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Haskell, Broderick - Articles and Speeches (1957 - 1961)



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INTERNATIONAL FINANCE CORPORATION

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



PRIVATE ENTERPRISE IN WORLD DEVELOPMENT

Address of
Broderick Haskell, Financial Adviser,
International Finance Corporation
to
Canadian Council, International Chamber of Commerce
Meeting in Toronto, Canada, February 21, 1957

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Contrary to what we all wished, the end of the war did not bring peace. The years that have since intervened have been characterized by crises and upheavals with consequences reaching far into our future and our children's future.

Today I want to discuss with you some of the developments of the past ten years. I want to fit some of them into a loose pattern which seems to me to give us some direction to the future. And, finally, I want to look at our hopes -- and our prospects -- for attaining a better world.

Let us start by recalling certain circumstances at the end of World War II:

The countries of Western Europe were economically and to a great extent physically devastated;

Communism was emerging as a threat to Western Europe and the Free World;

The less developed countries -- starved of many of their needs as a consequence of war -- and awakened to the possibilities of better things -- had become aware that only through development could their economics and politics be advanced and made secure;

New nations, and there were a number of them, had come into being, and the creation of a national economy was largely for them an uncharted course.

As the aggressive tyranny of the Soviets began to show itself, we found ourselves faced with a new perspective -- one in which our self-interest extends to the far reaches of the world. It became increasingly evident to us that we had to insure against the further invasion of Communism, and we had to make certain that the Communist Empire, irrespective of other factors, would not surpass the Free World in economic strength.

This was a task initially for Governments, and your country and ours together accepted the major responsibility for its accomplishment. The reconstruction of Western Europe and other devastated areas necessarily became the first order of business. But hand in hand with the resolution of such problems we had to reckon with the needs elsewhere among the free peoples of the world.

Foreign aid in many forms became the order of the day and continues to be a vital part of your program and ours in maintaining a vigorous and healthy defense against Communism. It is not my purpose to evaluate the effectiveness of these outlays since the war. It has not been all good nor all bad. That it was necessary in large amounts has been clearly established -- and large amounts have been engaged in the task -- \$4 billion for your country and \$65 billion for ours, including aid of military character.

We have developed in the States a strong public urge to reassess the overall effectiveness of our program. To this end, committees are busily at work in Congress and President Eisenhower has a task force reviewing the problem; in Canada I understand a reckoning of your own is underway.

Whatever new light is shed upon foreign aid by these appraisals, I doubt if any of us believe that it should not be forcefully and effectively continued, at least for a while as an instrument of our national policies in the furthering of world development.

* * * * *

Contemporary with this period of foreign aid, the World Bank has grown to maturity. Born at the Bretton Woods Conference in 1944, it has become an effective and stalwart agency which has contributed markedly to the economic development that has been experienced in many parts of the Free World -- and today the opportunities before the Bank for further service have never been greater.

The World Bank brought something new to the field of economic development and to international financial operations. Its capital is subscribed by 60 nations -- large and small, rich and poor. While a creation of Governments, it has been free of any political influence and it operates as a business organization. As management engineering has become a recognized profession in our industrial life, so the World Bank has come to fill a similar

role with its less developed member countries. The Bank has evolved a technique for analyzing the economy of a country, its fiscal affairs, resources, productivity and capacity for growth which is recognized for its high standards of impartial and thorough perception and objective thought.

In its lending the Bank has with equal care studied the projects it has supported and their relation to the general development of a country. Whenever practicable, it has encouraged -- and sometimes financed -- the development of private enterprise. In its nearly eleven years, the Bank has lent \$3 billion for 500 projects in 44 countries. Cooperation in the World Bank by 60 nations is, to me, one hopeful sign of a realization that lasting peace can be achieved if economic development is shared by all free nations.

World Bank lending has been primarily for basic utilities, such as power development, land reclamation, irrigation, highways, harbor improvements and transport. There will long continue to be instances where World Bank lending, with its required Government guarantee, will be necessary for the creation or expansion of such facilities. Thus, a great deal of ground work has been done -- and while far from completed -- enough has been accomplished to create an atmosphere in many of the less developed countries in which private enterprise can hopefully begin to spread its wings.

In passing, I want to briefly mention one other contribution of the World Bank -- that is, its fostering of the concept of the development bank. As a means of stimulating the private sector of a nation's economy development banks are by no means new. The World Bank has helped in creating such institutions in Turkey, Ethiopia, India and Ceylon. Such banks can be effective in mobilizing a supply of capital for the growth of private enterprises. While Governments must initially provide the banks with a large part of their funds, in three of the cases mentioned a majority of the stock is in private hands. Given capable and experienced management these institutions can win the confidence of investors in its own stocks and bonds -- thus to augment its capital funds for lending to industry at medium and long term, or it may play the part of the underwriter in placing privately, or through public offering, the issues of industrial concerns.

Such institutions, apart from their ability to supply money and organization for meeting deficiencies in local capital markets, are able to work for the revision of obsolete laws, taxes or customs that by their nature are hamstringing to investment. Other countries are counseling with the World Bank with a view to creating or improving existing development banks. Such initiative deserves every encouragement.

* * * * *

During the era of colonial development industrialization was largely regarded as the prerogative of the home countries. But we have long since learned that there is nothing to fear from the growth of enterprise anywhere, and that an advancing standard of living in the world is the best insurance for continuing economic growth at home.

The faster an economy develops, the opportunities for its further growth rise in proportion, and the best trading we do is with the more highly industrialized areas.

This is clearly and simply illustrated in this way. Exports annually from the States to Canada average \$200 per Canadian; but to Ethiopia we send not over 50 cents per Ethiopian. Such variation runs up and down the scale.

Those who have only the beginnings of private capital formation must have aid in a variety of forms if they are really to progress toward our way of life. Certainly we have nothing to fear from their development and it is in our self-interest that it should occur.

Aid at Government levels has value -- and likewise boundaries. Surely it is not a sound way to encourage self-reliance. The World Bank, lending only against Government credit, likewise has limits to reckon with. But private enterprise having its own built-in system of checks and balances, once successfully implanted in a nation's economy and given the incentives for healthy growth knows no limits.

Pondering all of this, the moving spirits of the World Bank began several years ago to think in terms of a possible new member to the international financing team -- an organization working to further economic development but wholly devoted to encouraging and stimulating private enterprise in the less developed countries. After much groundwork and considerable reckoning with the risks involved, the International Finance Corporation came into being last year. The World Bank's sixty members were asked to join.

IFC's authorized capital is \$100 million, subscriptions being proportional to each country's subscription to the Bank. To date 47 countries have joined subscribing a little over \$90 million, of which Canada and the U.S. account for well over one-third.

IFC's organization is small, its personnel is international and its background is that of private industry and banking. We live closely within the atmosphere of the World Bank and have their experience and knowledge to draw from and their thoughtful counsel to rely upon.

It is unique that a large number of Governments spread over the world have joined together for the purpose of helping to develop private business, in which Governments will not have a voice.

IFC hopes to realize its purpose:

1. By investing in association with private investors and without Government guarantee, in productive private enterprises located in the lesser developed member countries;

2. By serving as a clearing house to bring together investment opportunities, private capital and experienced management.

* * * * *

For the first year or two IFC intends primarily to consider projects that will contribute to industrial development. We realize that the first half dozen investments will be carefully and widely scrutinized and critically appraised. They will set a pattern by which our usefulness will be measured and our judgment evaluated. We are starting out with no surplus, and surely the obligation to build one if our capital is never to be impaired. To that end our ventures must have from the beginning adequate capitalization and a careful balance of both management ability and experience, the economic factors of markets, raw materials and costs must be in sound relation, each to the other, and the profit possibilities must be weighed and found adequate.

In joining with private business and management in establishing and expanding privately-owned and managed enterprises, we will take much the same risks as they and we hope to share in the profits with them.

Under the IFC's charter the Corporation cannot invest in capital stock, hence, we must take some type of obligation. Since the IFC hopes to revolve its investments (if a venture is successful, after a reasonable period of time) and since straight loans are hard to sell when money is as tight as it is today and the uncertainties in foreign lending continue to exist, the IFC's policy will

be to invest in securities just one step above the equity in an enterprise. Such recent Canadian issues as Northspan Uranium debentures with warrants and the TransCanada Pipe Lines subordinated debentures are akin to what we have in mind.

The IFC will aim to have its rates attractive whether they are fixed, or profit sharing. We shall not be fearful of obligations senior to ours, provided, the debt to capital ratios are sound, and we shall adjust the foreign exchange risks between the project and the IFC as the factors surrounding each situation may warrant. We do not intend to invest in any project where the needed capital can be found elsewhere on reasonable terms. And we shall always welcome partners provided they are compatible to the projects' sponsors, thus to limit our own participation.

