Centre, September 27, 1994.

38. The British Information Services in New York City reported on January 5, 1995 that the total employment of police, army, Royal Irish Regiment and prisons is slightly less than 32,000. Of this number, the staff of the prisons is 3,350. These numbers are somewhat lower than the 38,000 people claimed to be directly employed in security in N.I. given by Mike Tomlinson in the 2nd Annual Frank Cahill Lecture, August 8, 1994, p. 14. It is possible that the 6,000-person difference is accounted for by private security personnel or by reductions in the number of people in security since August 1994.

3. Proposed IDBank Organization and Financing

The IDBank would be owned by its constituent members, which could include the Republic of Ireland, the United Kingdom, the United States and the European Union (EU). The members would be equity investors in the IDBank, playing a role like that of members of the World Bank and other regional development banks. Members would be represented on the board of directors[39] and can in this way monitor the fairness with which loans are made, paying special attention to fair loan policies, fair employment and equitable job creation in the two communities of Ireland.

The maintenance of a strong investment-grade rating from the bond-rating services is critical to all shareholders, since it reflects the IDBank's financial strength. A strong credit rating permits the IDBank to provide loans at the lowest cost and ensures the IDBank's continued access to capital markets.

The proposal envisions a $400 million institution after five years, starting with four members contributing $5 million each in cash annually during that period and subscribing an equal amount on a "callable" basis (i.e., a guarantee).

The gradual buildup of the institution over five years could be shown in pro forma cash flow statements, but preparation of credible statements of this kind must await the passage of legislation by participating members detailing the character of their involvement and the structure, governance and operations of the IDBank.

The prospective makeup of the IDBank's capital when mature is shown in Chart 1. It assumes for the sake of example the IDBank's fourth member (besides the United States, Republic of Ireland and U.K.) is the European Union. But it could as easily be Germany, Japan, South Korea (which has undertaken considerable investment in N.I.) or some other country, combination of countries or multinational financial institution.

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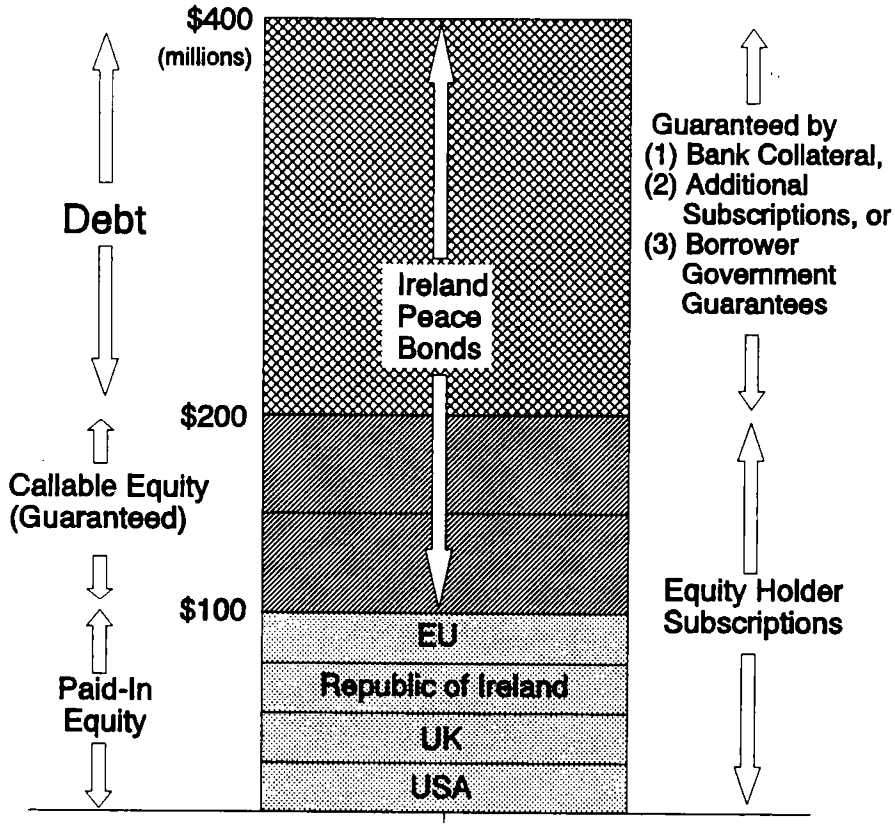
39. Other U.S.-supported funds -- for example, the funds created to support the member countries of the Former Soviet Union -- are basically bilateral institutions with U.S. and recipient-country representation. In this light, Congress is unlikely to approve money for N.I. without U.S. representation, especially in light of charges of lack of oversight of previous U.S. aid.

Chart 1

Proposed Capital Structure 2001, Ireland Development Bank



The IDBank is shown using the paid-in equity capital of $100 million and guaranteed callable subscription of $100 million as a base from which to borrow in the capital markets, through the issuance of Ireland Peace Bonds ("IPBs"), as of 2001. Chart 1 shows a one-to-one ratio of debt to subscription (or a three-to-one ratio of debt to paid-in equity). It would probably not be advisable to go beyond this ratio given the nature of proposed lending activities described in the next section.

