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BEEVOR, JOHN G. — ARTICLES AND SPEECHES (1956-1964)

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Document Type	Date	Correspondents or Title	Restriction #
Address	May 15, 1964	Notes Resulting from Experience to Date as Director of Five Institutions. Address by J. G. Beevor, Vice President, IFC, at Informal Luncheon Meeting of Executive Directors and Department Heads of Bank and IFC	6
Subject: Security classification of the document is "confidential". Disclosure of this document is governed by the principles of the IFC Disclosure Policy.			
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Withdrawn by: Vlada Alekankina

Date: November 8, 2010

BEEVOR

March 7, 1956

FORM No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Harold Graves

DATE: March 20, 1956

FROM: J. G. Beevor

SUBJECT: IFC - Broadcast on BBC.

I was asked in February, largely because of a friend of mine who is the BBC Director of Overseas Broadcasts for the Middle East and Asia, to give a talk about IFC. They have sent me two copies of the recording and you might like to have a copy for information.

JGB

J.G.B.

Attachment.

Transcribed from a Telediphone Recording:

THIS DAY AND AGE.

1700-1710 Green 7th March, 1956.

ANNOUNCER: This is the General Overseas Service of the B.B.C. 'THIS DAY AND AGE' - Financing Private Enterprise. Andrew Shonfield interviews Mr. John Beevor who has been asked by the International Bank to work on the establishment of the International Finance Corporation.

SHONFIELD: Mr. Beevor, your main job as I understand, during the past couple of years has been to winkle out private capital - to help private capital - to go out into the Commonwealth: you've been persuading it in that direction. I gather that this job that you're going to in the International Finance Corporation is similar in some respects - is it ?

BEEVOR: Certainly it is similar in that respect, though in the Commonwealth Development Finance Company we've perhaps been more putting our own money in when there was a gap, than actually going around seeking for other people to encourage.

SHONFIELD: And you're not going to put so much money into the ventures (FLUFF) in - into International Finance Corporation is that so ?

BEEVOR: The International Finance Corporation as I understand it when it comes into existence will seek to put in as little of its own funds in any one proposition as it can, and to get as many partners as possible to come in with as much money as they can raise.

SHONFIELD: Then why is it being so mean ?

BEEVOR: Because it has limited funds in its initial stages. It's starting with a capital of a hundred-million dollars which sounds a lot of money but it's really only the cost of one steelworks, and if you spread that over forty or fifty countries it means there's not very much I.F.C. money for any one country.

SHONFIELD: Is the point then - Mr. Beevor - this hundred million is a sort of bait for private enterprise to be encouraged by - is that the way the thing works ?

BEEVOR: Yes, I think that is correct. They start off with a fairly modest stake in relation to the total demand. In an institution of this kind you've got to make it a success on a small scale first and then if all goes well you build it up to bigger things.

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SHONFIELD: Well now we've had - we have a fair number of institutions - I mean we have the International Bank itself. We also have your Commonwealth Development Finance Company, which has been doing very good work, why do we need this other one ? What's the gap to be filled ?

BEEVOR: The gap really arises because of the charter of the International Bank. The International Bank as everybody knows has done a wonderful - work - in the last ten years when they've raised loans of about two-thousand five-hundred million dollars - an enormous sum for something like fifty countries. But under their charter they can only lend that money either to a member government or else to some industry which carries a guarantee of its own Government. And that has been found, in practice, to create difficulties. Governments sometimes are embarrassed by giving a guarantee to one steelworks as opposed to another, or again the steel manufacturer himself is reluctant to accept a Government guarantee because it may imply some degree of Government interference in the future.

SHONFIELD: It brings in Governments too much for private industry in some cases ?

BEEVOR: Yes, and, it - it has definitely been found to limit the scope of the International Bank's operations. So that they do wish now to have this new institution - the International Finance Corporation - which can make loans to industry in any of the countries concerned without a Government guarantee.

SHONFIELD: Directly. Now will the International Finance Corporation become a shareholder ? Will it be holding ordinary shares in these companies ?

BEEVOR: No, they've decided against that because of the obvious problems of getting mixed up in the voting control or management of companies all over the world, and so what they're going to do is to take up loans, which may or may not carry some rights of subscription of shares, or conversion into shares, and that will give some additional value to their loans if the project proves to be satisfactory. And when they want to sell off a loan, when a project has matured, they would be able to sell the conversion right which has a definite value.

SHONFIELD: You would then in the I.F.C. be a kind of financier on a grand scale reckoning to(FLUFF) hold things for a short period and then get rid of them fairly quickly ?

BEEVOR: Certainly - it's most important to revolve your funds. If you've got limited funds for a particular purpose you want to be able to sell them off as soon - sell off your loans-as soon as they've reached a satisfactory stage you then get new money to put back into new projects.

SHONFIELD: And make a profit ?

BEEVOR: And you hope to make a profit on the good ones because you're bound to lose some money on the less good ones.

SHONFIELD: Yes. But you're not going to manage these things at all ?

BEEVOR: No. Absolutely no - no intention or - of ever having any part in management at all.

SHONFIELD: Well Mr. Beevor, where is this gap in private capital most noticeable? Where in the world, presumably you aren't going for Europe -

BEEVOR: No, that is I think clear. The well developed countries in Western Europe, North America, would not, I think, normally be receiving loans from the International Finance Corporation. But there are, in the first place, part - countries in Southern Europe where there may be cases for it and then of course there are all the well known areas, Middle East, Southern Asia, Africa and Latin America.

SHONFIELD: And which venture capital which is at present not going out would you hope to winkle out and move in these directions - where is this venture capital to come from ?

BEEVOR: Well of course the greatest home of capital at the moment is North America and also there's a great deal of capital in Western Europe where recovery has proceeded so fast in recent years And whereas in Britain I think that all the available capital we have for development overseas is being mobilised in one way or another, there are these other areas - North America, Western Europe - and may be others too, where there is capital which has been shy of getting on the move into undeveloped territories.

SHONFIELD: I wonder though if you could make the instance a little more concrete because it's a little hard to see immediately what kind of project, on the spot at present, would not qualify for loans or assistance from the existing institutions, which would qualify for a loan from the International Finance Corporation. Could you sort of sketch the kind of project that you're going to go for, and find, in the future ?

BEEVOR: You may find I think in any of these countries - there are valuable projects - industrial of some kind - whether in pulp and paper, or in mining, iron and steel, or any branch of secondary industry where it is difficult to raise all the capital required from local sources or from existing institutions. One always finds that in important new projects you can raise part of the money but it's very difficult to get the last ten per-cent.

SHONFIELD: Well what about your experience in the Commonwealth Development Company - there you were dealing with precisely this kind of problem. Now, is the problem exactly analogous with the thing that you're going to take over now ?

BEEVOR: It's analogous but I think it's different because we shall be dealing with a great many countries all over the world which are less organised, so to say, in capitalist structure than the British Commonwealth countries, and so you will have in some respects more backward: and less - some less highly organised countries - in which new investment is so neessary.

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SHONFIELD: So it's the Commonwealth thing all over again but perhaps in even less - less developed countries ?

BEEVOR: Yes.

SHONFIELD: Thank you, Mr. Beevor.

ANNOUNCER: That interview was with Mr. John Beevor of the Commonwealth Development Finance Company Limited, who has been asked by the International Bank to work on the establishment of the new International Finance Corporation. The interviewer was Andrew Shonfield, Foreign Editor of the FINANCIAL TIMES.

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ECR

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON 25, D. C. TELEPHONE: EXECUTIVE 3-6360

FOR RELEASE
10:00 A.M.
Wednesday, June 5, 1957

FOREIGN INVESTMENT BUILDS FUTURE MARKETS

Address by J.G. Beevor, Vice-President
International Finance Corporation

to

World Trade Conference of the 86th Annual Meeting of the
Canadian Manufacturers' Association Meeting in
Toronto, Ontario, June 5, 1957

Changes in the patterns of world trade and new openings for foreign investment have been the subject of many talks and articles in recent years. Economic progress is based on a desire for change and leads to further continuous change. And while change creates new problems, it also creates new opportunities.

I would like this morning to focus attention on some of the current problems and possibilities for foreign investment. I would also like to consider with you the role of the International Finance Corporation in this field and its significance to you as private businessmen.

We are all familiar with the main reasons for some of the changes which have happened in our lifetime. Under the impact of scientific achievement, particularly in transport and communications, the world has, for human purposes, decreased in size. People and ideas move around faster than ever before. In the less developed areas of Latin America, in Africa, Asia and the Middle East, hundreds of millions of people have by various means become aware of the possibilities of a better life than they have known before. Many new nations have achieved independence in the 40 years since World War I; and they are now striving to develop their resources, to establish more of the basic facilities in transport, communications, irrigation and agricultural improvements and also in many cases to establish new industries and to acquire new technical and managerial skills. Their peoples aspire to achieve in a decade more than their ancestors had achieved in centuries.

We have witnessed, also since World War I, the growth and emergence of an industrial empire in Russia. Soviet Communism is continually absorbed in plans and devices for impressing and attracting and bringing progressively, under communist influence, many of those newly created and struggling countries.

The opportunities for increased trade and investment in the less developed areas are by themselves a stimulus for investors with initiative and imagination in the free world. We in the industrialized countries of the free world have come to realize that what happens in these other areas is bound to affect our own lives, and that the question whether their peoples are to move onwards in an atmosphere of freedom or to slide, slowly or suddenly, into the totalitarian orbit, is one of the most serious questions facing us today.

Many efforts -- by individuals, governments and intergovernmental organizations, including, of course, the United Nations -- have been made since World War II to find ways of helping the less developed areas. It is an enormous and complex problem -- one to which there is no single or quick solution. But greater progress has been made in this field in the last 10 years than ever before in history.

The role of international financial institutions has been important since the war. The International Bank for Reconstruction and Development --

commonly called the World Bank -- was established in 1946. It has brought something new to the field of economic development and to international financial operations.

While a creation of governments, the World Bank has been free of political influence, and it has successfully operated as a business organization. In its first two years the Bank lent half a billion dollars for postwar reconstruction in Western Europe; but since 1948 its financial and technical resources have been devoted primarily to the problems of economic development.

The basic facilities must in the less developed countries be financed in large part by governments. They require large sums of capital, and the World Bank financing has gone primarily for the development of these basic facilities. Today its lending totals $3 billion which have gone to help finance nearly 600 projects in 44 countries. But only about 10% of that total has gone towards financing industrial development. The World Bank's Charter requires it to conduct its operations so as to promote private foreign investment. But the Charter also restricts it to lending to governments or lending with a government guarantee. The Bank's capacity to finance directly the development of private enterprise has consequently been limited by the provisions of its own Charter. Moreover, the Bank provides financial assistance in the form of loans, whereas the development of private enterprise frequently requires some form of venture capital.

It was out of the experience and limitations of the World Bank that the idea grew for an International Finance Corporation which would specifically finance private enterprise when the necessary capital could not be raised wholly through normal private channels. Opportunities for foreign investment have become more clearly evident in recent years, and industrialists and investors in the U.S., Canada, the U.K. and Western Europe have shown a growing interest. Within the last five years hundreds of corporations have been considering foreign projects for the first time in their history.

So the need for a new type of international financial organization became clear -- one that could deal directly with private business -- without government guarantee -- to assist private business and capital in investment in the less developed countries.

IFC was established to further economic development by promoting and encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas. IFC now has 49 member countries which have subscribed $92 million to its capital.

