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RICHARD

THE ROLE OF THE WORLD BANK AND ITS AFFILIATES - Address by R.B.J. RICHARDS
London, Sept. 29, 1961

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BANCO INTERNACIONAL
DE RECONSTRUCCION Y FOMENTO

CORPORACION FINANCIERA INTERNACIONAL

ASOCIACION INTERNACIONAL DE FOMENTO

LA MISION DEL BANCO MUNDIAL

Y SUS AFILIADAS

Discurso de R. B. J. Richards

Asesor General de la Corporación Financiera Internacional

en la

Conferencia de Estímulo y Protección

de Inversiones en Países en Desarrollo

Londres, 29 de septiembre de 1961

Me propongo examinar la misión que, en relación con las inversiones en países en desarrollo, llevan a cabo el Banco Internacional de Reconstrucción y Fomento -- conocido comúnmente como el Banco Mundial -- y sus afiliadas la Corporación Financiera Internacional (CFI) y la Asociación Internacional de Fomento (AIF).

Unas palabras, primero, acerca del carácter de estas organizaciones. Cada una de ellas es una persona jurídica creada por tratado internacional (Convenio Constitutivo) entre sus países miembros. Cada una está asociada con las Naciones Unidas y tiene la condición de Organismo Especializado. Cada uno de los países miembros designa un gobernador para cada una de las Juntas de Gobernadores, que se reúnen una vez al año y delegan la mayoría de sus facultades al Consejo de Directores cuyos miembros son nombrados o elegidos por los países miembros. El poder de voto es proporcional al monto de las suscripciones. Estas instituciones están dirigidas y administradas por personas procedentes de más de 50 países; en el desempeño de sus cargos se deben exclusivamente a la institución en que están empleadas.

El Banco Mundial fué fundado, junto con el Fondo Monetario Internacional, en la Conferencia Monetaria y Financiera de las Naciones Unidas celebrada en Bretton Woods, New Hampshire, en julio de 1944. En esa época, lo que interesaba era dotar de estabilidad a los signos monetarios y al intercambio monetario internacional -- de ahí el Fondo Monetario Internacional -- y, asimismo, proporcionar capital de inversiones para la reconstrucción de las economías desbaratadas por la guerra y para el fomento económico de las zonas insuficientemente desarrolladas -- de ahí el Banco Mundial.

Era evidente que la necesidad de capital de inversiones no podía satisfacerse enteramente mediante recursos nacionales o privados; era indispensable mover capital a través de las fronteras nacionales de una manera hasta entonces imposible. El problema esencial era (y, en realidad, sigue siendo) combinar sobre una base satisfactoria un grupo internacional practicable de países exportadores e importadores de capital.

La solución se encontró estableciendo el Banco Mundial como institución intergubernamental, en forma de sociedad anónima cuyo capital fuera íntegramente propiedad de sus gobiernos miembros y fijando la cantidad de cada suscripción con referencia al poderío económico de cada país.

El capital autorizado del Banco Mundial, que originalmente era de US$10.000 millones, es actualmente, a consecuencia de una ampliación acordada en 1959, de US$21.000 millones; sus miembros han suscrito el equivalente de aproximadamente US$20.300 millones. Sin embargo, sólo se ha desembolsado 1/10 de esta suma; el resto puede ser exigido por el Banco Mundial sólo en el caso de que sea necesario para cumplir con sus obligaciones. El objetivo de esta estructura de capital es proporcionar al Banco Mundial una cantidad substancial de capital suscrito y recursos mucho mayores consistentes en la parte de suscripciones de capital no exigida, lo cual proporciona al Banco Mundial una base de crédito que le permite gestionar préstamos. La necesidad y posibilidad de que el Banco Mundial cuente con los mercados de capital del mundo para obtener la mayor parte de sus fondos, es un rasgo destacado de sus operaciones. Gracias a su posibilidad de obtener préstamos, el Banco Mundial goza de una dosis considerable de independencia financiera, y la autodisciplina necesaria para mantener el propio crédito del Banco Mundial constituye un incentivo directo para un funcionamiento con arreglo a las normas establecidas.

Si bien la función primordial del Banco Mundial es la de prestar, conviene decir algo más de las operaciones que realiza para conseguir préstamos. En sus primeros años, la colocación de los títulos del Banco Mundial planteó varios problemas. La institución era nueva y desconocida para la mayoría, y por parte de los inversionistas había cierta vacilación natural en participar en cualquier forma de préstamo al extranjero. En los Estados Unidos fué necesario un esfuerzo considerable para conseguir que la legislación de la mayoría de sus Estados autorizara a sus respectivas instituciones bancarias a hacer inversiones en títulos del Banco Mundial. Esas medidas fueron adoptadas luego en muchas otras partes; por ejemplo, la Ley de Inversiones de Depósitos, 1961, del Reino Unido incluye las obligaciones del Banco Mundial emitidas en el Reino Unido entre el reducido número de inversiones autorizadas para los depósitos. En la actualidad, los títulos del Banco Mundial circulan perfectamente en los mercados del mundo. Hasta el 17 de agosto de 1961 se habían vendido en varios países emisiones que en conjunto sumaban más de US$3.615 millones, o su equivalente, y la suma neta pendiente equivalía a más de US$2.276 millones. La mayor parte de los préstamos tomados por el Banco Mundial fueron en dólares E.U.A., pero cada vez adquieren más importancia otros signos monetarios y mercados ajenos a los Estados Unidos. Las transacciones comerciales de

los títulos del Banco Mundial son generalmente análogas a las emisiones de los gobiernos.

Hago hincapié en este aspecto de las actividades del Banco Mundial porque, además de movilizar capital para sus operaciones, estas emisiones han tenido el efecto importante de familiarizar a los inversionistas con inversiones internacionales y de abrir mercados internacionales a gobiernos, entidades gubernamentales, etc., que necesitan conseguir dinero. En muchos casos, el Banco Mundial ha intervenido en operaciones conjuntas, de suerte que el otorgamiento de un préstamo por el Banco Mundial coincida con la obtención de fondos de inversionistas privados en un mercado extranjero. Es así como las operaciones del Banco Mundial han llegado a ser un factor importante para la aceptación de emisiones extranjeras por el mercado.

Además de las ventas directas de sus propios títulos, el Banco Mundial ha establecido un importante y creciente mercado internacional de inversiones vendiendo obligaciones que tenía en cartera procedentes de sus prestatarios; en la actualidad, el total de ventas de esta clase pasa de US$1.000 millones, casi todas ellas sin garantía del Banco Mundial.

Veamos, ahora, las operaciones de préstamo del Banco Mundial. En su Convenio figuran ciertos criterios que necesariamente han de aplicarse. El Banco Mundial sólo puede prestar a un gobierno miembro o con garantía de éste; el préstamo tiene que ser para fines productivos y de ordinario para financiar las necesidades de divisas de un proyecto específico de reconstrucción o fomento; es preciso estudiar minuciosamente los méritos de todos los proyectos y adoptar medidas para asegurarse

de que se dé prioridad a los proyectos más útiles y urgentes; hay que prestar la debida atención a las perspectivas de reembolso del préstamo y adoptar medidas para asegurar que el importe de cada préstamo se utilice solamente para los fines para los cuales se otorgó. Lo más importante de todo: el Banco Mundial debe cerciorarse de que, en el mercado dominante, el prestatario no habría podido obtener de otro modo el préstamo en condiciones razonables, lo cual quiere decir que el Banco Mundial no hace la competencia al capital privado; además, se le prohibe expresamente que imponga condiciones en el sentido de que los importes del préstamo se gastarán en los territorios de un miembro determinado.

Siendo la primera institución de su índole, el Banco Mundial ha marcado pautas en la formación de procedimientos de préstamo que han demostrado ser sumamente eficaces y que han servido de modelo a otras instituciones financieras nacionales e internacionales.

En primer lugar, el Banco Mundial tiene que hacerse un juicio sobre la solvencia del país que solicita el préstamo, es decir, asegurarse de que podrá servir la deuda extranjera sin agobios. Además de evaluar la posición y políticas económicas y financieras de un país, el Banco Mundial debe prestar atención a los antecedentes de su deuda externa. Es práctica normal del Banco Mundial la de informar a los que solicitan préstamos y no han cumplido con obligaciones externas contraídas públicamente, de que no podrá ayudarles mientras no hayan adoptado providencias para un arreglo justo.

El Banco Mundial procura averiguar luego las prioridades entre los diferentes sectores de la economía y trata de asegurarse de que cualquier proyecto elegido forme parte de un plan equilibrado para el

desarrollo del país en conjunto. Una vez seleccionado un proyecto, el Banco Mundial lo examina minuciosamente en todos sus aspectos para cerciorarse de que es sano desde el punto de vista económico, técnico y orgánico, y de que el prestatario puede llevarlo a cabo con éxito.

Después de otorgado un préstamo, el Banco Mundial sigue observando su marcha mediante informes regulares del prestatario y visitas periódicas de representantes del Banco. El Banco Mundial sólo entrega dinero mediando pruebas de que éste se emplea de conformidad con el acuerdo de préstamo.

No voy a importunarles con estadísticas. Detalles completos de las operaciones del Banco Mundial pueden encontrarse en sus Informes Anuales y en otras publicaciones que se facilitan a quien las solicite y que contienen numerosas informaciones que recomiendo a los interesados en inversiones internacionales.

Me limitaré a decir que, hasta el 17 de agosto de 1961, el Banco Mundial había otorgado 298 préstamos que en total equivalían a casi US$6.000 millones. El signo monetario de la mayoría de los primeros préstamos fué el dólar de E.U.A., pero posteriormente se han empleado cada vez más otros signos monetarios. En la actualidad más del 50% de los desembolsos se efectúan en otras monedas. Los préstamos del Banco Mundial abarcan una zona geográfica muy vasta y atienden a una amplia serie de finalidades, principalmente grandes proyectos de importancia pública en los campos de la energía eléctrica, el transporte, la industria y la agricultura. Puede intervenir él solo o patrocinar un convenio de consorcio ya sea para un programa de ayuda económica (como en el caso de la India) o para un proyecto específico (como en el caso

de Cariba). El Banco Mundial otorga de ordinario préstamos a plazo mediano o largo. La tasa de interés fijada por el Banco se basa en el costo de reposición que tendría para él el dinero en el momento de otorgarse el préstamo, con un recargo de 1% anual destinado a la reserva especial y aproximadamente 0,75% para cubrir gastos administrativos. El Banco Mundial no hace distinciones entre los prestatarios en lo que respecta a la tasa de interés fijada. El Banco Mundial obtiene utilidades, pero no persigue finalidades lucrativas. Aporta una contribución amplia y fundamental a las inversiones internacionales, no sólo teniendo en cuenta las cantidades de dinero movilizadas para fines útiles sino asimismo ayudando a promover un crecimiento sano y equilibrado de los países en desarrollo y aplicando prácticamente los mecanismos de una financiación sana.

En su carácter de institución internacional pública establecida mediante tratado, el Banco Mundial es sujeto de derecho internacional y los acuerdos entre él y sus gobiernos miembros se rigen por el derecho internacional. Está previsto que cualquier controversia que surja entre las partes de un convenio de préstamo o de garantía, se zanjará por arbitraje. Los convenios de préstamo y garantía del Banco Mundial contienen cláusulas que tienen por objeto aislarlos del efecto de cualquier derecho nacional determinado.