You will appreciate that something less than \$100 million is far from a prodigious sum of money for the purpose to which it is dedicated. Obviously, if the IFC is to accomplish its mission, it must spread its investments among the less developed countries. It cannot concentrate on a handful of enterprises; nor consider a tremendous volume of relatively small undertakings. For these reasons the IFC in its initial stages will not interest itself in enterprises having aggregate assets of less than \$500,000 nor an investment on its own part equivalent to less than \$100,000.

Given these conditions, I believe it will take a number of years to put our capital fully to work. We roughly define the less developed areas in which we will invest as all of Central

and South America and the Islands of the Caribbean; excluding Japan, the areas of the Far East, as well as Southeast Asia; Australia; the Near East; Africa; but only Greece and possibly Southern Italy in Europe.

Since the IFC is acting as a private investor, it must look at all the risks and hazards involved in any particular country. In those countries where we find the Government following policies or adopting laws unfavorable to private enterprise, IFC will be reluctant to invest. Wherever possible IFC will use its influence to help create a more favorable business climate. Already we have informed several Governments that legislation pending or passed will require modification if they are to expect private enterprise to flourish within their borders.

So much for our policies -- which are still in their formative stage.

As of today IFC has about 50 projects under consideration, approximately half of them being identified with the Latin American countries. The sponsors for many of them are in the U.S. and some are from large and representative companies in their respective fields. We have one proposal from a Canadian sponsor -- since you are well experienced in exporting capital abroad, we shall hope soon to have more of your companies on our doorstep.

The projects before us represent for the most part the fundamental industries -- forest products, textiles, cement, mining, chemicals and so on; this is as it should be. Those

involving advanced forms of manufacturing and processing are proposed for such countries as Australia, Mexico and Brazil where the formation of an industrial complex is well underway.

IFC has been in business six months and has yet to make its first investment. No ingredients are lacking and no obstacles are in our way. However, there are reasons why no investment has been made. Most of the propositions which come to us are in a preliminary form, and even with an experienced sponsor it takes months to work up a foreign operation. Proposals brought to us in a fairly advanced stage still require detailed study and investigation -- as to the sponsor, his ability and experience, the background conditions affecting the market, technical factors and so on. Moreover, the speed at which a project develops is impossible to prophesy, and as I pointed out earlier the soundness of the first few investments we make will be the key to IFC's future.

* * * * *

So, where does all this fit into the long term pattern of world development since the war?

First, I think it is clear that the process of development and social change, which we in the West are so largely responsible for currently accelerating in the less developed areas, will go on. Awakened to the possibilities of a better life economic development has become a rallying cry for millions against the traditional poverty they have always known. In Asia, Africa, the Middle and Far East, in Central and South America people are moving. The

currents of change that are in motion among these people cannot but affect our lives and those of our children. We have a big stake in how these people change, and we must accept the responsibility for trying to influence events in their areas of the world in directions compatible with our own security and growth.

This is a challenge to us to find the best ways and means to help create and strengthen the conditions in these countries under which the people will realize we are working for their well being as well as our own.

During the last ten years the West has pursued a course of foreign aid and assistance. This was the obvious course under the circumstances and it continues to play a significant role.

But I believe the greatest and most dynamic force in the future development of these countries will be private enterprise. Private enterprise as we know it has provided the greatest and most successful revolution in history -- the growth of the U.S. and Canada. Private enterprise, based on the initiative, energy, skills and vision of the individual, thriving in an atmosphere of freedom, spreads its benefits to the most people; and it builds those institutions in a society which are the pillars of stability. It is all an exciting and enlarging prospect.

I have spent much of my life investing and lending money to industry but I have never had a hand in a more challenging task -- that of putting money usefully and safely to work in the build up of private enterprise in the less developed areas. If we succeed

in our task, we shall find private enterprise becoming indigenous throughout the Free World. And where private enterprise flourishes, standards of living improve and life becomes better.

Finally, in the conflict thrust upon us by the Soviets, private enterprise is the one great weapon in our arsenal that the Communists do not have, and it is the best one for insuring to the world a peaceful, free and productive future.

Thank you.

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Highlights of Address of
Broderick Haskell, Financial Adviser,
International Finance Corporation
to
Canadian Council, International Chamber of Commerce
Meeting in Toronto, Canada, February 21, 1957

Ten years ago the countries of Western Europe were economically and physically devastated; Communism was emerging as a threat to Western Europe and the free world; the less developed countries had become aware that only through development could their economic and political life be advanced and made secure; and new nations had come into being to whom the creation of a national economy was largely an uncharted course.

The Free World had come to realize that as the aggressive tyranny of the Soviets began to show itself, it was faced with a new perspective in which its self-interest extended to the far reaches of the world. We in the Free World had to insure against the invasion of Communism in the lesser developed areas, and we wanted to make certain that the Communist empire would not surpass us in economic strength.

This was a task for governments - and your country and ours together accepted a major responsibility for its accomplishment. Foreign aid in many forms became the order of the day and continues to be a vital part of your program and ours in maintaining a vigorous and healthy defense against Communism. It is not my purpose to evaluate the effectiveness of these outlays; they have not been all good or all bad. That it was necessary in large amounts has been clearly established - \$4 billion for your country and \$65 for ours, including aid of military character.

* * * * *

Contemporary with this period of foreign aid, the World Bank was born and has been operating. Cooperation in the World Bank is unique, and it is a hopeful sign that lasting peace can be achieved if economic development is shared by all nations.

It has brought a new approach to international financing and economic development. While created by governments, the Bank is free of any dominant political influence and operates as a business organization. In addition the Bank has developed a technique for analyzing the economy of a country to recommend overall programs of development giving emphasis to basic projects essential to the country's growth.

The World Bank has loaned \$3 billion in 44 countries for over 500 development projects. World Bank loans have gone primarily to finance basic facilities such as power, transport, communications. These loans have laid a groundwork and have helped create an atmosphere in many of the less developed countries so that private enterprise can sprout.

* * * * *

In helping develop the less developed areas we are creating better markets for ourselves. There is nothing to fear by way of competition in this development. Always the best trading countries are those highly industrialized. And clearly the faster an economy grows the opportunities go up in proportion.

For a variety of reasons - political, economic and emotional - these countries are in a hurry to catch up. And it is not easy to explain to them why the process of economic growth, if substantial and lasting is both complex and slow. In many of the less developed countries there exist conditions which are both unattractive and deterrant to foreign enterprise - unstable political conditions, inflation, unstable currency, antiquated

laws, no business tradition, no local financial institutions, lack of trained management and labor, and tax and exchange regulations.

In the last few years there has been increasing interest among private businessmen and investors in the U.S., Canada and Western Europe in the opportunities to be found in the less developed countries. At the same time there has been a need for some mechanism to encourage a greater flow of private capital, both domestic and foreign, into these countries.

* * * * *

The International Finance Corporation was established for this purpose. It was set up last July to promote and engage in the spread of private enterprise and investment. It was conceived out of the experience of the World Bank and is closely related to it. Only members of the Bank may be stockholders in the Corporation. There are now 47 members with subscriptions of \$90 million capital. It is unique, I believe, for governments to join together for the purpose of helping private business, without political interference.

IFC will invest in productive private enterprises, in association with private investors and without government guarantee, located in its less developed member countries.

IFC will also serve as a clearing house to bring together investment opportunities, private capital (domestic and foreign) and experienced management.

IFC will not compete with private capital. IFC will help stimulate the productive investment of private capital both domestic and foreign.

In investing with private business and management to establish or expand private enterprises, IFC will take the same risks as its private partners. If the enterprise is successfully established and operated, IFC hopes to sell its interests to its partners or to other private investors, and thus revolve its capital.

In the few months of its operation IFC has been approached by a substantial number of companies regarding new proposals for foreign operations. Some are quite preliminary in their plans; others are advanced sufficiently for IFC to start investigations into various aspects of the proposals.

* * * * *

The less developed countries offer the greatest opportunities for economic growth and expansion today. And in a world divided between freedom and tyranny, we have an interest in how these countries develop. Private enterprise has a vital role in the growth of these countries. The spread of private enterprise can bring greater material benefits to a country's economy and people, and it can contribute substantially to a stable growth along lines that are compatible with the freedoms we cherish.

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THE INTERNATIONAL FINANCE CORPORATION:
EXPORTING PRIVATE ENTERPRISE

Address of Broderick Haskell

to

Bankers' Association for Foreign Trade, May 21, 1957



Those of us who are actively engaged in launching the International Finance Corporation are very appreciative of this opportunity to tell the story of our organization. This morning I want to consider with you IFC's purpose - to further economic development by promoting private enterprise in the less developed areas of the world - and its significance to you as bankers.

I can think of no audience with a better appreciation of the gains to human progress that result from the extension of the free world's system of private enterprise. Without international banking we would be living in a barter economy with standards of living that would not stand comparison with what all of us now enjoy.

