ROSEN, MARTIN (1966 - 1969)

RETURN TO ARCHIVES IN MC C3-120

ISN # 130347 ACC# A1992-007

BOX # 17

NUS LOCATION 475-4-5

Meeting of the Inter-American Council for Commerce and Production in Mexico City, June 2, 1966 (as prepared for Mr. Rosen by Harold Graves)

Copy to Mr [illegible]



**DRAFT FOR MR. ROSEN**

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

IFC was formed not only to invest its own funds but also to stimulate private investment, and in our operations in the region we have worked closely both with Latin American entrepreneurs and with industrial investors from the United States and Europe. On the financial side, we have had participations from United States and European banks, and as far as Latin America is concerned, we have found a broad range of U.S. banks and their Edge Act affiliates interested in participating in our investments in such countries as Colombia, Mexico, Brazil and Peru.

Among publicly owned international institutions, IFC occupies an unique position, in that it provides not only long term loans but also risk capital in the form of equity. Its operations are conducted entirely without government guarantee. And although IFC has some 81 countries as its shareholders, it operates in much the same way as a private investment banking institution. Firstly, IFC makes direct investments, usually by acquiring equity in a company and at the same time providing long-term loan funds. Secondly, it makes standby and underwriting agreements. Thirdly, it helps to furnish capital and technical assistance to private development finance companies in the developing countries. And fourthly, it sells parts of its investments to private investors so that it can encourage private capital to flow into the developing countries. In negotiating its investments, IFC seeks terms that it believes will attract private investors so that it can in turn sell its investments and thereby roll over its funds.

In the past year, IFC's role within the World Bank Group has been an expanding one. It is now responsible for handling the technical and financial appraisal of all investment proposals in the field of industry and mining brought to the Group for financing, regardless of whether the financing is being sought from the World Bank, the IDA or IFC itself.

When it comes to the kinds of enterprise that we will finance, IFC is flexible. Although most of IFC's investments so far have been in manufacturing industry, we are now looking at new kinds of enterprise. For instance, we expect to announce shortly an investment in a livestock fattening and meat slaughtering operation in South America. And we are now considering financing hotels, privately owned utility companies and other enterprises.

In our experience, no two financing problems are alike, and no two IFC investments are alike. It may therefore be helpful to illustrate our operations with specific cases. Let me describe two, of which the first concerns the FUNDIDORA steel company here in Mexico.

FUNDIDORA is a well established company which makes a wide variety of steel products, including structurals, rails, plate, strip and sheet. Since 1954, the company has been carrying out an expansion program to raise its ingot capacity from 200,000 tons a year to an eventual 1 million tons, in order to keep pace with the growth of the Mexican economy.

FUNDIDORA has excellent management, and is fully abreast of modern steel technology. The needs of its expansion program, however, have presented new kinds of challenge to the management on the financial side. For its program, the company has needed some $155 million of new funds, both debt and equity. In 1962, the company and its bankers in Mexico concluded that FUNDIDORA would have to start looking for new sources of equity finance, and that in the market conditions then prevailing, it would not be prudent to offer new shares without the backing of an underwriting syndicate.

The company came to IFC for assistance, and since that time we have been not only an investor in FUNDIDORA but also banker and financial adviser to the company. Together with Credito Bursatil here in Mexico, we formed an underwriting syndicate; and on our side of the syndicate, we were able to recruit other participation, from investment banks in the United States and Switzerland. We have now participated in the handling of three financing operations for FUNDIDORA -- a share issue in 1962, another share issue in 1964, a third share issue which was put on offer only the day before yesterday, and a debenture issue concurrently being sold by private placement. The issue of 1964, incidentally, was the largest of its kind ever to be offered in Mexico. Altogether, IFC's commitments for FUNDIDORA, including our own investments in the company's shares, come to the equivalent of 16 million U.S. dollars.

These securities issues by FUNDIDORA have enabled the company both to expand its productive capacity and to broaden its ownership. After the share issue of 1962, the number of shareholders grew to 700; after the issue of 1964, the number rose to 2,000; and after the current issue, ownership of the company will be broader still. All this has helped to develop the capital market -- and especially the share market -- in Mexico; and IFC's participation has further served to give the company access to investors outside the country.

The other case I want to mention is that of a new $26-million kraft pulp and paper mill in Brazil whose financing was completed just 10 days ago. The company which will operate the mill is Papel e Celulose Catarinense, whose sponsors are the Klabins, a widely known industrial group which is the largest integrated pulp and paper manufacturer in Latin America.

The financing of the new mill for the first time brings four financial institutions together in a single combination: the International Finance Corporation, the Inter-American Development Bank, the National Development Bank of Brazil, and Adela Investment Company. IFC had joined with each of the others before in single transactions, but never with all of them at the same time.

The original concept of the Papel kraft project dated back to 1957. Firm orders for machinery and equipment were placed later with European suppliers, and were financed by the sponsors with the help of a loan from the Inter-American Bank. The project was first brought to IFC in 1962. Because of the economic conditions then prevailing in Brazil, it seemed unwise for us to proceed, and the project was postponed. When the upturn came in Brazil, the sponsors came back, and this time we agreed to go ahead.

Here again, a company with strong management and high technical competence was confronting financial problems of a new scale and kind. A lot of money was wanted, and a financial plan was needed that would be strong enough to stand the strains of monetary inflation in Brazil.

Working closely with the sponsors and the other institutions -- particularly the National Development Bank -- IFC helped develop such a plan. For the first time in the history of any enterprise controlled by the Klabin group, Papel was converted to a public company and was opened to outside participation. A financial plan was worked out that actually cut back some of the loan financing that already had been arranged and provided a correspondingly larger equity component. The $26 million needed for the mill, in the end, was divided almost evenly between debt and equity, with most of the new shares being subscribed by the sponsors and other investors in Brazil. IFC agreed to put up $6 million -- as large a single commitment as it has undertaken up to now. Within that sum, it agreed to put up an unusually high proportion of equity -- about as much equity as debt, as compared to a debt-equity ratio of around two to one that is the more usual pattern of IFC loan-and-share investments. As in the FUNDIDORA case, IFC had acted both to encourage domestic investors and to provide a suitable base for participation from abroad.

These two cases illustrate some of the current directions of Latin American industrial growth. One of these is toward bigger and more widely owned companies. Another is toward large-scale production that, instead of merely substituting for imports, will bid for growing domestic markets.

In a real sense, industrial development in Latin America is approaching a crossroads. If industrial entrepreneurs and financiers are to take account of the new economic priorities in the region, they must recognize the trend toward large-scale, outward-looking and competitive industries.

For the individual enterprise, this is likely to require more attention to lowering costs and improving quality. Traditional industries will have to expand and modernize. The challenge which problems of growth will present to management in many cases will be severe.

More finance will be needed, and most of it will come from Latin American sources. Industry in Latin America traditionally has been financed for the most part by domestic resources, and in some countries the shares of leading industrial enterprises are quite widely held. The development of local capital markets is therefore a matter which will become of increasingly high priority. But along with industrial growth will come opportunities for investors abroad to participate, both with finance and with technical and other kinds of collaboration.

In helping to develop capital markets, in helping to wed domestic enterprise and international investment, IFC intends to play a growing role. IFC's charter and that of the World Bank recently have been amended so that IFC may now borrow up to $400 million or so from its parent institution.

With these additional resources, IFC will be able to extend the amount of assistance going to private industry, including enterprises which cannot now get the financing they need because they are unwilling to seek -- or cannot obtain -- the government guarantee required for a loan from the World Bank. IFC will be in a position to undertake substantially larger investments, with the upper limit on a single commitment rising to somewhere between $15 million to $20 million compared with $5 million or $6 million at present. This will almost certainly open up new possibilities, particularly in capital-intensive industries such as petrochemicals or fertilizers or mining, to name only a few. IFC will also be in a position to free its entire present capital for making equity investments. In ways such as these, IFC -- and the World Bank Group as a whole -- can hope to play a bigger part in financing industrial development in Latin America and the other developing regions.

H.N. Graves
May 25/ 1966.

# FINANCING FERTILIZER PRODUCTION in the DEVELOPING COUNTRIES

Remarks by
MARTIN M. ROSEN
Executive Vice President
INTERNATIONAL FINANCE CORPORATION
at the
First International Agribusiness Conference
sponsored by the
Chicago Board of Trade

Chicago, May 10, 1967

THE IMPORTANCE of the problem being discussed by this Conference needs no underlining, but I do wish to start by commending the Chicago Board of Trade for its initiative in sponsoring this meeting and to congratulate the Board on the very efficient manner in which arrangements have been made. This meeting focuses on one of the central issues of the last third of the 20th Century. That issue is, to quote the words of the economist Thomas Malthus, "the perpetual struggle for room and food." We now realize that the principal, perhaps even the only, way to get the increase in food output we are going to need over the next 10 to 15 years is by obtaining more production from land now under cultivation.

This point relates most directly to the developing countries. It is in these countries that the productivity of agriculture is relatively low. It is in these countries, too, that four-fifths of the one billion people expected to be added to the world's population by 1980 will live. Part of these colossal needs can be tided over with the help of food aid, but aid itself must in the nature of things be largely a stop-gap measure until the developing countries place their own agriculture on a more self-sustaining basis. Some of the changes that will be needed to bring this about can only come from within the developing countries themselves. Already we are seeing hopeful evidence that agriculture is no longer being regarded as merely a poor cousin of industry. But a great deal of what needs to be done will require the help of the developed countries, so that the right inputs are available at the right place at the right price and in the right amounts.

