Paterson, Neil J - Articles and Speeches (1964 - 1966)

PATERSON

See slight corrections, p. 3 + 4

INTERNATIONAL FINANCING

Text of a speech by Neil J. Paterson, Director of Investments (Latin America, Europe and Australasia), International Finance Corporation, to the fifth Inter-American Conference of Business Administrators, November 12, 1964, in Lima, Peru.

Mr. Chairman, Delegates:

It is an honor and pleasure for me to be with you today and at the outset I would like to pay warm tribute to the friendly efficiency of the organization of the conference by our hosts.

My theme International Financing is a broad one, even when narrowed by its application to Latin America, which is also a broad generalization. Guided by the central theme of the Conference, I shall attempt to make my remarks more meaningful in the context of regional development, narrowing their focus to the following questions:

1) What has been the role of the World Bank organizations in the process of development in Latin America?

2) What problems have been evident in carrying out this role and what solutions have been found?

3) What guidelines for the future are suggested by the practical experience of the past?

Turning now to the role of the World Bank organizations in helping in the development of Latin America, let me first make the point that their operations are complementary. The World Bank itself has been primarily concerned with macro-economic problems such as national credit-worthiness, foreign exchange, fiscal and monetary policies, national and regional development plans and the like. The importance of this work for private development need not be underscored for without acceptable bases of national solvency and stability, the work of private enterprise, the flow of international financing and the whole process of economic development are frustrated and distorted.

Consistent with this role, the World Bank as a financial institution has channelled most-but not all- of its resources into infrastructure, to provide the power, the highways, the ports, the communications and the like without which there could not possibly be growth of private enterprise, or development or regional integration.

To this audience I will not shirk from using numbers. The largest commitment of the World Bank family is in Latin America as compared with other areas. The total is about US$ 2,250 million. Of the amount about US$ 1,200,000,000 has gone into electric power, adding generating capacity of about 8.5 million kilowatts.

Transport has attracted the next largest amount of Bank lending to Latin America or more than US$ 650 million, to open millions of additional acres to commercial cultivation and to lower transport cost and bring producers closer to markets. About 50,000 kilometers of roads are being built, reconditioned or kept in repair and some 4,000 kilometers of railroads have been built, rehabilitated or modernized with the help of World Bank financing.

Other aspects of infrastructure, such as telecommunications and water supply, have been financed with World Bank money but have not, because of their less capital intensive nature, attracted such very substantial amounts of financing.

Most of the projects in infrastructure have involved government ownership but some, like Lima Light & Power Company, are private. I might take this case -- since we are at this moment consuming its power -- to illustrate tangibly the contribution of international financing to infrastructure. In 1960, the Bank made a loan of $24 million to the Lima Light & Power Company, to help get a 10-year expansion program under way. The need for the expansion was clear. Half of the power sold in this region by the company is to industrial customers - plants producing textiles, cement, rubber products, paper, vegetable oil, fertilizer, glassware, and other items. If these customers had gone short of power, their own expansion programs would have suffered. Again in November 1963, as it became timely to implement another stage of the expansion program, the Bank lent a further $15 million to Lima Light, to make possible - by the diversion of water - a substantial increase in the output of existing power plants, to provide more drinking water for Lima, and enough water for the irrigation of some 12,000 acres of arid land south of Lima. Additional generating capacity will also be installed and the company's distribution system will be strengthened and expanded in Lima to link up 45,000 new customers.

In carrying out its work in infrastructure, the Bank has of course conducted missions in depth, to evaluate and sometimes help form general development plans, so as to establish economic priorities, local financial and other capabilities, and hence the need and most effective utilization of local and international financial and other resources.

It has also sought to apply rigorous commercial, financial and industrial standards to individual projects, involving for example competitive international bidding, tight specifications, most economical design and the establishment of power rates and railroad tariffs to put the utilities concerned on a self-sustaining basis.

Before leaving the Bank proper, I want to balance the picture by pointing out that Bank financing has also flowed in a total amount of over $200 million to private industry and to agriculture in Latin America. The first loan by the Bank to a private industry was in Latin America - a $20 million loan in 1953 to Papeles y Cartones of Chile, to finance the construction of chemical pulp and newsprint mills. Other examples are the loans to Schwager and Lota, private coal companies in Chile, and recently a $30 million loan to Paz del Rio, an integrated steel producer in Colombia. A local example is Cemento Pacasmayo to whom the Bank made a loan to help meet the need for cement in Northern Peru.

But tempting though it is to dwell on the variety of functions such as technical assistance, training through its Economic Development Institute and the like, and to say something about the work of the International Development Association which is closely parallel to that of the Bank itself, I shall in the interest of time resist the temptation, and pass to the work of the International Finance Corporation, the Bank's subsidiary whose work touches most directly and intimately on the problem of financing the private industrial sector.

IFC was established to work exclusively in the private sector, without recourse to Government guarantees and generally without other forms of guarantees or security either. Its birth grew out of the conviction that the requirement of Government guarantee was a major impediment to many useful and profitable private sector projects. IFC's close operational relationship with its World Bank parent derives from an obvious corollary of a proposition I stated earlier. Namely, if private development would be impeded by inadequate provision of infrastructure, so the provision of infrastructure without the maximum and best utilization of their facilities by the private sector would constitute economic waste. IFC's close operational gearing with the Bank is assured by it having the same President, Board and substantially the same shareholders. IFC also has a Board of Advisors with whom we consult on policy problems. It consists of Dr. Abs (Deutsche Bank), Baron Guy de Rothschild (de Rothschild Freres), Dr. Mattioli (Banca Commerciale Italiana), Viscount Harcourt (Morgan Grenfell) and Andre Meyer (Lazard Freres).

In examining the record of its past operations, it is seen that IFC has even more markedly than the World Bank carried out a large proportion of its total operations in Latin America. As of the end of September, IFC's gross commitments totaled $123 million of which slightly more than $75 million, or about 61%, were in Latin America. The reason for this strong regional basis in favor of Latin America is worth a moment's analysis. It is not, I can assure you, that IFC takes its responsibilities less seriously or devotes less effort to other areas. It is, as I see it, that within the range of developing and capital importing countries in which IFC operates, conditions in Latin America -- in terms of human and material resources, entrepreneurial, industrial and financial skills and sophistication -- are more developed than in other developing areas. This is encouraging, though by no means grounds for complacency either on the part of IFC or of the private industrialists of Latin America. We want the private sector in Latin America to do much more, more quickly and to help it more than we have so far.

We at IFC have progressively been given more tools to do this. IFC, like other institutions set up to do a job which had never previously been done in quite the same way before, has had to evolve empirically. At first, its operations were somewhat restricted and certainly complicated by its inability under its Charter to provide equity financing.

This impediment was removed in 1961 when the IFC Charter was amended to permit IFC to invest in equity as well as to enter such commitments as the underwriting of share offerings. We have found this a most useful tool. For one thing, quite often the real financing need of an enterprise is for more equity than the local capital market can provide within the necessary time. By enlarging the equity base with our own resources, we were able to provide a sound balance between equity and debt and thus help also qualify the enterprise for financing from other sources such as the World Bank, the Inter-American Development Bank or the Export-Import Bank, the German Kreditanstalt fur Wiederaufbau.

Another by-product of our equity right has been that it places us in a unique position to understand the problems of the company being financed. There is no more intimate financial relationship than when you share the consequences of profits and losses as a shareholder. Psychologically there is an advantage in being within the enterprise in this way as the identity of interest is complete. In using our equity power we do not invade the prerogatives of private management. Indeed, we do not vote our stock and we would never accept an equity position of more than 20 or 25%.

Our objective in taking stock is to sell it. Here we attach great importance to selling into local hands as we believe that Latin American companies should to the greatest extent possible be owned by Latin Americans. We would also sell our equity to foreign investors who were welcome to local shareholders. Sometimes such a transaction can be a means of inducing the inflow not only of venture capital but also of technical skills.