It is a conviction of mine that in reckoning with World Communism more emphasis should constantly be given to the need of extending our system of free and individual enterprise. We all have observed since the demise of Stalin the Kremlin's emphasis on economic penetration. We know all too well of their ability to match us in the various segments of military technology. But their approach, founded on state control, can never

by its nature achieve the economic force of private capitalism based upon individual initiative in a climate of freedom, as it is practiced in this and other countries nor attain the same durable standard of living.

In the last century as the world has diminished in size under the impact of scientific discovery and technological advance, our economic growth at home has become increasingly related to foreign trade. And in this picture it is clear that those countries which are our best trading customers are the most highly industrialized. At the same time we have become more acutely conscious of the fact that we need raw materials and resources to feed our industrial machine which come from outside our borders. It is therefore in our own interest to take a close look at the relation of economic development of the less developed areas to our own long-term future.

And with these changes have come others. One of these - one which is directly affecting each of us - is what has been called a "revolution of expectancy" in the desires of hundreds of millions of people living in the less developed areas. They have become aware in the first half of this century through various stimuli that there are better things than a poverty-ridden existence and they want a better life.

Many efforts - by governments, by intergovernmental organizations and by individuals - have been made to find ways of bringing development to these peoples. It is a tremendous and staggering problem - one to which there is no easy nor quick solution.

To place my own organization in this challenging task, let me start with the World Bank. I know you are familiar with the Bank and its operations. In its eleven years of existence it has brought new meanings, concepts and practices to the field of international finance - and it has

made a substantial contribution to the development problem by financing the construction of basic facilities in the less developed areas.

Early in the Bank's operations it became apparent that because of its size and the requirement of a government obligation for each loan that the Bank could not effectively and on a wide-scale deal with private businessmen and investors wishing to establish or expand a foreign enterprise.

The moving spirits of the World Bank began to think in terms of a possible new member to the international financing team - an organization likewise working to further economic development but wholly devoted to encouraging and stimulating private enterprise in the less developed countries. After much ground work and considerable reckoning with the risks involved, the International Finance Corporation came into being last year. The event appears to have been a timely one. The 60 member countries to the World Bank were asked to join and to subscribe to an authorized capital of \$100,000,000, the subscription being proportional to each country's subscription to the Bank. To date the IFC has 49 members and paid-in capital exceeding 90 million, all in U.S. dollars.

IFC's organization is small, its personnel is international and its background is that of private industry and banking. We live closely within the atmosphere of the World Bank. It houses us and performs much of our administrative detail. We have its unparalleled knowledge and experience to draw upon and its thoughtful counsel to rely upon.

It is unique that a large number of Governments spread over the world have joined together for the purpose of helping to develop private business, in which Governments will not have a voice.

IFC's purposes are simple:

1. To invest in association with private investors and without government guarantee, in establishing or expanding productive private enterprises located in the lesser developed member countries;

2. To serve as a clearing house to bring together investment opportunities, private capital, domestic and foreign, and experienced management.

3. To use its offices wherever possible to help create a more favorable investment climate in its member countries.

For the first year or two IFC intends primarily to consider projects that will contribute to industrial development. We realize that the first half dozen investments will be carefully and widely scrutinized and critically appraised. They will set a pattern by which our usefulness will be measured and our judgment evaluated. We are starting out with no surplus, having surely the obligation to build one, if our capital is never to be impaired. To that end our ventures must have from the beginning adequate capitalization and a careful balance of both management ability and experience, the economic factors of markets, raw materials and costs must be in sound relation, each to the other, and the profit possibilities must be weighed and found adequate.

In joining with private business and management in establishing and expanding privately-owned and managed enterprises, we will take much the same risks as they and we hope to share in the profits with them.

Under IFC's charter the Corporation cannot invest in capital stock, hence, we must take some type of obligation. Since the IFC hopes to revolve its investments (if a venture is successful, after a reasonable period of time) and since straight loans are hard to sell when money is as tight as it is today and the uncertainties in foreign lending continue to exist, IFC's policy will be to invest in securities just one step above the equity in an enterprise. We want that investment to have a convertible or profit-sharing feature hopeful, if the enterprise is successful,

that it will be readily saleable in a few years and gain us a reasonable profit. Thus to lay away a surplus for reckoning with the inevitable investments that in the end fare badly.

Our investment may not be wholly convertible. We may divide it between a straight serial dollar loan and a convertible longer term note. The latter might even be denominated in a local currency where we are satisfied that the economy of a country and its currency offers the prospect of long term stability or where the prospects of returns outweigh the currency risk. As an alternative to conversion, bonus shares set aside for our account, escrowed with management, and subject to sale at our direction may prove an acceptable arrangement.

IFC will aim to make its investment terms reasonable and realistic, and by investment terms I include conversion rights or calls on equity, as well as interest rates, whether they be fixed or profit sharing. I say again we want our terms to be realistic in terms of the risks involved - high enough frequently to attract others to share with us in our investment, and certainly not low enough to compete with other sources of private capital.

We shall not be fearful of obligations senior to ours, provided the debt to capital ratios are sound, and we shall adjust the foreign exchange risks between the project and IFC as the factors surrounding each situation may warrant. We do not intend to invest in any project where the needed capital can be found elsewhere on reasonable terms. And we shall always welcome partners provided they are compatible to the projects' sponsors, thus to limit our own participation.

You will appreciate that something less than \$100 million is far from a prodigious sum of money for the purpose to which it is dedicated. Obviously, if IFC is to accomplish its mission, which is one of a catalyst,

it must spread its investments among the less developed countries. It cannot concentrate on a handful of enterprises; nor can it consider a tremendous volume of relatively small undertakings. For these reasons IFC in its initial stages will not interest itself in enterprises having aggregate assets of less than \$500,000 nor an investment on its own part equivalent to less than \$100,000; but it may put as much as \$2,000,000 into a single project. For the present, that is probably the largest sum we are willing to contemplate investing in a single enterprise.

Given these conditions, I believe it may take several years to put our capital fully to work. We roughly define the less developed areas in which we will invest as all of Central and South America and the Islands of the Caribbean; excluding Japan, the areas of the Far East; Africa; but only Greece and possibly Southern Italy in Europe.

Since IFC is acting as a private investor, it must look at all the risks and hazards involved in any particular country. In those countries where we find the Government following policies or adopting laws unfavorable to private enterprise, IFC will be reluctant to invest. Wherever possible it will use its influence to help create a more favorable business climate. Already we have informed several governments that legislation pending or passed will require modification if they are to expect private enterprise to flourish within their borders and to be attracted from abroad.

As of today, IFC has some 30-odd projects under consideration, approximately half of them being identified with the Latin American countries. The sponsors for many of them are in the U. S. and some are from large and representative companies in their respective fields. Others have well-known European sponsorship or the support of leading businessmen in the countries where the projects themselves are to be located.

The projects before us represent for the most part the fundamental industries - forest products, textiles, cement, mining, chemicals, printing, and so on; this is as it should be. Those involving advanced forms of manufacturing and processing are proposed for such countries as Australia, Brazil, India and Mexico where the formation of an industrial complex is already well under way.

IFC has been in business nine months and has yet to make its first investment. No ingredients are lacking and no obstacles are in our way. However, there are reasons why no investment has been made. Most of the propositions which come to us are in a preliminary form, and even with an experienced sponsor it takes months to work up a foreign operation. Proposals brought to us in a fairly advanced stage still require detailed study and investigation - as to the sponsor, his ability and experience, the background conditions affecting the market, technical factors and so on. Moreover, the speed at which a project develops is impossible to prophesy. I pointed out earlier the soundness of the first few investments we make will be the key to our future.

More frequently than not we shall employ outside consultants to make market studies, to review plant design or processes, to evaluate the suitability and the reserves of various natural resources. We have field parties presently engaged in just such assignments in several parts of the world.

In the first instance we may have to do much of this investigation work at our own expense, recouping as we go along by charging the relevant costs to each investment as it is finally made.

We shall constantly concern ourselves with the calibre of management in every project. There is an injunction in the Charter that IFC will not assume the responsibility for managing any enterprise in which it has

invested, hence we must be satisfied that the indispensable ingredient of management is amply provided for in the first instance. Surely it is a more important factor than money and far more scarce. We want management tied into the enterprise we finance preferably by having their own capital at risk in the equity, but should the relationship, in the exceptional case, be a contractual one, it must carry with it the full authorities for corporate and executive direction and its rewards must be geared to the profits achieved. Only thus can the real benefits of managerial capitalism best be realized. The enterprises that we participate in must be successful. Hence, they must have all the time and care needed before their launching. The World Bank was frequently criticized for making a slow start and it may be that the IFC will be called similarly to account, but it is our purpose to establish a reputation for objective business-like investment. In that way we hope to become a useful and effective medium for stimulating the movement, not only of American, but European capital and management into the lesser developed countries of the free world and for encouraging industrial investment by local investors in those areas.

So much for the policies and progress of IFC. You will appreciate that we are feeling our way in a new area of investment and lending.