I want to confine my remarks today to what private capital and private initiative can do to develop and expand "agribusiness" in the developing countries. This is an area in which the International Finance Corporation is directly concerned. I could talk at some length on our experiences and our views as to how private business can effectively invest in the areas of direct food production and processing. The time of each of the panelists is limited, however, and I am concentrating attention on one key area: the financing of fertilizer production in the developing countries. I seem to be the banker in this panel, and fertilizer is the area in which big sums of money are involved.

There are many reasons for emphasizing fertilizer production. It's cheaper to import fertilizer than wheat. Fertilizer yields results quickly and on a sustained basis, and has a marked demonstration effect. It also happens to be an area in which the developing countries lag far behind North America, Europe and Japan. But the gap today is beginning to narrow, and in fact what we are now seeing is a quite dramatic increase in fertilizer use in the developing countries. Ten years ago, these countries accounted for about 8½ per cent of total world usage. Last year, the proportion was closer to 15 per cent of world consumption, and if the trend continues they could account for as much as 20 per cent by 1970, going as high as one-third in 1980.

The same dramatic change is taking place in world fertilizer capacity. Today, nearly one-fourth of all new plant capacity being added is located in the developing countries. In 1965, these countries accounted for about one-tenth of total world capacity; by 1970, the proportion is likely to be closer to 15 per cent. One thing these figures indicate very clearly is that a revolution is taking place in agriculture in these countries. But even despite what has happened in the last decade or so, the



amount of fertilizer used by farmers in countries such as Brazil or India is still quite insignificant—on a per acre basis, for instance, it is only about 10 per cent of what farmers in North America use.

If I am optimistic about the outlook for increased use of fertilizers in the less developed countries, there are two main reasons I would single out. One is the technological advances made by the fertilizer industry over the past decade and longer; the other is the discovery of new sources of raw materials within the developing countries. Let me give one example. Five years ago, an ammonia plant with a capacity of 300 tons per day was considered large. Today, plants with a capacity ranging anywhere from 600 tons to 1,500 tons per day are coming into existence. The striking feature of these "second generation" plants is that their capital cost per ton of capacity is so much lower than that of the smaller, older plants. The economies of scale that can be achieved with these new plants offer one of the best incentives to greater use of fertilizer; namely, much lower prices to the farmer.

The other development I would stress is in regard to raw materials. If the developing countries have been slow to build up their own fertilizer industries, one principal reason has been the shortage of raw materials. This is much less the case today. In many countries, the establishment of oil refineries has meant that locally produced naphtha has become available for making ammonia. And now that bulk transport of ammonia in large, refrigerated tankers has been shown to be not only feasible but economic, waste natural gas, presently being flared in the countries of the Persian Gulf area, Nigeria and Venezuela, could provide the basis for producing even cheaper ammonia. If this development is not taking place as quickly as might have been hoped, it is because, for political reasons, most countries do not want to be dependent on a single foreign source of supply for a key raw material. On the other hand, if ammonia becomes a world commodity, with perhaps four or five competing sources of supply, as some people now believe possible, I feel sure many of these political fears will simply disappear.

NEVERTHELESS, FERTILIZER today threatens to be one of the principal bottlenecks in expanding food output in the developing countries, and the reason for this is not only the gigantic tonnages of material which would have to be produced, transported and marketed but also the tremendous foreign exchange costs involved. In 1965, it's estimated that the developing countries required in all about $825 million in foreign exchange to meet their fertilizer requirements. Of this total, finished fertilizers accounted for about $540 million. Despite the new capacity now being installed in countries like India, the need for imports is also likely to rise substantially in the next few years. In India, for example, the present target is to raise consumption of nitrogen from about one million tons this year to 2.4 million tons by 1971 and four million tons by 1976, with potash and phosphate consumption increasing proportionately. Even though the domestic fertilizer industry is beginning to expand rapidly, India is still a long way from self-sufficiency. If the gap is to be filled, it will need massive amounts of imports: about $250 million annually on average over the next five years. That works out at close to 20 per cent of the country's projected export earnings—a tremendous cost but still much cheaper than the cost of importing food, even if it were available.

If I appear to be singling out India, it is not because its problems are unique but because their scale is so immense. What it comes down to is that countries like India can never really expect a breakthrough in agriculture if they have to devote so much of their foreign exchange earnings to fertilizer imports. This is why so much emphasis is being placed on locating new fertilizer capacity in the developing countries. Where the market is large enough and where raw materials are available, there are substantial foreign exchange savings to be obtained through local manufacture rather than through importing the finished product. Let me give an example, taking the case of a plant with a capacity of 200,000 tons of nitrogen a year. A reasonable estimate of the foreign exchange costs of building a plant of this size in a country like India is between $35-40 million. The landed cost of nitrogen in solid forms is at present in the neighborhood of $200 per ton. Assuming the plant were operating at 75 per cent of capacity, in other words producing at the rate of 150,000 tons of nitrogen a year, this would represent an annual foreign exchange saving of about $30 million from a foreign exchange investment of $35-40 million. These figures speak for themselves.

GIVEN THE MASSIVE FERTILIZER needs of the developing countries, what we come back to is the key question: how can the private business community, and those of us who finance the private business community, in the light of our present understanding of the problems, hope to make the kind of investment decisions that will stand the test of time? We know that effective demand is growing at a far higher rate than could have been anticipated five or ten years ago. We know the dimensions of the potential needs. We know the developing countries lack the foreign exchange to meet their needs through imports, and we recognize more and more that new capacity must be located in these countries. We also know that the longer the developing countries defer the decisions they must make, the more costly the time lag will be in terms of foreign exchange. Finally, we know that even with the foreign exchange savings they can expect by establishing their own fertilizer industries, the developing countries do not have the resources to close the gap. And by this I particularly mean the resources of management as well as of money.

This is the reason why the World Bank and the International Finance Corporation have taken the position that if the fertilizer needs of the developing countries are to be met, they will need to supplement their own resources by drawing on the capital, the technical skills, as well as the marketing and management know-how, of the major international oil, chemical and fertilizer companies. Their experience in establishing fertilizer manufacture on a profitable basis and their knowledge of distribution and marketing techniques are directly relevant. In an industry involved in more or less continuous change, they can provide access to the latest technology. And through training programs, they can make possible the transfer of valuable skills to the developing countries. Finally, their risking of their own funds by direct investment ensures careful appraisal of the economic and business soundness of the projects and that the necessary time and energy of the senior management personnel of the know-how partners will be applied to the ventures.

But if these private investors are to take part in the growth of fertilizer industries in the developing countries, they will need some assurance that other inputs will be available to farmers and that governments will take necessary measures, including giving the farmer the kind of price incentives that will help develop fertilizer use. They will also need freedom to set their own prices for the fertilizer they produce in competition with other private producers and with imports, so that they do not find themselves in a kind of quasi-public utility or faced with unfair competition from subsidized government fertilizer sales. What this comes back to is the concern of many private investors about the investment climate in the developing countries and the possibilities of earning a reasonable return on capital. As a financing agency working with private investors, these problems concern us as well. In too many cases, there is still a wide gap between the expectations of the investor and the incentives the host country is prepared to provide.



Our Chairman has referred to the recent study by the Organization for Economic Cooperation and Development (OECD), which has made estimates of the capital required by the developing countries for investment in fertilizer production facilities, for imports of finished fertilizers and for fertilizer raw materials. The figure the OECD arrived at was close to $5 billion annually by 1980, or more than half the flow of all capital resources to the developing countries today. What this OECD estimate does is establish an order of magnitude, and that in turn indicates both the size and the urgency of the fertilizer problem. If the needs of the developing countries are to be met, the necessary mobilization of resources can only be accomplished through a joint effort and by close cooperation between private investors, governments and the international agencies that are able to help in the financing of the projects.

We have come a long way in the last few years. We can see where some of our assumptions, for instance regarding food aid, have been wrong. We are now close to fairly general agreement that the right strategy is to help put the developing countries on a self-sustaining basis as far as agricultural inputs are concerned. Given full cooperation between private investors, governments and the international financing agencies, there is a strong possibility, perhaps even a strong probability, that the fertilizer availabilities required to make possible production by the developing countries of their food needs over the next 10 to 15 years can be met.

INTERNATIONAL FINANCE
CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: KLEber 25-10

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1., England
Telephone: WHitehall 3886-7

Cable Address: CORINTFIN

# NEW IDEAS FOR UTILIZING THE PRIVATE SECTOR
# IN INTERNATIONAL AGRICULTURAL DEVELOPMENT PROGRAMS

Text of Remarks

by

Mr. Martin M. Rosen

Executive Vice President

International Finance Corporation

at the

First International Agribusiness Conference

sponsored by

Chicago Board of Trade

Chicago, May 10, 1967

The importance of the problem being discussed by this Conference needs no underlining, but I do wish to start by commending the Chicago Board of Trade for its initiative in sponsoring this meeting and to congratulate the Board on the very efficient manner in which arrangements have been made. This meeting focuses on one of the central issues of the last third of the 20th Century. That issue is, to quote the words of the economist Thomas Malthus, "the perpetual struggle for room and food." We now realize that the principal, perhaps even the only, way to get the increase in food output we are going to need over the next 10 to 15 years is by obtaining more production from land now under cultivation.