The IDBank is intended to supplement rather than replace existing private funding sources such as commercial banks, or public institutions like the N.I. Department of Economic Development (notably its previously mentioned arm, LEDU), the International Fund for Ireland and the European Investment Bank.

4. Proposed Lending Policies

The IDBank should not be an aid-granting institution; loans and guarantees must be serviced fully and on time. The lending program should have clear criteria, with active community involvement. Lending targets should be prioritized according to degree of economic viability and geography. On the latter score, the level of local deprivation and unemployment in an area should be taken into account as factors that make the IDBank's role more essential. Projects should be encouraged that (1) engage in cross-border and border-region connections, (2) facilitate new programs for community development, (3) address long-term unemployment, and (4) provide special assistance to communities that have suffered directly from violence.

The lending program must also address the traditional sectarian imbalance in employment, by seeking better representation overall and within management ranks. The bank must factor in specific and measurable fair-employment principles as a criterion in deciding whether or not to issue a loan. Enterprises that do not satisfy these and other loan criteria should be given practical recommendations on how to comply with the IDBank's policy.[40]

The IDBank is expected to consider both privately originated projects and projects that have a mix of public and private funds. The potential for leverage with EU funding should be sought.

The Charter of the IDBank[41] should include provisions to support progress on the difficult social/political issues facing the people of Ireland. For example, the IDBank should:

- Engage in fair lending practices, excluding no applicant based on religious or political background, with adequate monitoring and review.

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40. While unemployment rates among Catholics are unquestionably higher than among Protestants, some care must be taken in assessing unemployment rates. One article reports that 43 percent of Catholic men aged 20 to 60 are unemployed, compared with 26 percent of Protestants ("World Businessmen View Investments as Key to Irish Peace," in *The Christian Science Monitor*, Economy Section, December 19, 1994, p. 8). But according to British Information Services, the 1991 Census shows that the Catholic male unemployment rate was 28.4 percent and the Protestant rate was 12.7 percent, a ratio of 2.2 to 1, down from a ratio of 2.6 in 1981, but higher than the 1.8 figure for females. In an article entitled "Northern Ireland's Catholics: We're Not Going Back" in *The Economist* ("World Politics and Current Affairs," July 2, 1994, p. 55), the proportion of Catholic males unemployed in N.I. is reported as the highest of any region in Britain, while unemployment among N.I.'s Protestants is said to be the lowest. In some parts of Belfast and Derry, only two men in ten are reported to have a job. High unemployment should be the focus of remedial programs, whether in Catholic or Protestant areas.

41. See Appendix B.

- Ensure that loan recipients adhere to fair-employment principles to be established by the Board of Governors.

- Target capital to strengthen the civilian economy, replacing security-related activities with new employment in a private peace economy.

- Offer incentive loans to those who employ and train people laid off because of the shifting priorities and policies resulting from peace.

- Target investment capital to communities with higher-than-average long-term unemployment rates with the goal of creating new jobs.

- Use Ireland Peace Bond proceeds for economic-development projects in N.I. and in the six border counties in the Republic to encourage economic growth and island-wide harmony.

- Focus on the needs of small- and medium-sized businesses and seek to encourage the growth of microbanking institutions that provide both small loans and expertise.

If, as appears to be the case, the economic requirements of Ireland point toward expansion of credit potential for small businesses, the IDBank could devote its resources to this purpose by making loans or guarantees[42] either directly to small businesses or indirectly through banks and other lenders to small businesses.

The IDBank might add loans for broader purposes (such as infrastructure investment) when its financial structure is strong. Loan-making skills for community needs require a different kind of expertise than will initially be available at or to the IDBank.

Because of high failure rates among small businesses, especially startups, the IDBank must work to raise the success rate of the businesses that borrow from it. This will clearly take careful planning. The IDBank must pay careful attention both to selection of borrowers (or of intermediaries who will in turn make loans) and to provision of training and support programs to the borrowers to ensure that the loans are made to businesses with a high likelihood of repayment.

One way for the IDBank to offset partially the high risk of small business loans would be to take equity positions in some companies to which it makes loans. While most small-

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42. The U.S. Small Business Administration has an extensive small-business loan guarantee program, guaranteeing up to 80 percent of the losses on small-business loans made by banks. The U.K. system works the opposite way, as the banks provide the guarantees (for a fee that comes out of the loan) and the government provides the funds.

business startups fail within a year or two, a few become large successes. By taking equity positions, the IDBank can use the high returns from the "winners" to offset non-performing loans. Venture capitalists typically lend money to small businesses in return for equity participation -- i.e., ownership of a portion of the business in addition to or instead of a straight loan. Some argue that it is inappropriate for a development institution to ask for participation in borrowers' equity. When development banks make loans with government guarantees, there is no need for the banks to take equity. When there are no such guarantees, the fact that 60 percent of small businesses fail in their first year[43] must be taken into account. The European Investment Bank,[44] the multilateral International Finance Corporation and the various U.S.-created funds for the countries that were members of the former Soviet Union do take equity positions.