In the time remaining to me this morning, I should like to speak some personal views, and to revert to my earlier contention that our American system of individual enterprise and the similar forms found elsewhere in the free world comprise collectively the strongest weapon we have for fighting off the penetration of Communism. It is the only weapon we have that the Communists lack. If we recognize it as the best medium for promoting economic growth anywhere, we then may ask the question, is it

being adequately implemented into these areas needing it most? Are we resorting to other forms of economic aid more costly and less effective in their results? Would there not be wisdom in stepping up our fight upon Communism by offering American business greater incentives to spread its activities into the lesser developed countries, thus to build up the export of the corporate "know how" and individual initiative that has made this country great - a system that has attained mass benefits for our people never before equalled anywhere in history?

None of us, I believe, will deny the continued need for economic aid, but there should be a strong urge frequently to reassess the overall effectiveness and scope of our program and to understand more clearly the various segments of it. We seem now to be doing that. In recent months there have been completed a number of extensive and thoughtful studies concerning our Mutual Assistance Program, which have been prepared for various entities of our Government. Without exception, each one has made a strong case for sustaining foreign aid. There is repeated emphasis that the economic development of the undeveloped countries in a pattern of freedom is in our long-term interest, but, alas, none of the recommendations found in these reports speak of the possibilities inherent in having American business, through added investment of money and management, gradually supplant Government aid - let alone the possibility of saving tax dollars by doing so.

With serious minded and informal study groups urging upon our Government that the magnitude of economic aid range from a billion up to five billion a year, upon a long-term basis, it is essential that we constantly keep a weather eye upon how such moneys are put to work. The International Bank in its eleven years of operations has, by assiduous

effort in the realm of economic development, loaned somewhat over \$3 billion in over 500 projects in 44 countries. The factors limiting such totals have been for the most part those of human resources and the capacity to repay. It therefore seems reasonable to question whether our Government can mobilize the managerial and technical skills, both here and abroad, effectively to plan and direct the lending, or the spending, of such prodigious amounts of money.

Moreover, the making of loans, dollar or otherwise, that are expected eventually to be repaid to our Government should be prudently related to the viability and creditworthiness of the recipient countries and coordinated with the activities and programs of all other international lending agencies. We must not fall into the mistake of having so many agencies at work in this field that in the end, either from over-lending or lack of coordination, the result is an undermining of the presently established sound concepts of international finance.

At the risk of repetition, and again these are my personal views, I say that we need more dynamic examination at top Government levels of the possible devices for expediting the flow abroad of private capital. What can we do to make our "climate" right for foreign investing?

We certainly could provide some real tax incentives. We could develop a clear cut program for making available in a positive way to private enterprise, whether the companies be local or American, the PL-480 monies that are uncommitted in many countries short of business capital. We could restrain Government agencies from financing governments in projects suitable for private investment. We could, by concerted effort, have our Government champion more strongly the role of private enterprise in the context of both our foreign policy and our economic aid.

By these devices I am confident that we can hasten the day when private enterprise can carry the responsibility for supplying the capital needed for economic development.

Never before have the free world's business men been so able and so eager to spread their wings and go wherever opportunity can be found.

We in the International Finance Corporation believe this and look forward to having an active part in this challenging prospect.



Thank you Mr. Chairman. It is indeed a pleasure for me to be here and meet with my brothers of Delta Sigma Pi and I am pleased to have this opportunity to tell you about the International Finance Corporation: a modern international financial institution devoted to the purpose of encouraging private investment.

BOB STRACHAN

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The postwar period beginning in 1946 has brought into sharp focus the fact that the fortunes of the economically less developed countries and those of the more mature economies were inevitably linked together.

In 1946 there were two major needs for international finance. One was the need to finance the reconstruction of countries which had suffered physical damage or economic dislocation of their economies during World War II. The second need was for the development of the economies of the less developed countries and also for the economic development of those territories which were expected to obtain their independence in the forthcoming years.

There are urgent reasons why these two major changes must be brought about with speed that will set new records in the history of mankind's economic evolution. The submerged hundreds of millions of people in the less developed countries have glimpsed a better way of life. For the first time in history such people feel that education, reasonable comforts, and the opportunity to improve the lots of themselves and their children are within their reach.

They are impatient to bring this dream to reality. The greater the delay, the more vulnerable they will become to the glowing promises so recklessly made by our Communist rivals.

The presently highly developed countries have gone through growing pains similar to those the developing areas are feeling today. The chief difference lies in the rapidity of present growth contrasted with the leisurely pace of earlier days. In former times progress was gradual, providing opportunity for the accompanying evolution of human, legal and financial resources needed to organize, manage and finance them. Individuals and societies gathered experience and had sufficient time to adjust to the new economic way of life. In contrast, today's developing countries are hurling themselves into a full-scale process of industrialization.

The process and the result concern the prosperous, industrialized nations of the Free World as intimately as they concern the peoples of the less developed countries.

As a major part of this immense effort, the International Bank for Reconstruction and Development, more universally known as the World Bank opened its doors in 1946 and began making reconstruction loans in Western Europe.

About 1949 the Bank turned its attention to the less developed areas of the world and began making development loans in Latin America, Africa, Asia and Australia.

The Bank's role in the developing nations had been one of loans, usually to governments. Most of these loans were to be used for such basic developments as hydroelectric projects, road programs, irrigation projects, and some industries such as steel and cement. However, in all of these cases, the loans by the World Bank were guaranteed by the governments of the country where the investment was made and in most cases the government's role was very large in the project.

Necessary as such projects are, the Bank's program of operating through government guarantees left uncovered the vital area of the operation of purely private enterprise. In the developing countries the private businessmen attempting to start industries are usually as much in need of sound financial backing and technical assistance as are the broader fields of public utilities and government programs.

Thus the International Finance Corporation was created by many of the member nations of the World Bank to make direct investments in private industry without any government guarantees or ownership.

Briefly, the International Finance Corporation is a pilot plant set up to demonstrate a prime tenet of democratic capitalism: that free, competitive private enterprise forms the soundest and most enduring base for improving the economies of the developing countries of the Free World.

In this role, IFC Helps Finance without government guarantees the establishment of productive new industries or the expansion of existing ones, in the less developed countries.

Please note the phrase Help Finance because this is a key factor in IFC's function. IFC does not invest more than half of the capital requirements of a company. Indeed most of our investments amount to considerably less than half the capital involved. The rest of the capital must be from private sources.

This is because our Charter assigns us the role of a catalyst, a stimulant to the flow of private capital. We are forbidden by our Charter to compete with private capital and are directed to ^{supplement} it.

As a practical business corporation, we are concerned with methods by which the business leadership of the developed and the developing countries can combine the experience, skills and capital of the one with the resources and aspirations of the other, to their mutual benefit.

Today there are two types of private investment capital which are available and are moving into underdeveloped countries. They may be referred to as industrial and financial capital.

By the term industrial capital, I refer to established business organizations which are establishing operations in other countries in order to obtain raw materials, manufacturing facilities and markets. Many of these investors are able and willing to invest equity funds either alone or in connection with local businessmen. In addition, they possess the technical and managerial skills necessary for the enterprise. This type of capital has played a large role in the past in the development of the extractive industries and today is playing a major role in the developing of manufacturing industries.

The second type of investment capital that I refer to as financial capital is not directly associated with an industrial operation. The owners of this capital want to purchase securities without becoming involved in the operation of a business. The more highly developed economic countries of the world have large and numerous savings institutions which make available this type of capital.

IFC supplies and works with this second type of capital.

IFC by a restriction in its Charter is prohibited from owning equity securities. However, we are at the same time given a mandate to act as a catalyst in encouraging private capital to join with IFC in its investments. To do this we have developed a rather special pattern of investment. A typical investment consists of an unsecured note or debenture repayable normally in US dollars over a relatively long period of time, say ten years. The note carries a fixed interest which is usually less than the prevailing commercial rates for long-term capital in the particular country. The fixed interest which usually averages 7% may apply to the entire amount of the loan or to only part of the loan. The interest on the remaining part is contingent upon the future earnings of the company. In addition, the investment ordinarily includes an option on shares of the company or a right to share in profits and frequently a combination of both.

This type of security has proved suitable in many instances. It provides the opportunity of obtaining a substantial return so that we have been able to attract participants. However, its complicated patterns make it a difficult security to work with in many countries of the world. As a result, IFC has asked its member nations to change its charter so that we will be able to make non-voting equity investments.

Such a right would have many advantages. The most important of these are that (i) IFC could strengthen by its own investment the capital structure of the business enterprise, (ii) it could negotiate simpler investment terms, (iii) it could share in the risks and rewards of an enterprise in the more traditional form of a long-term investor, and (iv) perhaps most important, IFC could take a major role in cooperation with local institutions in the development of local capital for public subscription.