We hope to achieve our purpose in three general ways:

By investing along with private investors -- without government guarantee - in productive private enterprise in the less developed countries;

By serving as a clearing house to bring together investment opportunities, private capital (domestic and foreign) and experienced management; and

By using our offices wherever possible to help improve the climate for private enterprise and investment in member countries.

It is unique that a large number of governments spread over the world have joined together for the purpose of helping to develop private business. Although IFC is owned by governments, it is dealing directly with private business people -- thinking in their terms, looking at their problems and respecting their confidences.

Our policies and procedures are described in a booklet which is available to anyone interested. Let me touch briefly on some of the fundamentals.

We intend in our early years to finance only enterprises located in the less developed areas - Africa, Asia, Australia or Latin America - and, of course, only those situated in one of IFC's member countries. Consequently, we cannot in our early years consider financing enterprises in Canada or the U.S.A., but we can of course in principle assist in financing Canadian-owned enterprises in the less developed areas.

IFC will consider either the expansion or modernization of an existing enterprise or the creation of a new one. During its early years it will make its investments in enterprises which are predominantly industrial, including mining enterprises in which the prospecting work has been done and the necessary ore reserves have been proved.

It is prepared to consider investments in a company whose assets, after financing, will total at least $500,000. Its own investment will always be less than one half of the total cost of a project, and it will expect the sponsors of the enterprise and their associates to provide as much of the capital as is reasonably possible. IFC's own minimum investment in any enterprise will be about $100,000 and it would prefer to keep the maximum amount of any individual investment to something of the order of $2 million.

Essentially IFC is an investing institution and not a lending institution. IFC will seek to make investments which will (a) help to attract private investors to join in and (b) be sufficiently attractive to enable IFC to sell out to private investors if and when the venture proves successful. It will be the objective of IFC in each case to contribute to the financing of the enterprise on a sound basis.

Although IFC is precluded by its Charter from owning equity, its investments will not be made as conventional, fixed-interest loans. They must take the form of loans, but they will be loans carrying some right to participate in the growth of the business. This participation may be in the form of additional income related to earnings; or a right to convert the loan into share capital; or both. IFC cannot itself exercise any such conversion rights; but purchasers from IFC can do so -- and in this manner we expect to make reasonable capital gains on those investments which we are able to sell.

Having its capital in U.S. dollars, IFC in its early years will generally prefer to make investments expressed in U.S. dollars. However, it will be prepared to invest, at least partly, in other currencies where other factors, including conversion rights, can reasonably be expected to outweigh the currency risks.

Security for loan investments is less important to IFC than earning power. IFC does not object to other loans, bonds or mortgages, up to an appropriate amount, ranking in priority to its own investment.

IFC will make investments only when it is satisfied that the project has, or will have, experienced and competent management. Although it may in appropriate cases be willing to try to help an enterprise in finding managerial personnel, it will not itself assume any management responsibilities but will expect the sponsors of the enterprise to provide the management.

IFC will seek to revolve its portfolio by selling out its investments as soon as they prove to be successful enough to attract other private investors.

IFC has been in existence only ten months and has yet to complete its first investment. Most of the propositions which have come to us are in preliminary form, and even with experienced sponsors it takes months to work up to a new project in one of the less developed areas. Proposals brought forward in a fairly advanced stage still require detailed study and investigation -- as to the sponsor, his ability and experience, the background conditions affecting the market, technical factors and so on. It is impossible to prophesy the speed at which a project will develop, because the speed depends so much on the degree of preparation and the quality of the preliminary studies.

Most of the 30 or 40 projects presently under active consideration by IFC represent the fundamental industries -- forest products, textiles, cement, mining, chemicals and engineering. There are some involving forms of manufacturing and processing. The sponsors come not only from the industrialized countries, the U.S.A. and Canada and Western Europe, but also from the less developed countries. Since forest products and mining are likely to continue to figure prominently in our projects, we hope that we shall have occasion not infrequently to cooperate with Canadian companies or Canadian consultants.

We believe that private enterprise is the most dynamic force in economic development and that it can bring benefits not only to the owners and managers but to the customers, and in the long term contribute to the strength and stability of a country's economy. For these reasons it is particularly encouraging to us to find the increased interest of private businessmen and investors from the industrialized countries in the opportunities presented in the less developed areas.

But the opportunities of untapped resources, potential markets and profits in these areas are not without their hazards. We all are familiar with them: changes of personalities in government; widely fluctuating currencies; unbalanced budgets; erratic administration; lack of business tradition; laws and policies which present difficulties; nationalism combined with a general suspicion of foreign business. There are often many changes needed before a modern system of production and trade can function effectively and produce the benefits which the people in the less developed countries seek.

We believe from our experience to date - and from preliminary talks with a wide range of industrialists and other investors from many countries - that there is increasing realization of the possibilities and prospects which the growing market in a developing country offers to a bold and resourceful concern. In many of the countries of which we are speaking, great progress has been made in the basic utility developments which are necessary before new industries can be expected to grow and flourish. These basic developments have been proceeding at a growing pace, largely with public funds raised by the governments themselves internally, and often supplemented by borrowing from the World Bank, from various forms of assistance under the U.S. Foreign Aid Programs, and from the technical assistance activities of the United Nations. While conditions obviously vary from country to country, I think it is broadly true to say that in some of the less developed countries there is now appearing a better background of basic development against which new industrial enterprises can be considered with reasonable confidence in their future prospects.

It is no easy thing to set up a new enterprise in an undeveloped area of the world. Nobody knows this better than you Canadians, who for years have been so active and so successful in developing your own vast territories and resources. The first essential, of course, is good planning and competent management. The second essential is to secure the cooperation of people in the country of investment, including participation by local investors and the assistance of government or regional authorities. The third is the existence of a reasonably favorable climate for foreign private investment.

We hope that IFC, in various ways, will be of some help under all these three headings. We get propositions from people in the less developed countries who may have business experience and a soundly conceived project but lack experience in the particular type of manufacturing industry on which they propose to embark. We may be able to help them by suggesting that they get in touch with some industrial partner in one of the more industrialized countries who may be willing to take a minority participation and to provide some managerial and technical help.

When approached by a company which is foreign in the sense of foreign to the country of investment, we can sometimes suggest to them ways of finding local investors in that country to join in with them. And we believe that IFC, as an international institution of which the country concerned is itself a member, will by its participation tend to encourage both foreign and local investment. We further hope that, within limits, IFC will be able to help to improve the investment climate in a country where improvement is needed.

In conclusion I would like to leave two thoughts in your mind. The first is that IFC, with a capital of less than $100 million to be invested in many member countries, is admittedly a pilot operation. If successful, it may be able to increase its resources for larger operations in the years ahead. The second is that it will only be able to increase its resources, whether by selling its bonds on the markets of the world or by persuading member governments to contribute further capital, if it proves itself a success and can show, over a period of years, a reasonable profit record of its own, and, at the same time, can help to stimulate the flow of private capital into productive private enterprise.

In the last analysis we consider that the measure of IFC's success will not be the amount of money which we can profitably invest ourselves, but the extent to which our activities generate an increased flow of international private investment from other sources.

Address by J. G. Beevor, Vice President
International Finance Corporation

to

Ninth Annual Virginia World Trade Conference at
Roanoke, Virginia, October 4, 1957

Mr. President, ladies and gentlemen, it is a real pleasure and a great honor to be invited to address the Ninth Annual Virginia World Trade Conference. Indeed I would have been more than glad to accept your invitation to be present at the earlier stages of your Conference in the last two days, but the whole of last week I was engaged in Washington, with many hundreds of others, on the Annual Meetings of the World Bank, the International Monetary Fund and the International Finance Corporation; and that left a burden of current work to catch up with in the course of this present week, and I could not get away from Washington until this afternoon.

As this is a World Trade Conference, I have no doubt that everybody present has read something about these Annual Meetings of these three International Institutions. In fact their proceedings are so fully reported in the press that you can hardly help reading something about it, even if only the headlines. But they are certainly interesting occasions. Delegations totalling nearly 500 from 64 countries were present during most of last week, together with several hundred guests, mainly bankers, industrialists, and business men. In the same hall you find the Secretaries of Treasury or Finance Ministers and Central Bankers of North America, Latin America, the British Commonwealth, Europe, Africa, and Asia. The three Presidents of those institutions are two Americans and one Swede. The Chairman of the meeting this year was a Philippino, last year a Mexican. The Annual Meeting next year will be held in India, in New Delhi, and the Chairman then will be a Belgian.

The member countries include virtually the whole of the free world.

These wide spread financial activities are of course all related to World Trade, the subject of your own Conference. Current trading operations are the background against which member countries want to draw on the International Monetary Fund; and future trade is likely to be affected by, among many other factors, the loans which the World Bank makes to assist in the development of the resources of its member countries, with the result that the less developed countries should be enabled not only to raise the standard of living of their peoples but also to increase their international trade and buy more things, both capital goods and consumer goods, from abroad.

In 1946 the World Bank and the Fund began operating. In 1947 the Conference for European Economic Cooperation in Paris provided a joint report on the needs of 16 countries of Western Europe - leading to the European Recovery Program or Marshall Plan, which thanks to the wisdom and generosity of the United States proved to be the turning point in postwar history and undoubtedly saved Western Europe. I well remember, 10 years ago last month in Paris, as we came towards the end of our two months intensive effort in preparing the Marshall Plan report for transmission to Washington, that there were hunger-marches or bread riots which went on around the building in which we were drafting our report, because the French harvest of 1947 had been almost a total failure.

The nine years, during which the Virginia World Trade Conference has been held, have seen an unprecedented recovery and development of world trade; and the conception of these Conferences back in 1949 is a monument to the foresight of those who first initiated this move. This, ladies and gentlemen, is not just a conventional compliment. The founders of this Conference must have had a clear perception and a sure grasp of one of the most significant trends of the postwar decade, namely the cooperative approach to international problems of trade and finance.

But now looking back 10 years, what a recovery has been made from the destruction and dislocation caused by World War II! And what a tremendous advance has been achieved in this country and elsewhere, both in the expansion of production and in the growth and liberalization of trade. The World Bank's Annual Report for the present year contains this paragraph -

"A remarkable upswing in world trade during the year brought total exports to more than $95,000 million, the highest level in history. This rise occurred in spite of the economic dislocation caused by the closing of the Suez Canal and by the interruption of normal pipeline supplies in the Middle East; the effects of these disturbances were less severe and less protracted than had been feared. Although prices of manufactured goods continued to rise, the increase of 12 percent in the value of total exports was mainly the result of a larger volume of goods exported. There was a particularly rapid growth--in some cases by more than a fifth--in the export earnings of industrialized countries. The growth in earnings of most of the less developed countries was considerably slower. In the aggregate their export volume increased moderately, but the export prices of their primary products advanced on the average only slightly, and some even declined."

Those last words refer to one of the greatest and most pressing problems of today; the need for development of countries in Latin America, Africa and Asia; development of the basic utilities, transport, communications, fuel and power, and development of agriculture, industry and mining. Great progress has been made in the last 10 years and the World Bank and the United States Point Four or I.C.A. programs have done much to make that progress possible. But there remains one fact, on which stress was laid by several of the Finance Ministers who spoke in Washington last week. In spite of all that has been done in this field in the last 10 years the gap between the advanced industrialized countries and the underdeveloped countries is not narrowing but widening.

So I would like to put before you some of the thoughts on the problems and possibilities of foreign investment, because of the obvious connection between world trade and foreign investment. And let me say that by foreign investment I mean not merely foreign investment from the United States, but foreign investment from all the more advanced countries, which broadly means North America and Western Europe, into the less developed countries of the world.