To have maximum impact, the IDBank must look for loans that are not currently being made, for example loans to small companies that are not now "bankable." To succeed with that type of lending, the IDBank (1) must encourage the provision of business assistance as well as financing, and (2) may have to take equity participation so that the 10 percent or so of businesses that become significant winners pay for inevitable losses from failing companies.

Therefore the Comptroller proposes that equity participation be included as an option if needed to ensure the solvency of the small-loan concept.

43. This figure seems to correspond to experience in both the United States and elsewhere in Europe.

44. See Appendix A for a description of this bank and its use of equity.

5. The Role of, and Markets for, Ireland Peace Bonds

Simply by matching its $200 million paid-in and guaranteed equity-capital base with borrowed funds on a 1-to-1 ratio, the IDBank could double its assets to $400 million, as was shown in Chart 1 and still be in a position to undertake some risky loans. Since half the equity would be in the form of guarantees, the amount to be borrowed would be $300 million, a 3-to-1 ratio to paid-in equity.

Marketing Ireland Peace Bonds is expected to be facilitated by the fact that many Americans who trace their ancestry to Ireland retain their ties to Ireland and support peaceful settlement of north-south disagreements and cross-community hostilities. The promise of peace will allow Americans to build on the strong business, trade, political, and cultural links they already share with northern and southern Ireland.

As economic, political, and social conditions in N.I. continue to improve, investor confidence should grow, especially in long-term financial instruments. Institutional investors will be attracted if the bonds are guaranteed and the return is competitive, as is the case with other internationally recognized regional development bank debt instruments. To attract the largest possible market, bond denominations should be targeted to different markets. The IDB should cooperate with any efforts to create a secondary market for its securities.

In assessing the markets for Ireland Peace Bonds, we first review the experience of the sales of Israel Bonds in the United States and then examine the transferability of this experience to the potential sales of Ireland Peace Bonds.

Israel Bonds

The Israel Bonds program was launched by Israel's first Prime Minister, David Ben-Gurion, to infuse capital into the young nation and defray the costs of industrial, agricultural, and technological development. The State of Israel Bonds Corporation, based in New York City, supervises the issuance of about $1 billion in debt per year.[45] In 1951, $52 million of bonds were sold. Since then, more than $14 billion of Israel Bond securities have been sold. All bonds are guaranteed by Israel, which has made every interest and principal payment in full and on time throughout the program's history. The bonds are currently given an investment-grade rating (BBB+ by S&P and Baa-1 by Moody's). To date, Israel has paid out $7 billion to those who have submitted bonds for redemption.

All proceeds of bond sales go directly to the Israeli budget for infrastructure

45. Source: Saul J. Freedman, State of Israel Bonds, New York City.

development and immigrant absorption. Since 1990, the bulk of bond proceeds has been channelled into the absorption of new immigrants to Israel from such countries as those of the former Soviet Union and Ethiopia. Projects include:

- National Water Carrier System for agricultural self-sufficiency
- Oil pipelines
- Construction of roads, highways, harbors and port facilities
- Communication and transportation networks
- Construction of power plants and railroads
- Research and development for high-technology industries

Purchasers of Israel Bonds come from two main groups. Approximately two-thirds of bonds are purchased by individuals in Jewish communities around the world. The remainder are purchased by other individuals or enterprises such as financial institutions, insurance companies, state and local pension funds, and labor unions interested in expanding their portfolios with an investment demonstrated to be reliable and lucrative. Within these two main groups are subgroups to which the bonds are marketed, as shown in Table 3.

Table 3. *Types of Israel Bonds and Their Markets*

	Economic Development	**Floating Rate**	**Individual Variable Rate**	**Zero Coupon**	**Current Income**
Minimum Purchase	$25,000	$25,000	$5,000	$2,745	$500
Maturity	10 years	10 years	12 years	10 years	15 years
Interest Rate	Varies with issue	.75% below prime	5% + 1/2 excess of prime rate above 5%	Imputed	4%
Value at Maturity	$25,000	$25,000	$5,000	$6,000	$500
Target Market for Bonds	Retirees seeking a steady income	Long-term holders seeking income	Long-term holders seeking income	Gifts or retire-ment	Indivi-duals

Source: Table prepared by the NYC Comptroller's Office based on data from Saul J. Freedman, State of Israel Bonds, New York City.

To appeal to special markets within these groups, Israel Bonds offer certain special concessions. For example the minimum bond purchase for Individual Variable Rate bonds is lowered for Individual Retirement Accounts from $5,000 to 2,000. Also, employee benefit funds (Keoghs and union funds as well as Individual Retirement Accounts) may redeem their Floating Rate or Individual Variable Rate bonds earlier than otherwise required. Current Income bonds, after having been held at least one year, may be redeemed in Israel to help pay for tourist expenses, thereby encouraging tourism.