This point relates most directly to the developing countries. It is in these countries that the productivity of agriculture is relatively low. It is in these countries, too, that four-fifths of the one billion people expected to be added to the world's population by 1980 will live. Part of these colossal needs can be tided over with the help of food aid, but aid itself must in the nature of things be largely a stop-gap measure until the developing countries place their own agriculture on a more self-sustaining basis. Some of the changes that will be needed to bring this about can only come from within the developing countries themselves. Already we are seeing hopeful evidence that agriculture is no longer being regarded as merely a poor cousin of industry. But a great deal of what needs to be done will require the help of the developed countries, so that the right inputs are available at the right place at the right price and in the right amounts.

I want to confine my remarks today to what private capital and private initiative can do to develop and expand "agribusiness" in the developing countries. This is an area in which the International Finance Corporation is directly concerned. I could talk at some length on our experiences and our views as to how private business can effectively invest in the areas of direct food production and processing. The time of each of the panelists is limited, however, and I am concentrating attention on one key area: the financing of fertilizer production in the developing countries. I seem to be the banker in this panel, and fertilizer is the area in which big sums of money are involved.

There are many reasons for emphasizing fertilizer production. It's cheaper to import fertilizer than wheat. Fertilizer yields results quickly and on a sustained basis, and has a marked demonstration effect. It also happens to be an area in which the developing countries lag far behind North America, Europe and Japan. But the gap today is beginning to narrow, and in fact what we are now seeing is a quite dramatic increase in fertilizer use in the developing countries. Ten years ago, these countries accounted for about 8½ per cent of total world usage. Last year, the proportion was closer to 15 per cent of world consumption, and if the trend continues they could account for as much as 20 per cent by 1970, going as high as one-third in 1980.

The same dramatic change is taking place in world fertilizer capacity. Today, nearly one-fourth of all new plant capacity being added is located in the developing countries. In 1965, these countries accounted for about one-tenth of total world capacity; by 1970, the proportion is likely to be closer to 15 per cent. One thing these figures indicate very clearly is that a revolution is taking place in agriculture in these countries. But even despite what has happened in the last decade or so, the amount of fertilizer used by farmers in countries such as Brazil or India is still quite insignificant -- on a per acre basis, for instance, it is only about 10 per cent of what farmers in North America use.

If I am optimistic about the outlook for increased use of fertilizers in the less developed countries, there are two main reasons I would single out. One is the technological advances made by the fertilizer industry over the past decade and longer; the other is the discovery of new sources of raw materials within the developing countries. Let me give one example. Five years ago, an ammonia plant with a capacity of 300 tons per day was considered large. Today, plants with a capacity ranging anywhere from 600 tons to 1,500 tons per day are coming into existence. The striking feature of these "second generation" plants is that their capital cost per ton of capacity is so much lower than that of the smaller, older plants. The economies of scale that can be achieved with these new plants offer one of the best incentives to greater use of fertilizer; namely, much lower prices to the farmer.

The other development I would stress is in regard to raw materials. If the developing countries have been slow to build up their own fertilizer industries, one principal reason has been the shortage of raw materials. This is much less the case today. In many countries, the establishment of oil refineries has meant that locally produced naphtha has become available for making ammonia. And now that bulk transport of ammonia in large, refrigerated tankers has been shown to be not only feasible but economic, waste natural gas, presently being flared in the countries of the Persian Gulf area, Nigeria and Venezuela, could provide the basis for producing even cheaper ammonia. If this development is not taking place as quickly as might have been hoped, it is because, for political reasons, most countries do not want to be dependent on a single foreign source of supply for a key raw material. On the other hand, if ammonia becomes a world commodity, with perhaps four or five competing sources of supply, as some people now believe possible, I feel sure many of these political fears will simply disappear.

Nevertheless, fertilizer today threatens to be one of the principal bottlenecks in expanding food output in the developing countries, and the reason for this is not only the gigantic tonnages of material which would have to be produced, transported and marketed but also the tremendous foreign exchange costs involved. In 1965, it's extimated that the developing countries required in all about $825 million in foreign exchange to meet their fertilizer requirements. Of this total, finished fertilizers accounted for about $540 million. Despite the new capacity now being installed in countries like India, the need for imports is also likely to rise substantially in the next few years. In India, for example, the present target is to raise consumption of nitrogen from about one million tons this year to 2.4 million tons by 1971 and four million tons by 1976, with potash and phosphate consumption increasing proportionately. Even though the domestic fertilizer industry is beginning to expand rapidly, India is still a long way from self-sufficiency. If the gap is to be filled, it will need massive amounts of imports: about $250 million annually on average over the next five years. That works out at close to 20 per cent of the country's projected export earnings -- a tremendous cost but still much cheaper than the cost of importing food, even if it were available.

If I appear to be singling out India, it is not because its problems are unique but because their scale is so immense. What it comes down to is that countries like India can never really expect a breakthrough in agriculture if they have to devote so much of their foreign exchange earnings to fertilizer imports. This is why so much emphasis is being placed on locating new fertilizer capacity in the developing countries. Where the market is large enough and where raw materials are available, there are substantial foreign exchange savings to be obtained through local manufacture rather than through importing the finished product. Let me give an example, taking the case of a plant with a capacity of 200,000 tons of nitrogen a year. A reasonable estimate of the foreign exchange costs of building a plant of this size in a country like India is between $35-40 million. The landed cost of nitrogen is at present in the neighborhood of $200 per ton. Assuming the plant were operating at 75 per cent of capacity, in other words producing at the rate of 150,000 tons of nitrogen a year, this would represent an annual foreign exchange saving of about $30 million from a foreign exchange investment of $35-40 million. These figures speak for themselves.

Given the massive fertilizer needs of the developing countries, what we come back to is the key question: how can the private business community, and those of us who finance the private business community, in the light of our present understanding of the problems, hope to make the kind of investment decisions that will stand the test of time. We know that effective demand is growing at a far higher rate than could have been anticipated five or ten years ago. We know the dimensions of the potential needs. We know the developing countries lack the foreign exchange to meet their needs through imports, and we recognize more and more that new capacity must be located in these countries. We also know that the longer the developing countries defer the decisions they must make, the more costly the time lag will be in terms of foreign exchange. Finally, we know that even with the foreign exchange savings they can expect by establishing their own fertilizer industries, the developing countries do not have the resources to close the gap. And by this I particularly mean the resources of management as well as of money.

This is the reason why the World Bank and the International Finance Corporation have taken the position that if the fertilizer needs of the developing countries are to be met, they will need to supplement their own resources by drawing on the capital, the technical skills, as well as the marketing and management know-how, of the major international oil, chemical and fertilizer companies. Their experience in establishing fertilizer manufacture on a profitable basis and their knowledge of distribution and marketing techniques are directly relevant. In an industry involved in more or less continuous change, they can provide access to the latest technology. And through training programs, they can make possible the transfer of valuable skills to the developing countries. Finally, their risking of their own funds by direct investment ensures careful appraisal of the economic and business soundness of the projects and that the necessary time and energy of the senior management personnel of the know-how partners will be applied to the ventures.

But if these private investors are to take part in the growth of fertilizer industries in the developing countries, they will need some assurance that other inputs will be available to farmers and that governments will take necessary measures, including giving the farmer the kind of price incentives that will help develop fertilizer use. They will also need freedom to set their own prices for the fertilizer they produce in competition with other private producers and with imports, so that they do not find themselves in a kind of quasi-public utility or faced with unfair competition from subsidized government fertilizer sales. What this comes back to is the concern of many private investors about the investment climate in the developing countries and the possibilities of earning a reasonable return on capital. As a financing agency working with private investors, these problems concern us as well. In too many cases, there is still a wide gap between the expectations of the investor and the incentives the host country is prepared to provide.

Our chairman has referred to the recent study by the Organization for Economic Cooperation and Development (OECD), which has made estimates of the capital required by the developing countries for investment in fertilizer production facilities, for imports of finished fertilizers and for fertilizer raw materials. The figure the OECD arrived at was close to $5 billion annually by 1980, or more than half the flow of all capital resources to the developing countries today. What this OECD estimate does is establish an order of magnitude, and that in turn indicates both the size and the urgency of the fertilizer problem. If the needs of the developing countries are to be met, the necessary mobilization of resources can only be accomplished through a joint effort and by close cooperation between private investors, governments and the international agencies that are able to help in the financing of the projects.

We have come a long way in the last few years. We can see where some of our assumptions, for instance regarding food aid, have been wrong. We are now close to fairly general agreement that the right strategy is to help put the developing countries on a self-sustaining basis as far as agricultural inputs are concerned. Given full cooperation between private investors, governments and the international financing agencies, there is a strong possibility, perhaps even a strong probability, that the fertilizer availabilities required to make possible production by the developing countries of their food needs over the next 10 to 15 years can be met.