Me referiré ahora a la CFI. Cuando el Banco Mundial llevaba ya algún tiempo funcionando, se consideró que sus actividades no cubrían todas las necesidades de la financiación del desarrollo. Primero: el requisito de que todos los préstamos que no se otorgaran a gobiernos

miembros debían ser garantizados por el respectivo gobierno miembro, tendía a descartar préstamos a empresas privadas. Segundo: el Banco Mundial sólo facilita capital de préstamos; no suscribe ni adquiere acciones (o capital social, "capital stock" como se llama en los Estados Unidos) o acciones ordinarias, como las denominaré en lo sucesivo. Tercero: el Banco Mundial sólo suele financiar necesidades de divisas para proyectos específicos; de ordinario no presta para gastos locales ni facilita capital para el fondo de operaciones. Cuarto: el Banco Mundial sólo suele financiar proyectos grandes de importancia pública y sólo indirectamente, por medio de los bancos de desarrollo, llega a pequeños proyectos del sector privado.

Teniendo en cuenta estos factores y tomando en consideración la importancia del sector privado, se llegó a la conclusión de que se necesitaba una institución destinada a estimular el crecimiento económico de las zonas en desarrollo mediante inversiones, sin garantía del gobierno, en empresas privadas productivas en asociación con capital y administración privados.

En consecuencia, en 1956 se creó la CFI, con un capital autorizado de US$100 millones, de los cuales se han suscrito aproximadamente US$97.500.000. La misión de la CFI se ha concebido como catalítica, es decir, debe emplear sus fondos relativamente limitados para estimular y complementar el uso de capital de inversiones privado (no para competir con él).

Aunque la idea original era que la CFI pudiera invertir en acciones ordinarias, las opiniones conservadoras de ciertos sectores sobre la posibilidad de que las instituciones públicas hagan inversiones en acciones ordinarias de empresas privadas, dieron lugar a

que la CFI naciera con un Convenio Constitutivo que le impedía invertir en acciones ordinarias. Esa prohibición quedó levantada en septiembre de 1961, pero es indudable que la restricción primitiva entorpeció los primeros años de operaciones de la CFI. Naturalmente, el capital privado busca y necesita inversiones en acciones ordinarias. Resultaba paradógico que una institución destinada a trabajar en asociación con inversionistas privados sobre una base de capital a todo riesgo, tropezara con la prohibición de invertir en acciones ordinarias. Como substitutivo, la CFI se vió obligada a recurrir a métodos de inversiones consistentes en obligaciones convertibles, opciones, intereses contingentes y otros títulos del tipo de las acciones ordinarias, que a menudo resultaban complicadas y poco familiares en países insuficientemente desarrollados.

Hasta el 15 de septiembre de 1961, la CFI había contraído compromisos de inversiones por un total equivalente de US$57.800.000 para proyectos ubicados en 18 países. Según como se mire, es un resultado modesto, pero las cifras no son lo único que cuenta. Consultando los informes anuales de la CFI y otras de sus publicaciones se puede apreciar la índole y alcance de sus actividades, y se advierte el capital adicional que se ha puesto a trabajar en combinación con el de la CFI. Conviene recordar que, en una economía en desarrollo, una inversión relativamente pequeña de la CFI en el sector privado, puede provocar resultados grandes en relación con la cantidad de dinero invertida.

La CFI ha procurado especialmente contribuir a patrocinar y financiar empresas mixtas, es decir, empresas en que los intereses locales y los extranjeros se ponen de acuerdo para reunir los conocimientos y

el capital locales con la experiencia y las técnicas industriales extranjeras. En su carácter de institución internacional, la CFI es muy idónea para la delicada misión de proporcionar un equilibrio de financiación y contribuir a establecer una buena inteligencia de trabajo entre hombres de negocios de diferentes tradiciones y puntos de vista.

La CFI procura renovar su cartera de inversiones vendiendo participaciones de sus inversiones, mediante ventas privadas, a inversionistas institucionales privados, y ha tenido un éxito bastante notable en este aspecto.

En cuanto a las normas de la CFI, bastará decir por el momento que, para que un proyecto sea considerado por la CFI, tiene que reunir tres requisitos fundamentales. Primero: debe hacer una contribución útil al desarrollo del sector privado de la economía financiando una empresa de prioridad. Segundo: el proyecto debe tener perspectivas de ser provechoso y estar debidamente planeado, administrado y financiado. Tercero: no debe poder ser financiado en condiciones razonables por fuentes privadas. A condición de que se cumplan estos tres requisitos, la CFI es muy flexible en la selección de proyectos. La CFI no suele ejercer sus derechos de voto correspondientes a las acciones que posee, ni tampoco interviene en la administración de las respectivas empresas. Sus normas de inversión y sus condiciones son completamente elásticas: se adaptan a las necesidades de la empresa que necesita financiación. Los convenios de inversiones de la CFI son análogos a los de cualquier otro inversionista privado y están sujetos a las disposiciones ordinarias de los conflictos de leyes.

Ahora que puede invertir en acciones ordinarias, la CFI es una ins-

titución excepcional que debe aportar una contribución útil a las inversiones internacionales privadas dedicándose a una amplia esfera de actividades. Especialmente importante ha de ser su misión promotora de poner en contacto las oportunidades de inversión con el capital nacional y extranjero, así como su posibilidad de proporcionar capital social a bancos de desarrollo locales, facilitándoles así una base para tomar préstamos, y asimismo su posibilidad de contribuir al desarrollo de los mercados de capital suscribiendo emisiones de acciones ordinarias en los países en desarrollo.

La tercera y más reciente de las instituciones a que me refiero es la AIF, fundada en 1960 para desempeñar otro tipo de misión.

Muchos países que se hallan en la fase de desarrollo necesitan más capital que el que pueden reembolsar en las condiciones habituales. Además, algunos de esos países se aproximan ya a unos límites del servicio de la deuda que no sería prudente rebasar. Por este motivo se formó la AIF con el objeto de hacer préstamos a países que no reúnen los requisitos ordinarios para obtener créditos; la nueva institución les fija unas condiciones de restitución menos onerosas que las de los préstamos normales. No obstante, en la administración de sus fondos, la AIF presta la misma atención que el Banco Mundial a que el país interesado siga políticas económicas y financieras sanas y a que los proyectos se elijan y preparen debidamente para que respondan a una alta prioridad de desarrollo, prescindiendo de que sean directamente productivos. Se cuenta con que la AIF financie una serie de proyectos más amplia de la que suele financiar el Banco Mundial.

Los recursos de la AIF son aportados por los gobiernos miembros. Sus suscripciones iniciales se elevan a una suma equivalente de US$1.000 millones; el 1o. de septiembre de 1961 se había suscrito el equivalente de US$908 millones, de los cuales habrá disponibles US$756 millones en divisas de libre conversión a fines de 1964. El Convenio Constitutivo exige que se lleven a cabo exámenes periódicos para que la AIF tenga siempre recursos suficientes.

En menos de un año, la AIF ha otorgado créditos en seis países por un total de US$137 millones. Las condiciones en que se otorgaron estos créditos fueron idénticas. Todos ellos fueron por 50 años, sin interés, y los reembolsos comenzarán después de un período de gracia de 10 años. Se percibirá un pequeño recargo por servicio a fin de cubrir los gastos administrativos. El Convenio Constitutivo de la AIF permite una gran elasticidad en la fijación de condiciones. No se considera que las financiaciones de la AIF hayan de atenerse a un modelo uniforme.

La AIF lleva demasiado poco tiempo de existencia para que sus normas estén totalmente establecidas. Se tiene el propósito de que sea flexible y no cabe duda de que lo será. En todo caso es evidente que la AIF tendrá probablemente una gran cantidad de operaciones.

El grupo del Banco Mundial ha considerado siempre que sus funciones en el campo del desarrollo van mucho más allá de la mera provisión de fondos.

El Banco Mundial, y el Sr. Black (Presidente de nuestras instituciones) a título personal, han recibido en varias ocasiones pedidos de gobiernos miembros para que contribuyan a resolver litigios internacionales de importancia. Citaré como ejemplos la fijación de la compensa-

ción que la República Arabe Unida tenía que pagar por la nacionalización del Canal de Suez y la mediación entre la Ciudad de Tokío y los tenedores de la parte de sus bonos externos emitida en francos franceses; además el Banco Mundial desempeñó un papel destacado en la celebración del Tratado de las Aguas del Indo entre India y Pakistán para la distribución de las aguas de ese río. Teniendo en cuenta su evidente necesidad, el Banco Mundial está estudiando la posibilidad de promover alguna forma de foro especial para la conciliación de controversias por medio del arbitraje entre gobiernos y partes privadas.

Otro servicio importante es el que se presta a los gobiernos miembros en materia de asistencia técnica. Esta comprende desde estudios económicos exhaustivos, que tienen por objeto ayudar a los gobiernos a formular programas de desarrollo de largo alcance, hasta investigaciones regionales o asesoramiento para proyectos específicos. El número de estudios de asistencia técnica ha ido en aumento y el Banco ha establecido recientemente un servicio de asesoramiento para el desarrollo con el objeto de facilitar toda una serie de servicios de alto nivel en el campo económico. En cuanto al sector privado, es de esperar que los servicios de los especialistas de la AIF sean cada vez más solicitados.

En este orden de cosas debo mencionar también el Instituto de Desarrollo Económico que el Banco estableció en Washington, en 1956, con el apoyo financiero de las Fundaciones Ford y Rockefeller. Es una especie de centro de formación de personal para altos funcionarios de países menos desarrollados. Los cursos del Instituto, de seis meses de duración, proporcionan fundamentos y experiencia útiles a los participantes, que regresan a sus respectivos países con una comprensión

más amplia del grupo del Banco Mundial y sus recursos así como de los problemas que tienen planteados.

Entre las actividades extrarreglamentarias del grupo, la más reciente, y una de las más interesantes en algunos aspectos, es el estudio de una proposición para la formación de un plan multilateral de seguros para proteger las inversiones extranjeras contra diversos riesgos no comerciales. Sería prematuro querer anticipar ahora los resultados de este estudio.

El tiempo de que dispongo no me permite abarcar todos los aspectos de la labor que lleva a cabo el grupo del Banco. Es un complejo muy activo que se dedica a diversas actividades en el campo de las inversiones. El mundo y sus necesidades cambian por momentos. Los miembros del grupo del Banco Mundial abrigamos la esperanza de que podremos continuar prestando servicios útiles y profesionalmente objetivos que se adapten a las nuevas necesidades. Como ejemplo de cooperación internacional deliberada, creemos que lo que estamos haciendo ayuda prácticamente a todos cuantos participan en inversiones en países en desarrollo; además, es posible que constituya un paso hacia un verdadero orden mundial.

THE ROLE OF THE WORLD BANK AND ITS AFFILIATES - address by R.B. J. RICHARDS
London, Sept. 29, 1961

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LE ROLE DE LA BANQUE MONDIALE
ET DES ORGANISMES
QUI LUI SONT AFFILIES

par

R. B. J. RICHARDS
Conseiller Juridique de la
Société Financière Internationale

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Conférence relative aux moyens d'encourager et de protéger
les investissements dans les pays en voie de développement

o o o

Londres, le 29 Septembre 1961

Je me propose de discuter du rôle, en matière d'investissement dans les pays en voie de développement, de la Banque Internationale pour la Reconstruction et le Développement - communément appelée Banque Mondiale - et des organismes qui lui sont affiliés, la Société Financière Internationale (SFI) et l'Association Internationale de Développement (AID).

Tout d'abord un mot quant aux types d'organismes que sont ces institutions. Le caractère juridique de chacune d'entre elles résulte des accords internationaux passés entre différents pays, dits "pays membres". Chacun de ces organismes est étroitement associé aux Nations Unies et jouit du statut d'institution spécialisée. Chaque pays membre nomme un Gouverneur au Conseil des Gouverneurs de chacun de ces organismes. Ces conseils se réunissent une fois par an. Ils ont délégué la majorité de leurs pouvoirs à des conseils d'administration formés de personnalités désignées ou élues par les pays membres. Chaque pays dispose d'un nombre de voix proportionnel au montant de ses apports. Ces organismes sont administrés et dirigés par des personnes originaires de plus de 50 pays différents; à partir du moment où elles exercent leur fonction, ces personnes n'ont de devoir qu'à l'égard de la société qui les emploie.