In 1992, Israel Bonds were purchased in the United States by 2,367 corporate, professional, and union pension and profit sharing plans; 193 corporations; 302 foundations; 94 institutions such as hospitals and universities; 169 banks and insurance companies; and more than 55,000 individuals.[46]

Transferability of Israel Bonds Experience to Ireland

Israel and Ireland have some important similarities. Both are small countries with long histories in which religion has played a significant role. Both have intensely loyal emigre populations in the United States. Both have recently embarked on negotiations for settlement of old conflicts. Both have populations of about 5 million people. Both have a gross product of a little more than $60 billion. (See Table 4.)

Table 4. *Republic of Ireland, N.I., and All Ireland, Compared to Israel*

	Republic of Ireland	***N.I.***	**All Ireland**	**Israel**
Population in millions, 1994	*3.52*	*1.57*	**5.09**	**5.05**
Pop. Growth, % per year, 1980-90	*0.3*	*0.3*	**0.3**	**1.4**
Pop. Growth, % per year, 1990-2000	*0.3*	*0.3*	**0.3**	**2.5**
Gross Product, $ billions, most recent year	*43* *(1993)*	*18* *(1992)*	**61** (1992-93)	**62** (1991)

Sources: *Statistical Abstract of the U.S. 1994*; Irish Consulate, New York City; British Consulate, New York City.

The major differences between Israel Bonds and the proposed Ireland Peace Bonds are:

(1) Israel Bonds have been issued by a single state, whereas the proposed Ireland Peace Bonds are to be issued by a multi-state entity; however, with multiple

46. Source: Development Corporation for Israel.

guarantees this should strengthen, not weaken, the salability of the bonds.[47]

(2) Israel Bonds have been issued mostly for public infrastructure, whereas Ireland Peace Bonds are being issued to support private initiatives. In the context of a bank depending on the private sector for repayment, it is readily acknowledged in Ireland that entrepreneurial roots go deeper in Israel, so that faith in Ireland's entrepreneurial skills is likely to be weaker than in Israel's.

(3) Individuals purchasing Israel Bonds often do so to help guarantee the nation's survival, as suggested by the fact that purchases of the bonds increase during periods of severe external threat. That life-or-death situation does not exist in the Ireland of 1995.

47. The United States has also co-guaranteed some Israel bonds not issued by State of Israel Bonds. Since the U.S. Government provides a full guarantee, this paper is considered gilt-edged. A limited guarantee of the kind proposed for the IDBank would not necessarily ensure gilt-edged quality for the Ireland Peace Bonds.

6. Getting Started: Proposed Talent Bank

A major task both for an economic development strategy for N.I. and the Republic, and for the IDBank itself, should be the broadening of entrepreneurial training and business education in Ireland. While the long-term institutional basis for such a program will take could take many years, individuals in Belfast are eager to benefit from U.S. expertise as quickly as possible.

It would be useful to create an entrepreneurial "Talent Bank" made up of business leaders in the United States who would be willing to volunteer some of their time and talents to assist small and medium-sized enterprises in Ireland with strategic planning, marketing or financial planning.

Such a Talent Bank might be operated by a government entity, a foundation, a private business organization or a university with some outside funding. It need not be expensive if the process of matching up names with companies is handled in Belfast or Dublin, or both.

Appendix A
Development Bank Models

To create jobs, we conclude that a development banking framework is optimal. To obtain funding from more than one constituent member, a multilateral institution is required. Brief descriptions of three multilateral development-banking models follow: (1) the global World Bank, (2) the regional European Investment Bank, and (3) the regional Inter-American Development Bank.

The World Bank

The International Bank for Reconstruction and Development (IBRD or World Bank) was created in 1944 as part of the Bretton Woods Agreement, which also created the International Monetary Fund. Each of the subscribing countries agreed to be responsible for a certain portion of the total capital of the institution. Some of this "equity" capital was called and paid, upon formation, to the World Bank. Additional capital was then raised in capital markets; the first bond was issued from the offices of the Federal Reserve Bank of New York.[48]

In theory, the money beyond government equity that the World Bank borrowed in the capital markets was guaranteed by the non-called portion of the capital subscription. But in practice, privately raised debt was backed by the credit of the World Bank. Loans against this additional debt were carefully watched to ensure that they were paid back without losses to avoid the World Bank having to go back to member countries to collect on the guarantee implicit in the existence of non-called subscriptions.

The European Investment Bank

The European Investment Bank (EIB) was formed in 1958 when the Treaty of Rome created the European Community. It is a non-profit institution that channels funds into investments promoting balanced development in the EC.[49]

The majority of loans are made to Member States of the EC, but, as of 1993, 9.6

48. Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington, DC: The Brookings Institution, 1973), p. 130.

49. As EC agreements move from economic to political issues, the EC is being renamed the European Union (EU). We use EC here because most of the agreements we discuss are economic in nature.

percent of total lending had been to less developed nations outside of the EC. The EIB also makes some direct loans to private individuals. The Bank has outstanding loans of ECU 98 billion,[50] and has a "Triple-A" bond rating.