In still another way the equity tool has been very important. That is to permit IFC to reticulate its financing down to smaller undertakings than it could sensibly finance directly. The great bulk of IFC financing in Latin America has been direct in the sense that we invest and lend directly to the larger industrial enterprises. The need for helping fill the gap of financing smaller enterprises is however both economically and socially important. Our solution to this problem has been for IFC to invest in the equity of local private financieras who, being on the spot and knowing local people and conditions better than we can ever hope to, are better equipped to appraise the risks of smaller enterprises than we are. They are also obviously able better to follow day-to-day developments.

In some cases we have engaged in joint operations with financieras in which we are shareholders, thereby enlarging the scope of their operation. A recent example of this is our joint handling with the Bogota and Medellin financieras, in both of which IFC is a shareholder, of a large offering of stock of Forjas de Colombia, a $14 million project to erect a modern forge plant in Bucaramanga. In this case, we made a direct purchase of 10 million pesos of shares and simultaneously underwrote, equally with the Bogota and Medellin financieras, a public offering of a further $15 million pesos of shares. The project also attracted equity from German as well as other local private investors and, I am very pleased to say, also from ADELA.

But our use of the joint underwriting technique is by no means confined to financieras or other financial institutions in which we are directly interested as shareholders. In fact, our largest underwriting was undertaken quite recently with Credito Bursatil of Mexico. Here the total amount of equity required was the equivalent of US$ 12.5 million, a formidable amount to raise even in the relatively developed and active private capital market of Mexico. The object of the financing was to provide, by way of a rights offering to existing shareholders, the equity portion of a financial plan, to effect a substantial expansion of the largest private steel producer in Mexico, Compania Fundidora de Fierros y Aceros de Monterrey. Credito Bursatil and IFC took equal positions and both found sub-participants, Credito Bursatil in Mexico and IFC in the United States and in Switzerland. The underwriting was the largest of its kind in the history of Mexico and to everyone's satisfaction the issue was fully subscribed.

I have spoken deliberately at disproportionate length on international financing in equity form, because it is a less familiar technique, involving different programs and possibilities than those of straight debt financing. IFC is, of course, also a source of debt financing and indeed the bulk of its financing has so far been in the form of debt. The proportion of IFC financing in equity form is, however, growing and at the end of the last fiscal year, accounted for about 30% of the total. There is every indication that this percentage will increase further. The pattern of the future seems to be that IFC will simultaneously provide straight unsecured debt and straight equity, often in association with local financial institutions and sometimes in association with other international or with foreign financial institutions.

Our work in the equity field has brought us equally into what I think is one of the most important areas for further work in helping stimulate private industrial development, namely the growth of private domestic capital markets. It is important because the amounts of money needed for rapid growth are more than can be provided through family ownership and foreign sources. It is important because the distribution of ownership throughout the citizens of a country is a source of political and social opportunity and stability. Finally, it is important because of the obvious economic and political advantage of having the industries of a country owned to the largest extent possible by the citizens of that country.

We of the World Bank family are attacking the problem on several fronts. IFC, as I have said, is taking equity to sell - generally when the projects financed earn profits and can support dividends - to local citizens. World Bank staff, IFC staff and outside experts hired by the two institutions are joining local experts in providing advice, where it is sought, to Governments and private groups, on the range of economic, technical, financial and legal problems involved in encouraging the growth of local capital markets. I am happy to say that such advice is being increasingly sought and implemented.

The formulas of international financing of development are not static and to be effective, a financial institution must be responsive to - or better, anticipatory of - the fast-changing problems and opportunities of fast-growing populations in a fast-changing age. In this context, I am confident that the job of encouraging local capital markets will attract the increasing attention of Governments, private, financial and industrial groups and their friends abroad.

To be ready for the challenge of the future and to be able to help the private sector on the larger scale which resurgent growth and integration will demand, it was, as some of you know, proposed by unanimous vote of our Board of Governors in Tokyo last September, to increase IFC's resources by making it possible for it to borrow from the World Bank and re-lend to private industry up to four times IFC's paid-in capital and free reserves, or up to $400 million. At present IFC's paid-in capital is about $100 million and reserves against losses (which are not free reserves) are about $21 million. These additional resources will enable IFC to handle larger single transactions - of the sort which would be meaningful in terms of economic integration. To round out these comments, I should point to several IFC financed projects which have already directly contributed to economic integration. We have financed Papeles y Cartones in Chile, which is exporting pulp to Argentina and we have also financed Papelera Argentina, which is converting the pulp. We have also financed Tubos de Acero of Mexico, which has exported seamless steel tubes to Argentina; Coltejer of Colombia, which exports textiles to neighboring countries, and others engaged in regional trade.

In appraising projects, we are particularly concerned with problems of scale and comparative advantage to avoid sub-economic, redundant output and to encourage efficient operations of regional value.

Mr. Chairman, I think I have used up my allotted 20 minutes. In conclusion I want to say that I would have preferred if my Spanish or Portuguese had been equal to the task of addressing most of those present in their native language. I am confident, however, that the translators have improved the presentation from its original English.

Muchisimas gracias

Slight variations from text reproduced in Peru which Mr Paterson has

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May 16, 1966 Neil Paterson - NYC.?

K Hanson, L - ~~[illegible]~~ American Management Association

Draft of AMA Speech
D. Grenier - May 11, 1966

My subject covers the

1. I am glad ~~to have this opportunity to~~ discuss with you the experience of the International Finance Corporation in Latin America and ~~to outline to you~~ some of our present expectations. It is now 10 years since the IFC was first organized as an affiliate of the World Bank to deal exclusively with private business and private investment in the less developed countries. During this period, we have found that Latin America has offered the best potential, the broadest range of opportunities for private capital of any of the developing regions. There are many reasons for this. In most L.A. countries, there is a strong private sector and a strong tradition of entrepreneurship. The larger countries in the region afford ~~rapidly~~ expanding markets for a broad range of consumer and industrial goods. And despite problems presented by inflation and political instability, there has been an appreciable rise in living standards in the past two decades. Latin America does in fact account for nearly 60 per cent of our operations. Or to put it another way, more than $86 million out of the total of$155 million of commitments made so far by IFC have been made in 13 of the countries of Latin America.

2. IFC was formed not only to invest its own funds but also to stimulate private investment, and in our operations in the region we have worked closely with industrial investors from the developed countries. One of our earliest investments was in Willys do Brasil, a Brazilian company owned jointly by Kaiser Industries and Brazilian investors. In other countries, we have invested alongside such companies as American Metal Climax, Olin Mathieson and Koppers, as well as with French, German, Swiss and other

industrial investors. On the financial side, we have found a broad range of U.S. banks and their Edge Act affiliates interested in participating in our investments in such countries as Colombia, Mexico, Brazil and Peru.

3. As I have indicated, IFC can best be considered as the private enterprise arm of the World Bank Group, consisting of the World Bank and its two affiliates, the International Development Association and IFC. Among publicly owned international institutions, IFC occupies a distinct, if not unique position. For a start it provides risk capital in the form of equity as well as long-term loans. Its operations are conducted entirely without government guarantee. And although IFC has some 81 countries as its shareholders, it operates in much the same way as a private investment banking institution. Apart from being a risk investor, IFC is also active as an underwriter of public share offering as well as private placements of bonds. It is active in developing investment proposals and in promoting new enterprises. In negotiating its investments, IFC ~~bargains for~~ seeks terms that it believes will attract private investors so that it can in turn sell its investments and thereby roll over its funds.

4. In the past year, IFC's role within the World Bank Group has been an expanding one. It is now responsible for handling the technical and financial appraisal of all investment proposals in the field of industry and mining brought to the Group for financing, regardless of whether the financing is being sought from the World Bank, the IDA or IFC itself. And since December 1965, IFC has been in a position to supplement its own share capital of nearly $100 million by borrowing up to $400 million from the World Bank. This fourfold expansion of IFC's resources holds out the possibility of increased opportunities for partnership with private capital in the developing countries.