La Banque Mondiale fut fondée en même temps que le Fonds Monétaire International, à la Conférence monétaire et financière des Nations Unies qui s'est tenue à Bretton Woods, dans le New Hampshire, en Juillet 1944. A cette époque on se préoccupait de trouver les moyens propres à assurer la stabilité des monnaies et des taux de change - d'où le Fonds Monétaire International - et de plus de fournir les capitaux nécessaires à la reconstruction des économies désorganisées par la guerre comme au développement économique des pays sous-développés - d'où la Banque Mondiale.

Il était évident que la totalité des besoins en capitaux ne pouvait être couverte par les seules ressources nationales ou privées; il était indispensable d'effectuer entre les pays des transferts de capitaux sous des formes qui n'avaient pas été réalisées jusqu'alors. Le problème essentiel - il l'est toujours d'ailleurs - consistait à réunir de manière satisfaisante un ensemble de pays dont les uns se présentaient comme exportateurs, et les autres comme importateurs de capitaux.

La solution résida dans la création de la Banque Mondiale, établissement inter-gouvernemental, affectant la forme d'une société de droit commun; tout son capital appartient aux Etats membres, le montant de chaque apport étant fixé suivant des critères de puissance économique.

Le montant du capital autorisé de la Banque Mondiale, qui était initialement de 10 milliards de dollars U.S., est maintenant, à la suite de l'augmentation réalisée en 1959, de 21 milliards de dollars, dont l'équivalent de 20,3 milliards environ ont été souscrits par les pays membres. Cependant, un dixième seulement de cette somme a été libéré. Le reste du capital peut être appelé, si nécessaire, à faire face aux obligations de la Banque. La structure du capital de la Banque a pour effet de permettre à cette dernière de disposer d'un montant substantiel de fonds propres et de ressources beaucoup plus importantes encore formées par la partie non libérée du capital social, ressources qui donnent à la Banque une réputation lui permettant à son tour d'emprunter. La nécessité pour la Banque Mondiale, et la possibilité qu'elle a, de faire appel aux marchés financiers mondiaux pour se procurer la plupart des fonds dont elle a besoin, est un des traits les plus remarquables de son mode de gestion. En raison de son aptitude à emprunter, la Banque Mondiale jouit d'une très grande indépendance financière et l'autodiscipline que lui impose l'obligation de conserver son crédit, constitue le stimulant naturel d'une saine gestion.

Bien que la première fonction de la Banque Mondiale consiste à accorder des prêts, il convient tout d'abord de s'étendre un peu sur ses opérations d'emprunt. La commercialisation des titres de la Banque Mondiale posa au début bien des problèmes. L'institution était nouvelle et mal connue; les organismes en quête de placement hésitaient naturellement quelque peu à participer sous une forme ou sous une autre à des opérations de prêt à l'étranger. Aux Etats-Unis, il fut nécessaire d'obtenir de la part de nombreux Etats, non sans beaucoup de mal, une règlementation qui range les obligations de la Banque Mondiale parmi les titres que les institutions financières sont autorisées à mettre en portefeuille. Une action dans le même sens a, depuis lors, été menée dans bien d'autres pays; au Royaume-Uni, par exemple, en vertu d'une loi de 1961 (Trustee Investment Act), les obligations de la Banque Mondiale font désormais partie du petit nombre de placements que les administrateurs des fonds d'investissement sont autorisés à faire. Les titres de la Banque Mondiale sont maintenant bien accueillis par les différents marchés mondiaux. Au 17 Août 1961, des émissions représentant un total de plus de 3.615 millions de dollars avaient été placées dans divers pays et le montant net des engagements de la Banque représentait plus de 2.275 millions de dollars. La plus grande partie des emprunts de la Banque Mondiale est libellée en dollars U.S.; toutefois, la part prise par les autres monnaies et par les marchés financiers autres que celui des Etats-Unis est de plus en plus importante. Le comportement, sur les marchés, des obligations de la Banque Mondiale est comparable à celui des émissions d'Etat.

Je souligne cet aspect des activités de la Banque Mondiale parce que les émissions de titres, en dehors du fait qu'elles permettent la mobilisation des capitaux nécessaires à la Banque, ont eu pour effet de familiariser les investisseurs avec les opérations d'investissements internationaux et d'ouvrir les marchés internationaux aux besoins financiers des gouvernements, des établissements publics, ou d'autres organismes. Dans bien des cas, la Banque Mondiale a effectué des opérations combinées : la Banque Mondiale fait en sorte que l'octroi d'un prêt coïncide avec un appel de fonds fait par l'emprunteur auprès d'organismes privés de placements sur un marché étranger. Les opérations de la Banque Mondiale ont ainsi joué un rôle important en préparant les marchés financiers à accueillir favorablement les émissions étrangères.

En plus des ventes directes de ses propres titres, la Banque Mondiale a créé un important marché international des capitaux en vendant les obligations provenant de son propre portefeuille et représentant des prêts déjà accordés; ces cessions de titres, presque toutes sans garantie de la Banque, atteignent maintenant un total de plus d'un milliard de dollars U.S.

Je parlerai maintenant des opérations de prêt de la Banque Mondiale. Celles-ci, d'après les Statuts de la Banque, doivent obligatoirement satisfaire à certains critères. La Banque Mondiale ne peut consentir de prêt qu'à un Etat membre ou qu'avec la garantie de ce dernier; les prêts ne doivent être octroyés qu'à des fins productives; ils doivent normalement servir à financer les besoins en devises étrangères exigées par un projet particulier dans le domaine de la reconstruction ou du développement. La valeur de tous les projets qui sont financés doit être étudiée avec soin et des dispositions doivent être prises pour s'assurer que les projets les plus utiles et les plus urgents ont reçu la priorité. La Banque accorde toute l'attention qui convient aux possibilités de remboursement des prêts et prend les dispositions nécessaires pour s'assurer que les sommes prêtées sont bien employées conformément à l'objet pour lequel le prêt fut consenti. Un point très important : la Banque Mondiale doit veiller à ce que l'emprunteur s'avère effectivement incapable, compte tenu de l'état du marché financier, d'obtenir un prêt à des conditions raisonnables autrement que par son intermédiaire; en d'autres termes, la Banque n'entre pas en concurrence avec les sources de financement privées; il lui est de plus strictement interdit d'imposer à l'emprunteur des conditions selon lesquelles les sommes prêtées devront être dépensées dans les territoires dépendant d'un pays membre particulier.

Se trouvant être la première institution de son espèce, la Banque Mondiale s'est frayée sa propre voie en mettant au point des techniques de prêt qui se sont révélées particulièrement efficaces et qui ont servi de modèle pour d'autres institutions financières nationales et internationales.

Tout d'abord, la Banque Mondiale doit évaluer le crédit du pays intéressé, c'est-à-dire son aptitude à pourvoir sans effort excessif au service de sa dette extérieure. Non contente de juger la situation économique et financière du pays ainsi que la politique qu'il poursuit en ces matières, elle examine l'état de sa dette extérieure. Il est de pratique courante pour la Banque d'informer les pays qui sollicitent un prêt et qui n'auraient pas rempli leurs engagements à l'égard de l'étranger, que la Banque Mondiale ne sera pas à même de les aider tant qu'ils n'auront pas pris des mesures en vue de parvenir à un règlement convenable de leurs difficultés.

La Banque Mondiale cherche ensuite à répartir les urgences entre les différents secteurs de l'économie, et s'efforce de s'assurer que les projets choisis constitueront les éléments d'un plan équilibré pour le développement du pays. Le projet étant choisi, la Banque l'étudie avec soin, sous tous ses aspects, pour être certaine qu'il est valable du point de vue de l'économie, de la technique et de la gestion, et que l'emprunteur a la possibilité de le mener à bien.

Une fois le prêt accordé, la Banque Mondiale continue à suivre son utilisation par les rapports réguliers que fait l'emprunteur et par les visites périodiques de ses représentants. Les fonds ne sont débloqués par la Banque Mondiale que s'il est bien prouvé qu'ils sont utilisés conformément à l'accord de prêt.

Je ne vous fatiguerai pas avec des statistiques. Tous les détails sur les opérations de la Banque se trouvent dans ses rapports annuels et dans d'autres publications qui peuvent être obtenues sur simple demande; celles-ci contiennent une foule de renseignements que je recommande à ceux qui s'intéressent aux problèmes des investissements internationaux.

Il suffit de dire qu'au 17 Août 1961 la Banque Mondiale avait accordé 298 prêts dont le montant total était voisin de l'équivalent de 6 milliards de dollars. Les sommes fournies aux premiers emprunteurs furent pour la plupart libellées en dollars U.S.; par la suite, d'autres devises furent de plus en plus employées. A l'heure actuelle, plus de 50% des versements sont effectués en monnaies autres que le dollar. Les prêts de la Banque Mondiale ont été largement répartis géographiquement et recouvrent une large gamme d'activités, principalement des grands projets d'intérêt public dans les domaines de l'énergie électrique, des transports, de l'industrie et de l'agriculture. La Banque peut agir seule ou bien organiser un consortium, que ce soit pour un programme économique d'ensemble (comme dans le cas de l'Inde), ou pour un projet particulier (comme dans le cas de Kariba). La Banque Mondiale accorde en générale des prêts à moyen et à long terme, le taux d'intérêt est calculé sur la base du prix qu'il en coûte à la Banque pour retrouver de l'argent à l'époque où le prêt est consenti. A ce prix s'ajoutent un premier pourcentage de 1% par an qui est affecté à une Réserve Spéciale, et un second d'environ 0,25% pour couvrir les frais administratifs. La Banque Mondiale ne différencie pas, suivant les emprunteurs, le taux d'intérêt qu'elle fait payer. La Banque Mondiale est une entreprise prospère mais son objet n'est pas de faire des bénéfices. Elle apporte une large et fondamentale contribution à la solution des problèmes que posent les investissements internationaux, contribution qui ne se mesure pas seulement au montant des fonds mobilisés et utilement mis en oeuvre, mais encore à l'aide apportée en vue de promouvoir une expansion saine et équilibrée des pays en voie de développement, et enfin à la mise en oeuvre de mécanismes et de techniques financières saines.

En tant qu'institution publique internationale, fondée par un Traité, la Banque Mondiale est un sujet de droit international, et les accords qu'elle passe avec les pays membres sont régis par le droit international. Il est prévu que toute difficulté qui pourrait surgir entre les parties signataires d'un accord de prêt ou de garantie, est réglée par arbitrage. Les accords que passe la Banque Mondiale, en matière de prêt ou de garantie, comportent des dispositions qui ont pour but de les soustraire à l'application des législations nationales particulières.

Permettez-moi maintenant de parler de la SFI. Après un certain temps de fonctionnement, on s'aperçut que la Banque Mondiale ne répondait pas à tous les besoins d'ordre financier qu'implique le développement économique. Tout d'abord la règle selon laquelle tous les prêts, autres que ceux faits aux Etats membres, devaient être garantis par l'Etat membre intéressé, tendait à rendre difficile tout prêt à des entreprises privées. En second lieu, la Banque Mondiale ne fournit des capitaux que sous forme de prêt; elle ne prend pas de participations, elle n'achète pas d'actions, en un mot elle ne contribue pas à la formation du capital social de l'entreprise. En troisième lieu, la Banque Mondiale normalement, ne finance que les dépenses en devises qu'exige chaque projet; elle ne prend pas d'ordinaire en considération les dépenses

locales et ne finance pas les fonds de roulement. En dernier lieu, la Banque Mondiale finance habituellement de grands projets d'intérêt public et n'atteint les projets de faible importance du secteur privé qu'indirectement par l'intermédiaire des banques de développement.