The Bank's equity capital is owned by the 12 EC Member States. The EIB uses its own resources -- equity capital plus the proceeds of the Bank's borrowings -- and in addition "risk capital" from the European Development Fund or EC budget to make:

- *direct loans* for larger-sized private-sector projects (or public sector projects deemed indispensable to developing private projects); and

- *global loans*[51] to national or regional financial institutions or development banks in the African, Caribbean, and Pacific (ACP) states for indirect financing of privately owned small and medium-sized projects. EIB funds are made available to intermediary institutions that maintain contact with the private sector and with governmental bodies and are familiar with local markets and economic-development priorities. Subject to EIB approval, the intermediary institutions channel the funds to individual business ventures.

In 1993, EIB loans helped finance more than 5 percent of the EC's total capital investments.

Capitalization. The EIB borrows almost all of its financial resources on the capital markets in the form of public bond issues. In 1993, the EIB raised funding through 63 medium- and long-term borrowings, including 11 percent at floating rates.

The EIB made loans in 1993 of ECU 19.6 billion, and ended the year with a profit of ECU 9.1 billion. The EIB's total assets were ECU 61 billion. The portion of Member States' subscribed capital actually paid in is just over 9 percent (ECU 4.3 billion); the remaining callable 91 percent serves as a guarantee of the Bank's capital. Member States receive no interest on their subscribed and paid-in equity capital. The States may not use subscribed capital as security for loans they may receive. The EIB invests the paid-in equity to generate income to pay for its own administration, thus avoiding the need for a separate item in the EC budget for expenses.

As of 1993 the Republic of Ireland had provided 0.67 percent of the Bank's subscribed capital. The Republic's paid-in capital was IR£14 million,[52] and the Republic

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50. 1 ECU = $1.25.

51. Global loans are similar to our proposed targeted loans to designated areas in Ireland.

52. 1 Irish £ = $1.60.

had also contributed IR£0.7 million to the Bank's reserves.

Special Loan Program for N.I. On February 27, 1995 the European Union announced a new ECU 173.9 million ($222.6 million) aid package targeted at N.I. and mostly devoted to strengthening cross-border links with the Republic. The package is separate from the ECU 300 million ($384 million) "peace dividend" the European Union agreed to in December 1994.

The new aid package for N.I. is designed to support local initiatives in reinforcing the cease-fire between the Protestant and Catholic communities and to underpin efforts by the London and Dublin governments to reach a constitutional settlement. The money will be spent over three years from 1995-98 with up to 80 percent to be spent within N.I. and the remainder in the Republic's six border counties. The EU's regional commission has recommended that at least 15 percent of the total go to cross-border activities. The funds will provide 75 percent of the spending, with the rest coming from the Republic and U.K. governments.[53]

Loan Application Process. The EIB does not require a standardized loan application but asks applicants to submit the following:

1. General information about the project.
2. Financial data such as balance sheets, financial statements, and breakdown of costs.
3. Legal documentation of its principal partners and promoters.
4. Technical data regarding production capacities, site development, and equipment.
5. Organizational structure, and work operations.
6. Detailed estimate of investments and itemization of proposed expenditures.
7. Financing plan for the project.
8. Policy on the return of the project's capital.
9. Economic data showing present and forecasted supply, demand, prices, and position of company in relation to competitors.
10. Expected production levels.
11. Number of jobs to be created.
12. Role the project will play in development of the country's economy.

Types of Loans. The EIB provides loans both from its own resources obtained from its own borrowings on the capital market, and through specially designated "risk capital" investments. Loans from the EIB's own resources must always be accompanied by funds obtained from the borrower's bank or other sources. These matching funds are often harder to obtain than the EIB funding. The EIB's loans may not cover more than 50 percent of a

53. Lionel Barber, "EU Chief Comes Bearing Fresh Peace Dividend," *Financial Times*, February 27, 1995, p. 8.

project's total cost.

Funds can be provided as

1. *Straight loans* to a company.

2. *Equity investment* in a company on behalf of the EC, usually combined with a loan from the EIB's own resources or with quasi-capital[54] assistance. This type of equity subscription involves minority holdings that are intended to be temporary and that are to be disposed of to venture-capital institutions.

3. *Quasi-capital assistance* to a company through
   a. subordinated loans, the interest and principal of which must be repaid only after other claims have been settled;
   b. conditional loans, interest and principal of which are linked in the loan agreement to the performance of the project based on such measures as a profit threshold or a target output.

4. *Pre-startup assistance* ("risk capital" assistance) for example to pay for studies to identify projects, or to provide assistance during the pre-investment and startup phases.

Loan Guarantees. While the EIB provides loan guarantees, in such cases the Bank requests security from the state in which the project is located, although the Bank will consider other proposed alternatives.

Loan Terms. The limit of a loan amount is up to half the gross project investment costs. The term of an EIB loan depends on the nature of the project being financed. For industrial projects financed by risk capital, the term is generally 10 to 12 years. For infrastructure projects, the term is usually longer, some up to 20 years.