5. For those who perhaps are not too familiar with IFC's methods of operation, let me outline these to you briefly. Firstly, IFC makes direct investments, usually by acquiring equity in a company and at the same time providing long-term loan funds. Secondly, it makes standby and underwriting agreements. Thirdly, it helps to furnish capital and technical assistance to private development finance companies in the developing countries. And fourthly, it sells parts of its investments to private investors so that it can encourage private capital to flow into the developing countries. IFC is quite flexible in the kinds of financing it will provide. It will finance local currency expenditures as well as foreign exchange costs of projects. Its funds may be used for working capital requirements as well as for purchasing fixed assets. And IFC financing is not tied, whether to procurement in a specific country or to specific equipment. This degree of flexibility is, I think you will agree, unusual by the standards of the major leading agencies. On the other hand, IFC will not provide direct financing of exports or imports, like some agencies.

6. When it comes to defining the kinds of enterprise that IFC will finance, you will find an almost comparable degree of flexibility. Let me give you some examples from recent operations in Latin America. In Colombia, IFC made a loan last year, in company with the Chase Manhattan Bank, to a leading private warehousing company which is now getting into the grain storage business. In Costa Rica, we made a second investment in an expanding concrete products company, by agreeing to underwrite a new share issue and an issue of dollar notes. Later in the year, we made loan and equity investments in a textile company in Ecuador and a Brazilian producer of special steels. In Venezuela, IFC was a member of a syndicate

set up to underwrite a share issue being made by one of the principal can manufacturers in the country, while last month we took part with other shareholders in a capital increase being made by a Mexican company manufacturing construction and industrial equipment. Although most of IFC's investments so far have been in manufacturing industry, we are now looking at new kinds of enterprise. We expect to announce shortly an investment in a livestock fattening and meat slaughtering operation. And we are now considering financing hotels, privately owned utility companies and other enterprises.

7. In Latin America, as in other developing regions, the shortage of well-prepared investment proposals remains a major barrier to a higher rate of investment in industry. This is why IFC must be prepared to rework or reshape proposals brought to it. All too often a project that is sound in most respects fails to check out because some basic factor has not been considered. The technical feasibility of the project may need to be established, or there may be no assurance of an adequate supply of suitable raw materials. Promoters often tend to err on the side of optimism in their assessment of the potential market for a company's product or products. Or management that has proven to be competent in running a relatively small operation may find the strains of expansion or diversification too great for it. If we were to single out the factor which, in our experience, is the most important in determining the success or failure of an enterprise, it would be management and the need for proper accounting controls.

8. As a financial institution, there are clear-cut limits to the kind of role IFC can play in a company in which it invests. Under its

charter, IFC is directed not to take part in management. This is why it does not vote its stock and why it does not seek board representation, except in the case of some development finance companies where its role is that of technical advisor. From this posture, it follows that IFC prefers not to be the largest single shareholder in a company and that it does not hold more than 25 per cent of the equity of a company. In turn, this means that IFC exercises its influence through "moral suasion" rather than anything else.

9. Let me now turn to some specific examples of IFC's operations. Before I do so, I must point out that no two investments made by IFC are ever alike. Each situation, we find, has to be dealt with on its own merits, and it is here that the flexibility of IFC can be most useful in meeting the specific needs of an enterprise. The three cases that I am going to mention to you come from three different countries -- Colombia, Chile and Mexico -- each with a different economic background. And the kinds of problems they illustrate are equally varied. One of these cases,
growth
you will not be surprised to learn, was primarily a management problem. Another involved designing and taking part in a suitable financial plan for an expansion program; and the third illustrates particularly the kind of role IFC can play in mobilizing both domestic and international capital.

Compounded by [illegible] economic milieu

10. The first case I have in mind is that of one of the best known food products companies in Colombia, Industrias Alimenticias Noel, whose main product lines are biscuits, crackers and confectionery. NOEL, incidentally, makes a number of products under license, including breakfast cereal, under license from Kellogg's, and Lifesavers, under license from Beechnut. When NOEL first approached IFC for financing in 1958, it came

with a record of successful growth, backed by experienced management and well-accepted product lines. Over 5,000 investors in Colombia held the company's shares, which were regarded as a blue-chip issue. What the NOEL management wanted from IFC was help in financing a program to move the company's existing plant, located in the heart of the busy industrial and commercial center of Medellin, to a new site where more land was available and where the company could expand without too many physical problems. In addition to a new plant, the company planned to install new equipment in order to increase its production capacity and to improve the quality of its products.

11. For IFC, NOEL was a novel and in many ways intriguing proposition. Most of IFC's experience up to that time had been in financing basic industry. NOEL, by contrast, was an example of a consumer products company, facing all the problems of competition, product acceptance, advertising, sales promotion and other factors. To get a realistic idea of the company's financial position, we arranged for an independent audit to be made. Then we sat down with the company and went over the details of its program so as to arrive at a realistic idea of what the costs of the project would be. Finally, we agreed to provide long-term financing on a basis intended to take account of NOEL's needs and its prospects. The form of IFC's investment was a 10-year loan of $1 million, with a five-year grace period, and the investment package included the payment of additional interest, contingent on the company's earnings, as well as a stock option.

12. It was several months later that NOEL first began to run into serious problems, problems that were magnified by the disruption caused by the move to the new plant. One of the consequences of the move was a loss of quality control and a high wastage factor. Sales began to slip because of a decline in consumer acceptance of NOEL's products and also because of

stiff competition. Financial results fell off because of higher costs and foreign exchange losses, compounded by the resurgence of inflation in Colombia. Because of these problems, the IFC financing covered only the move to the new plant, and the company found itself unable to finance the purchase of new machinery and equipment, which had been part of its original plan.

13. NOEL had consistently paid an annual dividend, but as a result of losses incurred in 1960 and 1961 it was forced to omit dividend payments and this in turn was reflected in a sharp decline in the price of the company's shares on the stock exchange. During 1961, new management was brought in. The new general manager, interestingly enough, was a well-known local commercial banker, but without any direct experience of the baking industry. With the support of IFC, a number of changes were instituted by the new team. On the technical side, steps were taken to improve production methods and quality control, to train staff and to replace obsolescent machinery. On the sales side, the sales division was reorganized and a system of annual market studies was introduced. Price adjustments were made in several key areas and a proper financial reporting system was instituted. Finally, IFC agreed to modify the terms of its investment in order to allow the company to strengthen its financial position.

14. Over the past five years, the new management team has done a notable job in swinging NOEL around from a loss position to one where it is once more a profitable operation. The company is again on a dividend paying basis, and this in turn has been reflected in the market evaluation of its stock. There is a sequel to the NOEL story. With the improvement in its operations, NOEL was able to consider a further expansion and modernization

program. It needed additional bakery and confectionery equipment as well as new packaging machinery. Management anticipated that a large part of the program could be covered out of cash generation from operations, but in view of the fact that the machinery and equipment would all have to be imported, the company needed some assurance that it could obtain foreign exchange. IFC discussed the problems with the company's management and agreed last year to make an additional investment of $1 million, in the form of a ~~two-year~~ line of credit. By providing financing in this form, IFC has made it possible for NOEL to place firm orders for machinery and equipment in the U.S. and Europe in the knowledge that the foreign exchange will be available when, as and if it is needed. In other words, we have continued to serve as the company's investment banker, and we have opened up new possibilities for future financing by selling parts of both our first and second investments to financial institutions outside Colombia.

15. The second case I want to mention is that of a Chilean company in which IFC has invested, Compania Manufacturera de Papeles y Cartones. Papeles y Cartones is one of the largest industrial enterprises in Chile and a leading producer of pulp and paper in Latin America, employing over 3,000 people. Its shares are actively traded in Chile and are owned by more than 15,000 shareholders. The company is important in the context of the Chilean economy: it utilizes one of the country's most valuable natural resources, the fast-growing insignis pine, originally imported from the Monterey Peninsula of California in the 1920s. It is also important in the context of the Latin American Free Trade Association, of which Chile is a member. Nearly one-third of the company's output is exported to Argentina and other countries in the region, making it an important foreign exchange earner for the Chilean economy.