A la lumière de ces évènements et compte tenu de l'importance du secteur privé, on considéra qu'il était nécessaire de disposer d'une institution dont l'objet consisterait à stimuler l'effort économique dans les pays en voie de développement, en investissant, sans garantie des gouvernement, dans les entreprises privées rentables, en association avec des capitaux et une gestion de caractère privé.

C'est ainsi que la SFI fut fondée en 1956, avec un capital autorisé de 100 millions de dollars dont 97,5 millions sont libérés. Le rôle de la SFI est en quelque sorte celui d'un catalyseur; c'est-à-dire qu'elle doit utiliser ses fonds, qui sont relativement limités, pour stimuler et compléter (mais non concurrencer) les financements de caractère privé.

Bien que dans sa conception initiale la SFI dût être capable d'investir dans le capital social, les idées conservatrices soutenues par certains et concernant la possibilité pour les établissements publics de prendre des participations dans des entreprises privées, conduisirent à donner à la SFI, à sa naissance, un statut qui l'empêchait de faire des placements sous forme d'actions. Cette interdiction fut levée en Septembre 1961, mais cette limitation, introduite à l'origine, gêna sans aucun doute les activités de la SFI dans les premières années de son existence. Les capitaux privés ont besoin de s'investir dans le capital social et tout naturellement recherchent de tels investissements. Il était paradoxal qu'une institution destinée à travailler en association avec des investisseurs privés sur la base du risque capitaliste, fût empêchée de prendre des participations. Pour suppléer à cet état de fait, la SFI fut obligée d'imaginer des types de placement impliquant des obligations convertibles, des options, des prêts à intérêt variable, ou d'autres espèces de participations qui apparaissaient souvent compliquées aux pays sous-développés et qui leur étaient mal connues.

Au 15 Septembre 1961, la SFI s'était engagée dans 45 opérations pour un total équivalant à 57,8 millions de dollars, concernant des projets répartis dans dix-huit pays. Dans un certain sens, c'est un résultat modeste, mais ce bilan ne peut être jugé seulement d'après des chiffres. Les rapports annuels de la SFI ainsi que d'autres publications, montrent la nature et l'étendue de ses activités; ils donnent une indication sur le montant des capitaux qui ont été mis en oeuvre avec ceux de la SFI. Il est bon de rappeler que dans une économie qui se développe un placement d'importance relativement faible, fait par la SFI dans le secteur privé, peut amener des résultats importants au regard des sommes en jeu.

La SFI recherche particulièrement par son aide, à cautionner et à financer des entreprises mixtes, c'est-à-dire des entreprises dans lesquelles des intérêts locaux et étrangers s'unissent pour rassembler les connaissances et les capitaux locaux d'une part, l'expérience industrielle et les techniques étrangères d'autre part. La SFI, en tant qu'institution internationale, est bien adaptée aux tâches délicates qui consistent à fournir un complément de financement comme à contribuer à établir un climat de bonne intelligence entre hommes d'affaires de tradition et d'orientation différentes.

La SFI cherche à renouveler son portefeuille par la cession de ses participations à des organismes financiers de caractère privé; elle a obtenu dans ce domaine d'intéressants succès.

Quant aux règles que s'est fixée la SFI, il suffit pour l'instant de dire qu'un projet, pour être pris en considération, doit satisfaire à trois conditions fondamentales. Premièrement, il doit utilement contribuer au développement du secteur privé de l'économie, en finançant une entreprise prioritaire. En second lieu, ce doit être un projet rentable, convenablement conçu, dirigé et financé. En troisième lieu, il ne doit pas être possible, à partir des sources de financement privé, d'assurer le financement du projet dans des conditions raisonnables. Une fois ces trois conditions satisfaites, la SFI a une grande latitude dans le choix des projets. Normalement, la SFI n'exerce pas un droit de vote en rapport avec le nombre des actions qu'elle détient, pas plus qu'elle n'assume de responsabilité dans la gestion. Ses types de placement, comme leurs modalités, sont extrêmement variables. Ils sont conçus en fonction des besoins de l'entreprise à financer. Les contrats de la SFI sont semblables à ceux de n'importe quel autre organisme financier et leurs dispositions relèvent des règles de droit commun.

Maintenant qu'elle est autorisée à prendre des participations, la SFI est une institution unique en son genre et devrait apporter une utile contribution à la solution des problèmes posés par les investissements privés internationaux, en s'engageant dans une grande variété d'activités. Particulièrement important devrait être le rôle stimulant de la SFI lui permettant de rapprocher les projets en quête de financement et les capitaux étrangers et locaux, de fournir des capitaux aux banques de développement et ainsi de leur permettre d'emprunter, et. enfin, de participer au développement des marchés financiers en souscrivant aux émissions d'actions dans les pays en voie de développement.

La troisième et la plus récente des institutions dont j'ai à vous parler est l'AID qui a été fondée en 1960 pour jouer un rôle différent.

Beaucoup de pays en voie de développement ont des besoins en capitaux qui, s'ils leur étaient consentis dans les conditions ordinaires, excèderaient leur capacité de remboursement. De plus, certains pays en voie de développement atteignent le plafond des charges qu'ils peuvent raisonnablement supporter. C'est ainsi que l'AID fut créée en vue d'accorder aux pays dont le crédit ne satisfait pas aux normes généralement exigées, des prêts dont l'échéancier leur impose une charge moindre que celle d'un prêt ordinaire. Cependant, dans la gestion de ses fonds, l'AID attachera la même importance que la Banque Mondiale à la valeur de la politique économique et financière du pays intéressé, ainsi qu'au choix des projets, à la manière dont ils sont étudiés et à leur caractère d'urgence dans le cadre du développement, que ces projets soient ou non directement productifs. Il est à prévoir que l'AID financera une plus large gamme de projets que ne le fait couramment la Banque Mondiale.

Les ressources de l'AID sont fournies par les Etats membres. Le capital initial représentait un montant équivalent à un milliard de dollars; au 1er Septembre 1961, l'équivalent de 908 millions de dollars avait été souscrit dont 756 millions seront disponibles en devises convertibles dès la fin de 1964. Les Statuts de l'AID exigent que cette institution fasse le point de ses ressources à des intervalles déterminés.

En moins d'un an, l'AID a prêté un total de 137 millions de dollars à six pays différents. Les conditions de ces prêts étaient identiques. Ils étaient consentis pour une durée de cinquante ans et ne portaient pas d'intérêt; ils bénéficiaient d'un différé d'amortissement de dix ans. Ils étaient grevés de certains frais de faible importance correspondant aux dépenses administratives de l'AID. Les Statuts de l'AID lui laissent une grande liberté dans l'établissement des modalités des prêts et il n'y a pas à proprement parler un type de financement uniforme pour l'AID.

L'AID est une institution trop récente pour que ses règles d'action soient déjà fixées. Elles devront être souples et sans doute elles le seront. Une chose est certaine : l'AID aura vraisemblablement beaucoup de travail.

Le groupe de la Banque Mondiale a toujours considéré que ses responsabilités, dans le cadre du développement économique, s'étendaient au delà du seul domaine financier.

La Banque Mondiale et le Président de nos Institutions, M. Black, à titre personnel, ont été sollicités à différentes reprises, par les gouvernements des Pays membres, afin d'aider au règlement d'importantes difficultés internationales. Je mentionnerai, par exemple, le règlement de l'indemnité à payer par la République Arabe Unie à la suite de la nationalisation du Canal de Suez; l'arbitrage rendu entre la ville de Tokyo et les détenteurs de la tranche libellée en francs français de sa dette extérieure; la Banque Mondiale a encore joué un rôle déterminant dans la conclusion du Traité relatif au partage des eaux de l'Indus entre l'Inde et le Pakistan. Compte tenu des besoins qui se sont fait sentir, la Banque Mondiale envisage la création d'une sorte d'assemblée qui permettrait de régler par arbitrage les différends qui surgissent entre les gouvernements et les personnes de droit privé.

Une autre aide importante est apportée aux Pays membres sous la forme d'une assistance technique. Celle-ci va depuis les études économiques d'ensemble, qui ont pour objet d'aider les gouvernements à élaborer les programmes de développement à long terme, jusqu'aux enquêtes régionales, ou même à des conseils sur des projets particuliers. Les études dans le domaine de l'assistance technique se sont multipliées et la Banque a récemment fondé un Service Consultatif de Développement qui a pour objet de fournir, dans le domaine économique, une grande variété de services de très haute qualité. Quant au secteur privé, on peut prévoir que les services spécialisés de la SFI seront de plus en plus demandés.

Dans ce contexte, je mentionnerai encore l'Institut de Développement Economique que la Banque a fondé à Washington en 1956 avec l'aide financière des Fondations Ford et Rockefeller. C'est une sorte d'école supérieure pour les hauts fonctionnaires des pays sous-développés. L'enseignement dure six mois; il donne d'utiles connaissances théoriques et pratiques aux auditeurs qui retourneront dans leurs pays respectifs avec une meilleure compréhension de ce qu'est le Groupe de la Banque Mondiale, de ses ressources comme des problèmes qu'ils auront à traiter.

Des nombreuses activités annexes du Groupe, la dernière en date et, par certains côtés, une des plus intéressantes, consiste dans l'étude d'un plan d'assurance multilatérale permettant de garantir les investissements étrangers contre les différents risques non commerciaux. Il est trop tôt maintenant pour se prononcer sur les résultats de cette étude.

Je ne peux pas, dans le temps dont je dispose, exposer tous les aspects des activités du groupe de la Banque Mondiale. C'est un ensemble très actif qui s'est engagé dans une grande variété d'opérations dans le domaine des investissements. Le monde et ses besoins changent à chaque instant; nous espérons, au groupe de la Banque Mondiale, que

nous pourrons continuer à fournir d'utiles et de loyaux services, bien adaptés à ces besoins sans cesse en évolution. Nous pensons, parce que nous sommes un exemple de coopération internationale, que ce que nous faisons apporte une aide réelle à tous ceux qui s'occupent d'investissements dans les pays en voie de développement. C'est aussi peut-être un pas réalisé dans la direction d'un véritable ordre mondial.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

THE ROLE OF THE WORLD BANK AND ITS AFFILIATES

Address by R. B. J. Richards

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to the

Conference on Encouragement and

Protection of Investment in

Developing Countries

London, September 29, 1961

My purpose is to discuss the role, in relation to investment in the developing countries, of the International Bank for Reconstruction and Development - popularly known as the World Bank - and its affiliates, the International Finance Corporation (IFC) and the International Development Association (IDA).

First a word as to the kind of organizations these are. Each is a juridical personality created by international treaty ("Articles of Agreement") among its member countries. Each is associated with the United Nations, having the status of a Specialized Agency. Each member country nominates a governor to each institution's Board of Governors, which meets once a year and has delegated most of its powers to the Board of Directors who are appointed or elected by the member countries. Voting power is proportionate to subscriptions. The institutions are managed and staffed by persons from over 50 different countries; in discharge of their offices they owe their duty entirely to the institution by which they are employed.

The World Bank was founded, together with the International Monetary Fund, at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July 1944. At that time, there was concern to provide for the stability of currencies and of international monetary exchange - hence the International Monetary Fund - and also to provide investment capital for the reconstruction of economies disrupted by war and for the economic development of undeveloped areas - hence the World Bank.