You may be curious as to why IFC takes an option on common stock although, at the present time, we are not allowed to own common stock. The intention is that we hope to share in this way in the future profits of the company that result from our investment through an increase in the value of our option which we would plan to sell back to the Company or its stockholders at a future date or to sell the option to a third party. It is also possible that we might sell part of our investment in which case the purchaser could himself exercise the option.

Since World War II many governments have assumed a major role in financing business that is properly in the private sector. Typically, such government loans are at rates far below those prevailing for commercial loans.

Many advocates of such cheap credit claim that it is essential if private enterprise is to grow at a satisfactory rate. However, it seems obvious that public funds can supply the requirements of only a small part of the sound business enterprises in the developing countries. The lucky few can increase their profits and thus have an advantage over the many to whom public funds are not available. Furthermore, and even more important, the existence of even a limited amount of cheap money makes other businessmen reluctant to pay the higher rates necessary to attract private investment capital. Many of them delay projects in the hopes of eventually obtaining cheaper government funds, thus retarding sound expansion and obstructing the increased flow of private funds into these countries. Cheap public credits may well in the long run retard rather than advance the pace of private economic development.

You may be interested to know what some of the major problems are that we encounter in making investments in the countries where we are doing business.

There are numerous problems but in my estimation the most important is the lack of experienced management.

Many companies which, for a developing country, are of substantial size are operated by only one or two really experienced businessmen who may or may not devote all of their efforts to the particular company. Many projects when submitted to us do not have proper planning as to sources of capital, market development and in some cases engineering problems still remain to be solved.

Secondly, I believe that the lack of proper accounting personnel is a major problem. In many cases we find that management does not have adequate records to be able to run their business effeciently or even to know what their costs of production are.

Another most important problem is the lack of an adequate capital market for a company to call upon. In many developing countries there is little, if any, long-term money available at any price. Short-term interest rates in many South American countries are in the range of 15 to 20% or even as high as 30% for 12 to 18 months' money. As a result, many companies make short-term loans when they should be using long-term money. They soon find that their short-term interest charges are equal to their earnings with no prospect of being able to repay the loans.

In addition, inflation and government regulations are major problems.

In evaluating a possible investment IFC devotes a great deal of time and effort to these problems which would be solved as a matter of routine in the more highly developed economic countries.

Before concluding, I want to tell you a little bit about what IFC has done in its first four years of operation.

IFC investments have been restricted generally to the fields of mining, manufacturing and processing as these are the types of industry most needed to broaden the economic bases of the developing countries.

In most cases it is not practical for IFC to make an investment of less than \$100,000 because the difficulty and expense of investigation and administration at a distance. Normally we do not invest in a project having total capital of less than \$500,000.

Since 1956, we have made 36 investments in 17 countries. In two of these investments we have agreed to repayment half in non-dollar currencies - sterling (Kilombero Sugar Company Ltd.) and Italian lire (Magrini Meridionale Spa.). Three investments are partly in the form of income notes. (Fertisa, Magrini and Tanganyika). Our total commitments are now approximately \$45,000,000. Of this amount \$29,000,000 are effective of which participants have joined us and hold nearly six million

We have been actively seeking participants to join us in our investments either at the time we have made our investments or at a later date. We are making considerable progress in this effort. North American and European investors have either invested simultaneously with IFC or taken an interest or participation in IFC's own investment in a copper mine in Chile (Mantos Blancos), a pulp mill (Champion Celulose), and an automobile plant in Brazil (Willys-Overland do Brazil, S.A.), and a fertilizer plant in Peru (Fertilizantes Sinteticos, S.A.). In our first investment in Africa, a sugar project in Tanganyika, simultaneous investments have been made by British (Colonial Development Corporation) and Netherlands institutions (NOFC and VKCM). This is heartening proof of the effectiveness of our role as a catalyst.

Although I have told you that we have a minimum size of investment which we will make, we do not have a specific maximum limit. Our largest investment to date is \$4,000,000 in a pulp and paper enterprise in Brazil, (Champion Cellulose). Conceivably we might invest a considerably larger amount if by doing so we could attract important amounts of local and foreign investment capital to the enterprise.

The smallest enterprise in which we have invested is a knitting mill (Industrias Textiles, S.A.) in El Salvador with an investment of \$140,000. This mill employs some 70 workers. Measured by employment, it is about one-third the size of the average knitting mill in the United States. However, its sales volume, related to the size of the economy, equals a mill in the United States with annual sales of more than \$150,000,000.

In Peru, we have invested \$250,000,000 in a factory (Industrial Reunidas, S.A.) which produces tin cans and simple household appliances and which will soon start production of refrigerators and washing machines. In relative size, this company corresponds to two-thirds the size of Westinghouse.

By the same measure, the Argentine steel mill (Acindar Industria Argentina de Aceros S.A.) that we have recently invested in corresponds in relative size to Bethlehem Steel Corporation. IFC is most interested in industries of medium size. This is the size best suited to the economies of the developing nations and it is also the size most likely to find local sponsors able to finance their share of the project.

The IFC's Professional Staff consists of 40 men from 13 countries.

Administratively we have four staffs - investment, engineering, accounting and legal.

During the past year staff members visited 33 countries through the Free World. In fact, at the present time we have 12 staff in 7 countries.

Briefly then, IFC is unique in the family of international financial institutions. It is the only one designed for the express and exclusive purpose of investing in private enterprise on private capital terms, sharing the risk with the prospect of sharing in the rewards. With subscribed capital of \$96 million, it is by far the smallest of the international agencies. But up to now we have made our capital go a long way. For every dollar that we have invested, we have been joined by approximately three dollars of private investment capital. As our investments mature and we are able to revolve our funds, I think that we shall see that the influence of our operation will have an impact considerably beyond the size of our funds.

I hope that I have given you an accurate idea of what IFC is, what it is designed to do, and how it works. I shall be glad to answer any questions that occur to you.



February 15, 1961

ADDRESS OF BRODERICK HASKELL, DIRECTOR OF INVESTMENTS, INTERNATIONAL FINANCE CORPORATION, TO CONFERENCE FOR CORPORATE EXECUTIVES

RECENT TRENDS IN PUBLIC AND PRIVATE
LENDING AND INVESTMENT IN LATIN AMERICA

In dealing with my assigned subject, it may be useful to recall certain developments of the recent past that are influencing the trends in public and private lending and investment in Latin America.

Certainly there has been a heightened international awareness of the financial requirements of these developing countries and a number of new initiatives have been taken, aimed at enhancing the capital flow into these relatively low income areas.

Speaking first of the International Monetary Fund - by April of last year ⁵⁷ ~~37~~ member countries, representing 90% of the Fund's quotas, had consented to the increases recommended to them, thus augmenting the resources of the Fund by some \$5 billion. At the close of 1960, the Fund had stand-by arrangements with 10 Latin American countries for a total of \$50 million. This sum represented a net increase during the year.

The World Bank completed an equally significant step. By the end of June 1960, the subscribed capital of the Bank exceeded \$19 billion -- more than double the figure of a year earlier. While some 90% of this total remains on call, it nevertheless reinforces the Bank's capacity to borrow in the money markets of the world.

Another development in the past year is IDA - the International Development Association - an affiliate of the World Bank. IDA will supplement the activities of the Bank by financing a wider range of projects on terms more flexible and bearing less heavily on the balance of payments of the recipient countries.

A further important and recent event has been the establishment, with headquarters here in Washington, of the Inter-American Development Bank. This new agency proposes to finance economic development both public and private. It has now made its first commitment in Peru and as its policies and objectives become more clearly defined, it can be expected to make an effective contribution to the flow of capital into the Central and South American countries.

Let me now comment upon the broadening policies of U.S. institutions in the public sector - the Export-Import Bank and the Development Loan Fund.

During 1960 the Eximbank entered the short-term field of exporter activity by making a system of political risk guarantees available to U.S. shippers through commercial banks without reference to Washington.

It also initiated the practice of participating in medium-term exporter credits, again relying upon the credit judgment of commercial banks.

Of particular significance in a developmental sense is Eximbank's willingness to enter into project loans having up to 15 - and even 20 - years final maturity.

Such ^{extended} ~~broadening~~ policies have greatly stimulated Eximbank's activities in Latin America which represent a major portion of its business.

DLF is a U.S. government agency subject to the foreign policy and guidance of the Secretary of State. It has just completed its biggest year's operations, ^{has} ~~is~~ ^{exhausted its} ~~virtually out of~~ uncommitted funds, and must await the renewed support of Congress before entering into significant new programs.

There is no reason to doubt that the Development Loan Fund will continue to be one of the U.S. Government's principal instruments of foreign economic policy. Its contribution to the emerging Latin countries has been substantial and on terms that aim to avoid an undue burden on their economies. During 1960 the DLF introduced into its policies a program of social type lending to encompass land reform and housing loans; the beneficiary countries will be encouraged to match such DLF financing through the formation of local capital sources patterned after our typical savings and loan associations.