Interestingly enough, Papeles y Cartones happens to be the major supplier of pulp to an Argentinian paper company in which IFC has also invested.

16. The Papeles y Cartones story really goes back to the early 1950s, when the company obtained a loan of $20 million from the World Bank to help finance a newsprint mill and a chemical pulp mill. After the project was completed, the company drew up plans for a major expansion of its chemical pulp capacity in order to take advantage of the growing market both in Chile and other member countries of LAFTA and also in order to lower its unit costs and thus bring down its sales prices. Late in 1961, the company approached IFC and the Inter-American Development Bank to obtain financing for a program estimated to cost slightly over $30 million. In particular, it looked to IFC to work out a financial plan and, if possible, to bring in foreign investors. As a fairly conservatively financed enterprise, there was not too much doubt that Papeles y Cartones could incur additional debt without impairing its debt servicing capacity. The company also expected to be able to apply $7.8 million out of retained earnings, covering a large part -- though not all -- of the estimated local currency costs of the project. But because of depressed stock market conditions and previous heavy calls on its shareholders, it could not look to raise additional equity and it was unable to borrow appropriate long-term money to cover the balance of the domestic costs to be financed. In addition, it had to obtain approximately $19 million to cover the foreign exchange costs of the project.

17. For these reasons, Papeles y Cartones looked to IFC and the Inter-American Development Bank to cover the remaining $22 million to be financed. As the talks with the company progressed in early 1962, the IDB agreed to make a loan of $16 million, while IFC agreed to arrange the additional $6 million required, either out of its own resources or from other investors. The maximum

exposure that IFC could afford in this case was $3 million, but we undertook to contact other sources of financing. Our eventual partner in the transaction late in 1962 was the Export Credits Insurance Corporation of Canada, which agreed to underwrite short to medium-term financing to cover the sale of Canadian-made equipment, while IFC completed the junior financing by making its investment in the form of unsecured notes, receiving an option on shares as part of the investment package.

18. The case of Papeles y Cartones shows, I think, how IFC can make a ~~constructive~~ contribution to a project over and above the provision of capital. Apart from its role in devising the financial plan, IFC was able to contribute in other ways. By subordinating its own loan, it facilitated the company's borrowing from other sources. The IFC funds also filled a gap in the plan for financing local currency expenditures. By doing so, IFC helped to make it possible for a project of high economic priority to go forward without delay. At the time of our original investment, economic conditions in Chile made it difficult to attract foreign investors to participate with IFC. But since that time, we have been able to sell parts of our investment to two institutions, one in the United States and the other in Europe. In one case, not surprisingly, it was the stock option feature which proved to be a major factor in interesting the institution concerned. As for Papeles, its prospects continue to be excellent. It has completed its expansion program and has since launched a new joint venture with Crown Zellerbach, using pulp from the project IFC helped to finance for making specialty papers for data processing equipment.

19. The third and last case I want to discuss is that of Compania Fundidora de ~~Fierro y Acero de~~ Monterrey, the largest privately owned steel

[illegible]

company and the second largest steel producer in Mexico. Fundidora is a well-established company, founded in 1900, which has developed into a vertically-integrated operation making a wide variety of steel products, including structurals, rails, plate, strip and sheet. Since 1954, the company has been carrying out an expansion program to raise its ingot capacity from 200,000 tons a year to an eventual 1 million tons, in order to keep pace with the growth of the Mexican economy.

20. Very often, IFC's experience has been that in financing enterprises where advanced or complex technology is involved, it is desirable to have an experienced foreign technical partner involved, if possible through a joint venture arrangement with local investors, where both parties have a long-term commitment to the success of the operation. The case of Fundidora is somewhat exceptional since one of the features of the company is the strength of its management, particularly on the technical side. In the years that we have been associated with Fundidora, we have been impressed by management's awareness of the dangers of technical isolation and of the need to keep abreast of new development in steel technology. We have also been interested to see that members of technical management belong to the appropriate technical institutions in the U.S., attend their annual meetings and make regular plant visits to this country. On top of this, Fundidora has an arrangement to obtain specialist knowledge as well as advice on alternative steel-making processes from a leading firm of U.S. consultants.

21. The scale of Fundidora's operations and the needs of its expansion program, however, have presented new kinds of challenge to the management on the financial side. The total amount of financing required by the company since 1954 has been substantial -- in the order of $155

million. The company has had to make heavy calls on its shareholders in order to expand its equity base. The difficulties of meeting Fundidora's needs became apparent in 1962, when the company was trying to complete the last stages of a $100 million program to raise its capacity from 200,000 ingot tons to 500,000 tons a year. At that stage, the company still needed $5 million in equity capital. The company's bankers in Mexico felt that a sum of this magnitude could not be obtained from the existing shareholders. They felt, too, that in view of the then prevailing conditions in the local capital market, it would not be prudent to try to raise additional equity through a rights offering without having an underwriting syndicate prepared to take up stock not subscribed by shareholders. It was also their judgment that outside participation in the underwriting syndicate was not only desirable but essential.

22. It was at this stage that IFC was first approached to take part in the financing. We decided to make a direct equity investment of $1 million and agreed to join forces with a Mexican institution, Credito Bursatil, in underwriting a rights offering to cover the remaining $4 million. In the event, IFC underwrote 75 per cent of the offering and obtained the participation of three institutions -- two in the U.S. KL & Mgn Sty and one in Switzerland AFZ -- in its commitment. Despite the somewhat lackluster conditions then prevailing in the Mexican capital market, the issue proved a success and was disposed of over a period of two months.

23. Late in 1963, Fundidora found that demand for steel had grown more rapidly than expected, and the company accordingly decided to press ahead with a further expansion to raise its ingot capacity to 750,000 tons a year. The cost of the program was an estimated $55 million, of which $28 million was to come in the form of a loan from the Export-Import Bank of Washington. But in order to sustain this borrowing, Fundidora had to think

in terms of raising approximately $12.5 million in equity. This was an unprecedented amount for a privately owned company in Mexico, and IFC and the company's Mexican bankers agreed that it would be a prudent measure to handle it through an underwriting. The underwriting, which took place in 1964, was notable for several reasons. The amount involved -- $12.5 million -- was the largest sum ever to be raised by a private enterprise in Mexico through a public share offering. As in 1962, IFC joined with Credito Bursatil to manage the underwriting syndicate, but this time the confidence gained from the experience of the earlier underwriting helped to attract a group of leading Mexican banks. Accordingly, IFC was required to underwrite only 50 per cent of the issue, with the same group of U.S. and Swiss institutions as before participating in the IFC commitment. Despite the large amount involved, the underwriters were required to take up less than one per cent of the issue, and these shares too were quickly sold to Mexican investors.

24. IFC's relationship with Fundidora has been a continuing one. We have been able to act as financial advisor in addition to helping to finance the company. We have been able to accomplish other objectives as well. Perhaps the most important of these has been to assist in developing the capital market in Mexico. Mexican investors have traditionally been bond buyers: what the Fundidora underwritings have shown is that they can also be interested in investing in equities. The underwritings have played a part, too, in broadening the ownership of the company, which has trebled since 1962. Finally, by bringing in institutions in the U.S. and Switzerland as participants in our underwriting commitments, we hope to have laid the groundwork for establishing Fundidora's credit with investors outside Mexico, thereby facilitating the company's recourse to the market in connection with future financing.

25. The three case studies I have discussed with you provide a cross-section of IFC's experience in Latin America. The companies in question happen to be large, successful and growing enterprises, but I would not want you to conclude from this that all of the enterprises we have helped to finance are large, successful -- or growing. On the other hand, I do not want to leave you with the impression that the problems in financing private enterprise in Latin America are so great as to outweigh the opportunities. In a region as large as this, it is always tempting -- but dangerous -- to generalize. ~~What~~ It is obvious one ~~has to bear in mind always is~~ that here are countries at various stages of development, with widely differing economic conditions, human skills and natural resources. But there are also characteristics that are common to the region as a whole. One is the awareness of the need to diversify: too many Latin American countries are still dependent on export earnings from a single commodity or, at best, two or three commodities. Another characteristic is the priority attached to industrial development as a means of diversifying. A third common denominator possibly is the realization that the process of industrial development through import substitution has reached, or is now reaching, its viable limits.