First of all let us look at the main features of the broad world picture today. We are all familiar with the main reasons for some of the changes which have happened in our lifetime. Under the impact of scientific achievement, particularly in transport and communications, the world has, for human purposes, decreased in size. People and ideas move around faster than ever before. In the less developed areas of Latin America, in Africa, Asia and the Middle East, hundreds of millions of people have by various means become aware of the possibilities of a better life than they have known before. Many new nations have achieved independence in the 40 years since World War I; and they are now striving to develop their resources, to establish more of the basic facilities in transport, communications, irrigation and agricultural improvements and also in many cases to establish new industries and to acquire new technical and managerial skills. Their peoples aspire to achieve in a decade more than their ancestors had achieved in centuries.

Secondly we have witnessed, also since World War I, the growth and emergence of an industrial empire in Russia. Soviet Communism is continually absorbed in plans and devices for impressing and attracting and bringing progressively, under communist influence, many of those newly created and struggling countries.

Thirdly the opportunities for increased trade and investment in the less developed areas are by themselves a stimulus for investors with initiative and imagination in the free world. We in the industrialized countries of the free world have come to realize that what happens in these other areas is bound to affect our own lives, and that the question whether their peoples are to move onwards in an atmosphere of freedom or to slide, slowly or suddenly, into the totalitarian orbit, is one of the most serious questions facing us today.

Many efforts -- by individuals, governments and intergovernmental organizations, including, of course, the United Nations -- have been made since World War II to find ways of helping the less developed areas. It is an enormous and complex problem -- one to which there is no single or quick solution. But greater progress has been made in this field in the last ten years than ever before in history.

The basic facilities must in the less developed countries be financed in large part by governments. They require large sums of capital, and the World Bank financing has gone primarily for the development of these basic facilities. Today its lendings which, as I have said, total 3 billion, have gone to help finance nearly 600 projects in 44 countries, but only about 10% of that total has gone towards financing industrial development. The World Bank's Charter requires it to conduct its operations so as to promote <u>private</u> foreign investment. But the Charter also restricts it to lending money to governments or lending with a governmental guarantee. So the Bank's capacity to assist <u>directly</u> the development of private enterprise has been limited by the provisions of its own Charter, though it has done much indirectly. Moreover, the Bank provides financial assistance only in the form of loans, whereas the development of private enterprise frequently requires some form of venture capital.

It was out of the experience and limitations of the World Bank that the idea grew for an International Finance Corporation which would specifically help to finance private enterprise in the less developed countries when the necessary capital could not be raised wholly through normal private channels. It became clear in the last three or four years that in the foreign field private investment was not keeping pace with the growing volume of public investment. Moreover, in many countries of the world, after over ten years of postwar conditions in which government aid and governmental loans tended to play a predominant role in international investment, there has been recently a growing recognition of the dynamic force of private initiative in the field of development.

Opportunities for foreign investment have become more clearly evident in recent years. Industrialists and financial investors in the United States, Canada, the United Kingdom and Western Europe have shown a growing interest. Within the last five years hundreds of industrial corporations have been considering foreign projects for the first time in their history.

So the need for a new type of international financial organization became clear -- one that could deal directly with private business -- without government guarantee -- and could assist private business and capital in investment in the less developed countries.

So this International Finance Corporation, or IFC,was established to further economic development by promoting and encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas. IFC now has 53 member countries which have subscribed $92 million to its capital.

We hope to achieve our purpose in three general ways:

By investing along with private investors -- without government guarantee -- in productive private enterprise in the less developed countries;

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By using our offices wherever possible to help improve the climate for private enterprise and investment in member countries.

It is unique that a large number of governments spread over the world have joined together for the purpose of helping to develop private business. Although IFC is owned by governments, it is dealing directly with private business people -- thinking in their terms, looking at their problems and respecting their confidences.

Essentially IFC is an investing institution and not a lending institution. IFC will seek to make investments which will do two things: first, help to encourage private investors to join in the particular enterprise; and secondly, be sufficiently attractive to enable IFC to sell out later on to private investors if and when the enterprise proves successful. It will be the objective of IFC in each case to contribute to the financing of the enterprise on a sound basis.

We believe that private enterprise is the most dynamic force in economic development. We believe that it can bring benefits not only to the owners and managers but to the customers, and that in the long term it contributes to the strength and stability of an undeveloped country's economy. For these reasons it is particularly encouraging to us to find the increased interest of private businessmen and investors from the industrialized countries in the opportunities which are now presented in the growing markets of the developing areas. The International Finance Corporation has made a start on a modest scale. In contrast with the billions, in which we have (unfortunately) become accustomed to think and speak in the field of government finance, the IFC has in its first 12 months made five investments totalling some \$ 6 million in five enterprises whose total cost adds up to about \$35 million. But we have had a useful range and variety in these investments, even though they are only of moderate size: In Brazil, where power is a number 1 problem, a plant for producing generating equipment; in Chile, a promising copper mine in an area where employment is sadly thin; in Mexico, two projects -- a foundry and forge shop and an aeroengine overhaul base; in Australia a lumber firm, which is expanding its operations in connection with new methods of wood preservative treatment.

We have a lot more projects in various stages of "cooking", in various parts of the world including Asia, and we hope that some of these will see the light of day in the coming months.

Naturally the opportunities of untapped resources, potential markets and profits in these areas are not without their hazards. We are all familiar with them: changes of personalities in government; widely fluctuating currencies; unbalanced budgets; erratic administration; lack of business tradition; laws and policies which present difficulties; nationalism combined with a general suspicion of foreign business. There are often many changes needed before a modern system of production and trade can function effectively and produce the benefits which the people in the less developed countries seek. So we do not think the time has yet come for the non-professional investor to venture into this particular field, unless he has some special qualifications or special local knowledge.

We believe from our experience to date -- and from preliminary talks with a wide range of industrialists and other investors from many countries -- that there is increasing realization of the prospects which the growing market in a developing country offers to a bold and resourceful concern. In many of the countries of which we are speaking, great progress has been made in the basic utility developments which are necessary before new industries can be expected to grow and flourish. These basic developments have been proceeding at a growing pace, largely with public funds raised by the governments themselves internally, and often supplemented by borrowing from the World Bank, from various forms of assistance under the U.S. Foreign Aid Programs, and from the technical assistance activities of the United Nations. While conditions obviously vary from country to country, I think it is broadly true to say that in some of the less developed countries there is now appearing a better background of basic development against which new industrial enterprises can be undertaken by competent and experienced concerns with reasonable confidence in their future prospects.

What I have been saying is all rather solemn and serious, but world trade and its development and financing are solemn and serious matters.

I am not myself a trained economist, but this last summer one of the leading economists in this country came to discuss in the World Bank and IFC some of the problems of controlling inflation in the U.S.A. He started by saying "I hope you will tell me if I don't speak clearly enough. My wife always tells me that economists are a group of gloomy guys who get together and mutter".

Some years back -- and you will easily guess about how many years it was -- the President of the World Bank was visiting the President of a certain Latin American republic, and was urging him to take measures to put the finances of the country into better shape. The President of that republic said it was not so easy. He said: "You see, if President Truman wants to know the financial condition of the U.S.A., all he has to do is to press a bell and in an hour or so he has all the figures on one sheet of paper. But, if I want to know about the state of my country, what happens? I press the bell. What happens next? The bell doesn't ring!"

Gentlemen, you men of business in this highly organized and wonderfully equipped country, may occasionally -- perhaps once a year -- find that something doesn't work as it should. But we shall all of us do well to remember that in doing business in the less developed countries such incidents and mishaps occur with a far more distressing frequency. Sometimes, as we wrestle with a project for a new enterprise in a far away country, we have to remind ourselves that it needs far more patience and far more planning than the same project would at home.

10.4.57

THE ROLE OF PRIVATE INVESTMENT IN A GROWING WORLD

Address by
J.G. Beevor, Vice President, International Finance Corporation
to the
American Institute of Banking
Departmental Conference, Philadelphia, June 3, 1959

1. The postwar period from 1946 has seen a growth of international investment in the free world on a scale without precedent in history. There was in 1946 a need for external financial assistance in two fields at the same time: First, for the reconstruction of countries which as a result of World War II had suffered physical damage or economic dislocation, or both; second, for the economic development of many backward countries.

2. Several of these underdeveloped countries have achieved independence during this same period. They include former French territories of Morocco, Tunisia, Vietnam and Guinea; the Netherlands East Indies, now Indonesia; no fewer than six in the British Commonwealth, India, Pakistan, Ceylon, Burma, Malaya and Ghana; and others with such varied backgrounds as Syria, Lebanon, Israel, the Sudan and the Philippines. All these new countries have to grapple with the problems of self-government, education, fiscal policies and economic development. They have to do so in a world which, for many reasons, is more interdependent and more rapidly changing than ever before, and at the same time is exposed to the disturbance and intriguesof communist aggression.

3. There is another and larger category of underdeveloped countries, whose nationhood and independence date back to much earlier times but which for various reasons have failed hitherto to find their way into the main stream of economic advance. Countries such as Turkey, Iran, Thailand, Ethiopia and

many of the Latin American republics, have a much longer history as independent nations, but they still have to wrestle with much the same problems as those which face the new countries.

4. The task of reconstruction after World War II has been largely completed, but the task of assisting the development of the underdeveloped countries continues and is of growing importance. The reconstruction of Europe, as everyone knows, was made possible by the stimulus of generous and well-directed U.S. aid under the Marshall Plan. The International Bank for Reconstruction and Development, which had been conceived in 1944 partly for such a purpose, only opened its doors in 1946 and it used a large part of the limited resources then available to it for some reconstruction loans in Western Europe. But the World Bank's function since 1949 has been financing development, mainly in Latin America, Africa, Asia and Australia. The total of its loans to date is now over $4.3 billion dollars, and it has raised over $2.5 billion dollars [1/] from private investors by selling its bonds in the markets of North America and Western Europe.

5. During the same period the United States Foreign Aid program has been operating separately on a bilateral basis and on an increasing scale. It has been stimulated partly by the recognition of the urgent need for speeding up economic progress in the rest of the free world, and recently it has been further stimulated by the desire to keep ahead of the efforts which the Soviet bloc has been making in the last four years to gain footholds in the developing countries.

1/ At present outstanding, $1.8 billion.

6. I have sketched this outline of some facts, which in themselves are familiar to us all, as background to our subject today - "The Role of Private Investment in a Growing World". I am proposing to discuss only the role of private investment in the underdeveloped countries, which is the field in which the International Finance Corporation is beginning to build up its operations.

7. The World Bank is an international governmental institution designed to help develop the economies of its member countries. The United States plays a major part in it, both by the large contribution of the U.S. Government and by the growing support of private investors who buy the World Bank's bonds. But the Bank can, under its Charter, lend only to governments or with a government guarantee. Its Charter indeed contains a provision that it shall conduct its operations so as to assist the growth of private enterprise; but, while this provision is constantly and earnestly borne in mind, its operations are on the governmental level and the possibilities of the Bank's direct contribution to private investment and private enterprise are inevitably somewhat restricted.

8. The U.S. Foreign Aid Program, administered by the International Cooperation Administration, is also primarily on a governmental level; it operates on a bilateral basis and implements the U.S. policy of helping and strengthening the recipient country. The ICA likewise is under a directive to assist private enterprise in certain ways, whenever practicable, but its own operations have been primarily on a government basis.