# FINANCING GREATER WORLD FOOD OUTPUT

Text of Informal Remarks

by

Martin M. Rosen

Executive Vice President

International Finance Corporation

to Annual Conference

on International Management

sponsored by the Council for

International Progress in Management

New York

January 25, 1967

Ladies and Gentlemen, I am delighted to be here and particularly pleased to be the non-agriculturalist appearing with this group of knowledgeable panelists speaking on the world food problem. The solution to it is one which is going to involve capital as well as know-how and people, and I think that it's the money side of the subject that I've been asked to talk about.

When talking about financing food production, there are a number of different topics that could be included on the agenda. Previous talks have indicated various ways in which increased food availability could be accomplished -- greater land development, better land utilization, increased availability of production inputs, more effective processes of production and improvements in the collection, storage, processing and distribution of food, once it has been produced. There is a financing role in each of these. To a considerable degree, that financing role is necessarily a governmental function. The role of financing irrigation or land development schemes is largely governmental. Suitable procedures for collection and distribution have much to do with price mechanisms and price support arrangements. This, too, is obviously a governmental function. The increased availability of agricultural credit is probably a mixed function, but here also the role of government is an important one.

I don't plan to talk about the public sector insofar as the financing of these areas is concerned, but to limit myself in the time available to talking about the private areas. There is a role for private investment and the International Finance Corporation itself has participated in financing private operations in each of these sectors. We have been involved in the financing of a plantation scheme in East Africa, thereby opening up new land and bringing it under cultivation. We've been involved directly in the production process by helping to finance a cattle growing operation, by arranging for an increase in the number of cattle being grown and, consequently, for greater availability of meat in the future. We've been involved in another of these roles by financing processing and grain storage.

Most of all, we are involved in what I consider to be the important area of this activity: making available increased production inputs. Now, there are a number of these -- agricultural machinery, better seeds, pesticides, and fungicides. But there is one in particular which I am going to make the theme of my remarks. This is the subject of fertilizer. I'm going to concentrate on fertilizer, not because it's the only area of importance: all of these areas fit together. It's like trying to put together a gigantic jigsaw puzzle and saying there's one key piece. There isn't any one key piece. Nevertheless, fertilizer has a fundamental role in solving the food problem. And it is a function which is of particular importance to anyone concerned with the financial side because this is the area in which substantial amounts of money are needed and this is the area in which the role of private investment is of fundamental importance. It's also a field in which there is a direct and immediate relationship between the money that is spent on the input and the amount of output that occurs.

I'm not a technician and I'm therefore going to paint with a very broad brush in talking about some of these numbers. As a rule of thumb, it's perfectly clear that for each dollar's worth of fertilizer that gets applied to land, you can more or less count on increased production of three dollars's worth of agricultural products. I know you've got to have the people to harvest the stuff when it's grown; it's got to be the right kind of fertilizer, applied at the right time; you've got to know how to use it. All of these qualifications need to be introduced. But nevertheless, the coefficient of increase in output is a striking one.

To put the problem in real perspective, I am going to have to impose some numbers on you. I would like to try to put the increase in population and what that means for food requirements in terms of fertilizer needs. Thanks to the Food and Agriculture Organization and others, there are some statistics. But these statistics too are uncertain, they're not the kind of numbers that you can do or die on. Nevertheless, they're as good numbers as you can find. The orders of magnitude are correct, and they're meaningful in implying what the problems are.

Annual world consumption of fertilizer at the present time is in the order of magnitude of 18 million tons of nitrogen, 14 million tons of phosphate and 11 million tons of potash, the three principal fertilizer ingredients. Starting with 18 million tons of utilization of nitrogen being utilized presently it's a reasonably good guess that world consumption five years from now will be 28 million tons. If one were to assume that the rate of increase of utilization of 11 per cent per year would continue into the future as well as during this next five-year period (and this is not at all unlikely, in fact there is a good chance that the rate of increase during this five-year period will be more than 11 per cent) we would expect consumption in 1975 to be in the order of magnitude of 45-50 million tons of nitrogen.

Now, let's try to put that in terms of probably the one country which is in all our minds whenever we begin talking about the world food problem, and that is India. India, with a population of 500 million, with its rate of population growth, with its tremendous need right now for food imports, is at the nub of the food problem. It isn't only an Indian problem by any means; it's equally true in Pakistan and in many other developing countries. But by sheer size, India must be specifically mentioned when one begins to talk about the world food problem. In India today, the annual consumption of nitrogen is in the order of magnitude of 600,000 tons. We think that in this next year it will step up spectacularly to about a million tons. By 1970/71, India will need to use about 2.4 million tons of nitrogen in order to more or less stand still in its food requirements. To feed its growing population at the present calorific intake, we think that Indian needs for nitrogen alone in 1975/76 will be in the order of magnitude of four to five million tons, and that the requirements by 1980 will be of the order of eight million tons as against the present availability of 600,000 tons.

Let me try to put this in terms of money. In a developing country, the cost of putting up a fertilizer plant which will produce 200,000 tons of nitrogen a year and process it into usable form -- urea or ammonium nitrate -- is in the order of magnitude of $50 million. In other words, to get an additional one million tons of nitrogen, we're talking about an investment cost, give or take a little, of $250 million. Now with the increase in nitrogen, there of course needs to be additional availability of phosphate and potash. Put these other requirements again in money terms, and the $250 million which needs to be spent for the nitrogen side of the fertilizer operation is going to have to be accompanied by somewhere between $100-$150 million for facilities for the other fertilizer components.

Now let's come back to the figures we were talking about and what India's needs alone are: to move from 600,000 tons at present to 2.4 million tons in 1970/71 and to probably five million tons in 1975. In other words, what India needs in new plants (and now I'll exclude those which are in the process of construction, or for which financing has been arranged even though the actual work hasn't been started yet) is about three to three and a half million tons of additional nitrogen plus the other components by 1975. It isn't India alone that is involved, of course. There are fertilizer requirements elsewhere in the world. But this, I think, puts it forward in a quite striking form.

To meet this, there are three basic problems which have to be solved. The first is money, the second is management and the third is the availability of raw material. The money and management, I feel, are two aspects that have to be considered together. And the solution of the fertilizer problem of India, or the rest of the developing world, is going to require the introduction of management which has the money to make investments in fertilizer capacity. The scope of the financial problem we are talking about and the large part of finance needed in foreign exchange make it clear that these amounts are not within India's or Pakistan's own available resources. Nor are these amounts, at least at present, within the parameters of governmental aid programs. If these amounts are going to be met, they will have to be provided by the knowledgeable international companies presently active in the fertilizer business -- the large petroleum and chemical companies which have the capital resources and the technological and personnel facilities to make it possible to run plants of the size that are talked about here.

The third basic requirement that I mentioned was raw materials, and I want to digress a minute to talk about this. Again speaking non-technically, I said the fundamental production stimulant that is involved in fertilizer is nitrogen. Nitrogen fertilizers can be produced in many ways. Nitrogen itself can be acquired from the air but the hydrogen which combines with it to make ammonia, the building block on which all nitrogenous fertilizers are based, comes from a hydrocarbon feedstock. There are two important raw material sources: one is natural gas and the other is naphtha, which is a petroleum refinery product like gasoline. Large quantities of the hydrocarbon raw material are needed if the world is going to be able to meet fertilizer requirements. And today, large quantities of raw material are being wasted daily in widely different areas of the world because the facilities have not yet been put together to make use of it. Natural gas is being burned to get rid of it in Kuwait, in Iran, in Saudi Arabia, and in other Persian Gulf oil producing areas. It's also being flared in Nigeria and Venezuela.

In the United States, natural gas is widely used as a feedstock because pipelines bring the gas from the gas fields to the fertilizer plants. But in many of the developing countries, the projects for fertilizer are intended to be based upon naphtha which, in terms of money, is a quite expensive raw material. Again, I'll give two numbers to give an estimate of the order of magnitude. The raw material compenents of a ton of ammonia, the basic nitrogenous feedstock, would be about $4 per ton, if produced from flared gas in the Middle East. The raw material component of a ton of ammonia produced from naphtha, at today's prices of naphtha, would be about $18 per ton. So that the cost of the basic raw material needed could be reduced by a factor of three-fourths, if materials which are presently being wasted were used.

There are some projects of this kind now going on. Kuwait has a project to produce fertilizer from natural gas. Saudi Arabia is talking of one now, and it's in an advanced stage. Iran has a project sponsored by a U.S. company. But the bulk of the problem has not yet been faced, the most important reason being that the developing countries themselves are reluctant to see their fertilizer industry based upon the need for importing ammonia.

Looking at the future, I think we can see clearly that getting an increase in fertilizer output, in an order of magnitude of two or three or four times what is presently being produced, is possible. We have the technical know-how to solve this. I think we can see also that although there are large sums of capital involved, this problem can be solved because the direct productivity results of applying fertilizer are so great. What we are faced with now is the problem of organization, of getting together the consuming countries which need the fertilizer, the international companies which have the resources to undertake the investments, the international institutions which are going to have to put some money into these operations, as well as the governments who are involved in foreign aid. Putting all these elements together, I think that we will have a vastly increased availability of fertilizer and a vastly increased availability of food.