It was plain that the entire need for investment capital could not be met from national or private resources; it was essential to move capital across national boundaries in a manner not previously possible. The essential problem was (as, indeed, it still is) to combine on a satisfactory basis a workable international group of capital exporting and importing countries.

The solution was found by establishing the World Bank as an inter-governmental institution, corporate in form, all of whose capital is owned by its member governments, the amount of each subscription being fixed by reference to economic strength.

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The World Bank's authorized capital, which was originally US $10 thousand million, is now, as a result of an increase in 1959, US $21 thousand million, of which the equivalent of approximately US $20.3 thousand million has been subscribed by its members. However, only about 1/10th of this amount is paid in; the rest remains subject to call by the World Bank only if required to meet its obligations. The effect of this capital structure is to provide the World Bank with a substantial amount of paid-in capital and with much greater resources consisting of the uncalled portion of the capital subscriptions which provides to the World Bank a basis for credit upon which it can itself borrow. The necessity and ability of the World Bank to rely upon the capital markets of the world for most of its funds is an outstanding feature of its operations. By reason of its ability to borrow, the World Bank enjoys a considerable measure of financial independence and the self-discipline necessary to maintain the World Bank's own credit provides a direct incentive to integrity of operation.

Although the World Bank's primary function is to lend, it is appropriate first to say a little more about its borrowing operations. In its early years there were many problems in marketing the World Bank securities. The institution was new and unfamiliar to most and there was a certain natural hesitation on the part of investors in participating in any form of foreign lending. In the United States of America it was necessary, with considerable effort, to obtain legislation in most States in order to qualify World Bank bonds for legal investment by institutions. Such action has since been followed in many places elsewhere; for example, the Trustee Investments Act, 1961 of the United Kingdom includes World Bank obligations issued in the United Kingdom among the

narrower range of investments permitted to trustees. Now the World Bank's securities are well-seasoned in the markets of the world. As of August 17, 1961, issues aggregating over $3,615 million, or the equivalent, had been sold in many different countries and the net amount outstanding was equivalent to over $2,276 million. The greater part of the World Bank's borrowings have been U.S. dollars but other currencies and markets other than the United States are increasingly important. The market action of the World Bank's bonds generally compares with government issues.

I emphasize this aspect of the World Bank's activities because, besides mobilizing capital for its operations, these issues have had an important effect in familiarizing investors with international investments and in opening international markets for the raising of money by governments, governmental agencies and others. In many cases, the World Bank has entered into joint operations whereby a World Bank loan is made to coincide with the raising of funds from private investors in a foreign market. World Bank operations have thus been an important factor in establishing market acceptance of foreign issues.

In addition to direct sales of its own securities the World Bank has established an important and increasing international investment market through sales out of its own portfolio of obligations which it has received from its borrowers; such sales now total more than US $1,000 million, almost all without the World Bank's guarantee.

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I now turn to the lending operations of the World Bank. Under its Articles there are certain criteria which are necessarily applicable. The World Bank may only lend to or with the guarantee of a member government; the loan must be for productive purposes and normally to finance the foreign exchange requirements of a specific project of reconstruction or development; the merits of all projects financed must be carefully studied and arrangements made to ensure that the most useful and urgent

projects receive priority; due regard must be paid to the prospects that the loan will be repaid and arrangements made to ensure that the proceeds of each loan are used only for the purposes for which the loan was granted. Most important, the World Bank must be satisfied that, in the prevailing market, the borrower would be unable otherwise to obtain the loan under reasonable conditions, that is to say, the World Bank does not compete with private capital; also, it is specifically precluded from imposing any conditions that the proceeds of the loan shall be spent in the territories of any particular member.

As the first institution of its kind, the World Bank has blazed its own trail in developing lending techniques which have proved extremely effective and which have served as a pattern for other national and international financing institutions.

In the first place, the World Bank must make a judgment of the creditworthiness of the country concerned, i.e., its ability to service foreign debt without undue strain. In addition to appraising a country's economic and financial position and policies, the World Bank has regard to its external debt record. It is the normal practice for the World Bank to inform loan applicants who are in default on publicly held external obligations that the World Bank is unable to assist until they have taken steps towards a fair settlement.

The World Bank then seeks to assess priorities in the different sectors of the economy and endeavors to ensure that any project selected will be part of a balanced plan for the development of the country as a whole. Having selected a project, the World Bank examines it carefully in all its aspects to be sure that it is sound from economic, technical and organizational viewpoints and that the borrower can carry it out successfully.

After a loan has been made, the World Bank continues to follow its progress by regular reports from the borrower and periodic visits by World Bank representatives. Monies

are disbursed by the World Bank only against evidence that they are being used in accordance with the loan agreement.

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Sufficient to say that as at August 17, 1961 the World Bank had made 298 loans aggregating the equivalent of nearly $6,000 million. U.S. dollars were used for most of the earlier disbursements but other currencies have been increasingly used. At present, over 50% of disbursements are in non-dollar currencies. The World Bank's loans have been widely spread geographically and cover a large range of purposes, mainly large projects of public importance in the field of electric power, transportation, industry and agriculture. It may act alone, or it may sponsor a consortium arrangement whether for a program of economic aid (as in the case of India) or for a particular project (as in the case of Kariba). The World Bank usually makes medium or long-term loans. The rate of interest charged by the Bank is based upon the replacement cost to it of money at the time the loan is made, plus 1% per annum which is allocated to a special reserve and about 1/4 of 1% to meet administrative costs. The World Bank does not distinguish between borrowers in regard to the rate of interest charged. The World Bank is a profitable operation but the making of profits is not its purpose. It makes a broad and basic contribution to international investment, not only in terms of the quantities of money mobilized and put to useful work but also in helping to promote the sound and balanced growth of the developing countries and in putting in practical effect the mechanisms and techniques of sound financing.

As a public international institution established by treaty the World Bank is a subject of international

law and the agreements between it and its member governments are governed by international law. Provision is made for the settlement by arbitration of any controversy between the parties to a loan agreement or a guarantee agreement. World Bank loan and guarantee agreements contain provisions which are designed to insulate them from the effect of any particular domestic law.

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Let me now refer to IFC. After the World Bank had been in operation for a time, it was considered that its activities did not cover all the needs of development financing. First, the requirement that all loans other than to member governments must be guaranteed by the member government concerned tended to inhibit loans to private enterprises. Second, the World Bank provides only loan capital; it does not subscribe or purchase shares (or capital stock as it is called in USA) or equity, as I will call it here. Third, the World Bank normally only finances the foreign exchange requirements for specific projects; it does not ordinarily cover local expenditures or provide working capital. Fourth, the World Bank usually finances large projects of public importance and reaches small projects in the private sector only indirectly through the medium of development banks.

In the light of these factors, and having regard to the importance of the private sector, it was considered that there should be an institution which would be designed to stimulate economic growth in the developing areas by investing, without government guarantee, in productive private enterprises in association with private capital and management.

Accordingly, IFC was established in 1956 with an authorized capital of US $100 million, of which about US $97.5 million has been paid in. IFC's role is conceived as being catalytic; that is to say that it should use its relatively limited funds to stimulate and supplement (and not compete with) the employment of private investment capital.

Although the original concept was that IFC should be able to invest in equity, the conservative views held in certain quarters as to public institutions making equity investments in private enterprises led to IFC coming into being with Articles of Agreement that precluded its investing in equity. This prohibition was removed in September 1961 but the original restriction undoubtedly hampered IFC's initial years of operation. Private capital naturally seeks and has need for equity investments. It was paradoxical that an institution designed to work in association with private investors on a venture capital basis should have been precluded from itself investing in equity. As a substitute, IFC was compelled to devise patterns of investment involving convertible debentures, options, contingent interest and other equity-type features which often appeared complicated and unfamiliar in undeveloped countries.

As of September 15, 1961, IFC had made 45 investment commitments totalling US $57.8 million equivalent for projects located in 18 countries. By some standards this is a modest achievement, but performance is not to be judged in terms of numbers alone. Reference to IFC's annual reports and other publications will show the nature and scope of its activities, and an indication of the additional capital that has been put to work in conjunction with that of IFC. It is well to remember that, in a developing economy, a relatively small investment by IFC in the private sector may induce results which are great in relation to the amount of money involved.

IFC has especially sought to assist in sponsoring and financing joint venture, i.e. enterprises in which local and foreign interests combine to bring together local knowledge and capital with foreign industrial experience and techniques. As an international institution, IFC is well suited to the delicate task of providing a balance of finance, and assisting to establish a good working understanding between businessmen of different traditions and viewpoints.

IFC seeks to revolve its portfolio of investments by selling participations in its investments by private sale to private institutional investors, and has achieved a fair measure of success in this respect.

As to IFC's policies, sufficient now to say that, for IFC consideration, a project must meet three basic tests. First, it must make a useful contribution to the development of the private sector of the economy by financing a priority undertaking. Second, it must be a profitable project, properly engineered, managed and financed. Third, it must be unable to secure the finance required on reasonable terms from private sources. Once these three tests are satisfied IFC is quite flexible in selecting projects. IFC does not ordinarily exercise voting rights in respect of shares that it holds, nor does it assume responsibility for management. Its investment patterns and its terms are entirely flexible; they are geared to the needs of the enterprise being financed. IFC's investment agreements are similar to those of any other private investor and its investment arrangements are subject to the ordinary rules of conflicts of laws.

Now that it can invest in equity, IFC is a unique institution which should make a useful contribution to private international investment through engaging in a wide range of activities. Especially important should be its promotional role in bringing together investment opportunities and domestic and foreign capital, its ability to provide equity for, and hence a basis for borrowing by, local development banks, and its ability to assist the development of capital markets through engaging in the underwriting of equity issues in the developing countries.

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The third and newest of the institutions of which I speak is IDA, which came into being in 1960 to play yet a different role.

Many developing countries need more capital than they can afford to repay on conventional terms. Also, some developing countries are nearing the limits of prudent debt service. Hence, IDA was formed with the purpose of making loans to countries, which could not meet ordinary standards of creditworthiness, on terms of repayment which would cause less strain upon them than normal loans. However, in administering its funds, IDA will pay the same attention as the World Bank to sound economic and financial policies of the country concerned and to the careful selection and preparation of projects which must be of high developmental priority whether or not they are directly productive. It is expected that IDA will finance a wider range of projects than those usually financed by the World Bank.

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In less than a year IDA has extended credits totalling US $137 million in six countries. These credits were on identical terms. Each was for 50 years without interest; repayment to begin after a 10-year period of grace. A small service charge has been made to meet administrative costs. IDA's Articles of Agreement allow considerable flexibility in setting terms and it is not considered that there is any uniform pattern for IDA financing.

IDA is too young for all its policies yet to be settled. It is intended to be flexible and no doubt it will be so. One thing is clear and that is that IDA is likely to have a very great deal of business.

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The World Bank group has always considered that its responsibilities in the development field extend beyond the provision of money alone.

The World Bank, and Mr. Black (the President of our institutions) in his personal capacity, have on several occasions been approached by member governments to assist in the settlement of important international issues. For example, I would mention the settlement of the compensation to be paid by the United Arab Republic for the nationalization of the Suez Canal, the mediation between the City of Tokyo and the holders of the French franc tranche of its external bonds; also, the World Bank played a leading role in the settlement of the Indus Water Treaty between India and Pakistan for the sharing of the Indus waters. In view of the apparent need, the World Bank is considering the possibility of promoting some sort of special forum for the conciliation of disputes by arbitration between governments and private parties.

Another important service is that which is rendered to member governments in the way of technical assistance. This extends from full-scale economic surveys, which are designed to assist governments in formulating long-range development programs, to regional investigations or advice on particular projects. Surveys in the technical assistance field have greatly increased and the Bank has recently established a development advisory service which is designed to provide a full range of top level services in the economic field. For the private sector, it may be expected that the specialist services of IFC will be in increasing demand.