9. Now today in 1959 the position broadly is this. During the last decade the industrialised countries of North America and Western Europe have

progressed and prospered and built up their productive capacities at a rate never before achieved in history. The more backward countries have for the most part also made good progress, but at a much slower rate, and even this progress has been offset by immense population increases. Consequently, the gap between the two has widened, not narrowed. The needs of the developing countries for the basic utilities, mostly in the public sector, are consequently growing greater, not less. The capital of the World Bank is now in process of being doubled. The demands on the resources of the ICA are increasing, not diminishing. The basic things, for which the money is needed, are absolute essentials for speeding up the progress of these underdeveloped countries and for making possible the growth of private enterprise and private investment. Transport and communications, light and power, irrigation, flood control, water supply, housing, hospitals and schools - all these are things whose absence retards or deters private enterprise.

10. There are of course some exceptions. The copper companies in Chile and Rhodesia or the corporations in search of oil and bauxite and other minerals may in certain places and over a certain period afford to build their own roads, housing estates, hospitals and schools in the remote areas in which they have to work; but they have only been able to do so because of the scale and profitability of their operations which depend on the export market, meaning the demand for these minerals in the industrialized countries. These are the giant extractive industries who have succeeded while many others have failed. But the more normal case is the new pulp mill or cement or chemical plant starting in a backward area of Latin America or Asia to satisfy a local domestic market, usually with a minimum of capital, which has been

scraped together with difficulty. This kind of private industrial enterprise is in a very different position. The extra capital required to provide roads, power, water or housing, in addition to the cost of the industrial plant and working capital, may and often does make the project uneconomic or even impracticable.

11. But it is precisely this kind of private industrial enterprise which is needed to exploit and process and make profitable use of the natural resources of a country. Without a growing and productive private enterprise, all the money spent by governments on the basic utilities is not going to produce the full economic benefits which it could and should.

12. So it may be interesting to note at this point two features or trends which may throw some light forward into the future. First, some actions which the governmental institutions, World Bank and ICA, have been taking to stimulate private enterprise in the developing countries as a product or by-product of their own operations in the public sector; second, the growing awareness of the vital importance of private enterprise and private investment as the means of solving the pressing problems of the developing countries if they are to remain, or become, prosperous and effective units of the free world.

13. The World Bank can provide direct loans for private enterprise only where a guarantee from the government of the member country concerned is available. Two wellknown recent examples have been World Bank loans to the two privately owned steel works in India, Tata Iron & Steel and Indian Iron & Steel; these two have been doubling their steel capacity at the same time as the Indian Government was planning three new state-owned steel

works. But the Indian Government was prepared to give its guarantee for these World Bank loans. The main need, however, has been for loans in foreign exchange for private industrial enterprises of a smaller size. One of the best means open to the World Bank of meeting this need has been to assist in the establishment of a local development bank, preferably with capital privately subscribed, managed on private businesslike lines, and with some special financial backing, usually a World Bank line of credit in foreign exchange, plus a long-term deferred loan from the local government in its own currency. The ICA has sometimes joined in this type of operation by making counterpart funds available in cooperation with the local government. Local institutions of this kind, called development banks or industrial credit and investment corporations, have been set up in Turkey, Ethiopia, India, Pakistan, Ceylon, Malaya, and are currently being set up in Iran and Thailand. They are privately owned, though with government backing, and their object is to provide investment capital for private industry.

14. The World Bank was also instrumental in promoting the formation of the International Finance Corporation. This is another international governmental institution which is affiliated to the World Bank. IFC's function is to provide - without any government guarantee - financial assistance for productive private enterprise in the less developed countries and generally to help stimulate the flow of private capital. Thus, IFC operates in the field of private enterprise in association with private investors, though its capital - at present $93 million plus reserves - has been provided by its member governments.

15. The ICA has this year established an Office of Private Enterprise; the objects of this new office are to ensure that private enterprise gets a real chance to play an effective part in any U.S.A foreign aid program for which ICA funds are used; to ensure that private enterprise channels are explored and identified and used at a sufficiently early stage; that the contribution, which it can make in a given program, is understood in all sections of the ICA, including its foreign missions; in other words, to see to it that private enterprise is brought into action effectively, whenever it is practicable. This seems an admirable forward step. But this new Office of Private Enterprise has not an easy task. It needs much knowledge and patience and pertinacity to bring to the right firms at the right time the opportunities for private enterprise action. This new office is asking Congress for a $5 million Investment Incentive Fund for use in stimulating both U.S. private investment and the growth of local private business.[1/] They hope to start by publishing reports on the economies of specific projects, their technical feasibility and profit outlook, local taxes, duties, markets and labor. U.S. firms should be able to ask this Fund to finance detailed investigations of specific new ventures, having high priority value for the country concerned.

16. Another useful measure in the same field is the formation in the Bureau of Foreign Commerce of an Industrial Development Division. This new division will help to bring more effectively to the notice of U.S. business and industry opportunities in particular fields of foreign investment.

1/ See Business International, May 8, 1959, p. 5

17. Thus, action is now being taken in the United States to stimulate private investment in the underdeveloped countries. Germany is another case. Dr. Erhardt, the Minister of Economics, since his visit to India in October 1958, on the occasion of the Annual Meetings of the Monetary Fund-World Bank-IFC, has been encouraging German businessmen, bankers and industrialists, to speed up investment abroad. German private investment may now be expected to supplement and indeed to stimulate Germany's main foreign commercial activities, namely, the export of capital goods and the provision of export credits. In IFC we have already made two investments in enterprises where German capital was participating, and we have some others under study.

18. In the British Commonwealth, private investors in the United Kingdom are a continuous source of private investment for most of the Commonwealth countries, though the amount varies a good deal from year to year. Outside the Sterling Area, U.K. investment since the war has been limited by exchange control regulations. IFC has so far made six investments in the British Commonwealth - two in India, two in Pakistan and two in Australia - and several others are under study.

19. French private investment abroad, outside the French overseas territories, has likewise been limited by exchange control. But the improvement in the economic situation, since General de Gaulle assumed power last year, is likely to step up French industrial investment abroad to a considerable extent. IFC made one investment last year in Brazil in association with a European group including a first-class French company (Lafarge Cement). At that time, owing to exchange control, Lafarge was not able to make any substantial investment and was initially limited to providing managerial and technical services.

But it will probably be completing arrangements in the near future for a substantial investment in this Brazilian project.

20. Let us now consider briefly a few matters relevant to U.S. private investment abroad. In so doing, I propose to leave aside the large and growing U.S. investments in Canada, U.K. and Western Europe, and to consider only the underdeveloped countries; and also to leave aside the big oil companies and big mining companies whose investment represents a large part of total U.S. private investment in those countries.

21. There is a clear distinction between two sources of investment capital, (i) industrial capital; (ii) financial capital, and we have to look at them separately.

22. The industrial investor ventures into a new country to win a market for his local products or to protect an existing market which he might otherwise lose as a result of tariffs or import duties on his imported products. He is usually taking a long view and he is primarily looking for a growth situation rather than for a given return on his investment in the early years. His investment will usually take the form of equity. He usually has an organization or local business contacts which will enable him to study and appraise local conditions and markets. Above all, apart from special local conditions, he will be operating in a field which he knows, his own business or industry.

23. But even so, he often needs some encouragement to venture into an underdeveloped country for the first time: some local partners with local capital; possibly some long-term institutional capital or loans, either from a development bank in local currency or perhaps from IFC in dollars or other foreign currency; he may want some tax concessions in the country concerned; and one day he may even get some tax concessions at home when he has foreign

profits to repatriate. But the industrial investor, who does need help and encouragement in these ways, now has an increasingly good chance of obtaining it. The framework and the institutional mechanism are improving all the time in many countries; and we believe the improvement in recent years has been much greater than could have been anticipated.

24. Let us now consider the financial investor or portfolio investor, interested in openings in the less developed countries. This is a different creature from the industrial investor. It is normally an individual with some capital to spare for ventures which offer a yield proportionate to the risks; or else it is a specialized institution set up by some banking or investment group. A useful list of such institutions was published recently in Business International.

25. The financial investor has some problems which do not confront the industrial investor. He seldom, if ever, has the time or resources to investigate the merits of investment in a project in Latin America or Africa or Asia. He seldom, if ever, has a local organization or representative to watch his interests after he has made an investment. Even if the security in which he invests is listed on a local stock exchange, he cannot expect to get the same information and analytical help which he can easily get in the case of a U.S. listed security. So he will probably make an investment only on the strength of a name on which he can rely: either a local group of proved reputation or an industrial investor, well known to him, such as an experienced U.S. company.

26. The financial investor, making his first investment in an underdeveloped country which is new to him, generally seems to avoid the risk of equity.

He usually prefers some form of dollar debenture or note, carrying a fixed interest plus some stock option, so that he has a right at maturity to get his money back in his own currency. This is also the normal pattern which IFC follows. We are prohibited by our Charter from investing in stock; but we insist on something additional to a conventional fixed interest loan, either a stock option or a profit participation or a combination of the two.

27. In our first two and a half years of operations we have been selecting projects which seemed likely to prove profitable to investors as well as contribute to the economic development of the country concerned. So we have spent much time and effort in careful investigation of the background of each project, markets, quality and depth of management, and all the usual technical and commercial aspects. We have spent, as we should, a lot of money on foreign travel and the use of specialized consultants. Our management and staff (still small in number, less than 30) have visited over 25 underdeveloped countries in the last twelve months; and some countries such as India, Pakistan, Mexico, Chile and Brazil, have been visited several times. So far we have made investments in 16 enterprises totalling nearly $15 million in 8 countries: Australia, Brazil, Chile, El Salvador, Guatemala, India, Mexico and Pakistan. The total amount of the investment commitments is of moderate size because we are not making very large investments; but for every dollar of IFC money $3.00 have been invested by private investors in these enterprises. Consequently, our results to date indicate that an investment by IFC helps to make possible projects which were short of finance and helps to stimulate the flow of private capital, whether industrial or financial.

28. Financial investors with whom we have been in touch, both in the U.S.A. and Europe, seem to welcome the prospect of cooperating with IFC, and they

have two main reasons for doing so, apart from the fact that it is an international institution and is affiliated to the World Bank. First, that we are trying to build up a reputation for thorough investigation of projects and for working out investment terms which are realistic in relation to the risks; secondly, that we are able and willing to meet the expense involved in investigating projects which may or may not mature, whereas the average financial investor naturally wants to avoid preliminary expenses which may be unproductive. Another material point is that the study of conditions, local corporate and investment laws, and selection of competent local advisers in the legal or accountancy fields is quite a problem; and it takes time and experience, which means a certain amount of trial and error, before one can set about investigating, with reasonable confidence, projects in a far away country. We hope that we are making good progress in that direction in a fair number of the underdeveloped countries, and that we can progressively offer to financial investors the benefit of this experience, if they are in principle willing to consider an investment in a sound project in an underdeveloped country.

29. We hope that we can help in these ways the financial investors who are considering foreign investment, as well as being of help to those industrial investors who are prepared to set up a foreign operation but do not wish to provide the whole of the necessary capital. I do not think I need say more about the importance of private enterprise and private investment in the field of economic development, except to repeat a fact which is well known but sometimes overlooked in governmental circles, and that is that foreign private investment in an underdeveloped country has two special advantages as compared with governmental aid. It carries with it managerial and technical know-how, which should be a permanent asset of growing value to the

host country. Secondly, the success of one private enterprise in a foreign country will attract more private capital, foreign and local, into productive industry. If the flow of private capital can be stimulated on sound lines it has an immense role to play in bridging the gap between the advanced industrialized countries and the rest of the free world.