The Bank's interest rates are independent of the type of project financed or the nationality or status of the borrower. Fixed rates are governed by the rates prevailing on the capital markets, the term of the loan, the currency in which the loan is made, plus a margin of approximately 0.15 percent to cover its own costs. Floating rates are determined quarterly. There are usually no other fees associated with the loan.

Loans from the EIB's own resources receive an interest subsidy from the European Development Fund. The subsidy is then reflected in the interest rate, so that the borrower ends up paying a below-market interest rate. For a project receiving quasi-capital assistance,

54. Quasi-capital is the European term for subordinated debt and conditional loans.

the interest rate will be less than 3 percent, while the term may extend up to 25 years.

The start of the repayment of the principal is normally deferred at least until the end of the construction period of the project. Repayment usually takes place annually or semi-annually.

Coordination with Other Agencies. The EIB coordinates some of its regional development activities with the EC's Commission, which provides grants from the EC's Structural Funds. The Bank also cooperates with the bilateral financial aid agencies in EC Member States, with financial institutions in the ACP states, and with international development aid organizations.

Principal co-financing partners include the Caisse Centrale de Cooperation Economique (France), the Commonwealth Development Corporation (UK), Kreditanstalt für Wiederaufbau and DEG/Deutsche Investitions und Entwicklungsgesellschaft (Germany), Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands), the World Bank Group (IBRD, IDA, and IFC), the African Development Bank, and the Inter-American Development Bank.

During FY 1994, the EIB established the European Investment Fund to guarantee financing for major infrastructure projects and smaller businesses.

Areas of Activity. The EIB has four main areas of activity.

- **Infrastructure:** ECU 12.5 billion in 1993 (over two-thirds of its financing) to investments contributing to the infrastructure of underdeveloped regions where per capita income is low and unemployment is high.

- **Telecommunication:** ECU 6.2 billion spent in 1993 on upgrading telecommunication and integrating networks Community-wide.

- **Environment:** ECU 4.4 billion spent in 1993 for developing natural resources, drinking water supply, waste collection, and environmental protection.

- **Industry:** The EIB has provided assistance to EC member countries to develop the competitiveness of their capital markets.

By 1993, the EIB had provided loans of IR£3,156 million to the Republic of Ireland. The majority of these loans went to state-sponsored bodies and to the Exchequer. (The figures for N.I. are combined with those for the U.K.)

Governance. The key features of EIB's governance follow.

- **Charter/Documentation:** The EIB is managed according to the provisions of the 1958 Treaty of Rome, the EIB's Statute, and general directives from the Governors.

- **Board of Governors:** The Board consists of one Minister from each Member Country (usually Finance Minister). It lays down general directives on credit policy, approves the balance sheet and annual report, decides on capital increases and appoints the *Board of Directors* and members of the *Management and Audit Committees.*

- **Board of Directors:** The Board consists of 22 Directors from the spheres of public sector banks, finance, economy and industrial ministries; 21 directors are nominated by the Member Countries and one by the Commission of the European Communities; 11 alternates are nominated by the Member Countries and one by the Commission. The Board of Directors is responsible for ensuring that the Bank is managed in accordance with the provisions of its charter. It has overall responsibility for deciding on loan and guarantee policies, raising funds, and setting interest rates.

- **Management Committee:** Members of this Committee control all current operations, recommend decisions to Directors and carry them out.

- **Audit Committee:** The Committee verifies that the Bank's operations and books are kept properly.

The Inter-American Development Bank[55]

Administration. The Bank has a Board of Governors, Board of Executive Directors, President, Executive Vice President, other officers and staff.

All powers of the Bank are vested in a Board of Governors that consists of one Governor and one Alternate appointed by each member country. The Board of Governors delegates all responsibility for operating to a smaller Board of Executive Directors, each member of which serves for a three-year term.

Member countries are grouped by region and agree upon the Executive Director and Alternate for their region, except for the three largest subscribers of capital -- the United States, Canada and Japan -- which each select their own Directors.

55. Information Statement of the Inter-American Development Bank, September 30, 1994, and interview with Dan Martin, Public Information/External Relations Bureau, IADB, January 1995.

Ordinary (Equity) Capital. The Bank has two kinds of equity capital: paid-in and callable. A member country's total capital subscription is the sum of its paid-in and callable capital. Total ordinary capital subscriptions from all member governments as of June 30, 1994 totaled $60.7 billion. The U.S. share of this ordinary capital is approximately 30 percent, Canada's is 4 percent and Japan's is 5 percent. The paid-in portion is 2.5 percent of a member country's ordinary capital subscription, so the callable portion is 97.5 percent. This portion of capital is called upon only if needed to repay guaranteed privately financed debt.

Capital Replenishment. Currently the Bank is on its 8th "replenishment." Every four years member countries must pay their share of ordinary capital and agree to have their callable capital available for guarantee.