Also, in this context, I should mention the Economic Development Institute which the Bank established in Washington in 1956 with the financial support of the Ford and Rockefeller Foundations. This is a kind of staff college for senior officials of the less developed countries. Courses at the Institute, which last six months, provide a useful background and experience for participants who will return to their own countries with a wider understanding of the World Bank group and its resources as well as of the problems with which they must deal.

Of the group's many extra-curricular activities the latest and, in some ways one of the most interesting, is the study of a proposal for the formation of a multilateral insurance scheme for the insurance of foreign investments against various non-commercial risks. It is too early now to say what the results of this study might be.

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In the time at disposal, I cannot expect to cover all aspects of the work done by the World Bank group. It is a very active complex engaging in a diversity of activities in the investment field. The world and its needs are changing all the time. We in the World Bank group hope that we can continue to provide useful and professionally objective services adjusted to these changing needs. As an example of purposeful international cooperation we think that what we are doing is of practical assistance to all engaged in investment in the developing countries; also, perhaps, it is a step in the direction of a real world order.

printed text : English - French - Spanish

12/28/61 - 5,000 c.

R. B. J. Richards
September 29, 1961

Conference on Encouragement and Protection of Investment in Developing Countries - London

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THE ROLE OF THE WORLD BANK AND ITS AFFILIATES

My purpose is to discuss the role, in relation to investment in the developing countries, of the International Bank for Reconstruction and Development - popularly known as the World Bank - and its affiliates, the International Finance Corporation (IFC) and the International Development Association (IDA).

First a word as to the kind of organizations that these are. Each is a juridical personality created by international treaty ("Articles of Agreement") among its member countries. Each is associated with the United Nations, having the status of a Specialized Agency. Each member country nominates a governor to each institution's Board of Governors, which meets once a year and has delegated most of its powers to the Board of Directors who are appointed or elected by the member countries. Voting power is proportionate to subscriptions. The institutions are managed and staffed by persons from over 50 different countries; in discharge of their offices they owe their duty entirely to the institution by which they are employed.

The World Bank was founded, together with the International Monetary Fund at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July 1944. At that time, there was concern to provide for the stability of currencies and of international monetary exchange - hence the International Monetary Fund - and also to provide investment capital for the reconstruction of economies disrupted by war and for the economic development of undeveloped areas - hence the World Bank.

It was plain that the entire need for investment capital could not be met from national or private resources; it was essential to move capital across national boundaries in a manner not previously possible. The essential problem was (as, indeed, it still is) to combine on a satisfactory basis a workable international group of capital exporting and importing countries.

The solution was found by establishing the World Bank as an inter-governmental institution, corporate in form, all of whose capital is owned by its member governments, the amount of each subscription being fixed by reference to economic strength.

The World Bank's authorized capital, which was originally US $10 thousand million, is now, as a result of an increase in 1959, US $21 thousand million, of which the equivalent of approximately US $20.3 thousand million has been subscribed by its members. However, only about 1/10th of this amount is paid in; the rest remains subject to call by the World Bank only if required to meet its obligations. The effect of this capital structure is to provide the World Bank with a substantial amount of paid-in capital and with much greater resources consisting of the uncalled portion of the capital subscriptions which provides to the World Bank a basis for credit upon which it can itself borrow. The necessity and ability of the World Bank to rely upon the capital markets of the world for most of its funds is an outstanding feature of its operations. By reason of its ability to borrow, the World Bank enjoys a considerable measure of financial independence and the self-discipline necessary to maintain the World Bank's own credit provides a direct incentive to integrity of operation.

Although the World Bank's primary function is to lend, it is appropriate first to say a little more about its borrowing operations. In its early years there were many problems in marketing the World Bank's securities. The institution was new and unfamiliar to most and there was a certain natural hesitation on the part of investors in participating in any form of foreign lending. In the United States of America it was necessary, with considerable effort, to obtain legislation in most States in order to qualify World Bank bonds for legal investment by institutions. Such action has since been followed in many places elsewhere; for example, the Trustee Investments Act, 1961 of the United Kingdom includes World Bank obligations issued in the United Kingdom among the narrower range of investments permitted to trustees. Now the World Bank's securities are well-seasoned in the markets of the world. As of August 17, 1961, issues aggregating over $3,615 million, or the equivalent, had been sold in many different countries and the net amount outstanding was equivalent to over $2,276 million. The greater part of the World Bank's borrowings have been U.S. dollars but other currencies and markets other than the United States are increasingly important. The market actions of the World Bank's bonds generally compares with government issues.

I emphasize this aspect of the World Bank's activities because, besides mobilizing capital for its operations, these issues have had an important effect in familiarizing investors with international investments and in opening international markets for the raising of money by governments, governmental agencies and others. In many cases, the

World Bank has entered into joint operations whereby a World Bank loan is made to coincide with the raising of funds from private investors in a foreign market. World Bank operations have thus been an important factor in establishing market acceptance of foreign issues.

In addition to direct sales of its own securities the World Bank has established an important and increasing international investment market through sales out of its own portfolio of obligations which it has received from its borrowers; such sales now total more than US $1,000 million, almost all without the World Bank's guarantee.

I now turn to the lending operations of the World Bank. Under its Articles there are certain criteria which are necessarily applicable. The World Bank may only lend to or with the guarantee of a member government; the loan must be for productive purposes and normally to finance the foreign exchange requirements of a specific project of reconstruction or development; the merits of all projects financed must be carefully studied and arrangements made to ensure that the most useful and urgent projects receive priority; due regard must be paid to the prospects that the loan will be repaid and arrangements made to ensure that the proceeds of each loan are used only for the purposes for which the loan was granted. Most important, the World Bank must be satisfied that, in the prevailing market, the borrower would be unable otherwise to obtain the loan under reasonable conditions, that is to say, the World Bank does not compete with private capital; also, it is specifically precluded from imposing any conditions that the proceeds of the loan shall be spent in the territories of any particular member.

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COPY FROM PRINTED PROCEEDINGS, THE 3RD REGIONAL CONFERENCE OF DEVELOPMENT BANKS IN ASIA, September 13-15, 1966, Tokyo, Japan

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ADDRESS
by
Mr. R. J. B. Richards
General Counsel
International Finance Corporation

It is a great pleasure for me to attend this 3rd Regional Conference of Development Banks in Asia as the representative of the World Bank Group. Especially, I am happy to be once again in Japan where traditional courtesy and hospitality make any gathering so enjoyable and where the excellent arrangements made by our host, The Japan Development Bank, will so greatly facilitate the proceedings of this Conference. And I am privileged to greet this Conference on behalf of the fraternal delegates, namely, the United States Agency for International Development, Kreditanstalt für Wiederaufbau, Commonwealth Development Finance Company, the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund, as well as the World Bank Group, and to these names I gladly join that of the African Development Bank which is represented best today as a 'Special Invitee'. Also, we look forward keenly to the Asian Development Bank joining our number.

This Conference is now an established and important forum for a frank and cordial exchange of views upon matters of practical concern to all of us. We meet as friends, sharing the same kinds of problems and an identity of interest. After all, each of the development finance companies represented here today is performing in its own country a role which each of the organizations represented by your fraternal delegates is seeking to perform internationally.

All of your fraternal delegates welcome being with you, especially because this Conference meets at a particularly interesting point of time. Never has the demand been greater for the services which all of our institutions can render as investment and development bankers. Particularly, money has not, in recent years, been in shorter supply; and this is the principal raw material of our trade.

I have said that we meet as friends. A friend was once defined as "Someone who is able to do for you something that you cannot do for yourself." This is a test which we fraternal delegates would gladly apply to the friendship that we share here today. Each of us here can do something for the others. We can share our knowledge and our skills and our experience. And we fraternal delegates expect to work with the development banks in Asia represented here, in a tangible way. We believe that we can provide help to the development banks in Asia and we certainly welcome help from you. This is a theme which I hope will be developed during this Conference.

An important characteristic that we all have in common is our relative youth. The World Bank itself is only twenty years old this year; and the International Finance Corporation--which, within the Group, has the responsibility for assisting the private sector and for sponsoring and working with development finance companies--is only ten years old this year. But, if I may say so without immodesty, the World Bank Group has, within the space of a generation, made a noteworthy contribution to economic development.

This contribution comprises a number of different things; first, the provision of very large sums of money for development purposes in a number of different ways; second, a wide range of activities to facilitate the international flow of private capital--I need cite only our activities in coordinating development assistance; third, the sponsorship and financing of development finance companies. Here, I may note that the World Bank Group has now committed directly to development finance companies one half a billion dollars and IFC is a shareholder of 17 of these companies, several of which are represented here today. Not the least of our contributions has been our adherence to standards for the appraisal of projects. After all, the entrepreneurial genius of providing initiative is of little avail unless it can be assisted, not only by money, but also by expertise, i.e., the services of engineers, financial analysts and even lawyers, who are able to apply the techniques necessary to put an investment proposal into bankable form. These skills are in greater demand than ever before and, consequently, in shorter supply. Over a period of years it has been the experience of the World Bank Group that the chief obstacle to a higher rate of investment in the developing countries is the shortage of soundly conceived and adequately prepared projects and this is still true. Mr. Woods, President of our Group, has said: "Neither general programs nor even generous supplies of capital will accomplish much until the right technology, competent management, and manpower with the proper blend of skills are brought together and focused effectively on well-conceived projects. Projects are not only focal points, they are growing points, not only for the goods and services they contribute to the economy but for the new skills and the new attitudes which they engender both among the people carrying them out and those who benefit from their effects." These are his words.

It is for this reason that the identification of opportunities for investment and the preparation and appraisal of specific projects occupies a key position in developmental operations.

It is this responsibility which we, all of us present here today, share. We all of us provide money; and we provide more than money. Perhaps the most vital element that we provide is confidence; confidence to the managers of our economies, to our colleagues in the banking community and to the businessmen with whom we deal that the enterprises that we finance are soundly conceived, well-founded and financed, and that the various interests involved are fairly balanced. Also, it has been remarked that the important thing about the World Bank Group is that it is there. That is, that those who need its support are not dependent upon the ebb and flow of capital markets and business conditions. The World Bank Group is there in bad times as well as in good. This element of stability is one which each of the institutions represented here today may provide to the community which it serves.

I think, therefore, that we may all take just pride in the work which we do and derive satisfaction from the importance of the role that we each perform, but none of us can be complacent. Because we are all young in institutional terms, we are all aware that we have much to learn in a fast changing world; and this is the significance of this Conference.

We fraternal delegates look forward with keen anticipation to the opportunity of participating in this Conference and to sharing the benefits to be derived from the unique experience of the distinguished delegates gathered here today.

On behalf of all the fraternal delegates I express appreciation of this opportunity provided to us.

filed in speech. R

1 Mr. William Clark
2 Mr. NP Macdonald

BLENDING PUBLIC AND PRIVATE CAPITAL

— b See

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By R. B. J. Richards

Reprinted from Proceedings of The American Journal of International Law,
Vol. 64, No. 4, September, 1970

in 1967. In view of the projected population growth of Israel, it is not unreasonable to assume, as the Arabs do, that it will demand more territory in the future, as it has in the past, unless permanent boundaries are established and guaranteed.

Chairman FISHER thanked the guests and participants for their contributions and adjourned the meeting at 11:00 o'clock p.m.

The United Nations System and Financing Transnational Investment

The session convened at 8:15 o'clock p.m. in the Astor Gallery of the Waldorf-Astoria Hotel. Professor Covey T. Oliver of the University of Pennsylvania Law School presided.