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5/29/59

Thur. y, June 2 - Remarks by J.G.Beevor (IFC) Speech file

1960

I am speaking for IFC, the International Finance Corporation. Its capital is subscribed by 59 member countries. Among them are the United Kingdom and the Netherlands. It is affiliated to the World Bank. Its objectives are to make sound and profitable investments in private enterprise in the less developed countries and thereby to encourage the all-important flow of private capital into productive industry.

This investment of £1 million in the Kilombero sugar project in Tanganyika is IFC's first investment in Africa. We believe it to be a sound and well conceived project; we hope it will be a stimulating example of international cooperation in the development and economic growth of a country which urgently needs to develop its resources. Tanganyika is advancing rapidly towards independence. Its government and peoples, including the African leader Mr. Julius Nyerere, are setting a fine example of enlightened approach to their task. If a country at this stage of development shews good sense and a capacity for order, it has laid the foundations for political stability and economic growth. It can then seek funds from international institutions; it can hope to attract foreign capital and foreign experience in the management of industry. It can also hope to encourage its own peoples to invest their savings in productive private enterprise so that they have a real and personal interest and a share in ownership. This encouragement of local private capital is vital for any developing country in the free world.

This Kilombero sugar project is being financed by £800,000 of British capital from the CDC and £500,000 of Netherlands capital in addition to IFC's contribution. And a further £700,000 is to be raised by offering Convertible Preference Shares to the public in Tanganyika. Time will show how good the public response will be; but this £700,000 is assured because the issue is being subscribed in London by the Colonial Development Corporation and the Standard Bank.

This £3 million project has been under study for a considerable time. We all believe that it will help in the development of Tanganyika, and will help the cause of private investment, both local and foreign. We further hope that it will prove what can be achieved by the cooperation of local and foreign investors, with experienced business management, in combining profitable investment with sound development of natural resources.

We, the International Finance Corporation, particularly wish to express our admiration and respect for the far-sighted action of the CDC and the Standard Bank in underwriting this large £700,000 capital issue. They are doing it in order to give Tanganyikan investors, Africans, Asians and Europeans, the opportunity of investing in this big Tanganyikan project. This bold action by CDC and the Standard Bank has made possible the financing of this project on a sound basis and is one of its most important ~~functions~~. features

We also wish to pay tribute to the work of Mr Ernst van Eeghen, a Netherlands business man resident in Tanganyika. In preparing this project and enlisting the support and interest of the investors and governments concerned and the representatives of the Tanganyikan communities, he has shewn the greatest energy and tenacity and he deserves high credit for an outstanding achievement which has involved over three years of work.

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"THE ROLE OF PRIVATE INVESTMENT IN ECONOMIC DEVELOPMENT"

Address of J. G. Beevor, Vice President, International Finance Corporation

at the

NINTH SESSION OF THE COMMISSION ON ASIAN AND FAR EASTERN AFFAIRS-
INTERNATIONAL CHAMBER OF COMMERCE
AND
INTERNATIONAL BUSINESSMEN'S CONFERENCE

Karachi, Pakistan, Tuesday, December 6, 1960

It is an honor to be invited to discuss before this distinguished gathering of businessmen the role of private investment in economic development.

One special factor, which has become highly significant since World War II, has been the organized financing of government enterprises and private enterprises in the developing countries by the use of public funds. These public funds may be in local currency from the local government, or they may be in foreign exchange from international lending institutions, especially the World Bank, or from national institutions in the industrialized countries.

The World Bank, established fourteen years ago in 1946, and the International Development Association, established in 1960, are the two main international institutions organized by governments to provide development financing for governments. In addition, big contributions may come through special forms of cooperative action, such as the Colombo Plan in South Asia since 1953, and the assistance being provided for the extensive Indus Basin project by several governments as well as the World Bank itself.

By far the larger part of this governmental financing goes to the public sector to improve the basic services: transport, communications, irrigation and electric power. The demand for external finance for these basic services is growing rapidly.

But some part of these public funds goes to the private sector. Private industrialists naturally hope to get the benefit of these funds, which are available on relatively cheap terms because they are backed by government credit. But only a few receive this benefit. The needs of private industry in the developing countries for new capital must in the long run be financed mainly by private investment capital.

In the industrialized countries in the free world the growth of industry has, with few exceptions, been made possible by the savings of private investors. Most business grows from its own retained earnings; but accelerated growth has been possible only by attracting the private savings of individuals or institutions in the field of industrial investment.

Of course in certain countries and over certain periods public funds have been directed into industry by governments for a number of reasons:

- to help the economy in times of depression
- to stimulate a new industry of national importance
- to acquire control over a particular sector of the economy.

But in the free world these cases are the exceptions. The broad rule has been that industrial and commercial enterprises have grown most rapidly when private savings have been available from outside sources and could be attracted into productive private enterprise.

I believe it is important to distinguish between two types of investment capital: first is business capital, meaning the funds which businessmen put into enterprises which they themselves manage and control; second is financial capital, those savings which seek sound and profitable investment without sharing in management. Financial capital is free to choose among many types of business, and between enterprises in its own country or in a foreign country.

Business capital normally operates only in the field with which its owners are familiar as managers. When it ventures into a foreign market, business capital does so for commercial reasons, such as the search for raw materials and cheaper labor, and above all the building up of markets.

Financial capital, however, is quite different in its motives and methods. It seeks companies which are well managed and have established proper accounting methods and sound financial policies. It may be prepared to accept modest yields in the early years in return for substantial capital profits later on. It is obviously influenced by the prospects of an income high enough to compensate for the risks of investing in a foreign country, about which the financial investor often is not well informed. He also wants to be able to sell his investment, to find a buyer at a price which has a reasonable relation to its value. This means that financial capital can more easily be encouraged to invest in a foreign enterprise if there exists a local capital market where investments are bought and sold in a competent and orderly manner.

It is in the interest of every developing country, first that private industry and commerce shall grow on as broad a front as the resources of the country permit, and second, that industrial units shall grow from small beginnings to a size which is economic and profitable under the conditions of the 1960's. Thus, in every forward-looking and developing country there will continue to be a growing need for private financial capital, both local and foreign.

Let us now consider the form in which private capital may be available. Many developing countries now possess substantial sources of public funds, local or foreign. Admittedly these are never equal to the demand but they are becoming available in greater volume. But almost all these public funds are made available in the form of loans. Loans have to be repaid and, with certain special exceptions, the loans made by international or foreign public institutions have to be repaid in foreign exchange. In the private sector of every developing country the greatest need is venture capital; by venture capital I mean share capital, which takes the long-term risks of the business and does not involve an obligation to repay. And this type of capital in the financial world is the scarcest commodity, particularly when it is required for investment in a new project in a foreign country.

The first obvious source of venture capital is the business capital of local businessmen; but, even if they have substantial resources in their own currencies, there may be a need for equity capital in foreign exchange to purchase equipment or services from abroad. Another source is the foreign business capital, which a foreign company will contribute when it is entering into a partnership with a group of local businessmen.

But up to now in most developing countries there has been a great shortage of financial capital, which shares the risks and rewards of the venture. To encourage the flow of this type of capital there must exist an investment climate which is reasonably favorable. This phrase "investment climate", much in use these days, includes

- An encouraging attitude on the part of the government towards private enterprise.
- Reasonable and intelligible laws regulating companies, taxation, exchange control and other investment matters.
- Sound accounting practices and competent professional advice.

The climate is, of course, greatly improved if there is a capital market which mobilizes local savings into productive industry, and an organized stock exchange which enables the investor to sell at a fair price when he decides to do so.

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The International Finance Corporation, for which I am speaking today, is affiliated with the World Bank. By its Charter IFC invests in productive private enterprises in association with private investors. One of its most important objectives is to encourage the flow of private capital and to sell out its own investments to private investors whenever it can do so on reasonable terms. It is the only international institution designed exclusively to operate in the field of private investment.

IFC came into existence 4 years ago. We now have 59 member countries with subscribed capital of $97 million. Thus far IFC has made 36 investments in 17 countries. These investments have helped finance a wide variety of projects as you will note in the IFC documents available to you. Of the 36 enterprises in which we have invested 20 are locally owned; 11 are ventures of joint, local and foreign, ownership; and only 5 are subsidiaries of foreign firms.

The majority of IFC investments has been in Latin America. This is not due to our design, but more projects have come to us from Latin America, reflecting the business and investment activity in that area. At present IFC's investment commitments in Asia are: two in Pakistan; and others in India, Iran and Thailand. In an effort to stimulate more investment proposals from the Asian and the Far Eastern countries we have had staff representatives visiting in this region during the past year. I hope that my own visit here and the contacts made will further establish IFC as a source of capital for private enterprise in your countries.

Under its Charter IFC is prohibited from equity investments, that is investments in capital stock. For this reason our investments are intermediate between loans and share capital. They are not restricted to financing the purchase of foreign equipment or other fixed assets but are available for providing permanent working capital. But considering the pressing need for more equity capital, we have proposed this year to our member countries that IFC's Charter be changed, so as to permit IFC to invest in capital stock. These proposals are being considered by our 59 member countries and we hope that in the course of 1961 IFC may be able to use both of the established forms of investment, namely, loans and equity investment.

If this power is given to us, the way will be open for IFC, even with its present modest resources, to make a much larger contribution in the field of private industrial enterprise. We have seen many cases where a project had good commercial prospects but the proposed capital structure was unsound. Because of inability to raise enough equity capital there was no sound base to support the loans or suppliers' credits needed to purchase foreign equipment and services.

If our Charter is amended we shall be free to strengthen the capital structure of enterprises in which we invest by making part or even all of an investment in capital stock. Two other important fields will then also be open: the provision of equity capital for well-managed private development corporations and the underwriting of capital issues in local markets.

There are in Asia several development corporations or industrial investment institutions, which are privately owned or managed, but enjoy government support and sponsorship. They exist in Pakistan, Ceylon, India, Iran, Malaya, Thailand and Turkey. Several of them have received loans or lines of credit in foreign exchange from the World Bank or the U. S. Development Loan Fund or other sources. The World Bank credits to these institutions total over $75 million to date. Their equity capital has been contributed by local investors and in some cases partly by foreign institutions, which were interested in the cause of promoting private investment. But most of them need or soon will need more equity capital. The International Finance Corporation may be able to help these national institutions by contributing some equity capital when the IFC Charter is amended.

These institutions are able to underwrite capital issues in the sense of guaranteeing the subscriptions of debentures or shares within the limits of their own resources. Hitherto it has been impossible for IFC to underwrite share issues because it cannot itself subscribe shares. But with an amended Charter we shall be better able to collaborate in this important work by underwriting capital issues of private industrial companies in Asia and elsewhere.

All of us who work in this field often ask ourselves the question to what extent the flow of private capital is increasing and how far it can help in the urgent role of economic development. This is obviously difficult to measure; but it can be said that in some countries of Asia, foundations have been laid and results are already or will soon be visible. But far more is needed. May I in conclusion sum up some of the main features of the present situation.

- Loans from public sources, national and international, have become available on an increasing scale.
- Most of these public loans go to the public sector. A small part goes to the fortunate few in the private sector.
- The volume of public funds for the private sector will only cover a small part of the increasing demands.
- Private capital is needed on a growing scale to promote the growth of private enterprises; and much more foreign private capital is needed in view of the rising costs of capital goods.

- Business capital, local and foreign, has shown a marked growth, wherever the investment climate is favorable.