Rosen

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

Outline of speech to the Council for International Progress in Managment meeting in New York, January 25, 1967

Outline of Speech for Meeting in New York, January 25, 1967

Draft: D. Grenier - January 17, 1967

Introduction

1. World Bank Group recognizes importance of expanding world food production by strengthening agriculture in developing countries:

i. developing countries becoming increasingly dependent on imports to meet food needs.

ii. need to increase productivity in agriculture in developing countries. Agriculture in these countries employs more than two-thirds of working population but is responsible for less than one-third of total value of output.

iii. opportunities exist for some less developed countries to build export earnings from agriculture.

2. Bank Group has provided over $1.1 billion of financing directly for projects expanding and supporting agriculture. This represents about nine per cent of total financing of over $12 billion provided by Group. Most important single item in financing for agriculture is irrigation and flood control (about $640 million). Other categories: farm mechanization; fertilizer production; livestock improvement; land clearance and farm improvement; crop processing and storage. Assistance also provided indirectly through financing of other sectors: in particular, transportation (e.g. improvement of marketing facilities, opening up of unexploited areas for settlement and cultivation) and education.

3. Technical assistance an important factor. Agreement between Bank and FAO on identification and preparation of projects, with Bank responsible for project appraisal and supervision when loans made.

4. Increasing attention of Bank Group to agricultural projects. Assistance provided in number of forms: Bank loans, IDA credits and IFC investments. Some

shift of emphasis in Group assistance, moving from irrigation and other projects into financing other inputs needed in agriculture, particularly fertilizers.

IFC Operations

1. IFC role in Group activities as main link with private sector and private investors. Appraisal function in fertilizer and other industrial projects submitted to Group for financing. Expansion of IFC activities, particularly with availability of Bank funds; investments of up to $20 million now possible. IFC working with private capital, looking for industrial and financial investors as partners in investments to expand food output in developing countries.

2. Some examples of projects relating directly to agriculture financed by IFC. These indicate opportunities for private investment in enterprises of high economic priority, potential profitability:

A. In Colombia

i. INDUGAN. A livestock company assisted by IFC with equity investment and loan of about $1.6 million last year. Company established by group of leading Colombian cattlemen and industrial interests, (including Bavaria, S.A., Inversiones Esso de Colombia, S.A.) and Corporacion Financiera Colombiana. Company's long-range objective to develop complete integrated livestock production, financing, marketing, processing and meat distribution program. Livestock production falling behind population growth in Colombia, but view of some experts that Colombia has potential for developing into one of great livestock producers in world, both for domestic consumption and for export. Producers in Colombia in position today that producers were in 40-50 years ago in the U.S. Basic cattle resources available, but organization and technical management lacking to exploit resources by using modern techniques to improve quality.

ii. ALMAVIVA. Warehousing company expanding into grain storage with construction of first large-scale modern grain elevator. Financing of $1.6 million provided by IFC in conjunction with leading New York bank. Up to now, grain storage facilities in public sector. Facilities inadequate because of lack of resources, resulting in heavy crop losses due to spoilage; as well as wide seasonal price fluctuations.

B. In Morocco

i. DEL LUKUS. Company processing produce (tomato, paprika products) for export to European and North American markets. IFC assisted expansion of facilities with $1.4 million equity investment and loan last year. Processing of foodstuffs an industry of high economic priority in Morocco; potential in terms of foreign exchange earnings. But need modern production techniques, management, marketing know-how, as developed by Del Lukus.

Bank Group and Fertilizer Production

Greater attention being paid by Bank Group to fertilizer than to any other single industry today. Reasons include:

i. immediate impact of fertilizer as an input. Rule of thumb: $3 of extra production possible for every $1 of fertilizer used.

ii. low rate of fertilizer usage in developing countries. At present, between 80-85 per cent of fertilizer usage is in developed world. Recent estimates: per capita annual consumption of nitrogen in Brazil about 0.8 kilograms, in India about 0.9 kg, compared with 21.0 kg in U.S. Need most acutely felt in India, where indications are that gap in production capacity of close to two million tons of nitrogen needs to be met by 1970/71. With present low rate of usage, fertilizer needs of developing countries met mainly by imports.

iii. several problems to overcome in expanding fertilizer production and consumption in developing countries: shortage of raw materials felt in some countries;

high cost of fertilizer in relation to crop prices; inadequate and expensive sources of fertilizer credit; lack of farmer awareness of advantages of proper fertilizer usage.

iv. major advances in fertilizer technology in recent years have resulted in much larger units of production and reduced production costs, opening up opportunities for cheaper fertilizer to farmers in developing countries. IFC itself would now generally only invest in plants designed to produce at least 500 tons of ammonia per day. If domestic market too small to absorb production, attention would need to be paid to export prospects.

v. capital intensive nature of fertilizer industry. Apart from raw materials, capital requirements are important factor. Total capital requirements of projects relating to fertilizer with which Bank Group is involved come close to $1 billion.

vi. long lead-time involved in establishing new fertilizer production. Need to start immediately if plants to be on stream by 1971/72.

vii. private capital needed to make build-up of fertilizer production feasible on this scale. Bank Group only prepared to go into fertilizer field in partnership with big companies familiar with all aspects of business and able to provide large amounts of capital as well as management, technology, etc.

viii. need adequate return to bring in private capital.

## Group Financing of Fertilizer Production

1. Bank loans and IFC investments in fertilizer production now total about $135 million. Chief Bank-finance projects are: (a) Dead Sea Works in Israel, and (b) Congo Potash, in Congo (Brazzaville). IFC investments include early investments in Peru and Tunisia. In past few months, investments extended by: (i) equity and loan participation in financing of new $12.4 million fertilizer plant in Senegal, sponsored by Potasses d'Alsace Group of France. Plant will use local rock phosphate

and imported sulphur, ammonia and potash. Apart from equity subscribed by sponsors, loan financing obtained from two French Government agencies and the European Investment Bank. IFC commitment approximately $3.4 million.

(ii) equity and loan participation iin financing of new $70 million fertilizer production and distribution complex in Brazil. Company sponsored by Phillips Petroleum and Ultra Group of Brazil; both sponsors making substantial equity contributions. Project includes a 500 short ton per day ammonia plant. Plant capacity about 500,000 short tons of simple and complex fertilizers a year. Of total financing, up to $10.7 million to be provided by IFC in equity and loan. Other loan momey consists of $14.8 million from U.S. AID and $21.5 million from a consortium of U.S. life insurance companies.

2. Other projects now under study in India, involving major U.S. and U.K. sponsors.

3. Bank Group acting as catalyst in bringing together private companies with capital and know-how, and developing countries needing fertilizer capacity or possessing raw materials. IFC role includes trying to locate industrial partners for projects, working with oil and fertilizer companies in North America, Europe and Japan.

4. No Bank Group "master plan" for expanding fertilizer production on global basis. Each situation needs to be judged on its merits regarding location, choice of feedstock etc. Bank Group experience indicates wide range of different types of projects:

i. projects based on concept of converting locally available raw materials for the local market. IFC looking at projects in Latin America and Asia based ~~either~~ on conversion of natural gas or on naptha available from local refineries (Peru, Pakistan).

ii. projects based on importing raw materials for conversion for local market. (Senegal Fertilizer, Ultrafertil).

iii. projects involving conversion of locally available raw materials for export as finished fertilizers. (NPK).

iv. projects involving processing of local raw materials into intermediate product for export. (e.g. Algeria, Tunisia).

v. projects where locally available fertilizer raw material resources are to be developed for export. (e.g. Jordan).

Bank Group Criteria

I. timing. Long lead-time involved in bringing in new fertilizer production capacity.

ii. Need for external resources of capital, management. Management factor critically important: possible for developing countries to buy fertilizer plant and equipment, but question is how to get management. IFC policy requires industrial partner to put up significant equity stake.

iii. Need for adequate distribution, marketing arrangements. In Ultrafertil, partnership arrangements between Phillips and Ultra Group. Distribution centers an integral part of $70 million project, essential to building up effective demand in order to utilize plant capacity. Through distribution centers, provision of technical assistance to farmers regarding proper use of fertilizers etc. Ultrafertil also provides example of other conditions that need to be met to produce project that is viable and attractive for financing: e.g. provision of fertilizer credit by Brazilian Government; policies removing agricultural price controls and improving minimum price supports etc.

iv. Need to establish project on basis where there will be advantages to farmers in the country in terms of lower prices, greater availability of fertilizer supplies etc. Technology factors involved in size of plant: e.g. in Senegal, where small, highly sophisticated program of extension services operated by French technicians, domestic demand insufficient to absorb plant output in initial years, but opportunities for export markets in West Africa.

Conclusions:

i. massive increase in fertilizer output needed. Some fears of over-production in short term (particularly in potash) but in view of long lead-time and growing needs in 1970s, fears probably unjustified.

ii. in view of the scale of needs, the question of either/or not relevant if targets to be met. For example in India, fertilizer discussed in terms of public sector versus private sector projects, with feedstock option of local refinery naptha or imported Middle East ammonia. But both needed if plan targets to be met. Private capital and technology essential because of lack of resources and technology in public sector.

iii. development of local fertilizer production would assist balance of payments of developing countries in view of foreign exchange costs of importing fertilizer.

iv. experience of developed countries indicates fertilizer production can be successfully established on profitable as opposed to subsidizied basis. With emerging food shortage, realization that food is a cash commodity paid for on commercial terms wouldlead to expansion of fertilizer production as a business undertaking.

v. while fertilizer the key input on immediate basis, long-run development of food production in developing countries will need investment in other industries: e.g. for production of insecticides and pesticides, farm equipment etc. This suggests private capital and technical knowhow will have continuing role to play in increasing agricultural output and efficiency in developing countries.