Chairman OLIVER. The purpose of the panel is not to focus on values but on the practical aspects of transnational investment. Private sector investment is more resilient than many assume. The rôle of the lawyer is not only to find money and pick a capital structure, but also to accommodate the sharing claims of the host country. The basic question is how do we get the money when the client corporation does not plan to use its own resources? In many ways the search is as technical as the search for the correct form of action in the old common law actions—artificial distinctions but important ones. The search game must be played in accordance with available sources and applicable legal structures.

BLENDING PUBLIC AND PRIVATE CAPITAL

By R. B. J. Richards *

I am most appreciative of the opportunity of participating in this program since the subject for discussion is one of particular interest to us in the World Bank Group.

No doubt you are broadly familiar with the operations of the World Bank and its affiliates, the International Development Association and the International Finance Corporation, and I do not plan to dwell upon the wide developmental activities of the Group, interesting as they are. As practitioners, you will be interested in the private sector and in what the Group can do for you and your clients who are engaged in business, industry and banking.

The International Finance Corporation is the World Bank Group's special arm for private enterprise; it is the only international institution devoted to assisting the private sector. IFC's distinguishing characteristic is that it can invest its funds in any form, including share capital (or "equity"); it can provide working capital and finance local expenditures; and its funds are not tied. It is designed to be completely flexible. In accomplishing economic objectives, IFC operates very much as does any investment banker, except that it works with, and does not compete with, private capital.

* General Counsel, International Finance Corporation.

IFC's funds are relatively limited. It has about $107 million of share capital paid in by its 93 member countries and about $56 million of earnings in reserve. This $163 million is available for equity investment. Also, IFC is empowered to borrow from the World Bank, for purposes of relending, an amount equal to four times its paid-in capital and surplus; of this, a line of credit of $200 million has been established.

In the last fiscal year ended June 30, 1969, IFC's commitments aggregated about $93 million and I expect that they will be more this year. Such a rate of commitment upon so small a capital base has been possible because IFC has been successful in revolving its portfolio by sales to, and participation arrangements with, private investors. Last year IFC recovered 44% of the funds it committed, by sales to private institutional investors.

Of course, IFC is mainly of interest as a source of funds, especially since it can fit in anywhere into a financial plan; but IFC does rather more.

IFC has five prominent investment bankers as a panel of advisers and one of them refers to IFC as the "catalyst-umbrella." By this he points up two basic functions:

> First, to promote economically useful and profitable enterprises, to bring together investment opportunities and private capital and management; and generally to stimulate and help create conditions conducive to the flow of private capital.
>
> Second, to act in its rôle as a public international institution so as to help create conditions of confidence in which ventures may be undertaken and money flow to the developing countries. If IFC assists a venture in any country, that country is a member of IFC represented on IFC's Board with the other member countries, so IFC can be expected to have a special relationship which may assist the blending of the interests involved.

IFC does many things. It engages in direct financing operations, usually on a mixed loan and equity basis, and in underwriting and stand-by arrangements designed to assist local capital markets. It works with, and helps finance, local development finance companies and other institutions which are themselves engaged in assisting private enterprises. It advises member countries on measures that will assist private investment; and, importantly, it seeks to develop in the capital-exporting countries an interest in long-term investment in the developing countries. All this is postulated upon the premise that investment in the developing countries can be expected to occur only if ventures are intrinsically sound and there are fair prospects of profitability.

Generally, IFC will only assist ventures in which there is provision for participation by local private investors, and the typical enterprise in which IFC is interested is a joint venture involving a marriage of local experience and foreign "know-how."

It might be useful to give an example of what I am talking about. Let us take a fertilizer or petrochemical venture in a developing country which may cost (say) $70 million, allowing for interest during construction and permanent working capital on completion. The foreign exchange com-

ponent is likely to be about $40 million, with the balance in local currency; this balance might be increased, depending on requirements for customs and port handling.

All major projects may involve sensitive issues of government policy; such as whether the project should be in the public or private sector; perhaps which of competing projects should proceed; and there may be delicate questions of pricing and tariffs. The position of government must be considered and, of course, governmental help in the form of tax holidays and other incentives can be vital.

The venture may be a direct promotion by IFC so that IFC puts the transaction together, or it may be sponsored by a local group or a foreign group.

We would expect there to be a local partner, able to provide knowledge of market conditions and able to handle relations with government and local interests, working with a foreign partner able to contribute technical and managerial expertise; and we would expect each of these partners to have a meaningful equity stake in the venture.

IFC would carefully evaluate the proposal in all its aspects and let us suppose that all the intrinsics check out. There remains the problem of finding loan and equity capital, of which $40 million is needed in foreign exchange. It would be normal to provide as much leverage as is prudent for the equity in the business. Let us therefore assume a debt-equity ratio of 60:40, which is conservative but not unduly so. That is to say, the equivalent of $42 million is to be in loan form and $28 million equivalent in the form of equity.

First, the sources of equity capital must be identified. The local partners and the foreign partners should take a substantial proportion; at least 25% each. On this basis, the foreign partner would put in $7 million in foreign exchange and the local partner would put in the equivalent in local currency. The balance of the equity might be found from a number of sources, perhaps up to 25% from an agency of the host government. IFC, of course, is a natural participant for, say, 25%, and this money provided by IFC will be in foreign exchange. There might be other sources of equity capital. In some countries it may be possible to raise capital from the public, with underwriting by local institutions in which IFC might also join. If equity is not raised from a local development institution then, dependent on the region, there are other institutions which can provide equity; such as ADELA in Latin America, or PICA in Asia, or IFC might interest specialist institutions interested in the type of business or the locality. IFC has had very good experience with the Edge Act companies in this connection.

There still remains the problem of providing a substantial amount of loan capital and a good deal of this must be in the form of foreign exchange ($26 million on the basis I have described). Naturally, everyone would prefer this to be long-term and at the lowest possible rate. If U. S. procurement is involved, the most natural source of funds would be Export-Import Bank or AID. AID might also be in a position to lend local cur-

rency; and perhaps dollars might be lent by U. S. institutions with an AID guarantee. Dependent upon procurement, long-term funds might come from other countries which have similar institutions. Untied long-term loan capital in foreign exchange may be available from various sources; for example, the World Bank, in cases where a government guarantee is forthcoming, or from IFC in cases where a government guarantee is not forthcoming. In many places there are regional or local development banks which can provide long-term loans in foreign exchange with funds which they themselves have derived from international sources, including the World Bank and IFC. In Latin America there is the Inter-American Development Bank; and in Asia, the Asian Development Bank. In some territories, the European Investment Bank may participate. Depending upon location, particular financing groups may be induced to invest, perhaps through participation in an IFC investment. And, finally, to the extent that long-term funds are not available on suitable terms, suppliers' credits may be arranged for part of the financing.

I hope that this gives some idea of how public and private capital resources can work together.

In these times of tight money, it would not be true to say that there is no difficulty in raising capital, but it would be true to say that few economically justified and worthwhile ventures fail to obtain financing.

Of course, I have depicted a very straightforward financial plan and some financial engineering may be necessary so as to provide an appropriate sharing of risks and rewards. For example, to provide greater security for the senior debt and to provide greater leverage for the capital stock, a portion of the loan capital, carrying a higher rate of interest and perhaps payable only if earned, might be subordinated in terms of priority and be retired through the operation of an earnings sinking fund. The equity holders may prefer to provide some capital in this form so that they can recover it otherwise than through taxable dividends payable out of taxed profits. Some debt may carry a lower coupon and an option or conversion feature. Need and resourcefulness will indicate many permutations.

Since IFC's basic purpose is to get private capital moving and to revolve its own funds, IFC would always be looking for private institutional investors to share IFC's position. These institutions may come into the transaction as co-investors, or they may be participants in IFC's own investment, receiving the same terms as does IFC. In the case of the loan portion of an investment IFC would expect to hold and manage the loan and account to the participant for its pro rata share of principal and interest received. In the case of the equity portion of an investment, the participant would receive shares of capital stock of the enterprise concerned.

IFC stands ready to sell securities out of its portfolio; after an investment has begun to show its paces, the sale price would be a matter for negotiation.

In the time available I have left a lot of gaps and I have not dealt at

all with the many conflicts of laws problems that arise in the course of transactions across frontiers. However, I shall be happy to try to answer any questions that anyone may have.

THE RÔLE OF EDGE ACT CORPORATIONS IN TRANSNATIONAL FINANCING

By Carroll R. Wetzel *

Until the Federal Reserve Act became law in 1913, the commercial banks [1] of this country played a minimal rôle in financing world trade. They could not accept drafts—the traditional device for financing such trade—nor could they open branches abroad. They were given the power in that year to do both.

Shortly it became evident that even these powers were inadequate for the purpose. In 1916 the Act was amended to permit national banks to invest 10% of capital and surplus in other corporations engaged in international banking upon defining and limiting the activities of the particular corporation by agreement with the Federal Reserve Board. Again the inadequacy of the statutory concept quickly became evident, and in 1919 the Act was further amended by a bill introduced by Senator Edge of New Jersey to authorize what have come to be known as Edge Act corporations. Federal incorporation was authorized for corporations to engage in international banking and in international finance. The 10% limit was retained; a minimum capital of $2,000,000 was required; no investment by the Edge Act subsidiary was permitted in any corporation doing business in the United States (a restriction that was to cause troublesome regulatory problems); and limits were put on the amount the Edge Act subsidiary could invest in any one enterprise. The Federal Reserve Board was authorized to administer the Act and to issue regulations under it.

Two rights, alien to the banking pattern of the country, were given to Edge Act corporations: first, the right to make equity investments; second, the right to have offices across State lines. Essentially this meant the right of non-New York City banks to have, or rather the right of their Edge Act subsidiaries to have, offices in New York City, the principal center, then and now, of international banking and finance in the United States.

Since 1919 the only change in the statutory scheme occurred in the 1960's, when direct foreign branches of banks were given broader powers and banks were authorized to acquire directly shares in foreign banks.

* Of the Pennsylvania Bar.

[1] An exact delineation of the rôles of national banks and of State banks is not possible in this short paper. The powers of national banks and of State banks that are members of the Federal Reserve System are enough alike today to permit a disregard of the distinctions for present purposes.

So today it can broadly be said that Edge Act subsidiaries can do only two things that the parent banks cannot do directly: (1) make equity investments overseas in non-banks; (2) have a New York office.

Against this brief sketch of the background, what rôle are Edge Act corporations playing today? About 65 such companies are owned by about 45 banks. Their aggregate capital accounts are about $500 million; aggregate assets, $3.2 billion; aggregate deposits, $2.4 billion. Their aggregate equity investments are $280 million and a fairly reasonable estimate of their medium to long-term loans would be not more than another $280 million.[2]

Aggregate funds employed in financing, *i.e.*, equity investments and medium to long-term loans, as distinguished from traditional short-term bank credits, would thus seem to be slightly over $500 million or, stated another way, slightly over aggregate capital accounts. Even if all loans and acceptances were medium to long-term, the total would be only $1.1 billion. To put this in perspective, the total foreign investment of United States business is estimated at $146 billion. Quantitatively, therefore, the contribution of Edge Act corporations to foreign financing is negligible. Indeed, the contribution of the entire banking system is relatively small. It is probably about $5 billion.[3]

It must be emphasized that this is a quantitative estimate. Qualitatively, the contribution is more significant than these figures indicate. A small loan or equity investment can often be the key to a significant transaction.

The probable reasons for the relatively modest rôle of Edge Act corporations in overseas finance can be identified, at least in broad outline. It has already been pointed out that such corporations have only two powers not held by parent banks: to make equity investments in non-banking enterprises and to have an office in New York City. It has also been pointed out that the aggregate investment of the entire banking system in medium to long-term overseas financing is probably about ten times that of all Edge Act subsidiaries. There must be a correlation between these two facts. The area of activity available to the subsidiary but not to the parent bank is not great and is appealing only to large banks.