- But financial capital, local and foreign, has not yet begun to be mobilized on the scale which is both necessary and possible.

- The investment climate has improved in many of the developing countries; but it needs further improvement.

- National development corporations, with foreign and international support, are becoming a major weapon in the armory of development; and, given sound management and more equity capital, they should be a great force for the future.

- There is a growing need for more equity capital, to be raised both from local and foreign sources.

- Capital markets have not grown as fast as needed and their encouragement, both by governments and institutions, is vital for the whole process of economic development of free societies.

We in the International Finance Corporation believe that private industrial growth is the most dynamic force for progress in the developing countries. We are seeking to assist in the growth of sound private enterprise and in the flow of private investment capital. Wherever possible we shall do our best to help improve the climate for private enterprise and investment in the developing countries of the free world.

ADDRESS BY MR. JOHN G. BEEVOR TO IMF TRAINEES

January 10, 1962

I think I can best explain the International Finance Corporation by starting to say that, although it is an international institution, it is very different both from the Fund and from the Bank. It is different both in its purposes and its methods of operation, and, of course, particularly different in its size.

The Fund and the Bank each have many billions or thousands of millions of dollars at their disposal. In the case of the Fund, as you know, it comes entirely from governmental sources; In the case of the Bank, partly from government subscription and to a very large extent also from borrowings of the capital markets of the world; but both of them are operating with billions of dollars, with funds which are sufficient by themselves to make a real impact on the problems of economic development.

IFC is different, among other things, in the fact that it has relatively a very small capital and that this fund which we have is of little use by itself. With $100 million which are our present resources, it is obvious that nobody with that amount of money can make a very great contribution to any of the problems of economic development, even if you take only the private sector and only the problem of industrial development, which it is our policy to help to foster. And to understand about IFC at all, I think the first thing is to realize that it has this relatively small capital and, by using it, it hopes to help stimulate the flow of private capital, local and foreign. Therefore it is not enough by itself to make a significant impact, but if it can be operated so that for every dollar of IFC money 3 or 4, or possibly 10, dollars of other money flows into productive private enterprise, then it is producing, or may produce, a worthwhile effect.

It so happens that we have recently been going through certain changes, both in our Charter, and consequentially in our policies and our published literature is in the process of being revised, so I thought it might help to give you this short statement which indicates what our present position and policies are.

The IFC assists in financing productive private enterprises in the less developed member countries. Its financing is made in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms. IFC was established in July 1956, just over five years ago, as an international investment institution with an authorized capital of $100 million of which $96.3 million has been paid by 61 member governments. Being an affiliate of the International Bank, the World Bank, IFC is partially integrated with the Bank and makes use of certain services which the World Bank provides. Membership is open to all governments which are members of the Bank; Executive Directors of the Bank who are appointed or elected by governments which are members of IFC, serve also as IFC Directors. The President of the Bank serves also as Chairman of the Board of IFC and, since October 1961, he has also been the President of IFC. IFC can make loans or investments only in member countries and only as a matter of policy in the less developed countries. An important amendment in its Charter, effected in September, 1961, enables IFC to invest in capital stock or shares in addition to making loans. It can now operate more effectively as an investment institution with powers to provide long-term financing, usually in a combination of loans and equity capital, so as to meet the needs of each enterprise for a sound capital structure. It aims at sharing the risks and rewards of each venture in appropriate degree. Its objective is always to sell to private investors all or parts of its investments, when it is possible to do so on satisfactory terms, so as to promote the flow of private capital, local or foreign, into productive enterprise. For this reason, IFC does not provide finance solely in the form of conventional fixed interest loans. IFC can now also invest in the capital of private development banks, or similar investment institutions, which are financing sound private industrial development in their own countries. In addition to any such investments from its own funds, IFC is now acting on behalf of, and in conjunction with, the World Bank both in assisting in the establishment of new development banks and in appraising and negotiating loans or lines of credit which the World Bank may grant to a development bank with a government guarantee. It is also now possible for IFC to underwrite, or guarantee, the subscription of capital issues of shares or securities and thereby assist the growth of capital markets in developing member countries.

As a result of its Charter amendment, permitting equity investment, and as a result of the decision by the President of the World Bank and IFC that IFC should undertake, on behalf of both institutions, responsibilities in the field of privately operated development bank financing, IFC has now new activities to perform. It will continue its direct investments in the industrial enterprises and its efforts to encourage the flow of private capital by securing private participation or purchasers for those investments. In addition, it can now begin to operate in close cooperation with the World Bank as a source of finance and advice for development banks in member countries and also as a source of assistance, when needed, in underwriting or guaranteeing capital issues in the developing countries. Both these new activities can contribute to the promotion and growth of capital markets. IFC is reorganising and increasing its staff for the achievement of these purposes.

Now that, I think, gives you a broad picture of what IFC can do today and what it is trying to do. Until last year, when we were able to obtain the approval of 60 member governments -- which is quite an achievement -- to an amendment in our Charter, we were restricted since formation in 1956 to making loans. But we were supposed to make loans in a form which would be attractive for resale to private investors, the object being, as I said earlier, to promote the flow of private capital and therefore to make investments in a form which would be saleable to private investors. Naturally, it was difficult to do that in the form of a loan and because, in order to interest private investors, particularly in new enterprises, you have to give them some right to share in the rewards of success, and you are seldom able to get normal private investors to go into new ventures simply in return for a conventional loan at a fixed rate of interest. Consequently, in our early days we were considerably restricted by this prohibition in our Charter against making investments in any form of shares and we were in effect sent into the world as an international investment institution but deprived of the power to make the most familiar and well-established form of investments, namely an investment in shares.

As you will see from what I have said, IFC in its nature is not intended to be a permanent investor. If we make an investment in a successful enterprise and it proves to be very profitable, we are not intending to hold that for many years and make a large profit. As soon as we can sell it off to profit investors, on terms which we regard as satisfactory, our policy and practice is to do so. We have already, in the course of 1961, succeeded in selling four of our investments completely to private investors, in each case at a profit which we regarded as reasonable, and so in those four cases we helped to get an enterprise started, we helped to make it possible for other investors to contribute to that enterprise and we were able to sell out because the businesses had been a success. In the course of that and as a result of our income from investments, we have so far been able to build up reserves amounting to somewhat more than $10 million, and you need reserves in this business. It is, I think, obvious that the business in which IFC is engaged is obviously a much more risky and difficult business than what the Bank or the Fund are doing. In each case they are dealing with governments or, in the case of the Bank, they may be making some of their loans to borrowers who are not governments, but always with a government guarantee. IFC, on the contrary, is prohibited by its Charter from accepting a government guarantee. Its duty is to make investments in the same way as an adventurous and intelligent private investor would do and to do it without a government guarantee.

As regards types of enterprise~~s~~, our policy, which of course is laid down by the Board of Directors representing our 61 member countries, at present and until further notice is to invest in predominantly industrial enterprises. We have not, for example, made investments in building, or real estate, in purely agricultural enterprises or in mainly distributive or commercial enterprises. The reason for this choice has been that an industrial enterprise is more or less the same problem in all countries of the world. You may have special local problems about raw materials and markets and communication and so forth, but still a cement plant is essentially the same kind of operation whether it is in the United States, or Germany, or India, or Brazil and a cement plant is something which is familiar to private investors, and if they are satisfied that a cement company is set up on sound lines, that it has got the necessary resources of limestone and clay, and that it has been equipped with well-established and well selected equipment, and that it is managed by competent people, if there is a market in that country, that is an enterprise in which a private investor should be willing to invest. And, in the same way, as you go across the list, whether it is chemicals or engineering or forest products, or mining, most of these enterprises are something which are familiar to private investors and are substantially the same in their problems in all countries of the world, and we therefore considered when IFC was started in 1956 that to concentrate on industrial investment would probably be the best way of achieving IFC's main purpose, which is to promote the flow of private capital: in other words, that it would be easier by concentrating on industrial enterprises both to encourage private capital to come in with us at the beginning and also at a later stage to find private investors who might be interested in buying IFC's investments when the enterprise proved a success.

Size of enterprise is, of course, always a subject for discussion. We have often been asked to make investments of small amounts in small enterprises and it is really not possible to do that economically or effectively all over the world. The development of small business, or small enterprises, is one of the most important things in any developing country, but I think experience has shown that it must be done by some investment institution or some organization in the country; it cannot be done at 5,000 or 10,000 miles range, from an international institution. I may say that the development banks, which play a big part in our lives and I think are in many countries making a most valuable contribution, most of them operating only in their own country, feel that they themselves have certain lower limits. They cannot afford the manpower and time involved in investigating and negotiating very small investments in very small enterprises, and I think in most countries there is a case for a specialized small business administration. Some four years ago now, we had a meeting in Washington of the managers of about twelve development banks from at least three continents and twelve different countries, and although their practice varied, most of them had certain lower limits which were not very different from what we have observed in IFC, and there was only one which seemed to have a special device which was particularly useful for dealing with small businesses. This was the Nacional Financiera of Mexico, which, in addition to its normal funds for investing in large projects which are important to the country, also has a special government trust fund which enables it to give guarantees or discount facilities to commercial banks in Mexico who are thus enabled to handle the small loans to small enterprises, really as agents for the Nacional Financiera, and that enables them to decentralize and to reduce the administrative cost of handling this important small business.

I won't say anything more about forms of investment. We have in the past had various rather complicated mechanisms; we are now trying to make them in simpler forms as we are now able to invest either in loans or in shares, as the case may be. I think I would like to conclude, before asking for any questions, by referring again to the two new functions which IFC is now able to perform.

One is providing share capital for other investment institutions, such as development banks, and the other one is helping in the underwriting or guaranteeing the subscription of capital issues in the developing countries. Dealing first with the question of development banks, the World Bank in the last ten years has spent an immense amount of time in helping member countries to organize development banks to be operated with government approval on private enterprise business lines. The object of this has been to try and prevent governments making the mistake of getting into business when they are often more than fully occupied with handling the finance in the public sector as regards utilities, transport and communication and power, and other things of that kind. And it has happened in certain countries that a development institution is set up under government control and it immediately comes under pressure to make loans, partly on political grounds instead of making them purely on economic and business grounds. And so the World Bank has been trying hard in the last ten years to encourage its member countries who want to have development institutions to have them set up on private lines, often with, say, a government director on the Board, usually with some government financial contribution in the form of loans, so that they are run on private enterprise lines but in the interests of the country as a whole. Now those institutions which are familiar with ---- a good many such as in India and Pakistan, Iran,Turkey and others, have on the whole had, I think, a very successful record in their early years and as they grow they not only need more loans, which they may get from the World Bank or from other sources, but they need more share capital to balance the loans. There is a limit to the amount of loans which you can properly raise on a given share capital and it is not easy to get share capital provided for development institutions which are obviously going to be investing for the most part in new enterprises which will not show much of a return on the money invested for several years to come. Now, since last year, when our Charter was amended, it is possible for IFC to make investments in the share capital of development institutions, and we believe this is going to be a valuable function for us to perform. We have so far made two investments in two financial institutions in Colombia, which are not strictly development banks: they are investment institutions which have been set up by a number of commercial banks and businessmen and insurance companies in order to provide long-term capital mainly for industrial development, and in each case we have invested $2 million in those two corporations in order to give them long-term money without having to pay us any fixed rate of interest, so that they in turn can provide long-term capital for the industrial enterprises which they are financing. We hope, over a period of years, to be able to sell off our investment in those institutions to private investors. We hope to sell them all at a profit which will compensate us for not receiving any interest in the early years. Those are two examples so far and we hope we shall have more to announce in the next year or two.