Talk at Closed session.
If any, copies probably only to participants -
Do not give out without permission

# FINANCING FOOD PRODUCTION AND PROCESSING IN THE DEVELOPING COUNTRIES

Text of Informal Remarks

by

Martin M. Rosen

Executive Vice President

International Finance Corporation

to Conference on

The World Food Problem

sponsored by Henry J. Heinz II

New York, April 12, 1967

The world food problem is of major concern to the World Bank Group, by which I mean the World Bank itself, its soft loan affiliate, the International Development Association (IDA), and its private enterprise arm, the International Finance Corporation (IFC). The theme we're discussing today is what can be done to tap the capital resources, the marketing skills and imagination, the experience and inventiveness of the private sector in finding answers to the food problems of the developing countries.

This is a broader problem than the simple question of making each underdeveloped country self-sufficient in its own food supplies. The fact is that food has become such an important item in world trade that the possibility of exports of food by underdeveloped countries can be most important in the diversification of their economies and in earning foreign exchange in order to help make the countries themselves viable. It isn't simply a question of meeting certain nutritional requirements, but a question of what kind of contribution food production in the developing countries can make in meeting their entire economic needs.

I don't plan to discuss infrastructure, although the World Bank and IDA have done a good deal in this area directly affecting agriculture and have loaned $1.1 billion for irrigation, for agricultural credit, for the import of agriculture equipment and for other purposes. But these loans have been loans to governments or gone through governments and their interest, I think, is not directly related to the concern of the group here with the direct private sector of agribusiness. Even in the private sector, I don't plan to talk about fertilizer, significant as it is to the whole problem raised here. I'm going to talk simply about food production and processing and what it is that IFC has done in these areas. We've taken part in financing a number of separate private ventures, including a fairly wide geographical area of Africa and Latin America.

Let me mention the kinds of projects we've done to give you some idea of the diversification of this experience. In Guatemala, we have financed a flour mill. In Colombia, we financed a company producing processed foods such as biscuits, crackers, and canned meat products. We're also involved in a Colombian company engaged in the breeding, fattening and slaughter of cattle and in a grain storage operation. In Chile, we're a shareholder in a company producing pasta and other food products. In Tanzania, we've helped finance a company which opened up new land for sugar production. And in Morocco we put money into a company that processes food products for export to world markets.

My theme is going to be a less optimistic one than that of other speakers, simply because I have to report that in the area of direct production and processing of food, we have found that we have been much less successful than in other areas of investment. Let me just set the scene for this. IFC has made more than 130 commitments in a large number of areas. Of these, approximately 25 have been sold or closed out, so that we know what the final results are. The average annual return on these investments has been a little over 12 per cent. Our record in the agribusiness area is much less satisfactory. What I'd like to talk about is some of the problems we've found and why it is that this has been the more difficult area.

Let me start with the case of the food products company in Chile in which we have invested. Here what we have is an established company, founded some 60 years ago, which has become the largest manufacturer of pasta products in the country. Through extensive promotional efforts, including company sponsored cooking schools, it has succeeded in making pasta products part of the basic diet of low income groups in Chile, competing even with rice and potatoes. It has been sufficiently successful in expanding its operations that today it's the largest single producer of pasta in the Western Hemisphere, not just in Chile.

The situation the company now faces is one where, in part because of its success in appealing to low income consumers and making its product an important part of the diet, it is subject to government price controls on the final products that it sells. Since pasta is a basic foodstuff, the government has been most reluctant to permit price increases to be made. At the same time, as this group well knows, under the inflationary conditions that are present in Chile, the company has found that its costs have been mounting rapidly, so that it is ground between rising costs and the inability to raise its final price, simply because it's producing a basic product.

Frequently management complains that government is responsible for its difficulties, and you might ask, is this just simply a question of poor management? In my opinion, the answer is not. Because of its difficulties, what the company has done has been to diversify into other lines, and today it's making more money selling the tomato sauce to put on the pasta than it is making the pasta itself. Tomato sauce is a product which isn't subject to price control, but in terms of the social desirability of producing more food and getting the basic food products available, obviously this isn't the purpose at all.

A somewhat similar situation that we've run into concerns a sugar operation in Tanzania. Here we have a product which is also a basic foodstuff and is subject to price control. On the other hand, the particular operation in which we have invested is one of the largest employers of labor in the entire country. It's a big agricultural operation and has involved clearing land as well as cutting sugar cane. Government policy in this case has, first of all, fixed the price of sugar below prices in the surrounding areas of East Africa. At the same time, government policy has also fixed minimum wages, so that the costs of the company have constantly increased. So we see again the continuing difficulty of a company whose selling price is fixed but whose costs are constantly going up.

A third case I want to mention is in Morocco. It is one in which so far I think we have a solution, but where it is too early to tell what the outcome will be. In this case, we have a company which is export oriented. It produces tomato paste, paprika and other pimento products which are valuable foreign exchange earners for Morocco. It previously controlled a substantial amount of land, and therefore was able to produce its own raw materials, establishing the quality control necessary for an export oriented industry. Like many other governments, the Moroccan Government felt that there should be a land distribution process, that large properties even when operated on a plantation basis should not continue, especially when the majority ownership, as in this case, is foreign. So this company has had to divide itself into two, parcelling off the land holdings while maintaining the processing operation. The land holdings are to be taken over by a company in which the Government has a majority interest, and what we've had to try to set up is some arrangement whereby the processing company can maintain an influence on the extent to which the quality of its products can be controlled. So far it appears to be working, but there is an inherent problem facing a manufacturer who is not able to control the quality of his raw materials.

These three cases, I think, evidence the heart of the problem: the problem that food and the ownership of agricultural land are, by their nature, politically sensitive areas. Because they are politically sensitive, the investor in a food operation has got to reckon with policies of local government, and the policies of local government are oriented to keeping down the prices of food products and, in some cases, to restricting foreign investors from owning land. This is a problem which we, in my opinion, won't be able to tackle simply on the side of the capital exporting countries. It's a problem which is going to require recognition of the importance of investments in food, food production, and in food processing by the developing countries, in order that there can be a suitable return on investments.

A second part of this problem is one which I think is also of importance and somewhat more difficult to articulate. This is a problem that arises for the investor in most of the countries where you have depreciating currencies and where you have an equity position which in terms of the original dollar value is deteriorating, even though the company is reasonably successful in terms of its local currency earnings. Now, these two problems are inter-related, because the attitude of many governments has been to look at the original cost of the investment in local currency and to consider that if the company is earning 15 per cent or 20 per cent on the original value, then it's making a reasonable return. They do not see that, from the point of view of the foreign investor, the 15 per cent or 20 per cent has been diminished by the fact that the value of the capital has come down by half or even 75 per cent of the amount originally put in, and that the real return may even be negative.

Mr. Chairman, I don't have an answer to what ought to be done. Of course, one can utter some platitudes about what the policies of the developing countries should be. But I do feel, without question, that in considering and deciding how the private business community around the world can do something in solving this fundamental problem of food, the solution is going to have to include a package of policies and actions by the countries in which the investments are being made.

NEW IDEAS FOR UTILIZING THE PRIVATE SECTOR

IN INTERNATIONAL AGRICULTURAL DEVELOPMENT PROGRAMS

Text of Remarks

by

Mr. Martin M. Rosen

Executive Vice President

International Finance Corporation

at the

First International Agribusiness Conference

sponsored by

Chicago Board of Trade

Chicago, May 10, 1967

The importance of the problem being discussed by this Conference needs no underlining, but I do wish to start by commending the Chicago Board of Trade for its initiative in sponsoring this meeting and to congratulate the Board on the very efficient manner in which arrangements have been made. This meeting focuses on one of the central issues of the last third of the 20th Century. That issue is, to quote the words of the economist Thomas Malthus, "the perpetual struggle for room and food." We now realize that the principal, perhaps even the only, way to get the increase in food output we are going to need over the next 10 to 15 years is by obtaining more production from land now under cultivation.

This point relates most directly to the developing countries. It is in these countries that the productivity of agriculture is relatively low. It is in these countries, too, that four-fifths of the one billion people expected to be added to the world's population by 1980 will live. Part of these colossal needs can be tided over with the help of food aid, but aid itself must in the nature of things be largely a stop-gap measure until the developing countries place their own agriculture on a more self-sustaining basis. Some of the changes that will be needed to bring this about can only come from within the developing countries themselves. Already we are seeing hopeful evidence that agriculture is no longer being regarded as merely a poor cousin of industry. But a great deal of what needs to be done will require the help of the developed countries, so that the right inputs are available at the right place at the right price and in the right amounts.

I want to confine my remarks today to what private capital and private initiative can do to develop and expand "agribusiness" in the developing countries. This is an area in which the International Finance Corporation is directly concerned. I could talk at some length on our experiences and our views as to how private business can effectively invest in the areas of direct food production and processing. The time of each of the panelists is limited, however, and I am concentrating attention on one key area: the financing of fertilizer production in the developing countries. I seem to be the banker in this panel, and fertilizer is the area in which big sums of money are involved.