This raises two questions: Which are the banks that have such subsidiaries and why do they have them? A brief listing of the principal activities of such subsidiaries may be helpful.

Banks are increasingly interested in expanding into financial areas heretofore seldom or not at all associated with traditional commercial banking. Finance companies and mortgage servicing companies are illustrative. Not surprisingly, such interest extends abroad as well as at home, and so Edge Act subsidiaries are acquiring interests in financially related in-

[2] This figure is based on an estimate that a maximum of one third of known loans and acceptances of $820 million represents medium to long-term financing.

[3] Of the $24 billion of deposits in foreign branches, $14 billion has been brought home to help hard-pressed head offices. One third of the balance may be in medium to long term-loans and, in addition, the total of such loans from home offices is about $1.5 billion.

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Mr. Dehejia
D-1208

Remarks by R. B. J. Richards at Orientation Course
"How to Work in Washington"

March 31 - April 2, 1976

THE WORLD BANK GROUP

INTRODUCTION

The World Bank Group engages in a wide variety of functions all designed to further the economic development of the member countries of the Group. Money is provided in different ways, together with an extensive range of services.

2. The Group comprises, principally, the World Bank itself (formally, the "International Bank for Reconstruction and Development"), the International Development Association (IDA), more recently what is called "Third Window", and the International Finance Corporation (IFC). Importantly associated with the activities of the Group is the International Centre for Settlement of Investment Disputes (ICSID) and the Economic Development Institute; and there are a number of other activities, but I will concentrate upon the central rather than the peripheral.

3. The World Bank, IDA and IFC are all international institutions, established by international agreement, owned by their member countries and controlled by a Board of Governors from each member country and a smaller Board of Directors, representing the member governments, which sits in Washington. There is a weighted voting system depending on the economic size and strength of the member countries. The staff is international in character (over 100 different nationalities), and is recruited and promoted on a merit basis. Mr. Robert S. McNamara is the President of all three institutions. The Group is non-political and is concerned only with economic considerations.

THE WORLD BANK

4. On a global scale, the World Bank was the first institution to be established with the explicit purpose of helping less developed countries raise their living standards.

5. Along with the International Monetary Fund (IMF), the Bank was founded in 1944 at a United Nations Monetary and Financial Conference of 44 governments at Bretton Woods, New Hampshire, U.S.A. It began operations in June 1946. Membership in the Bank is open to all members of the IMF, and by the beginning of 1976, 127 countries had joined.

6. The Bank's charter spells out certain basic rules which govern its operations. It must lend only for productive purposes, and pay due regard to the prospects of repayment. Each loan must be guaranteed by the government concerned. Except in "special circumstances", loans must be for specific projects. The Bank must assure itself that the necessary funds are unavailable from other sources on reasonable terms. The use of loans cannot be restricted to purchases in any particular member country or countries.

7. A unique feature of the Bank as an intergovernmental organization is the fact that it relies mainly on private investors for its financial resources. Most of the money it lends comes from the Bank's own borrowings in various capital markets. Although a total of $30,821 million of its authorized capital of $32,571 million has been subscribed, members pay in only 10%. The remaining 90% serves as a guarantee of the Bank's debt. It can be used only if required to meet obligations to investors in Bank securities.

8. Thus, investors who might otherwise never become involved in the financing of projects in developing countries are contributing to the economic growth of poor countries. The Bank has borrowed a cumulative total of $20,882 million, of which $12,287 million is outstanding in 17 different currencies (April 1976).

9. The Bank earns a profit on its operations, but it has never paid a dividend, since all shareholders agree that earnings should be used to help developing countries. Part of the Bank's net earnings have been placed in reserves which strengthen its ability to borrow and most of which are also available for lending. Beginning in 1964, the balance each year has been given to IDA, increasing its ability to help the poorest countries.

IDA

10. The need for lending to many poor countries on much easier terms than the Bank alone could give became apparent during the 1950s. On the initiative of the United States, endorsed by other members of the Bank and by the United Nations General Assembly, IDA was established in 1960 to help meet this need. It was made an affiliate of the Bank, to be administered in accordance with the Bank's own standards of efficiency.

11. Nearly all IDA "credits", as they are called to distinguish them from Bank "loans", have been for a period of 50 years, without interest, except for a small charge to cover administrative costs. Repayment of principal does not begin until after a 10-year grace period.

12. Nineteen of the poorest countries have brrrowed only IDA resources. A"blend" of Bank loans and IDA credits has been provided to another 48.

13. Without funds on IDA terms, any significant help to the group of 19 very poor countries might well have been impossible. Without the ability to reduce the average debt burden by combining its loans with a rising volume of IDA credits, the Bank could not have increased its own support to the 48 "blend" countries to the degree it has.

THIRD WINDOW

14. An additional source of financing, on terms intermediate between the conventional terms of the Bank, and the highly concessional terms of IDA, is the so-called Third Window.

15. The terms of Third Window loans are softened by the availability of interest subsidies which are supplied by the Bank's richer members on a voluntary basis. Third Window loans are Bank loans. The only difference is the terms - 4-1/2% for Third Window loans.

16. The chief beneficiaries of Third Window operations will be those countries with per capita gross national products of less than $375, and especially the lower-income countries.

INTERNATIONAL FINANCE CORPORATION

17. The International Finance Corporation (IFC) was established in 1956 as an affiliate of the World Bank, to assist less-developed member countries in furthering their economic development by encouraging the growth of productive private enterprise. IFC's activities supplement those of the World Bank. IFC has its own subscribed capital, amounting to approximately $107 million, and is empowered to borrow funds from other sources, including the Bank. Proposals are now before the Governors of IFC for an increase of IFC's subscribed capital by an additional $480 million.

18. IFC's aim is to further economic development by encouraging the growth of productive private enterprise in developing member countries. It provides equity and loan capital for private enterprises in association with private investors and management, encourages the development of local capital markets, and stimulates the international flow of private capital.

19. Membership in the World Bank is a pre-requisite to membership in IFC. IFC has an Executive Vice President who conducts its day-to-day affairs. IFC has its own operating staff and shares a wide range of administrative and other services with the Bank.

20. The International Finance Corporation is unique in that it is the only intergovernmental organization with the sole purpose of assisting the economies of developing countries by making sound investments in, and otherwise supporting, their private enterprise sectors. Except for the Corporation's basic criterion that its activities further economic development, its operations are similar to those of an international investment bank.

21. The investment activities of IFC complement the lending activities of the World Bank. All World Bank loans are either made to member governments or are guaranteed by member governments; but IFC cannot accept governmental guarantees of repayment on investments, which may be made only to enterprises which are essentially private. The Bank provides only loan capital; it does not, as does IFC, subscribe or purchase capital stock. The Bank normally finances only the foreign exchange requirements for specific projects; it does not ordinarily cover local expenditures or provide working capital, as does IFC. Moreover, the Bank usually finances large projects in the private sector indirectly through the medium of local development finance companies.

22. IFC operations fall under five main headings. First, promotion of, and direct investment in, productive enterprises, usually on a mixed loan and equity basis; second, standby and underwriting arrangements; third, work with development finance companies and intermediary financing institutions; fourth, the development of capital markets; and fifth, the sale of participations in its investments.

23. IFC can make investments only in its member countries and their territories. As a matter of policy, it does not invest in more developed countries. IFC investments are made in association with private investors and in cases where sufficient capital is not available on reasonable terms; IFC does not compete with private capital.

24. For IFC consideration, a project must meet two basic tests. First, it must make a useful contribution to the development of the private sector of the economy of the member country concerned. Second, it must hold out the prospect of being a profitable project, properly engineered, managed and financed. Once these basic tests are satisfied, IFC is quite flexible in selecting projects.

25. In considering an investment proposal, IFC attaches importance to the extent of the sponsors' participation in the share capital of the enterprise.

26. IFC generally will only finance ventures in which there is provision for participation by local private investors. In order to stimulate broader ownership of the companies it is assisting, IFC will, in appropriate cases, join in arrangements for making shares available to local investors.

27. IFC does not seek to compete with other institutions. IFC tries to help get done that which would not otherwise get done in a timely way. The large expansion of IFC's operations in recent years is attributable in part to increased resources and in part to an aggressive posture in the generation of new business and the promotion of new ventures.

28. Most of the proposals that come to IFC are at an early stage of development and require a considerable input before the project is bankable. With increasing frequency, IFC is engaging in the field of pure promotion - taking an idea or a business possibility from the beginning and developing and putting it together as a project in its entirety, with capital, technology and management.

ICSID

29. The International Centre for Settlement of Investment Disputes (ICSID) is an international institution created by the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

30. The Convention was designed to encourage the growth of private foreign investment for economic development, by creating the possibility, always subject to the consent of both parties, for a Contracting State and a foreign investor who is a national of another Contracting State to settle any legal dispute that might arise out of such an investment by conciliation and/or arbitration before an impartial, international forum. The Convention specifies the circumstances under which disputes

may be submitted to the Centre, the method by which Conciliation Commissions and Arbitral Tribunals are to be constituted and conduct their proceedings, and the form and effect of the resulting conciliation reports or arbitral awards.

31. The seat of ICSID is established at the Headquarters of the World Bank. The purpose of the Centre is to be available to the parties to certain international investment arrangements: to provide them with an assured forum on which they may agree for the settlement of any future disputes and to assist them in settling any that have already arisen.

32. The jurisdiction of the Centre is based on consent, given by both parties to an investment dispute. One of these parties must be the Government of a Contracting State, or a constituent subdivision or agency designated by such a Government. The other must be a national of another Contracting State, who may be a natural or a juridical person.

EDI

33. The Economic Development Institute (EDI) was established by the Bank in 1955 with some initial financial support from the Ford and Rockefeller Foundations. The Institute's aim is to improve the quality of economic management in developing countries by providing training for officials concerned with development programs and projects. The courses are designed to give the participants a working knowledge of techniques of development programming and project analysis that may be useful in handling the particular problems which confront them in their work.

The curriculum aims at combining sound technique and practical considerations. The close link between the Institute and the World Bank provides the essential foundation in experience required for such an approach.

34. The Institute offers a General Development Course of six months' duration dealing with programs and policies related to economic development. The Institute is currently giving courses in agriculture and rural development; industry, agro-industry and development banking; education; urbanization, water supply and transportation.

35. General project analysis courses are given principally overseas, where they are appropriate as an introduction to project work for officials dealing with more than one sector. The Institute is also increasing the number of its courses given in French and Spanish, and expects to have the capacity to give all of its courses in these languages in due course.

36. The courses of the Institute emphasize discussion and the exchange of experience to supplement the lectures given by staff members and others. Case studies, special exercises and group problem-solving are features of the courses.

HOW TO APPROACH THE WORLD BANK GROUP

37. No special form or formality is required to approach any institution in the World Bank Group. On application to the World Bank, 1818 H Street, N.W., Washington D.C., 20433, a great deal of informative material is available including, particularly, copies of Annual Reports which list the principal officers. Anyone seeking to do business or

receive help from the Group may apply to the institution concerned, or to any one of the appropriate officers listed in the Annual Report, or may simply write to the Office of Information of the World Bank (or of IFC, if appropriate). In the case of a project to be financed by the World Bank itself, it is usual for an applicant to take up the application through the government of the country concerned since the World Bank lends only to or with the guarantee of governments; in the case of IFC this is not necessary. A member of the diplomatic corps in Washington will almost certainly know the Executive Director representing his country and he may serve as a useful channel in such a case.