The second new function: capital issues. There is no doubt whatever that one of the difficulties of a businessman who is trying to get a new enterprise started in his own country is to get local capital. People often talk as though the problem of industrial development was how to raise foreign capital. That is only one part of the problem. We have had, and many other lending institutions have had, innumerable applications wanting so many hundred thousand or million dollars, pounds, or marks, or whatever foreign currency may be, when obviously they have not got any rupees or pesos,or whatever their local currency is, to make a sound basis for this enterprise. And many enterprises around the world tend to be started with too small a share capital and too big a burden of debt, which often causes serious difficulties when the enterprise gets into financial difficulties, as often happens in the early years. A new business is seldom a success from the start and during those difficult early years it is all important to have a capital structure which is reasonably sound. Previously

IFC could not help to underwrite or guarantee subscription of shares in, let us say, pesos or rupees or other currencies, because it had not got the power to invest in shares. Now it has that power and therefore it can engage in this business of underwriting and we believe that in so doing it may help to encourage the growth of capital markets and encourage the flow of local private capital into businesses in that country. Mr. Garner, who used to be President of the IFC until last year, often used to draw attention to the amount of money which exists in many of the developing countries which goes almost anywhere except into productive private enterprise in that country. The tendency is to invest in building, in land or property, even to invest it abroad, but one of the most important things which I think IFC is hoping to do over a period of years is to help encourage in its developing member countries local investors to make investments in their own country in private industries conceived on sound lines.

Those, I think, are the broad outlines on which IFC is trying to proceed and I should be glad to answer any questions which anybody may wish to ask.

Q U E S T I O N S

Chairman: Thank you Mr. Beevor. Your questions. Mr. Hopkins.

Mr. Hopkins: Does IFC ever seek to get control share interest?

Mr. Beevor: Never. It wasn't a problem until last year when our Charter was changed. Our policy now is having the power to invest in shares. We never want to have more than 25% of the voting share capital; nor do we seek to exercise voting rights. We do not want to control, we want to invest in the companies which have got an experienced management and capable people on the board. If they haven't got good people on the board, well, we will be glad to try and help them find other people to go on their board.

(Questioner): Would that exclude private businessmen who do not already have a business established?

Mr. Beevor: I didn't quite follow the question.

(Questioner): Well, you talked about the fact that they must have good people on the board; they must have a sound background. Does this exclude a new group of people from starting a business?

Chairman: From lack of experience, you mean?

(Questioner): Lack of specific experience in that particular industry. Or, if they had private capital but did not have business background.

Mr. Beevor: You have touched on one of the most important points in the whole of these activities. We are constantly being approached by people who are good businessmen; they may have been successful merchants, in selling chemicals, in dealing in hides and skins, or agricultural produce, but they now want to start the manufacture of chemicals or steel, or engineering, and this is a real problem. If I, for example, said I wished to go and start a chemical manufacturing industry, nobody in his senses would invest in my company. I have no experience in it at all. I have been a lawyer and a banker, I know nothing about chemical manufacture and I should not expect to persuade anybody to invest in my company unless I got other people to join with me; either persuade an existing chemical company to take some part in my business or else to go out and get men who had had the right experience in managing, both financially and technically, a chemical plant. As I say, people often come to us who want to do something for which they have no experience whatsoever. I remember somebody saying to me years ago,"If I announced that I was going to take music lessons and conduct the orchestra at the Metropolitan in three months time, nobody would attend at all!" This is the sort of problem we are dealing with and we spend a lot of time trying to, in these situations ----- trying to make suggestions to businessmen from a particular country to get in touch with some experienced group, whether it is here in the United States, or in Europe, or elsewhere, who have got

Mr. Beevor: (cont.) the sort of experience which they lack. Now, we ourselves, I think, like any sensible investor, will not invest in a business where there is nobody who knows how to manage it. It is just a sure way of losing your money and it is not really in the interests of the country that people should start businesses without having any experience, unless they can start them on a very small scale. What happens now, is that many businessmen in Africa, Asia, Latin America, realizing the importance of large scale industrial enterprise in this mid-twentieth century, are trying to start very large enterprises, and they must be large - you can't start a small papermill, you can't start a small petrochemical plant - you've got to think of something which is going to cost $5 million or $10 million or $20 million and therefore, in those kinds of enterprises, there must be large-scale organization and there must be experienced management which knows about fairly large-scale organization. Our policy has been, in the past, we will invest in any enterprise in member countries, where, apart from other things, there is experienced management, whether it is locally owned or foreign owned, or preferably a combination of the two. We have a fairly strong preference for investing in joint ventures where there is a combination of foreign technology and business experience and local business experience and local management. But you can see from our literature, that I think approximately half of our investments have been made in jointly owned enterprises, part local and part foreign, and about a third have been made in entirely locally owned , and only three or four of our invest-

Mr. Beevor: (cont.) ments have been in companies which are foreign owned from the point of view of the underdeveloped country. But, returning to your question, first of all we would not invest in a company where nobody has any real experience of the business. We then say to them "If you haven't got the experience, you must go out and find somebody to help you and we will try and help you ourselves if we can".

Chairman: On that point, Mr. Beevor, does this mean that you people run a technical assistance office, or alternatively, that you have one of your men sitting on the management or board of directors to keep tab of what's going on?

Mr. Beevor: The answer is nearer to the first, than to the second. We do not ourselves put any of our staff on boards of the companies we invest in. We are constamtly sending our men out to inspect companies, to inspect plants where we have already invested. We had somebody back only two weeks ago, who has written a long report pointing out all the mistakes which had been made by the management and we shall have to do something to rectify those errors. We don't run an official technical assistance program: in practice, on a small scale we really do by means of ---- without having a separate department for this, we are contantly trying to put businessmen in touch with other companies who may be useful partners, and we are constantly sending people out to inspect enterprises in which we have already invested.

(Questioner); I have really two questions. You have emphasized the point that IFC invests without government guarantee; that you try as far as possible to go in on the same terms and conditions as a private investor would, but isn't the fact --- by virtue of the fact that the IFC is an international institution, does it not enjoy certain immunities, privileges, say, in regard to tax treatment, exchange control.

Mr. Beevor: No, not exchange control. It is perfectly true that, as an international institution and under the terms of the Charter, IFC is immune from taxes, whether in India, Brazil or in the United States. One of the reasons, of course, was that if we didn't have that immunity, being situated here in Washington, we would be paying tax on all our income to the United States, which would not be the intention of member countries or of the United States itself. So it is perfectly true, we do have an advantage over private investors that we do not pay taxes and that is a very big advantage. But that enables us to pay the expenses of all the things that we are doing. We have, as an international institution, we have to investigate a very large number of propositions which come to us from all over the world. There may be three or four hundred a year, all of which require -- even if it is only a letter of reply to say "I much regret that this is unsuitable". This all takes time. We have to spend a great deal of money in sending men out to Africa, Asia, Latin America, to investigate, negotiate, come back and report, go out again six months later. Give you one example; a recent

Mr. Beevor: (cont.) investment we made in Pakistan, in a big cement project. I was there myself with two people in December, 1960, and I was there again with a lawyer in August and the same lawyer is back there now and we have had an engineer going three times to Paris to ~~take~~ talk to the equipment suppliers. Just at a guess, I would say we probably spent at least $10 - 20,000 in travelling expenses in making that investment; that we also retained a firm of consultants to go out and survey the market for cement in that country and they had to go to Pakistan and they had to come back here and, for some special reason, we even had to send them over to the West Coast of this country to get some information. All this adds up to a great deal of expense. A normal private investment institution would never do what we are doing and we believe one of the more useful things we can do is to investigate projects up to a point where we can say, "we believe this is sound; we have looked into it very carefully; we have had an engineer go out; we have sent a lawyer out who has studied the legal system of the country;" and then wecan go to a private investor and say "we have done all the work, would you care to join with us in this". Even a big investment institution, an insurance company, a bank, does not want to do this kind of business. It is very expensive indeed, in terms of manpower as well as money, and there are very few institutions in the world who are doing an international business of investigating projects and working out investment terms all over the world. We believe this is probably one of the more useful functions we can perform. Going back again to your question, we do have an advantage tax-wise, and this enables us to do a lot of things which we

Mr. Beevor: (cont.) could not otherwise afford to do. On your second question - exchange control. We do not seek, or accept, any preferential position which a private investor would not get. I had a cable this morning,on this same cement project, that they were hoping to get the necessary consent from the Central Bank. We go through exactly the same formalities as any private investor would.

(Questioner): I would just like to suggest that the Exchange Control Authorities would have to be powerfully courageous and powerfully stupid to place any sort of restrictions on an IFC investment ------

Mr. Beevor: ---No---

(Questioner): ---- than to a mere private investor who does not have the privilege --- the panoply of privilege.

Mr. Beevor: If a country has Exchange Control regulations, they apply to everybody unless the Government makes an exception. The Articles of Agreement of IFC and the other arrangements which have been made as between member governments, make it clear to every government that there is no need whatever for IFC to be given preferential consideration.
Take one case which is current with us at the moment.
We have, I think, now five investments in Bmazil -- no, we have four, we had six and sold two. Brazil is going through

Mr. Beevor: (cont.) a serious exchange situation and some of our borrowers are having difficulties in getting the foreign exchange with which to pay interest. They have to go through exactly the same procedure in going to the authorities there to pay us, as they do in paying interest to other investors who have invested at the same time as we did and, in fact, we had one case in Brazil only about three months ago, where we discovered that we had received interest, but two other lenders in New York had not. And so, we immediately got in touch with the Brazilians and said "you have put us in the most invidious situation. This should never happen"; and this was simply an administrative oversight.

Chairman: You had another question, Sir?

(Questioner): Yes, I wanted to ask what guarantees does the IFC have against nationalization by ------

Mr. Beevor: None. This is a risk of investing in any country and, to some extent, you may say it is a political judgement or it is just an act of fate in guessing what will happen in the future. We hope that governments who are thinking of nationalizing certain types of enterprise may perhaps be more reluctant to nationalize an enterprise in which IFC has invested, but they are perfectly entitled to do so, if they think fit. It has not happened to us yet. It is asubject we are always considering actively and we have a clause in most of our investment agreements saying that one of the events of default is if a

Mr. Beevor: (cont.) government nationalizes or expropriates a large part of the business, and this is quite a common clause to have in an investment contract. But we have no guarantee or protection against nationalization.

Mr. Curry(?): I observe that the purpose of IFC is to stimulate the flow of private investment and for that you want that every dollar that IFC spends, it should be accompanied by three or four dollars by the private participants. Could you please give us some idea as to the ratio of the existing operations?

Mr. Beevor: I haven't got absolutely up-to-date figures. I think the last one I had was about 6 or 8 months ago. It has been somewhere between three or four dollars of other people's money for every dollar which we have invested. I think I can --- Let me just give you the figures ---- These are actually nearly a year old; I haven't had them brought up to date. A year ago we had invested, or committed, by which we mean we had agreed to invest, $42 million in 37 enterprises, and the total cost of these enterprises ---- the total capital cost --- was $192 million, so that's more than 4 to 1. That is a fairly reasonable figure that takes into account ----- that excludes capital ------ you see, sometimes we invest in an expansion of an existing business and, for this purpose, we always excluded the capital which had been put in perhaps 20 years ago, but in cases where we have invested in an expansion, we have calculated the new

Mr. Beevor: (cont.) capital which came in at the same time as ours from other sources. In the case of new business, obviously, we calculate everything that has come in. But, roughly speaking, it has been of the order of three or four dollars of other people's capital to every dollar we have invested, and on the average you may say that we have financed somewhere about 25% or 30% of the cost of the various enterprises which we have invested in.

