Speech by Mr. Ventimiglia at the Italian Banking Association International Credit Conference in Rome, October 18th to 24th 1961.

Introduction – personal remarks, etc.

The International Bank welcomes the opportunity offered by this conference to participate in discussions on the financing of foreign trade. It is not only that we appreciate being able to explain the role the International Bank plays, or may play in the picture. We are also grateful for the chance to obtain a better understanding of the problems encountered by commercial banks throughout the world, in order that we will be in a better position to carry out our work, which in many instances involves work with commercial banks and operations in fields of interest to you as commercial bankers. It is, as a matter of fact, this subject which I would like to discuss today.

While there are several aspects of the International Bank which bring it into contact with the work of the commercial banks, perhaps the phase of the International Bank's operations which is most similar to that of commercial banks throughout the world, and therefore of primary interest to you today, results from the entrance of the International Bank into the field of medium term credits. While it is true that the bulk of the Bank's loans have been granted on a long term basis to finance projects requiring several years for completion, and destined for use over many years, the Bank has also been interested in making funds available to a number of countries requiring external credit for medium term operations. In this connection I might mention that we have made six year loans to Chile and Colombia to finance the importing of agricultural equipment.

However, the opportunities for making loans of any size on a medium term basis are fairly limited and the Bank is not organised to process the numerous applications for many small loans. Consequently we have attempted to find methods of channelling our funds to medium sized enterprises through intermediary credit organisations. For example, a loan was granted in 1949 to the Herstel Bank in the Netherlands, for the purpose of financing the import requirements of various Dutch enterprises. More recently we have granted loans to Industrial Development Banks in Turkey and Ethiopia and a similar line of credit to a Consortium of Commercial Banks in Mexico. In all of these cases, as I have mentioned, the purpose has
been to provide foreign exchange to medium sized enterprises in the country concerned, while at the same time avoiding the necessity of the International Bank examining in detail the merits of the many smaller applicants, by delegating a large part of the task of screening applications for loans to the intermediary credit organisations.

You will have noticed that the intermediary credit organisations to whom we have granted lines of credit vary considerably, ranging from a Consortium of Banks in Mexico to the Industrial Development Bank in Turkey, which is owned by eighteen private institutions including banks and industrial undertakings. In our efforts to reach the smaller and medium sized enterprises we have, in some instances, such as Turkey and Ethiopia, taken an active part in the formation of a new banking institution. In other areas, such as Mexico, existing institutions may be available, which are utilised for the same purpose.

The marketing of the securities of the International Bank offers another phase of the Bank's operations which has brought it into close association with commercial banks. As you will recall we sold securities in Switzerland and England earlier this year. In both instances we called upon the services of private banking enterprises to successfully carry out the operation.

A further point of important relationship arises when transactions in which the Bank is interested are financed in the first place under documentary letters of credit. Thus, when disbursing funds to a borrower, relative to a particular purchase, we may find that the commercial bank is also interested in the same transaction. Before explaining in detail the arrangements which have been worked out for use in such circumstances I believe it advisable that I say a few words about the Bank's method of effecting disbursements and the policy underlying this method.

As many of you are aware, the Bank's Articles of Agreement provide that the proceeds of the loan should be disbursed to the borrower to meet expenditures in connection with the project the Bank has agreed to finance only as they are actually incurred. This means in practice that when the loan is granted we do not turn the proceeds over to the borrower but credit them to the account of the borrower on our books. We agree with the borrower at this time on a list of goods and services which are needed to carry out the project for which
the loan was granted, and we make disbursements against this list. Each loan may be considered therefore as a line of credit covering the specified list of goods, and our system of disbursements has been devised accordingly.

When establishing this system we decided as a matter of policy to use existing techniques and normal channels wherever possible, rather than devise new procedures. This is in line with the Bank's general attitude of cooperating rather than competing with private enterprise, and by the same token avoiding unnecessary complications and work both for our borrowers and ourselves. Consequently, the system we have devised is based on the submission by our borrowers of the kind of documents normally used in connection with international letters of credit. Such documents enable us to establish that the borrower has spent or must spend money for goods and services covered by the agreed list. If the documents are found to be in order the currency is promptly disbursed.