Fund for Special Operations. Separate accounts are set up in a Fund with cash coming from member countries agreeing on a specific contribution. The Fund's total is currently $9.5 billion. This is equivalent to the World Bank's Concessional Lending Fund and International Development Association in that it makes loans to poor or developing countries with longer grace periods and maturities.

Loans. Priority is given to poverty reduction, modernization and integration and the environment. Loans from ordinary capital are given at market interest rates with maturities of 15 to 25 years and with 5-year grace periods.

"Soft Loans" from the Fund for Special Operations are given at interest rates of 1 to 4 percent, with maturities from 25 to 40 years and grace periods of 4-10 years. Soft loans are primarily for special projects and development in poor countries.

All loans are guaranteed by the borrowing country and there is no refinancing of loans. By the end of 1994 the Bank will have issued $68 billion in loans.

Constraints on Lending. The following constraints should be observed in the making of loans:

1. An applicant for a loan must have submitted a detailed proposal.
2. The Bank must take into account the ability of the borrower to obtain the loan from private sources.
3. Applicants must demonstrate that they are in a position to meet their obligations under the loan contract.
4. Rates of interest, charges and schedules for repayment of principal must be established that are appropriate for each type of the project.
5. The Bank must receive suitable compensation for its risk.
6. Loans made or guaranteed by the Bank must be principally for financing specific projects.

Appendix B
Proposed Ireland Development Bank Charter

Purpose

The Ireland Development Bank ("the IDBank") is a development-finance institution owned by its member countries and subject to the provisions herein and international law.

The purpose of the IDBank is to help achieve the peace objectives of the Downing Street Declaration by promoting economic development in the context of the ongoing peace process and to encourage harmony between the northern and southern economies on the island.

The IDBank will achieve this goal by improving the quality and increasing the number of links between the two parts, and promoting the prosperity of both. The IDBank will focus on the counties of N.I. and the six border counties of the Republic, but not to the exclusion of the other counties on the island. It will achieve its goal of promoting economic and social progress by lending funds in conjunction with the services of volunteer and professional technical assistance programs and university-based business education, with special attention to the needs of small and medium-sized enterprises and the empowerment of entrepreneurs for job creation.

Organization and Management (Boards, Location, Staffing)

The IDBank shall have a Board of Governors, a Board of Directors, a President and one or more Vice Presidents and other officers and staff as the Board may determine. The appointment of Governors, Directors, officers and staff shall take due note of, and be representative of, the population being served by the IDBank. However. the IDBank's Directors and officers shall recruit a small staff with the IDBank's skills needs as their paramount concern.

Boards. The IDBank shall have a Board of Governors, Board of Directors, a President, Vice Presidents, Heads of Departments/Offices, and other officers and staff if and only if their recruitment is within a budget approved by the Board of Directors following guidelines set by the Board of Governors. Each member country shall nominate one Governor and one Alternate Governor; Governors shall meet at the IDBank's regular annual meetings, to rotate among Belfast, Dublin, New York and possible other cities to be determined by the Governors.

The Board of Directors shall be elected by the Board of Governors. The President shall be elected by the Board of Governors for a term of five years and may be re-elected. The President serve under the direction of the Board of Directors to conduct the business of the IDBank. The President shall be assisted by Vice Presidents appointed by the Board of Directors on the recommendation of the President.

Staffing. In its character as a multinational institution, the IDBank shall staff itself as follows:

1. The President may participate in meetings of the Board of Governors but shall not vote at such meetings.[56]

2. The President shall be chief of the operating staff of the IDBank. Under the direction of the Directors, the President shall conduct the ordinary business of the IDBank and under their general control shall be responsible for the organization, appointment and dismissal of the officers and staff.

3. The President, officers and staff of the IDBank, in the discharge of their offices, shall owe their duty entirely to the IDBank and to no other authority. Each member of the IDBank shall respect the international character of this duty and shall refrain from all attempts to influence any officers of the IDBank in the discharge of their duty.

4. Governors and Directors who serve as salaried representatives of other governments shall not be compensated other than for reasonable expenses incurred for the purpose of attending IDBank meetings. Governors and Directors not otherwise salaried shall be paid a modest per-meeting fee as well as expenses for attendance at meetings.

5. Staff salaries shall be kept to the lowest levels compatible with hiring skilled staff.

Location. The offices of the IDBank shall be jointly located in Belfast and Dublin, along the model of the International Fund for Ireland. Meetings shall be held alternately in the two locations. If the United States and Great Britain provide funding, a representative

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56. The purpose of this clause, common among multilateral institutions, is to limit the power of the President relative to the Board and prevent the CEO from overwhelming the Board's oversight. In some institutions the Board appoints an Executive Vice President and possibly a third staff member immediately below the President. This option would allow the President to be from the south and the Executive Vice President from the north, or vice versa.

office shall also be established in New York City[57] and another in London for purposes of raising funds and maintaining communications from, and visibility of, the IDBank among investors. Office space and furnishings in any location shall be modest, befitting an agency that is operating primarily in conjunction with existing organizations.