✓ To Further augment foreign assistance of this character, Secretary Dillon at the Bogota Conference last September proposed the establishment of an Inter-American social development fund to be U.S.-financed and to be administered by the Inter-American Development Bank. The present Congress is being asked to implement this program by an initial appropriation of \$500 million.

U.S.-sponsored dollar financing continues to add up to a considerable and growing annual total. In past months steps have been taken to place primary emphasis on having this financing expended for goods and services of U.S. origin, thus to alleviate the balance of payments problem.

~~The emphasis placed on this policy by DLF has had a collateral and beneficial effect upon the flow of assistance to the Latin countries by encouraging~~

other industrialized nations to expand their means of economic assistance ^{encouraged} to the Latin countries ~~thus~~ to enable their industries to sell on competitive terms ~~in Latin America.~~

The U.S. must constantly reckon with these new means of competition for the trade opportunities in Central and South America. To preserve the integrity of the dollar, its favorable balance of trade must be sustained and extended. This can come about through improved technology, lower costs, better products and the exporter's ability to offer competitive terms of payment. President Kennedy has recently stated that the Eximbank terms are not yet adequate and comparable to those offered by other countries, ^{and} ~~he~~ has directed the bank to submit by April 1 for executive consideration a new

program aimed at placing U.S. exporters on a basis of full equality with their competition in other countries.

The Latin American countries cannot but gain when such competitive forces are at work. ^{at} ~~the~~ net effect will inevitably increase the ~~sum~~ total of financial aid available to them.

Most of the loan capital made available to Latin America since the end of the war was in the form of short- and medium-term suppliers' credits. The largest source of long-term capital has been the World Bank, which so far has lent more than \$1 billion to Latin America, constituting 20% of total World Bank loans. During 1960 the Bank increased its loans to Latin America by \$142 million, a sum exceeded but once in previous years.

The second largest source of long-term capital has been the Eximbank. Typical of ^{recent} ~~its~~ commitments in this category are \$42 million to a private Chilean power company and \$37 million to the Government of Colombia for purchases of highway building material and equipment. At the end of ~~the~~ ^{last} ~~business~~ year ~~1959/60~~ the total of its outstanding loans and undisbursed commitments to Latin American countries was about \$3 billion, equivalent

to 42% of the Bank's total. The credits approved during 1960 for the Latin countries totaled \$384 million, substantially exceeding the total *commitment* of ~~\$239 million~~ placed on the Bank's books in 1959. This ~~total~~ sum includes, however, a preponderant amount of short- and medium-term suppliers' credits. DLF, which does lend at long term, has so far lent or committed to Latin America ~~an amount of~~ \$167 million or about 9% of its total loan volume. A special feature of DLF's loans to Latin America is that only 35% of the loan total is repayable in U.S. dollars, the rest in currencies of the borrowing country or in other currencies.

I have now spoken only of the international agencies, the government-sponsored banks and funds, the forms of financing that in one way or another involve government credit or guarantees.

Of equal significance and hopefully of greater consequence in the long run is the trend and the magnitude of private enterprise financing -- the ebb and flow of business capital and private investor resources to and within Latin America.

From the vantage point of the International Finance Corporation, we have reasonable opportunity to observe the lending and investment activities that comprise the private sector. While the IFC is an international institution, an affiliate of the World Bank, and the funds at its disposal are provided by member governments, the Corporation's investing is confined to private enterprise without governmental protection of any kind.

Let us place the private sector in its proper context. It is dominated by business capital under the control of the business executive seeking attractive rewards by creating new or expanded enterprise in the developing countries. Such capital may be indigenous or foreign. Its motives may be to develop natural resources, to create new ^{markets} or to protect established markets through local manufacture, or to initiate in the developing areas the modern service industries which have become so important to our way of life here in the States.

The flow of business capital into Latin America has long been great, while the amount of local business capital in these countries is of considerable and growing importance. The relative magnitude of foreign versus domestic business capital is difficult to determine and varies greatly from one country to another. What is important is its availability and growth.

Today, Latin America ranks second as an area of U.S. foreign investment. In 1929 46% of total direct foreign investment of U.S. business was located in Latin America, 27% in Canada, 18% in Europe and the remaining 9% in other parts of the world. By 1959 Canada occupied the first place with 34% of the total; Latin America's share had fallen ^{to} 28%; Europe's share had remained about the same.

The total book value of U.S. direct investment in Latin America in 1959 ~~expressed in U.S. dollars~~ was about \$8.2 billion, an increase of some \$4.8 billion over the book value in 1929. It is interesting to note how this \$4.8 billion effected a substantial change in the geographical location

of U.S. direct investment in the area. In 1929 Cuba was the largest host country, accounting for 26% of total U.S. investment in Latin America. This investment was mainly in the sugar industry and in railroads. Second largest host country was Mexico with 20% made up largely of substantial investments in petroleum and mining. In third place was Chile (12%) where U.S. capital had initiated large operations in copper mining. Since then a drastic change in the geographical distribution has taken place. Of the \$4.8 billion increase in the book value of U.S. direct investment ~~in Latin America~~, \$2.6 billion accrued in Venezuela due to large investments in petroleum development. As a result, Venezuela has emerged as the largest host country for U.S. investment in Latin America (34%), as well as in the whole world -- for example, U.S. direct investment in Venezuela is larger than U.S. direct investment in the European Common Market. Of the remaining \$2.2 billion increase, ~~in the book value~~ some \$650 million accrued in Brazil, and some \$300 million each in Chile, Panama and Colombia. The total book value of U.S. investment in Cuba did not increase significantly

in these 30 years. Yet Cuba's share remained relatively high (12%) -- the second largest in Latin America. The third place is now held by Brazil (10%) which has surpassed Mexico and Chile whose shares in total U.S. investment are now 9% each.

In 1929 the most important field of U.S. direct investment in Latin America was public utilities (25%). The second place went to agriculture (23%), the third place to mining (21%). Petroleum accounted for 17% and manufacturing for but 7% of the total. By 1959 the picture was completely different. Public utilities which once ranked first had dropped to fourth place, the inevitable result of emerging economic nationalism which led to government nationalization. Investment in agriculture which had ranked second in 1929 became relatively insignificant. The types of investment in order of magnitude now approximate: petroleum (37%), manufacturing (16%), mining (16%), public utilities (12%), trade (8%), agriculture (6%) and others (5%).

It is important to note the emergence of manufacturing as a major field of investment, ~~and~~ ^{the} trend within this investment is ~~very~~ interesting. In 1929 about half of the total U.S. investment of this type was in the food industry. The rest was widely spread. By 1959 the share of the food industry had fallen to 13%, whereas the largest share is now engaged in chemical industry (25%), the second largest the automotive industry (15%), with the food industry in third place.

The growth of these investments has, of course, not only been financed by business capital from the States but also from retained earnings, depreciation and depletion charges, together with some borrowing from local sources. In 1957, for example, only one-third of all funds used for expansion came from the U.S.; in 1958 and 1959 the U.S. share was even less than that (16%).

The outflow of U.S. business capital to Latin America after the ^{World War II} war averaged about \$200 million annually until it soared to \$1.2 billion in 1957 on account of large oil investments in Venezuela. In 1958 the outflow fell back to \$300 million; in 1959 it was \$340 million. Most of the capital outflow in 1958 and 1959 went to Venezuela, Cuba, Brazil, Chile and Argentina (in 1959 the net capital outflow to Cuba was still \$62 million).

The movement of business capital from the U.S. to Latin America has in recent years, and to an increasing extent, been supplemented by a smaller but nevertheless significant movement from Europe. European and Latin American statistics are unfortunately not so conclusive as those related to the U.S. ~~and we~~ are limited, therefore, to a few examples. The country which has absorbed most of the outflow from Europe is probably Brazil. Of the business ^{capital} ~~investment~~ which came into the country in the form of machinery and equipment in the 3½ years 1957 to mid-1960, 60% came from the U.S., 20% came from Germany, 5% from Switzerland, 3% from

the United Kingdom, and the rest from France, Italy, Sweden and Japan. Notable is the large investment by Germany. Brazil has absorbed more than half of the \$200 million which Germany has invested in Latin America since the end of the war.

A similar trend seems to be developing in Argentina. Of the *business* ~~investment~~ capital which entered that country in 1959, 50% came from the U.S., 13% came from the Netherlands, 11% from Switzerland and 5% each from Germany and Italy.

~~There are few encouraging signs yet that long-term loan capital will be forthcoming from foreign ^{*private*} investment sources. So far, no Latin American government or business corporation has been able to float any new bond issue in the New York or European markets. There is, however, some trend towards substitution of medium-term suppliers' credits by bank credits on longer terms. For example, a group of French and German banks last year granted a \$50 million credit to the Banco Industrial of Argentina. This credit can be used for the purchase of machinery, equipment and raw materials in France, Germany, and, in special cases, in other European~~

countries. This loan arrangement can be extended to a total of \$150 million should the circumstances warrant such extension. The credit has a term of $6\frac{1}{2}$ years.