As you will appreciate this system is substantially similar to that connected with documentary letters of credit issued by commercial banks and as I have already mentioned many of the transactions in which the Bank is interested are financed in the first place through letters of credit. Knowing this to be the case when we laid the foundations of our system we enlisted the assistance and advice of banks and organisations of bankers throughout the world. Our object in these discussions was to avoid duplication of effort, and we have succeeded in evolving a procedure whereby we accept reports prepared by commercial banks which have made payments under letters of credit, in lieu of actual invoices, bills of lading, etc.

When using such reports the International Bank merely reimburses the borrower for purchases financed by documentary letters of credit. The purchase transaction is carried out by our borrower as though the International Bank were not in the picture. After payment has been made to the supplier the commercial bank making the payment submits to our borrower a statement regarding the payment, which statement is in turn submitted by our borrower to us in support of a request for reimbursement as a withdrawal from the loan account. In such cases the commercial bank is merely acting in a reporting capacity so far as the International Bank is concerned.

From this modest beginning our procedure has been extended and developed to meet the increased requirements of our borrowers, to the point where, today,
we are constantly dealing with commercial banks in a varying range of transactions. For example, in certain cases a commercial bank may not wish to confirm without additional security a letter of credit relating to the purchase of goods by one of our borrowers.

In International Bank's procedure for depositing cash collateral to secure letters of credit is one method of affording such security. Briefly the commercial bank advises the borrower that a deposit of collateral is necessary, which request, if the Borrower agrees, is submitted by the latter to us to substantiate a request for an advance out of the loan account. The International Bank, after it approves of the transaction, deposits cash collateral with the commercial bank to secure the particular letter of credit in question with the proviso that payments will be made out of the collateral only in accordance with the terms of the letter of credit, and that any balance remaining will be paid only in accordance with instructions from the International Bank. The borrower commences to pay full interest charges from the date the deposit is made.

Since the deposit of collateral may tie up funds for a protracted period of time at a substantial cost to our borrower the International Bank is also prepared to grant letters of credit, thus offering security to the commercial banks. Under this procedure the commercial bank requests of our borrower that the International Bank agree to reimburse the commercial bank for all payments made under a particular letter of credit. If the borrower agrees this request is submitted to us by the borrower, and if we approve of the transaction we enter into agreement with the commercial bank to reimburse the latter for all payments under a letter of credit. This agreement is an unqualified irrevocable commitment on our part to effect disbursements from the loan account regardless of subsequent cancellation of the loan or suspension of the borrowers withdrawal rights. In view of the irrevocable nature of the Bank's commitment the borrower pays a small charge.

You will appreciate that the deposit of collateral and the guaranteeing of letters of credit as outlined above are alternative methods. Since guaranteeing is cheaper for the borrowers than the deposit of collateral we prefer to guarantee. There may be, however, cases in which guaranteeing is rather cumbersome and not very practical and in these cases deposit of collateral is preferable notwithstanding the fact that it is a more expensive
procedure generally. In our discussions with borrowers, we always draw attention to the difference in cost of both methods, advising them to use the guaranteeing method as much as possible.

In addition to the foregoing, the International Bank is prepared to receive requests for so called qualified agreements to reimburse. The procedure is similar to that outlined above in connection with irrevocable agreements, but the International Bank is not obligated to reimburse the commercial bank if the loan to our borrowers has been cancelled or withdrawals suspended.

Now that I have outlined briefly these transactions, where we work in close cooperation with commercial banks, those who have not been heretofore involved may well ask what steps one takes to enter this field. In answer to that question, I am sure you will appreciate that the International Bank, a cooperative International organization, cannot insist that its borrowers use a particular supplier or banker, or even suppliers or bankers of a particular country. We only attempt to ensure that the goods or services which we are financing are appropriate for the projects we have agreed to finance and that the prices are favourable in terms of world prices. Consequently we are not in a position to channel documentary letter of credit business to any particular commercial banks. On the other hand, we have made a practice of publishing as soon as a loan is granted, information regarding the type of goods to be financed and possible sources of supply, thus enabling those banks in the potential supply area to make enquiries among their clients and correspondents abroad as to the possibility of opening documentary letters of credit.

While it is true that a large percentage of the goods financed by the Bank to date have originated in the United States, and therefore our contacts have been formed primarily with U.S. banks, the proportion of goods originating in the United States is decreasing as the increased production capacity of other countries comes into force. Consequently I hope that the role of the International Bank may be of interest to more of you in the future.

We are looking forward to making firm friends of all of you here and in closing I want to express on behalf of the International Bank our sincere gratitude and thanks for the very great cooperation we have received from all of you with whom we have already had contact.