(Questioner): And how has this figure behaved? Is it increasing, or is it constant, and what is the figure that you think is adequate?

Mr. Beevor: I would say, if we could keep it ----- if we could on the average help to get a business started by providing only one-fifth of the capital, we would be doing pretty well. There is always difficulty in getting capital for a new business. There is no profit record; the management has not been proved and established; and, I think, if we could average 20%, we would be doing well. It is a little bit misleading to say that we are providing 25% or 30% of the total, because a lot of this money, although it is quite legitimately counted, a lot of it is not what I would call true investment. A great deal of the money to finance enterprises of this kind comes in the form of suppliers' credits. Now that, as everybody knows, is facilitated by all kinds of government export credit institutions and guarantees and, although it is part of the capital which goes into the business, it is not investment

Mr. Beevor: (cont.) capital. What we would like to do would be to ---- that every enterprise in which we invest should be financed by true investment capital instead of these suppliers' credits, which, Goodness knows, are an important featuer of the modern world and make possible the industrialization of many countries, but they have certain drawbacks. They are more expensive than they appear and people often come to us and say "Your money is expensive; I can get a suppliers' credit from a German (American, or a French or a British) firm and it will only cost me 7% interest". But everybody knows that the prices get adjusted to some extent on those deals and there is always ------- it costs more just in the same way as instalment financing in any field, and I think that the suppliers' credit mechanism has its value, but we would like to encourage more true investment capital, whether local or foreign.

Mr. Hopkins: In selling its interest in an industry, is IFC governed by any policies or motives other than making a reasonable profit? For instance, would you sell to a private investor who has questionable motives?

Mr. Beevor: This is a very good question. First of all, we would never sell to a competitor, because we are looking for good partners with whom to invest. We have got to establish a reputation of being a good partner ourselves and so, if we get an offer to buy us out, we always want, in the first place, to know this is not a business competitor or somebody to whom the company could take a reasonable and justified ~~mx~~ objection.

Mr. Beevor: (cont.)

Secondly, we would not normally sell to a government. Our job is to try and sell to private investors. Thirdly, we have to give some thought to the question of nationality. We do not want normally to restrict ourselves only to selling to local purchasers. If we have got an investment in India, or Brazil, and we cannot find an Indian or a Brazilian buyer, but we can get one in the United States, or in France, or Germany, we would like to accept the offer. And what we are usually doing so far in effecting sales -- we have usually sold out to the principal shareholders. We have helped them to get it started; it has been a success; they want to get us out of the way and, probably, to expand the business, and make more money. We are very happy to sell it back to them, though we would prefer, wherever it is possible, to try and broaden the interests in a company. If we have an opportunity of a public offer, rather than selling it back to one or two rich men, we would rather place it more widely, if we have the chance. I think those are the answers.

Mr. Myer (?)

How much can be invested in each foreign country? Is there a limit?

Mr. Beevor:

There is no limit. There is no theoretical limit and we none of us have any clear figure in our head. We once got to a point in Brazil where we were wondering whether we were getting a little bit too heavy in Brazil. There was a time when we had $8 million, out of $100 million, in Brazil, and we had three or four other projects under

Mr. Beevor: (cont.) consideration. If they had all gone through it would have taken us up to $15 million. Well, that, after all, would have been 7% of our total funds and we had got 30 or 40 member countries. We have got at present some $6 million in Colombia and that is --- it's unlikely that we shall invest much more than $10 million in any country as long as we have only got this fairly modest capital of $100 million.

Mr. G----: As you know, Sir, savings in underdeveloped countries are very small. On the other hand, IFC gives credits for the establishment of, you said, large scale industries, and so it seems to me that the activities of the organization might not be very effective this way, because of the small savings and also your condition that large scale industries should be established. And it seems that this is one of the reasons that this organization is not very well known in underdeveloped countries and so they are not making very much use out of it. Also there is the other point, I should like to know if you have got any powers in the equity investments you make in all these industries. A third point is that you have mentioned that one of the faculties of the organization is to guarantee investments by --------

Mr. Beevor: -- to encourage ---

Mr. G.----: --- not to guarantee?---

Mr. Beevor: --- not to guarantee.

Mr. G-----: Therefore, if you do not guarantee and you only encourage, don't you think that it is also better to introduce the function of you, I mean IFC, guaranteeing private investments, or if you cannot because the sources of the organization are very small, don't you think that it would be better if an international investments guarantee corporation is established in order to boost up the activities of IFC?

Mr. Beevor: Well, Sir, this is a formidable range of questions. Let me deal with the fist one. Which is your first one --- this was --------

Chairman: Your investments ratio.

Mr. Beevor: This was the one. Small savings. We are hoping, to some extent, to get into this field when we start this new work of hleping to underwrite capital issues. In other words, let me just give you an example. I went to Mexico ten months ago in March to discuss with banks there whether they needed help in underwriting capital issues to the public. The practice in Mexico, as in many other countries, has been financing tends to be done through rather small groups, who tend to keep it to themselves and only recently have they started to have one or two public issues to give the public as a whole a chance to invest. And I was interested to find that there

Mr. Beevor: (cont.) was a growing interest in public issues, in broadening share ownership, for political reasons as well as for genuine economic reasons. This is one way in which we can perhaps help to a modest extent in that field. We are also thinking, though we haven't even raised this with our Board of Directors yet, whether someday we might not help to encourage some of these ~~investments~~ investment trusts, or mutual funds which have been started in a number of countries in the last five years. There have been quite successful ones in Brazil, smaller ones in Argentina, Chile, Colombia; I have been talking about it in the case of India and Pakistan. In other words, mechanisms or institutions which may attract small savings into productive industry in their own country. This is the important thing. We are conscious of the point you mentioned - we regret that we haven't yet been able to do much about it.

(Questioner): Well, I thought that because savings are small in underdeveloped countries so private industrial enterprises are not making full use of this organization and this is why it is not well known to them.

Mr. Beevor: Now your last point - the international investment guarantee situation. This is a very complicated subject. It has been publicly announced that the World Bank has been requested to study this subject. I myself have sat in on meetings in the last few months on the subject; the World Bank is preparing a report which will be published in the course of this year -

Mr. Beevor: (cont.)

in fact probably in the next six months. It is a most difficult subject. As regards the question whether IFC itself should guarantee private investments we don't think that's the right thing to do. You may know that the World Bank, in its far bigger scale and trying to sell simply government bonds, which, after all, are much stronger things than what we are trying to sell, they have been selling their investments for years and, in the early years, I think 10 years ago, they were selling participations to insurance companies and savings banks and other institutions with the World Bank's own guarantee in order to encourage --- in order to be able to sell bonds of the Brazilian Government and India and Pakistan and other countries, the World Bank gave its own guarantee to the purchasers. Well, of course, that was just like buying a World Bank bond and a World Bank bond meant a guarantee of the United States and 70 other countries. Therefore, the purchaser wasn't really investing in one particular country. Now the World Bank very soon discontinued that practice, first because the guarantees were going to add up to a formidable figure; secondly, because it wasn't genuinely encouraging genuine capital to go into these bonds. Now, in the same way, IFC in its much smaller operations, in a very different field of private industrial financing, we would not really be encouraging the flow of private capital on a genuine basis into a cement plant in Brazil, or in Pakistan, or to take another case, a sugar factory in Tanganyika, whih we invested a lot of money in. We couldn't

Mr. Beevor: (cont.) say we have encouraged private investors to go into Pakistan, Tanganyika and Brazil, when we have given them our own guarantee. I mean, that's simply giving a government guarantee. So what we are trying to ~~xx~~ do is to get private investors to invest in these countries which so much need it, in enterprises which have been well investigated and either are likely to prove successful or have been proved successful.

(Questioner): Then, why is the organisation not well known? I understand that it is not very well known to private enterprises.

Mr. Beevor: Well, I must say up till ten years ago the World Bank wasn't very well known - I mean outside governments. And it does take a long time for an international organization to get known, especially when it is as -- I say with all modesty -- it is quite a small one as IFC is, with $100 million. What is that? That's enough money to pay for five pulp and paper plants costing $20 million each. This isn't a vast sum of money. We only hope to be well known in fairly limited circles: business circles and banking circles in those countries where we can make investments.

(Questioner): I thought there were certain things which private enterprises want to avoid - I mean in the lending policy of the IFC.- certain features which are not very attractive to people who want to ~~xxx~~ borrow from the organization and invest in local industries.

Mr. Beevor: This is perfectly true. I think you are referring to what I myself mentioned in passing, that in our early years, with this restriction in our Charter when we had to make all our investments in the form of loans, they were, or anyhow seemed, to be, very expensive. We are fortunately now able to get away from that difficulty by making our investments partly as loans and partly in shares. Nobody objects to the shareholder making a reasonable profit if he is taking his share of the risks. What everybody objects to is when a lender has the protection of a lender and also wants a share in the profits. I quite agree with your point.

(Questioner): Then, about voting powers: you mention that you have no control over management, over the borrowing enterprises, but nevertheless you might have a sort of voting power.

Mr. Beevor: Our policy is to have voting rights. In other words, if we invest in shares and you two gentlemen are the other shareholders, we want to have the same shares as you, so that when the time comes to sell them I can sell them to you, being the same shares as everybody else. We don't want to have non-voting shares. Therefore, we want shares with voting rights. Our policy, however, is we will never exercise those voting rights except in some very compelling situation.

Chairman: Sir, along that same line, are there typical conditions or

Chairman: (cont.) controls or strings attached which are negotiated in connection with each investment.

Mr. Beevor: Yes. I mean just as ------------

Chairman: Would you say something about these?

Mr. Beevor: In two minutes I will have to ask you to excuse me because I have another meeting.

We have investment agreements, like any other investment institution, and we have a number of fairly standard conditions and covenants in them. The ones which are perhaps worth mentioning are the following:

We have provisions which govern the disbursement of our money, and we want to be satisifed at each stage that the project is being carried out in the way that was agreed -- that other people are putting up their money as well as we putting up our money; that they are still building a cement plant instead of building a swimming pool or a race track. All these things you have to watch at every stage, and so there is a good deal of necessary precaution about ensuring that the project is being carried out as planned. Secondly, after the project is completed, we have a number of, I think, more or less necessary and inevitable things. We want, first of all, to have progress reports on the progress of the business - we ask for that quarterly. We want annual accounts - we want them to be audited by independent auditors. We want

Mr Beevor: (cont.)

provisions that the company will maintain a reasonable working capital. It won't pay it all away in dividends. And so we have some restrictions that they will maintain working capital at a certain level. We want restrictions on the amount of borrowings that they make, so that we don't find that they have gone and bought a new business next door by contracting a big loan which unbalances the whole capital structure: that kind of thing which any financial or investment institution ought to have.

Chairman:

Thank you very much for your coming up here and giving us your time and your candid answers.

Mr. Beevor:

Gentlemen, it ~~xxx~~ is a pleasure, and I hope that although it is a relatively small organization and we are investing -- we are helping governments in directly, we are not a source of money to governments, we are investing in private enterprise, which we believe in the long run is going to be a help to ourmember countries, so we are always very glad to have the opportunity of talking to a group like this whereyou are going back to your own countries and will know something about what IFC is trying to do. Thank you very much.