There are many reasons for emphasizing fertilizer production. It's cheaper to import fertilizer than wheat. Fertilizer yields results quickly and on a sustained basis, and has a marked demonstration effect. It also happens to be an area in which the developing countries lag far behind North America, Europe and Japan. But the gap today is beginning to narrow, and in fact what we are now seeing is a quite dramatic increase in fertilizer use in the developing countries. Ten years ago, these countries accounted for about 8½ per cent of total world usage. Last year, the proportion was closer to 15 per cent of world consumption, and if the trend continues they could account for as much as 20 per cent by 1970, going as high as one-third in 1980.

The same dramatic change is taking place in world fertilizer capacity. Today, nearly one-fourth of all new plant capacity being added is located in the developing countries. In 1965, these countries accounted for about one-tenth of total world capacity; by 1970, the proportion is likely to be closer to 15 per cent. One thing these figures indicate very clearly is that a revolution is taking place in agriculture in these countries. But even despite what has happened in the last decade or so, the amount of fertilizer used by farmers in countries such as Brazil or India is still quite insignificant -- on a per acre basis, for instance, it is only about 10 per cent of what farmers in North America use.

If I am optimistic about the outlook for increased use of fertilizers in the less developed countries, there are two main reasons I would single out. One is the technological advances made by the fertilizer industry over the past decade and longer; the other is the discovery of new sources of raw materials within the developing countries. Let me give one example. Five years ago, an ammonia plant with a capacity of 300 tons per day was considered large. Today, plants with a capacity ranging anywhere from 600 tons to 1,500 tons per day are coming into existence. The striking feature of these "second generation" plants is that their capital cost per ton of capacity is so much lower than that of the smaller, older plants. The economies of scale that can be achieved with these new plants offer one of the best incentives to greater use of fertilizer; namely, much lower prices to the farmer.

The other development I would stress is in regard to raw materials. If the developing countries have been slow to build up their own fertilizer industries, one principal reason has been the shortage of raw materials. This is much less the case today. In many countries, the establishment of oil refineries has meant that locally produced naphtha has become available for making ammonia. And now that bulk transport of ammonia in large, refrigerated tankers has been shown to be not only feasible but economic, waste natural gas, presently being flared in the countries of the Persian Gulf area, Nigeria and Venezuela, could provide the basis for producing even cheaper ammonia. If this development is not taking place as quickly as might have been hoped, it is because, for political reasons, most countries do not want to be dependent on a single foreign source of supply for a key raw material. On the other hand, if ammonia becomes a world commodity, with perhaps four or five competing sources of supply, as some people now believe possible, I feel sure many of these political fears will simply disappear.

Nevertheless, fertilizer today threatens to be one of the principal bottlenecks in expanding food output in the developing countries, and the reason for this is not only the gigantic tonnages of material which would have to be produced, transported and marketed but also the tremendous foreign exchange costs involved. In 1965, it's extimated that the developing countries required in all about $825 million in foreign exchange to meet their fertilizer requirements. Of this total, finished fertilizers accounted for about $540 million. Despite the new capacity now being installed in countries like India, the need for imports is also likely to rise substantially in the next few years. In India, for example, the present target is to raise consumption of nitrogen from about one million tons this year to 2.4 million tons by 1971 and four million tons by 1976, with potash and phosphate consumption increasing proportionately. Even though the domestic fertilizer industry is beginning to expand rapidly, India is still a long way from self-sufficiency. If the gap is to be filled, it will need massive amounts of imports: about $250 million annually on average over the next five years. That works out at close to 20 per cent of the country's projected export earnings -- a tremendous cost but still much cheaper than the cost of importing food, even if it were available.

If I appear to be singling out India, it is not because its problems are unique but because their scale is so immense. What it comes down to is that countries like India can never really expect a breakthrough in agriculture if they have to devote so much of their foreign exchange earnings to fertilizer imports. This is why so much emphasis is being placed on locating new fertilizer capacity in the developing countries. Where the market is large enough and where raw materials are available, there are substantial foreign exchange savings to be obtained through local manufacture rather than through importing the finished product. Let me give an example, taking the case of a plant with a capacity of 200,000 tons of nitrogen a year. A reasonable estimate of the foreign exchange costs of building a plant of this size in a country like India is between $35-40 million. The landed cost of nitrogen is at present in the neighborhood of $200 per ton. Assuming the plant were operating at 75 per cent of capacity, in other words producing at the rate of 150,000 tons of nitrogen a year, this would represent an annual foreign exchange saving of about $30 million from a foreign exchange investment of $35-40 million. These figures speak for themselves.

Given the massive fertilizer needs of the developing countries, what we come back to is the key question: how can the private business community, and those of us who finance the private business community, in the light of our present understanding of the problems, hope to make the kind of investment decisions that will stand the test of time. We know that effective demand is growing at a far higher rate than could have been anticipated five or ten years ago. We know the dimensions of the potential needs. We know the developing countries lack the foreign exchange to meet their needs through imports, and we recognize more and more that new capacity must be located in these countries. We also know that the longer the developing countries defer the decisions they must make, the more costly the time lag will be in terms of foreign exchange. Finally, we know that even with the foreign exchange savings they can expect by establishing their own fertilizer industries, the developing countries do not have the resources to close the gap. And by this I particularly mean the resources of management as well as of money.

This is the reason why the World Bank and the International Finance Corporation have taken the position that if the fertilizer needs of the developing countries are to be met, they will need to supplement their own resources by drawing on the capital, the technical skills, as well as the marketing and management know-how, of the major international oil, chemical and fertilizer companies. Their experience in establishing fertilizer manufacture on a profitable basis and their knowledge of distribution and marketing techniques are directly relevant. In an industry involved in more or less continuous change, they can provide access to the latest technology. And through training programs, they can make possible the transfer of valuable skills to the developing countries. Finally, their risking of their own funds by direct investment ensures careful appraisal of the economic and business soundness of the projects and that the necessary time and energy of the senior management personnel of the know-how partners will be applied to the ventures.

But if these private investors are to take part in the growth of fertilizer industries in the developing countries, they will need some assurance that other inputs will be available to farmers and that governments will take necessary measures, including giving the farmer the kind of price incentives that will help develop fertilizer use. They will also need freedom to set their own prices for the fertilizer they produce in competition with other private producers and with imports, so that they do not find themselves in a kind of quasi-public utility or faced with unfair competition from subsidized government fertilizer sales. What this comes back to is the concern of many private investors about the investment climate in the developing countries and the possibilities of earning a reasonable return on capital. As a financing agency working with private investors, these problems concern us as well. In too many cases, there is still a wide gap between the expectations of the investor and the incentives the host country is prepared to provide.

Our chairman has referred to the recent study by the Organization for Economic Cooperation and Development (OECD), which has made estimates of the capital required by the developing countries for investment in fertilizer production facilities, for imports of finished fertilizers and for fertilizer raw materials. The figure the OECD arrived at was close to $5 billion annually by 1980, or more than half the flow of all capital resources to the developing countries today. What this OECD estimate does is establish an order of magnitude, and that in turn indicates both the size and the urgency of the fertilizer problem. If the needs of the developing countries are to be met, the necessary mobilization of resources can only be accomplished through a joint effort and by close cooperation between private investors, governments and the international agencies that are able to help in the financing of the projects.

We have come a long way in the last few years. We can see where some of our assumptions, for instance regarding food aid, have been wrong. We are now close to fairly general agreement that the right strategy is to help put the developing countries on a self-sustaining basis as far as agricultural inputs are concerned. Given full cooperation between private investors, governments and the international financing agencies, there is a strong possibility, perhaps even a strong probability, that the fertilizer availabilities required to make possible production by the developing countries of their food needs over the next 10 to 15 years can be met.

CORRESPONDENTS: This speech, to be delivered at approximately 2 p.m. Tuesday, September 12, is available to afternoon newspapers of Tuesday on a prepared for delivery basis; otherwise, for use upon delivery.

ADDRESS OF MR. MARTIN M. ROSEN, EXECUTIVE VICE PRESIDENT OF THE INTERNATIONAL FINANCE CORPORATION TO THE NATIONAL CONVOCATION OF THE NATIONAL INDUSTRIAL CONFERENCE BOARD ON WORLD HUNGER

New York City, September 12, 1967

# PRIVATE INVESTMENT IN THE DEVELOPING COUNTRIES

The National Industrial Conference Board, in its more than fifty years of activity, has consistently shown an ability to focus on the important economic problems facing the American business community. It has once again done so by arranging this national convocation on the problem of world hunger. For, like others participating in this convocation I am strongly convinced that the problem of providing sufficient food for the world's rapidly growing population presents challenges, demands and opportunities to the American business community whose importance is probably unequalled, on a long term continuing basis, by any other world problem except perhaps that of world peace.

I am pleased to be here to speak on the important topic of private investment in agribusiness in developing countries, and on the broader aspects of the type of economic development in these countries which provides a sound basis for profitable and successful private investment. I do want to stress at the beginning of my remarks that what I am saying in this talk is predicated on the belief that private investment in agribusiness in the less developed countries -- as, of course is true of private investment in any activity in any country -- will occur and can be expected only if circumstances exist for the investment to be profitable. I do believe there are significant opportunities for profit in agribusiness investments aimed at meeting the food needs of the underdeveloped world.