Functions and Operations

Lending and Loan-Guarantee Functions and Operations. The IDBank shall be empowered to make and guarantee loans, but shall be encouraged to carry on its lending functions through existing institutions wherever possible so as to minimize the need for in-house staff. It will make or guarantee loans or equity investments in private companies with proposals for projects that appear likely to create jobs among the residents of N.I. or the Republic.

Although the IDBank will seek equity investments in startup cases as a means of protecting its capital and obtaining an adequate return on it, it shall also seek to minimize responsibilities associated with ownership by aggregating its equity investments and periodically selling them.

The objective of the IDBank's financial policies will be to provide the capacity to be an efficient intermediary of short- and long-term funds borrowed from international capital markets to support development in Ireland, north and south. The maintenance of a strong investment-grade rating from the bond-rating services is critical to shareholders, since it advertises the IDBank's financial strength, permits the IDBank to provide loans at lowest cost and ensures the IDBank's continued access to capital markets.

The Board of Directors shall determine such IDBank guidelines as the lending rate for loans, required collateral and loan-to-value rates, and repayment and grace periods. They shall be enforced by the IDBank's loan officers and participating financial institutions.

Priority for Peace-Related Loans. The IDBank should be overt about its peace-making mission by giving priority to loans that encourage growth of businesses that would replace the reduction in economic activity resulting from cuts in security-related expenditures. Such loans should be identified in reports.

Fair Lending and Employment. The IDBank shall engage in fair lending practices, excluding no applicant based on religious or political background. The IDBank shall ensure through every feasible means that lenders and loan recipients adhere to fair-employment

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57. Since the primary purpose of the U.S. office would be to market the Ireland Peace Bonds, New York City is most appropriate as the nation's financial center.

principles to be established by the Board of Governors to encompass the goals of the Fair Employment Act and other relevant standards.[58]

Non-Displacement Policy. No loans shall be made to companies that create jobs in N.I. or the Republic through displacing another member's jobs. This condition shall be implemented through guidelines to be established by the Board of Directors.

Foreign Investment Functions. By guaranteeing private debt, the IDBank will provide a mechanism by which small-business loans can be aggregated and made available to foreign investors as an all-island investment.

Advisory and Technical Assistance Functions. The IDBank shall maintain access to volunteer and professional advisers and encourage both the Republic and the N.I. Governments to obtain technically proficient studies of economic development issues that address the concerns of the whole island.

The IDBank will also facilitate the provisions of business advice, assistance, training and education to its borrowers and other businesses and for this purpose will seek volunteers from the United States and other countries to assist companies to identify, formulate, implement or operate profitable projects; improve the capability of institutions; formulate development strategies, plans and programs; undertake studies; promote technology; and foster regional cooperation by assisting in preparing regional studies or participating in or organizing regional conferences.

Capital Resources

The financial resources of the IDBank will consist of equity capital, comprising subscribed (paid-in and callable) capital from members and funds borrowed through Ireland Peace Bonds, and such changes as shall be determined by accumulated net income.

In making loans, the IDBank will provide funds either from its equity capital resources or from the resources provided by Ireland Peace Bonds. The proposed eventual capital structure for the IDBank after a 5-year startup period is illustrated in Chart 1 (p. 6).

Equity Capital. Initial equity shall consist of **paid-in** capital of $15 million ($5 million from each of three members) and **callable** capital of $15 million ($5 million from each of three members). A member's total capital subscription will be the sum of these two. The IDBank's equity resources will include the subscribed capital stock and any reserves or

58. This is essential if the IDBank is to be a success in the United States, particularly with Americans of Irish descent and other investors concerned about human rights issues.

surplus set aside from net revenues by the IDBank's management.

The subscribed capital stock is projected to consist of funds provided by four members, one of which shall be added after formation. Equity capital shall be subscribed 25 percent from the Republic of Ireland, 25 percent from the U.K., 25 percent from the United States, and the remaining 25 percent from the European Union or a fourth country or group of countries.

Ireland Peace Bonds. Additional long-term resources will be raised by selling Ireland Peace Bonds to private investors. These bonds will be partially guaranteed by callable ordinary capital. They may be further guaranteed to special classes of borrowers by member countries.

Limitations on Guarantees and Borrowings of the IDBank. The total amount outstanding of guarantees, participation in loans and direct loans by the IDBank shall not be increased at any time, if by such increase the total would exceed 100 percent of the unimpaired subscribed (paid-in and callable) capital of the IDBank, plus any reserves or surplus that may be created.

Internal Controls

Reports. Regular reports will be required on loans made and repayment records.

Audits. A strong **independent** audit function is required that will audit on a sample basis **both** loan recipients and intermediaries, as well as the IDBank itself.

Ombudsman. The Office of the Ombudsman shall be created as a way for individuals and organizations to report and investigate misuse of funds.

Underwriting Guidelines. Loans shall be made pursuant to published underwriting guidelines approved by the Board of Directors that specify such considerations as minimum loan-to-value ratios and collateral policies.