Now let me take a few minutes to speak of investment capital - the savings of individuals and institutions which are available for investment in business other than their own. ^{This} Capital ~~that~~ is free to venture abroad when it is attracted by investment opportunity. In recent years a great deal of this sort of capital has moved into Europe attracted by the great renaissance of industrial development in that area. There are now a few encouraging signs that such capital is becoming interested and attracted to similar opportunity in some of the Latin countries.

As an audience, I know you are aware that a number of the large U.S. banks have formed investment affiliates for the purpose of investing in private enterprise, essentially in the developing countries. From our frequent contacts with them, their interest in Central and South America is very real. Already we are associated with them, or have them as participants, in five IFC investments in Latin America.

We are also finding that some of the European and U.S. investment funds are interested in our type of investments and they have taken several participations with us.

There are also the private investment banking institutions such as Deltec, IBEC and Transoceanic-- AOFC Ltd. who are actively engaged in *much* the same type of international developmental investing as the IFC.

Deltec, with organizations in Argentina, Brazil and Peru, is actively underwriting and distributing investment issues, especially equities, in those countries. IBEC is pioneering the formation of mutual funds in these same countries. Their efforts are timely and promising. The mobilizing of individual savings for investment in local industry is a great need in every Latin country not only as a source of capital but also to broaden the ownership and support of private enterprise.

It is well to observe that the foreign investment capital evidencing interest in Latin America is not straight loan capital. For many years

no Latin American government or business corporation has been able to float any new ^{orthodox} ~~fixed interest~~ bond issue in the New York or European markets. Such interest as we find is in equities or in debt obligations with equity features, such as convertibility, profit sharing, stock options or bonus shares. In other words, in IFG-type ~~of~~ investments.

In IFC we believe there is ~~great and~~ promising opportunity for investment in Latin America - both for business and investment capital. By our charter we have been limited to holding debt obligations combined with equity features. ^{We now} ~~It is now our~~ hope ^{to have} ~~that~~ our charter ~~will be~~ modified in the course of this year to permit straight equity investment limited only by a mandate, ~~for which IFC management is asking,~~ that we shall not exercise the voting rights inherent in such investments to control company management.

Given this authority to hold equities for our own account, we shall also be able to join with local investment institutions in the underwriting of equity issues. There is a growing interest in the Latin countries in share ownership. Buenos Aires and Santiago have had active stock changes predating World War I. Mexico City, Sao Paulo, Rio de Janeiro, Caracas, Bogota all have their "bolsas". Trading activity, however, is largely professional, investment information ~~is~~ sparse and the basis of share ownership greatly needs to be broadened. In some countries, steps are being taken to establish regulatory commissions

thus to avoid the abuses that can ^{beset} ~~surround~~ security markets not properly controlled.

A further source of financing that offers promise within the Latin countries is the growing number of development banks, both governmental and private. I shall not enlarge upon their activity except to say that, in a number of countries they are receiving the studied attention of the World Bank and IFC. Speaking for ^{IFC} ~~the~~ ~~organisation~~, I expect we shall be making a number of direct investments in private institutions of this sort. The resources of these institutions, both public and private, are ^{essentially} available ~~solely~~ to locally controlled enterprise, though some outside foreign interest will usually not preclude investment consideration.

In closing, I have but one more comment. ~~Broadly speaking,~~

The image of foreign corporations in Latin America is not favorable.

The ^{enterprise} substantially owned and managed ^{by foreigners,} ~~foreign enterprise,~~ whether large ^{the business be} or small, is no longer accepted ^{as} ~~to be~~ a national asset of unquestioned

value. Such companies, especially those of U.S. sponsorship, are being made the victims of well organized and vicious propaganda.

Free enterprise is being seriously ~~threatened~~^{undermined} by the spreading viruses of Communism and Castroism. While the companies of foreign ownership are now in the front line of attack, it is the management of locally owned enterprise that are showing the greater awareness of this danger.

Many of you here today represent companies having important investments in the Latin countries, others may be contemplating programs to that end. Let me urge you strongly to bring local ownership, as broadly based as possible, into your ~~situations~~^{operations}. In IFC we have heard all the arguments against this, time and again, and we recognize it to be frequently impracticable when ventures are new - but we still believe that, along with the training of local management, it is the best insurance that can be bought to assure the ~~longer~~ future of your investments, as well as the future for democratic capitalism in Latin America.



February 15, 1961

ADDRESS OF BRODERICK HASKELL, DIRECTOR OF INVESTMENTS, INTERNATIONAL FINANCE CORPORATION, TO CONFERENCE FOR CORPORATE EXECUTIVES

RECENT TRENDS IN PUBLIC AND PRIVATE
LENDING AND INVESTMENT IN LATIN AMERICA

In dealing with my assigned subject, it may be useful to recall certain developments of the recent past that are influencing the trends in public and private lending and investment in Latin America.

Certainly there has been a heightened international awareness of the financial requirements of these developing countries and a number of new initiatives have been taken, aimed at enhancing the capital flow into these relatively low income areas.

Speaking first of the International Monetary Fund - by April of last year 57 member countries, representing 90% of the Fund's quotas, had consented to the increases recommended to them, thus augmenting the resources of the Fund by some \$5 billion. At the close of 1960, the Fund had stand-by arrangements with 10 Latin American countries for a total of \$350 million. This sum represented a net increase during the year.

The World Bank completed an equally significant step. By the end of June 1960, the subscribed capital of the Bank exceeded \$19 billion - more than double the figure of a year earlier. While some 90% of this total remains on call, it nevertheless reinforces the Bank's capacity to borrow in the money markets of the world.

Another development in the past year is IDA - the International Development Association - an affiliate of the World Bank. IDA will supplement the activities of the Bank by financing a wider range of projects on terms more flexible and bearing less heavily on the balance of payments of the recipient countries.

A further important and recent event has been the establishment, with headquarters here in Washington, of the Inter-American Development Bank. This new agency proposes to finance economic development both public and private. It has now made its first commitment in Peru and as its policies and objectives become more clearly defined, it can be expected to make an effective contribution to the flow of capital into the Central and South American countries.

Let me now comment upon the broadening policies of U. S. institutions in the public sector - the Export-Import Bank and the Development Loan Fund.

During 1960 the Eximbank entered the short-term field of exporter activity by making a system of political risk guarantees available to U. S. shippers through commercial banks without reference to Washington.

It also initiated the practice of participating in medium-term exporter credits, again relying upon the credit judgment of commercial banks.

Of particular significance in a developmental sense is Eximbank's willingness to enter into project loans having up to 15 - and even 20 - years final maturity.

Such extended policies have greatly stimulated Eximbank's activities in Latin America which represent a major portion of its business.

DLF is a U. S. Government agency subject to the foreign policy and guidance of the Secretary of State. It has just completed its biggest year's operations, has virtually exhausted its uncommitted funds, and must await the renewed support of Congress before entering into significant new programs. There is no reason to doubt that the Development Loan Fund will continue to be one of the U. S. Government's principal instruments of foreign economic policy. Its contribution to the emerging Latin countries has been substantial and on terms that aim to avoid an undue burden on their economies. During 1960 the DLF introduced into its policies a program of social type lending to encompass land reform and housing loans; the beneficiary countries will be encouraged to match such DLF financing through the formation of local capital sources patterned after our typical savings and loan associations.

Further to augment foreign assistance of this character, Secretary Dillon at the Bogota Conference last September proposed the establishment of an inter-American social development fund to be U. S.-financed and to be administered by the Inter-American Development Bank. The present Congress is being asked to implement this program by an initial appropriation of \$500 million.

U. S.-sponsored dollar financing continues to add up to a considerable and growing annual total. In past months steps have been taken to place primary emphasis on having this financing expended for goods and services of U. S. origin, thus to alleviate the balance of payments problem. This policy by DLF has encouraged other industrialized nations to expand their means of economic assistance to the Latin countries to enable their industries to sell on competitive terms.

The U. S. must constantly reckon with these new means of competition for the trade opportunities in Central and South America. To preserve the

integrity of the dollar, its favorable balance of trade must be sustained and extended. This can come about through improved technology, lower costs, better products and the exporter's ability to offer competitive terms of payment. President Kennedy has recently stated that the Eximbank terms are not yet adequate and comparable to those offered by other countries. He has directed the Bank to submit by April 1 for executive consideration a new program aimed at placing U. S. exporters on a basis of full equality with their competition in other countries.

The Latin American countries cannot but gain when such competitive forces are at work. The net effect will inevitably increase the total of financial aid available to them.

Most of the loan capital made available to Latin America since the end of the war was in the form of short- and medium-term suppliers' credits. The largest source of long-term capital has been the World Bank, which so far has lent more than \$1 billion to Latin America, constituting 20% of total World Bank loans. During 1960 the Bank increased its loans to Latin America by \$142 million, a sum exceeded but once in previous years.