26. That is why we are now seeing greater attention paid to the need for broader markets, preferably through regional groupings such as the Central American Common Market and the Latin American Free Trade Association. This, too, is why, we are seeing a new emphasis on developing exports of manufactured goods within the region. This kind of thinking is beginning to be reflected in day-to-day decision making in business. It is certain to be increasingly reflected as the more mature economies in the region expand further into capital-intensive industries that require large markets in order to enjoy economies of scale. What this suggests, in turn, is that there will be stronger incentives for the managers of industrial enterprises in Latin America to pay

greater attention to productivity and efficiency. The more traditional industries, in particular, are now beginning to find themselves under increasing pressure to modernize and expand in order to remain competitive. These changes offer what I believe is a unique opportunity for private investors in the industrialized countries to share in the industrial growth of Latin America, in partnership with local investors and local entrepreneurs.

27. During the last few months, IFC has experienced a significant rise in the level of its operations in Latin America, and we are seeing a continued growth of interest in the region, as reflected in the flow of investment proposals we are receiving. As I mentioned to you at the beginning of these remarks, IFC is now in a position to borrow substantial funds from the World Bank, so that to all intents IFC can now be considered a $500 million operation. This puts IFC in a position to undertake larger investments as well as to step up the number of its investments. To date, IFC's largest single commitment has been of the order of $6 million. As of now, IFC is in a position to consider investing up to $15-$20 million on its own account in a single enterprise. The Bank funds which are available to IFC can be used in IFC's lending operations without government guarantee. This feature is, I believe, of particular importance in Latin America. In many countries, governments are either constitutionally unable or unwilling to provide guarantees for loans to private enterprises (as required, for instance, by the World Bank), and private businessmen are equally reluctant to seek guarantees. On the other hand, in cases where government guarantees are available, new patterns of financing may be developed by the World Bank Group in the case of large industrial projects. For example, it is possible to foresee situations where joint financing by IFC and the World Bank might be appropriate, with

the World Bank extending loan capital and IFC providing equity. In these ways, we hope to play our part in promoting the private investment that is needed to enhance theeconomic growth of Latin America.

IFC ACTIVITIES AND RECENT INVESTMENTS IN LATIN AMERICA

Speech to the American Management Association

New York

May 16, 1966

by

Neil J. Paterson

Director of Investments

Latin America, Europe and Australasia

International Finance Corporation

My subject covers the experience of the International Finance Corporation in Latin America and to outline to you some of our present expectations. It is now 10 years since the IFC was first organized as an affiliate of the World Bank to deal exclusively with private business and private investment in the less developed countries. During this period, we have found that Latin America has offered the best potential, the broadest range of opportunities for private capital of any of the developing regions. There are many reasons for this. In most Latin American countries, there is a strong private sector and a strong tradition of entrepreneurship. The larger countries in the region afford expanding markets for a broad range of consumer and industrial goods. And despite problems presented by inflation and political instability, there has been an appreciable rise in living standards in the past two decades. Latin America does in fact account for nearly 60 per cent of our operations. Or to put it another way, more than $86 million out of the total of $155 million of commitments made so far by IFC have been made in 13 of the countries of Latin America.

IFC was formed not only to invest its own funds but also to stimulate private investment, and in our operations in the region we have worked closely with industrial investors from the developed countries. One of our earliest investments was in Willys do Brasil, a Brazilian company owned jointly by Kaiser Industries and Brazilian investors. In other countries, we have invested alongside such companies as American Metal Climax, Olin Mathieson and Koppers, as well as with French, German, Swiss and other industrial investors. On the financial side, we have found a broad range of U.S. banks and their Edge Act affiliates interested in participating in our investments in such countries as Colombia, Mexico, Brazil and Peru.

As I have indicated, IFC can best be considered as the private enterprise arm of the World Bank Group, consisting of the World Bank and its two affiliates, the International Development Association and IFC. Among publicly owned international institutions, IFC occupies a distinct, if not unique position. For a start it provides risk capital in the form of equity as well as long-term loans. Its operations are conducted entirely without government guarantee. And although IFC has some 81 countries as its shareholders, it operates in much the same way as a private investment banking institution. Apart from being a risk investor, IFC is also active as an underwriter of public share offering as well as private placements of bonds. It is active in developing investment proposals and in promoting new enterprises. In negotiating its investments, IFC seeks terms that it believes will attract private investors so that it can in turn sell its investments and thereby roll over its funds.

In the past year, IFC's role within the World Bank Group has been an expanding one. It is now responsible for handling the technical and financial appraisal of all investment proposals in the field of industry and mining brought to the Group for financing, regardless of whether the financing is being sought from the World Bank, the IDA or IFC itself. And since December 1965, IFC has been in a position to supplement its own share capital of nearly $100 million by borrowing up to $400 million from the World Bank. This fourfold expansion of IFC's resources holds out the possibility of increased opportunities for partnership with private capital in the developing countries.

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NOEL had consistently paid an annual dividend, but as a result of losses incurred in 1960 and 1961 it was forced to omit dividend payments and this in turn was reflected in a sharp decline in the price of the company's shares on the stock exchange. During 1961, new management was brought in. The new general manager, interestingly enough, was a well-known local commercial banker, but without any direct experience of the baking industry. With the support of IFC, a number of changes were instituted by the new team. On the technical side, steps were taken to improve production methods and quality control, to train staff and to replace obsolescent machinery. On the sales side, the sales division was reorganised and a system of annual market studies was introduced. Price adjustments were made in several key areas and a proper financial reporting system was instituted. Finally, IFC agreed to modify the terms of its investment in order to allow the company to strengthen its financial position.

Over the past five years, the new management team has done a notable job in swinging NOEL around from a loss position to one where it is once more a profitable operation. The company is again on a dividend paying basis, and this in turn has been reflected in the market evaluation of its stock. There is a sequel to the NOEL story. With the improvement in its operations, NOEL was able to consider a further expansion and modernization program. It needed additional bakery and confectionery equipment as well as new packaging machinery. Management anticipated that a large part of the program could be covered out of cash generation from operations, but in view of the fact that the machinery and equipment would all have to be imported, the company needed some assurance that it could obtain foreign exchange. IFC discussed the problems with the company's management and agreed last year to make an additional investment of $1 million, in the form of a ~~two-year~~ line of credit. By providing financing in this form, IFC has made it possible for NOEL to place firm orders for machinery and equipment in the U.S. and Europe in the knowledge that the foreign exchange will be available when, as and if it is needed. In other words, we have continued to serve as the company's investment banker, and we have opened up new possibilities for future financing by selling parts of both our first and second investments to financial institutions outside Colombia.

The second case I want to mention is that of a Chilean company in which IFC has invested, Compania Manufacturera de Papeles y Cartones. Papeles y Cartones is one of the largest industrial enterprises in Chile and a leading producer of pulp and paper in Latin America, employing over 3,000 people. Its shares are actively traded in Chile and are owned by more than 15,000 shareholders. The company is important in the context of the Chilean economy: it utilizes one of the country's most valuable natural resources, the fast-growing insignis pine, originally imported from the Monterey Peninsula of California in the 1920s. It is also important in the context of the Latin American Free Trade Association, of which Chile is a member. Nearly one-third of the company's output is exported to Argentina and other countries in the region, making it an important foreign exchange earner for the Chilean economy.

Interestingly enough, Papeles y Cartones happens to be the major supplier of pulp to an Argentinian paper company, Celulosa Argentina, in which IFC has also invested.

16. The Papeles y Cartones story really goes back to the early 1950s, when the company obtained a loan of $20 million from the World Bank to help finance a newsprint mill and a chemical pulp mill. After the project was completed, the company drew up plans for a major expansion of its chemical pulp capacity in order to take advantage of the growing market both in Chile and other member countries of LAFTA and also in order to lower its unit costs and thus bring down its sales prices. Late in 1961, the company approached IFC and the Inter-American Development Bank to obtain financing for a program estimated to cost slightly over $30 million. In particular, it looked to IFC to work out a financial plan and, if possible, to bring in foreign investors. As a fairly conservatively financed enterprise, there was not too much doubt that Papeles y Cartones could incur additional debt without impairing its debt servicing capacity. The company also expected to be able to apply $7.8 million out of retained earnings, covering a large part -- though not all -- of the estimated local currency costs of the project. But because of depressed stock market conditions and previous heavy calls on its shareholders, it could not look to raise additional equity and it was unable to borrow appropriate long-term money to cover the balance of the domestic costs to be financed. In addition, it had to obtain approximately $19 million to cover the foreign exchange costs of the project.

17. For these reasons, Papeles y Cartones looked to IFC and the Inter-American Development Bank to cover the remaining $22 million to be financed. As the talks with the company progressed in early 1962, the IDB agreed to make a loan of $16 million, while IFC agreed to arrange the additional $6 million required, either out of its own resources or from other investors. The maximum

exposure that IFC could afford in this case was \$3 million, but we undertook to contact other sources of financing. Our eventual partner in the transaction late in 1962 was the Export Credits Insurance Corporation of Canada, which agreed to underwrite short to medium-term financing to cover the sale of Canadian-made equipment, while IFC completed the junior financing by making its investment in the form of unsecured notes, receiving an option on shares as part of the investment package.

The case of Papeles y Cartones shows, I think, how IFC can make a contribution to a project over and above the provision of capital. Apart from its role in devising the financial plan, IFC was able to contribute in other ways. By subordinating its own loan, it facilitated the company's borrowing from other sources. The IFC funds also filled a gap in the plan for financing local currency expenditures. By doing so, IFC helped to make it possible for a project of high economic priority to go forward without delay. At the time of our original investment, economic conditions in Chile made it difficult to attract foreign investors to participate with IFC. But since that time, we have been able to sell parts of our investment to two institutions, one in the United States and the other in Europe. In one case, not surprisingly, it was the stock option feature which proved to be a major factor in interesting the institution concerned. As for Papeles, its prospects continue to be excellent. It has completed its expansion program and has since launched a new joint venture with Crown Zellerbach, using pulp from the project IFC helped to finance for making specialty papers for data processing equipment.

The third and last case I want to discuss is that of Compania Fundidora de Fierro y Acero de Monterrey, the largest privately owned steel company and the second largest steel producer in Mexico. Here I am straying from the strict definition of South America, but I am doing this advisedly in the belief that what we have accomplished in Mexico, in terms of equity underwriting and encouragement to the private capital market, we shall also be able to do in South America. Fundidora is a well-established company, founded in 1900, which has developed into a vertically-integrated operation making a wide variety of steel products, including structurals, rails, plate, strip and sheet. Since 1954, the company has been carrying out an expansion program to raise its ingot capacity from 200,000 tons a year to an eventual 1 million tons, in order to keep pace with the growth of the Mexican economy.

Very often, IFC's experience has been that in financing enterprises where advanced or complex technology is involved, it is desirable to have an experienced foreign technical partner involved, if possible through a joint venture arrangement with local investors, where both parties have a long-term commitment to the success of the operation. The case of Fundidora is somewhat exceptional since one of the features of the company is the strength of its management, particularly on the technical side. In the years that we have been associated with Fundidora, we have been impressed by management's awareness of the dangers of technical isolation and of the need to keep abreast of new development in steel technology. We have also been interested to see that members of technical management belong to the appropriate technical institutions in the U.S., attend their annual meetings and make regular plant visits to this country. On top of this, Fundidora has an arrangement to obtain specialist knowledge as well as advice on alternative steel-making processes from a leading firm of U.S. consultants.

The scale of Fundidora's operations and the needs of its expansion program, however, have presented new kinds of challenge to the management on the financial side. The total amount of financing required by the company since 1954 has been substantial -- in the order of $155 million. The company has had to make heavy calls on its shareholders in order to expand its equity base. The difficulties of meeting Fundidora's needs became apparent in 1962, when the company was trying to complete the last stages of a $100 million program to raise its capacity from 200,000 ingot tons to 500,000 tons a year. At that stage, the company still needed $5 million in equity capital. The company's bankers in Mexico felt that a sum of this magnitude could not be obtained from the existing shareholders. They felt, too, that in view of the then prevailing conditions in the local capital market, it would not be prudent to try to raise additional equity through a rights offering without having an underwriting syndicate prepared to take up stock not subscribed by shareholders. It was also their judgment that outside participation in the underwriting syndicate was not only desirable but essential.

It was at this stage that IFC was first approached to take part in the financing. We decided to make a direct equity investment of $1 million and agreed to join forces with a Mexican institution, Credito Bursatil, in underwriting a rights offering to cover the remaining $4 million. In the event, IFC underwrote 75 per cent of the offering and obtained the participation of three institutions -- two in the U.S., Kuhn Loeb & Co. and Morgan Guaranty International Finance Corporation and one in Switzerland, Handelsfinanz of Zurich -- in its commitment. Despite the somewhat lackluster conditions then prevailing in the Mexican capital market, the issue proved a success and was disposed of over a period of two months.

Late in 1963, Fundidora found that demand for steel had grown more rapidly than expected, and the company accordingly decided to press ahead with a further expansion to raise its ingot capacity to 750,000 tons a year. The cost of the program was an estimated $55 million, of which $28 million was to come in the form of a loan from the Export-Import Bank of Washington. But in order to sustain this borrowing, Fundidora had to think in terms of raising approximately $12.5 million in equity. This was an unprecedented amount for a privately owned company in Mexico, and IFC and the company's Mexican bankers agreed that it would be a prudent measure to handle it through an underwriting. The underwriting, which took place in 1964, was notable for several reasons. The amount involved -- $12.5 million -- was the largest sum ever to be raised by a private enterprise in Mexico through a public share offering. As in 1962, IFC joined with Credito Bursatil to manage the underwriting syndicate, but this time the confidence gained from the experience of the earlier underwriting helped to attract a group of leading Mexican banks. Accordingly, IFC was required to underwrite only 50 per cent of the issue, with the same group of U.S. and Swiss institutions as before participating in the IFC commitment. Despite the large amount involved, the underwriters were required to take up less than one per cent of the issue, and these shares too were quickly sold to Mexican investors.

IFC's relationship with Fundidora has been a continuing one. We have been able to act as financial advisor in addition to helping to finance the company. We have been able to accomplish other objectives as well. Perhaps the most important of these has been to assist in developing the capital market in Mexico. Mexican investors have traditionally been bond buyers: what the Fundidora underwritings have shown is that they can also be interested in investing in equities. The underwritings have played a part, too, in broadening the ownership of the company, which has trebled since 1962. Finally, by bringing in institutions in the U.S. and Switzerland as participants in our underwriting commitments, we hope to have laid the groundwork for establishing Fundidora's credit with investors outside Mexico, thereby facilitating the company's recourse to the market in connection with future financing.

The three case studies I have discussed with you provide a cross-section of IFC's experience in Latin America. The companies in question happen to be large, successful and growing enterprises, but I would not want you to conclude from this that all of the enterprises we have helped to finance are large, successful -- or growing. On the other hand, I do not want to leave you with the impression that the problems in financing private enterprise in Latin America are so great as to outweigh the opportunities. In a region as large as this, it is always tempting -- but dangerous -- to generalize. It is obvious that here are countries at various stages of development, with widely differing economic conditions, human skills and natural resources. But there are also characteristics that are common to the region as a whole. One is the awareness of the need to diversify: too many Latin American countries are still dependent on export earnings from a single commodity or, at best, two or three commodities. Another characteristic is the priority attached to industrial development as a means of diversifying. A third possibly is the realization that the process of industrial development through import substitution has reached, or is now reaching, its viable limits.