The second largest source of long-term capital has been the Eximbank. Typical of recent commitments in this category are \$42 million to a private Chilean power company and \$37 million to the Government of Colombia for purchases of highway building material and equipment. At the end of last year the total of its outstanding loans and undisbursed commitments to Latin American countries was about \$3 billion, equivalent to 42% of the Bank's total. The credits approved during 1960 for the Latin countries totaled \$384 million, substantially exceeding the total commitment placed on the Bank's books in 1959. This sum includes, however, a preponderant amount of short- and medium-term suppliers' credits. DLF, which does lend at long term, has so far lent or committed to Latin America \$167 million or about 9% of its total loan volume. A special feature of DLF's loans to Latin America is that only 35% of the loan total is repayable in U. S. dollars, the rest in currencies of the borrowing country or in other currencies.

I have now spoken only of the international agencies, the Government-sponsored banks and funds, the forms of financing that in one way or another involve government credit or guarantees.

Of equal significance and hopefully of greater consequence in the long run are the trend and the magnitude of private enterprise financing - the ebb and flow of business capital and private investor resources to and within Latin America.

From the vantage point of the International Finance Corporation, we have reasonable opportunity to observe the lending and investment activities

that comprise the private sector. While the IFC is an international institution, an affiliate of the World Bank, and the funds at its disposal are provided by member governments, the Corporation's investing is confined to private enterprise without governmental protection of any kind.

Let us place the private sector in its proper context. It is dominated by business capital under the control of the business executive seeking attractive rewards by creating new or expanded enterprise in the developing countries. Such capital may be indigenous or foreign. Its motives may be to develop natural resources, to create new markets or to protect established markets through local manufacture, or to initiate in the developing areas the modern service industries which have become so important to our way of life here in the States.

The flow of business capital into Latin America has long been great, while the amount of local business capital in these countries is of considerable and growing importance. The relative magnitude of foreign versus domestic business capital is difficult to determine and varies greatly from one country to another. What is important is its availability and growth.

Today, Latin America ranks second as an area of U. S. foreign investment. In 1929 46% of total direct foreign investment of U. S. business was located in Latin America, 27% in Canada, 18% in Europe and the remaining 9% in other parts of the world. By 1959 Canada occupied the first place with 34% of the total; Latin America's share had fallen to 28%; Europe's share had remained about the same.

The total book value of U. S. direct investment in Latin America in 1959 was about \$8.2 billion, an increase of some \$4.8 billion over the book value in 1929. It is interesting to note how this \$4.8 billion effected a substantial change in the geographical location of U. S. direct investment in the area. In 1929 Cuba was the largest host country, accounting for 26% of total U. S. investment in Latin America. This investment was mainly in the sugar industry and in railroads. Second largest host country was Mexico with 20% made up largely of substantial investments in petroleum and mining. In third place was Chile (12%) where U. S. capital had initiated large operations in copper mining. Since then a drastic change in the geographical distribution has taken place. Of the \$4.8 billion increase in the book value of U. S. direct investment, \$2.6 billion accrued in Venezuela due to large investments in petroleum development. As a result, Venezuela has emerged as the largest host country for U. S. investment in Latin America (34%), as well as in the whole world - for example, U. S. direct investment in Venezuela is larger than U. S. direct investment in the European Common Market. Of the remaining \$2.2 billion increase, some

\$650 million accrued in Brazil, and some \$300 million each in Chile, Panama and Colombia. The total book value of U. S. investment in Cuba did not increase significantly in these 30 years. Yet Cuba's share remained relatively high (12%) - the second largest in Latin America. The third place is now held by Brazil (10%) which has surpassed Mexico and Chile whose shares in total U. S. investment are now 9% each.

In 1929 the most important field of U. S. direct investment in Latin America was public utilities (25%). The second place went to agriculture (23%), the third place to mining (21%). Petroleum accounted for 17% and manufacturing for but 7% of the total. By 1959 the picture was completely different. Public utilities which once ranked first had dropped to fourth place, the inevitable result of emerging economic nationalism which led to government nationalization. Investment in agriculture which had ranked second in 1929 became relatively insignificant. The types of investment in order of magnitude now approximate: petroleum (37%), manufacturing (16%), mining (16%), public utilities (12%), trade (8%), agriculture (6%) and others (5%).

It is important to note the emergence of manufacturing as a major field of investment. The trend within this investment is interesting. In 1929 about half of the total U.S. investment of this type was in the food industry. The rest was widely spread. By 1959 the share of the food industry had fallen to 13%, whereas the largest share is now engaged in chemical industry (25%), the second largest the automotive industry (15%), with the food industry in third place.

The growth of these investments has, of course, not only been financed by business capital from the States but also from retained earnings, depreciation and depletion charges, together with some borrowing from local sources. In 1957, for example, only one-third of all funds used for expansion came from the U.S.; in 1958 and 1959 the U.S. share was even less than that (16%).

The outflow of U.S. business capital to Latin America after World War II averaged about \$200 million annually until it soared to \$1.2 billion in 1957 on account of large oil investments in Venezuela. In 1958 the outflow fell back to \$300 million; in 1959 it was \$340 million. Most of the capital outflow in 1958 and 1959 went to Venezuela, Cuba, Brazil, Chile and Argentina (in 1959 the net capital outflow to Cuba was still \$62 million).

The movement of business capital from the U.S. to Latin America has in recent years, and to an increasing extent, been supplemented by a smaller but nevertheless significant movement from Europe. European and Latin American statistics are unfortunately not so conclusive as those related to the U.S. We are limited, therefore, to a few examples. The

country which has absorbed most of the outflow from Europe is probably Brazil. Of the business capital which came into the country in the form of machinery and equipment in the 3½ years, 1957 to mid-1960, 60% came from the U.S., 20% came from Germany, 5% from Switzerland, 3% from the United Kingdom, and the rest from France, Italy, Sweden and Japan. Notable is the large investment by Germany. Brazil has absorbed more than half of the \$200 million which Germany has invested in Latin America since the end of the war.

A similar trend seems to be developing in Argentina. Of the business capital which entered that country in 1959, 50% came from the U.S., 13% came from the Netherlands, 11% from Switzerland and 5% each from Germany and Italy.

Now let me take a few minutes to speak of investment capital - the savings of individuals and institutions which are available for investment in business other than their own. This capital is free to venture abroad when it is attracted by investment opportunity. In recent years a great deal of this sort of capital has moved into Europe attracted by the great renaissance of industrial development in that area. There are now a few encouraging signs that such capital is becoming interested and attracted to similar opportunity in some of the Latin countries.

As an audience, I know you are aware that a number of the large U.S. banks have formed investment affiliates for the purpose of investing in private enterprise, essentially in the developing countries. From our frequent contacts with them, their interest in Central and South America is very real. Already we are associated with them, or have them as participants, in five IFC investments in Latin America.

We are also finding that some of the European and U.S. investment funds are interested in our type of investment, and they have taken several participations with us.

There are also the private investment banking institutions such as Deltec, IBEC and Transoceanic--AOFC Ltd. who are actively engaged in much the same type of international developmental investing as the IFC. Deltec, with organizations in Argentina, Brazil and Peru, is actively underwriting and distributing investment issues, especially equities, in those countries. IBEC is pioneering the formation of mutual funds in these same countries. Their efforts are timely and promising. The mobilizing of individual savings for investment in local industry is a great need in every Latin country not only as a source of capital but also to broaden the ownership and support of private enterprise.

It is well to observe that the foreign investment capital evidencing interest in Latin America is not straight loan capital. For many

years no Latin American government or business corporation has been able to float any new orthodox bond issue in the New York or European markets. Such interest as we find is in equities or in debt obligations with equity features, such as convertibility, profit sharing, stock options or bonus shares. In other words, in IFC-type investments.

In IFC we believe there is promising opportunity for investment in Latin America - both for business and investment capital. By our charter we have been limited to holding debt obligations combined with equity features. We now hope to have our charter modified in the course of this year to permit straight equity investment limited only by a mandate that we shall not exercise the voting rights inherent in such investments to control company management.

Given this authority to hold equities for our own account, we shall also be able to join with local investment institutions in the underwriting of equity issues. There is a growing interest in the Latin countries in share ownership. Buenos Aires and Santiago have had active stock exchanges predating World War I. Mexico City, Sao Paulo, Rio de Janeiro, Caracas, Bogota all have their "bolsas." Trading activity, however, is largely professional, investment information sparse and the basis of share ownership greatly needs to be broadened. In some countries, steps are being taken to establish regulatory commissions thus to avoid the abuses that can beset security markets not properly controlled.

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In closing, I have but one more comment. The image of foreign corporations in Latin America is not favorable. The enterprise substantially owned and managed by foreigners, whether the business be large or small, is no longer accepted as a national asset of unquestioned value. Such companies, especially those of U.S. sponsorship, are being made the victims of well-organized and vicious propaganda.

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