That is why we are now seeing greater attention paid to the need for broader markets, preferably through regional groupings such as the Central American Common Market and the Latin American Free Trade Association. This, too, is why, we are seeing a new emphasis on developing exports of manufactured goods within the region. This kind of thinking is beginning to be reflected in day-to-day decision making in business. It is certain to be increasingly reflected as the more mature economies in the region expand further into capital-intensive industries that require large markets in order to enjoy economies of scale. What this suggests, in turn, is that there will be stronger incentives for the managers of industrial enterprises in Latin America to pay greater attention to productivity and efficiency. The more traditional industries, in particular, are now beginning to find themselves under increasing pressure to modernize and expand in order to remain competitive. These changes offer what I believe is a unique opportunity for private investors in the industrialized countries to share in the industrial growth of Latin America, in partnership with local investors and local entrepreneurs.

During the last few months, IFC has experienced a significant rise in the level of its operations in Latin America, and we are seeing a continued growth of interest in the region, as reflected in the flow of investment proposals we are receiving. As I mentioned to you at the beginning of these remarks, IFC is now in a position to borrow substantial funds from the World Bank, so that to all intents IFC can now be considered a $500 million operation. This puts IFC in a position to undertake larger investments as well as to step up the number of its investments. To date, IFC's largest single commitment has been of the order of $6 million. As of now, IFC is in a position to consider investing up to $15-$20 million on its own account in a single enterprise. The Bank funds which are available to IFC can be used in IFC's lending operations without government guarantee. This feature is, I believe, of particular importance in Latin America. In many countries, governments are either constitutionally unable or unwilling to provide guarantees for loans to private enterprises (as required, for instance, by the World Bank), and private businessmen are equally reluctant to seek guarantees. On the other hand, in cases where government guarantees are available, new patterns of financing may be developed by the World Bank Group in the case of large industrial projects. For example, it is possible to foresee situations where joint financing by IFC and the World Bank might be appropriate, with the World Bank extending loan capital and IFC providing equity. In these ways, we hope to play our part in promoting the private investment that is needed to enhance theeconomic growth of Latin America.

THE INTERNATIONAL FINANCE CORPORATION IN LATIN AMERICA

By

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The growth of manufacturing industry has been a sustaining factor in the recent economic development of Latin America. Despite sharp fluctuations in the rate of growth of individual countries and of the region as a whole, industrial output has shown a fairly steady record of expansion over the last two decades. As a result, manufacturing industry is accounting for an increasing proportion -- at present somewhat over 20 per cent -- of gross domestic product for the entire region. The bulk of this development has taken place in the private sector, reflecting the part that private initiative and enterprise can play in fulfilling broader economic objectives of raising employment and living standards. This is the area of economic activity which is of immediate concern to the International Finance Corporation, whose operations have extended to eleven of the countries of Latin America.

IFC was established in 1956 as an affiliate of the World Bank, with the specific aim of assisting privately owned enterprises in developing member countries without government guarantee. This objective in itself makes IFC unusual among international institutions. What makes it even more unusual is the fact that it is able to provide risk capital by subscribing to shares of industrial enterprises. IFC's subscribed capital, paid in by its 78 member countries, is separate from that of the World Bank and now amounts to nearly \$100 million; in addition, the Corporation has used its income from operations to build up a reserve against losses totaling more than \$22 million. Since IFC made its first investment -- in Brazil, in 1957 -- it has made commitments totaling more than \$137 million in 32 different countries. Over \$76 million of this total, or roughly 55 per cent, has been committed in Latin America. To date, the Corporation has made commitments in Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela.

To fulfill its objective of assisting private enterprise in developing countries, IFC has established four principal methods of operation. Firstly, it provides financing for industrial enterprises in association with private investors, in cases where sufficient capital is not available on reasonable terms. Secondly, the Corporation provides both financial and technical assistance to privately-owned development finance companies. Thirdly, it makes underwriting or standby commitments in support of the public offering of shares by companies. Lastly, it seeks to obtain the participation of other institutions in its investments.

In the field of direct investment, IFC has helped to finance companies in a wide range of manufacturing industries, including steel and steel products, construction materials, textiles, pulp and paper, chemicals, food processing and mining. IFC is also prepared to consider agricultural or service projects relating to manufacturing industry. As a matter of operating policy, however, it does not invest in real estate, land reclamation projects or public utilities, nor does it undertake direct financing of exports or inports. IFC's investments are not tied to the purchase of equipment in a particular country. The type of financing provided by IFC depends on the specific needs of the situation. Generally, investments take the form either of subscriptions to share capital or of a combination of loan and share capital. Less frequently, investments are made in the form of loans with some equity feature attached. As an investor, IFC expects others to put up a substantial part of the funds required for a project: IFC's key role has in fact generally been to mobilize larger blocks of capital. In Latin America, the Corporation has been joined in its investments by domestic as well as foreign industrial companies and investment institutions. On a number of occasions, IFC investments have also been made in conjunction with investments by local development financing institutions, both private (such as the Bogota and Medellin financieras in Colombia) and government-owned (such as Nacional Financiera in Mexico and the Corporacion Venezolana de Fomento in Venezuela). On other occasions, IFC financing has been supplemented by loans from organizations in the capital exporting countries: including the Export-Import Bank of Washington and the Export Credits Insurance Corporation of Canada. IFC has, in addition, been joined in its investments in Latin America by international institutions, such as the Inter-American Development Bank, and organizations such as the privately-owned Atlantic Community Development Group for Latin America (ADELA).

Both the scale of enterprise and the kind of project with which IFC has been identified have shown considerable variation. In a number of cases, the Corporation has been involved in putting together the financing for some of the major Latin American industrial enterprises, to assist them in the completion of expansion and modernization programs. These are companies whose shares are often widely held by domestic investors and whose products are sometimes household words in their own countries. For example, IFC made an investment of $2,450,000 in 1958 in Willys-Overland do Brasil, S.A., one of the major producers of motor vehicles in Brazil. In Argentina, the Corporation invested $3,660,000 in 1960 in the largest privately-owned steel company in the country, Acindar Industria Argentina de Aceros, S.A. Yet another case in point is the loan of $2,000,000 made in 1962 to the Compania Colombiana de Tejidos, S.A. of Colombia, one of the largest textile producers and exporters in South America. A final example is in Chile, where IFC has invested $3,000,000 in Compania Manufacturera de Papeles y Cartones, S.A., the largest pulp and paper manufacturer and a leading exporter in its field in Latin America. In a number of other cases, IFC has helped smaller enterprises, usually privately owned by local businessmen, either on their own or in partnership with outside interests. Some of the objectives of such financing have been expansion, diversification or the promotion of new industries. One recent example is that of Empresa de Curtidos Centro Americana, S.A. of Honduras, a new company which recently opened an integrated tannery operation on the outskirts of San Pedro Sula.

The kind of assistance provided by IFC to industrial enterprises frequently goes well beyond the provision of financing. The appraisal and supervision of industrial projects is an important part of operations and in this broad field IFC now bears responsibility for the entire World Bank group of institutions. IFC's activities in this respect may lead either to an IFC investment, a World Bank loan or a credit from the Bank's other affiliate, the International Development Association. IFC may be required to help in shaping an idea into a successful project, bringing its own experience to bear on problems of financial and industrial engineering. In work of this kind, it must satisfy itself with the soundness of the technical concept of the project and the adequacy of the financial plan. It is also concerned with the need for securing experienced and competent management, as well as establishing the existence of an adequate market for a company's products and the prospect of profitable operation. In many cases, particularly where advanced technology is involved, IFC takes the view that a partnership of local and outside interests can enhance the chances of successful and profitable operation. For example, in Colombia IFC, in cooperation with local private and government development institutions, is helping to finance Forjas de Colombia S.A., a new company established to build the first modern forge plant in the country. The Forjas project was first conceived by a group of local Colombian businessmen who quickly realized the need for outside financing and for a technical partner with experience in the field. Fairly early on, an agreeement was signed between the company and Rheinstahl Industrie-Planung GmbH, the subsidiary of a leading German company in the forgings industry. Rheinstahl is now an investor in the project and is not only supplying machinery and equipment but is also providing supervision during the construction and start-up period; in addition, it is training Colombian staff to take over the eventual operation of the plant. This type of partnership, involving a direct investment as well as a technical agreement, provides access to the latest technology and, at the same time, helps to ensure a continuing interest in the success of the operation.

In evaluating an investment proposal, IFC takes the position that the project under review must be of some economic priority to the country concerned. The question of priority may, for instance, relate to the need to create new capacity in a basic industry. A case in point is the investment made by IFC in Compania de Cemento Pacasmayo, S.A., of Peru, for the purpose of doubling the company's cement capacity and laying the groundwork for future expansion. The Pacasmayo plant, which commenced production in 1957 with the help of a World Bank loan, serves the local market in northern Peru: an area in which considerable agricultural and industrial development has been taking place in recent years. The growth in demand for cement in the area has outstripped supply and this in turn has threatened to create delays in and raise costs of projects of a priority nature, such as housing and road construction as well as irrigation and dam projects. With additional capacity installed, Pacasmayo will be able to fulfill the needs of this rapidly expanding market.

The question of priority may also be raised in other ways -- for example, the need to establish new types of industry which may serve to broaden a country's manufacturing structure and which, by the economic substitution of domestic output for imports, also help to preserve foreign exchange. Import substitution of this kind in the field of consumer goods or light engineering has typically been one of the initial stages in industrialization in Latin America, as elsewhere. With the growth and diversification of manufacturing industry in the area, the process of substitution has been extended in some countries to heavy engineering and to the production of capital goods. One example of this can be seen in the case of the investment made by IFC in Industria del Hierro, S.A., of Mexico, which has established a plant to produce a wide range of construction and industrial equipment under license from U.S. and European companies. The company, which was sponsored by Ingenieros Civiles Asociados, S.A. (ICA), a leading Mexican organization of public works contractors, is being assisted by a European technical partner, Etablissements Neyrpic of France. The IFC financing was part of a plan which involved not only Neyrpic and a leading French banking institution but also Nacional Financiera of Mexico and the Inter-American Development Bank. The existence of a new industry of this kind in Mexico will not only lead to import replacement but will also stimulate the establishment of local suppliers and subsidiary industries, thus further broadening the industrial base of Mexican industry and creating new opportunities for employment.

An important part of IFC's operations is represented by the lead it takes for conducting relations between the World Bank group and privately-owned development finance companies. Institutions of this kind -- to which the group as a whole has provided approximately $375 million in financing in 17 different countries -- are playing an increasingly important part in development financing. Geared primarily to providing long-term loan and share capital to domestic industry, development finance companies are helping to bridge a conspicuous gap that exists in the capital markets of many developing countries. Furthermore, they are in a position to stimulate the development of local capital markets by mobilizing private savings and by channeling domestic -- as well as foreign -- capital into local industry. Finally, they can play a promotional role in identifying new opportunities for investment and by assisting the establishment of new companies. IFC itself has made commitments of more than $17 million in 14 different development finance companies in 12 countries. It has, in addition, provided technical assistance on a continuing basis both to the institutions in which it has invested as well as the other institutions with which the World Bank group has established connections.

In some cases, IFC financing has gone to existing institutions, as was the case with its investments in Colombia in the Corporacion Financiera Colombiana of Bogota, the Corporacion Financiera Nacional of Medellin and the Corporacion Financiera de Caldas of Manizales. In several other cases, IFC has been requested to assist in the reorganization of institutions already in existence or to help establish new ones. In this regard, it is at present reviewing proposals for new private development finance companies in several countries of Latin America. An example of how IFC operates in this respect can be seen in the case of Venezuela, where the Corporation played a part in 1963 in helping to establish C.A. Venezolana de Desarrollo (Sociedad Financiera), or CAVENDES for short. The original proposal for a Venezuelan private development finance company was put forward in the report of the World Bank general economic mission to Venezuela in 1961. The proposal created immediate interest in business circles in Venezuela and IFC was approached to take part in setting up such an institution. A group of leading Venezuelan industrialists and bankers agreed to act as sponsors, in conjunction with the Corporacion Venezolana de Fomento, a government-owned development institution. IFC advised the sponsors on setting up the policy guidelines for the new institution and in framing its statutes. Finally, in partnership with local Venezuelan companies and private investors as well as U.S. banks, IFC took part in subscribing to the share capital of CAVENDES. IFC's relationship with the institution has remained a continuing one: the Corporation is represented on the board and thus is in a position to place its experience in development financing at the disposal of CAVENDES. Further, IFC stands ready to consider joint financing ventures in cases where the capital requirements of a project may be beyond the resources of CAVENDES or of the local capital market.

A third facet of IFC's operations is underwriting or standby commitments. Commitments of this kind can be a useful means of mobilizing substantial blocks of capital as well as of securing broader distribution and ownership of a company's shares. IFC's largest single commitment to date -- approximately $6,100,000 -- was in fact made last year in the form of an underwriting of a share offering by the largest privately-owned steel company in Mexico, Compania Fundidora de Fierro y Acero de Monterrey, S.A. This was IFC's second commitment in the company, which has been carrying out a major program of expansion and modernization in recent years. IFC's role in the most recent share offer by the company involved joining with Credito Bursatil, S.A., a subsidiary of the Banco Nacional de Mexico, S.A. in establishing a syndicate to underwrite a $12,500,000 offering of Fundidora shares, as part of a financial plan to finance a further round of expansion and modernization by the company. Although this was the largest share offering ever attempted by a privately-owned enterprise in Mexico, it was an immediate success. In addition to helping to assure the company the full amount of the funds it needs to carry out its program, the underwriting also achieved the objective of securing a broader ownership of Fundidora's shares, both inside Mexico and abroad: a factor that could be of importance for any future financing the company may undertake.

Another major aim of IFC is to stimulate the flow of private capital into industrial investment in developing countries. IFC has pursued a policy of encouraging other investors to participate directly in its own investments, both initially and subsequently through the sale of securities from its own portfolio. To date, institutions domiciled in a number of countries -- including the U.S., the United Kingdom, Germany, Switzerland, and Kuwait -- have taken up over $29 million of IFC's investments. By securing participations of this kind, IFC has also been able to revolve its own funds in order to undertake new commitments.

The sale of investments has in fact been the largest single factor in augmenting the Corporation's resources and raising the total funds available to IFC for investment to over $170 million. This, in turn, is one reason why IFC has been able to undertake commitments substantially in excess of its own share capital. Nevertheless, it became evident last year that the rate at which IFC has been making new commitments would make it necessary to add to the Corporation's resources within the next two years or so, if the present pace of activity is to be maintained. Last year, it was decided that the best way to expand IFC's resources is by permitting the Corporation to borrow from the World Bank and to re-lend the proceeds of its borrowings to private enterprises, without government guarantee. This proposal, which received unanimous support at the Annual Meetings of the two institutions in 1964, requires amendment of the charters of both the Bank and IFC. Approval for this is now being sought from member countries. The ceiling on IFC's present resources would thus be raised by about $400 million, thereby freeing the entire present capital and reserves of the Corporation for equity investments and also enabling IFC to make larger loan and equity commitments to individual enterprises. IFC would still require that its financing in large-scale projects would be in partnership with local and foreign institutions, and that a substantial part of the loan funds would come from outside sources.

Over a period of time, this expansion will clearly make IFC a more substantial factor in financing industry in developing countries. How far it is able to progress in this direction will, in the last resort, depend primarily on the existence of sound projects for investment and on business confidence in the private sector. In the case of Latin America, the Corporation is examining, as part of its everyday operations, a number of new investment proposals throughout the region. The existence of these proposals is perhaps the best proof that business confidence in the region is high and that there are reasonably good prospects for continued industrial expansion and diversification. Under such conditions, IFC would expect to be able to build on its existing record of investment activity in Latin America.

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