I do not plan to speak primarily about the activities and experiences of the International Finance Corporation, but my talk is based on the more general lessons arising from the eleven years of IFC's efforts to expand the role of the private sector in the developing countries.

As the only international and intergovernmental institution devoted to financing the private sector in the developing world, we have had the opportunity to generalize from our experiences in financing 143 projects in 36 countries, and our experience has included diversified activities in the agribusiness area. We have taken part in financing nine private ventures directly involved in the production and processing of food and four ventures in the fertilizer field. In the agribusiness area we have put our money into cattle raising, grain storage, sugar production and refining, and into flour milling, as well as several food canning and processing activities aimed at production for both the domestic and export markets. Including the four fertilizer projects I have mentioned, these ventures include all the lower income regions -- Latin America, Africa and Asia. Fertilizer projects have played an increasingly important role in our activity and last year fertilizer occupied more of our attention and got more of our money than any other business.

Before focusing specifically on opportunities for private investment in agribusiness I want to mention four general points that bear importantly on such investment in the lower income countries.

At this point, however, let me digress for a moment to put in a word of caution at this point about the agribusiness concept. Since we are using a relatively new word -- agribusiness -- I would like to define exactly what I mean by agribusiness. The term includes three broad activities. The first is the production and supply of all of the various inputs -- seeds, equipment, fertilizer, other chemicals and all the supplies and services needed, including agricultural credit. The second is the actual production on the soil of agricultural products themselves. The third type of activity is the whole process of collecting, storing, marketing, processing and up-grading the products once they have been produced on the farm. Agribusiness encompases all of these. My word of caution is a reminder that the use of a newly coined word should not lead to the mistaken conclusion that we have newly coined a magic solution to the very tough and long-endured problems of economic development. The kproblems remain the same. But the agribusiness concept is nevertheless significant, because it helps in two important ways on focusing on solutions to the problems.

First, the fact that we are at the same time talking both about agriculture and business emphasizes the importance of <u>balanced</u> economic development; the importance, that is, of giving proper weight to the role of agriculture, as well as industry, the services and commerce, in the development process.

Second, the word "business" in the term "agribusiness" makes it clear that we are talking about making use of the energies, abilities and incentives of private profit-making enterprise in meeting the food problems facing the world today.

This brings me to the first general point that I want to make -- the importance of recognizing the need for balanced economic development as one of the preconditions for successful private investment in the developing countries.

I know that I do not need in this group to talk about the importance in the process of economic development of building an adequate infra-structure. We all know that any substantial expansion of any specific product, whether it be industrial or agricultural, requires the availability of ports, roads, communications, financial and governmental services which connect the new source of production with the whole economy of which it is a part and, indeed, with the economy of the rest of the world. Infra-structure has received its share of attention in the development plans and activities of the under-developed world.

> What has not been adequately recognized is that a balanced economic inter-structure is just as important as having adequate economic infra-structure. This is simply to say that satisfactory economic progress is dependent on there being a proper balance in the development of all of the key sectors of the economy. The reality of the situation is that in too many of the developing countries there has not been this proper balance and agriculture has been the neglected sector. That is an important part of the reason why there is a problem of world hunger which this convocation is discussing. The solution to this problem is to have a sound and successful agribusiness sector created and maintained.

My second general point relates to the key role that the agricultural sector occupies in the economic structure of almost all developing countries. Agriculture is the sector in which most of the population of these countries works, and it is the sector where a high proportion of under-employed resources is to be found. Further, this is the sector where most of the income is generated, and yet, where incomes are lowest.

Sustained and broadly-based growth processes cannot occur if the agricultural sector stagnates. Agricultural incomes and productivity have to increase if there is to be effective and increasing demand for the goods and services which can be produced by those who cannot be effectively absorbed in agricultural production. Moreover, agricultural production in excess of the requirements of rural areas has to provide for the growing food, fiber and other needs of those employed in non-agricultural activities. This agricultural surplus is a fund for financing investment.

> In a low income country, the initial surpluses are to be found in raising agriculture above subsistence level. The higher agriculture rises above subsistence, the greater the national savings for investment in still better agriculture, and in industry, commerce and the social services.

My third general point, another precondition to successful agribusiness, is the simple fact that unless the farmer be rewarded, he will not increase his productivity sufficiently to produce those agricultural products in excess of his own needs that can be used to finance economic development.

We are all aware that in those centrally planned economies where agriculture has been collectivized, or in those places where other means have been used to deprive the farmer of the profits of his labor and of his expert attention to his business, there has been and there is an endemic failure of the agricultural sector to grow adequately, or in some cases to grow at all in real terms. In consequence, economic development of these countries as a whole has been seriously and adversely affected.

One of the most interesting aspects of the problem of raising agricultural efficiency is that it does not seem to be primarily dependent, and certainly is not exclusively dependent, on agricultural research and extension services, or even upon the availability of equipment or other mechanical inputs for agriculture.

The comparative experience of agricultural output in Western Europe and in Eastern Europe has made clear that farmers, in fact, farm for personal profit and where circumstances permit profitable farming agricultural output will increase substantially. The technologies and the inputs available will in fact be used. As Professor Schultz, the distinguished agricultural economist of the University of Chicago has put it:

> "... there is a basic proposition with respect to the rate at which farmers will accept a new agricultural input. It is ... the rate of acceptance depends predominantly on the profitability of the new input."

A clear instance of this is shown by differences in the results of agriculture in Yugoslavia in the early 1950s, and in recent years. In the five years from 1950 to 1955 production of food grains in Yugoslavia averaged less than 6 million tons. In the similar period from 1960 to 1965 food grain production averaged more than 10 million tons. In the earlier period not only were the inputs in short supply but more important were the factors that an attempt was made to carry out forced collectivization, while prices paid to farmers were very low. There was a better availability of inputs in the latter period but these would not have been effectively utilized if Yugoslavia had not introduced incentives for the agricultural producer. These economic incentives seem to be essential, no matter what the political ideology of the country, if agriculture is to prosper. Successful agriculture depends at bottom on suitable economic incentives for farmers.

I should mention that the incentive system can work only when the man responsible for the additional growth in agricultural production in fact obtains the fruits of his initiative and effort. In many low-income countries outmoded agricultural tenure systems stand in the way of a breakthrough in agriculture. Nevertheless, the problem is solvable. What has been done in Japan and Taiwan in the postwar period by way of land reform and the spectacular gains in agricultural production which followed, show how much other countries can benefit from these examples. Land reform, of course, needs to be properly done; there are unfortunately cases which could be cited where land reforms done too hastily or in an improper manner have in fact reduced agricultural output.

My final general point is the fact that, far from producing a rising surplus over subsistence that would be available for development assistance, per capita food production in the developing countries is lower now than in the late 1930s, and it has been declining in the last several years.

Before the war, the developing countries were net exporters of grain. Asia and Africa were self-sufficient at low levels of per capita consumption, while Latin America and Southern Europe generated export surpluses for the Western European market. Since the war, the situation has been dramatically reversed. Africa, primarily North Africa, is now importing grains, and so is Southern Europe. A part of the Latin American export surpluses is absorbed within the region. But the most striking change has taken place in Asia. The import requirements of India and Pakistan have risen greatly; Indonesia has become a large net importer of rice, while rice export supplies of Burma, Korea and former Indo-China have been cut in less than a half. The net effect of all these changes has been that the developing countries were importing, in the mid-1960s, about 25 million tons of grains, compared to an export flow of 10 million tons before the war -- a swing of 35 million tons with an approximate value of $2.5 billion.

> Putting it another way, the low income countries currently must import 10 per cent of the grains they consume, getting their imports from the industrialized countries. This is despite the fact that in these low income countries from two-thirds to four-fifths of the population is engaged in working in agriculture, whereas in the industrialized countries less than 20 per cent of the population is directly involved in agriculture.

When you consider that the poor people of the low income countries, where most people are poor, depend upon grains almost exclusively to keep alive, a dependence upon the outside world for a tenth of their grain supplies means that famine will always be hanging over the heads of millions of people in the low income countries until they can bring their own production up.

All of this leads to the broad conclusion that the low income countries need an agribusiness that is strong, dynamic and expanding if the problem of agricultural lag is to be overcome.

I want to turn now to the opportunities for private investment in agribusiness in the developing countries. I do not believe that these opportunities in general will be involved in the second of the three areas of agribusiness activity as I have earlier defined it -- that is, the direct production of the agricultural products themselves at the farm level. I do not wish to imply that this area should be excluded completely. There are certain countries and certain products for which the so-called plantation type agriculture is appropriate. In such a case opportunities do exist for knowledgeable foreign investors in these fields, and IFC itself has invested in two plantation type projects in Africa. In general, however, this second area of agribusiness will be carried out by the nationals of the country rather than by foreign investors. It will be, I believe, primarily in the first and third parts of agribusiness, that is in the area of manufacture of the various inputs needed for farm production and in the area of processing, storing and up-grading of farm products where opportunities for foreign investment will be found. I do not plan to talk at any length about the investment needs and opportunities in the general sector of food collection, processing, up-grading and marketing. The genius of industrial and marketing skills is nowhere better represented than in what has been done in the food processing field. If any persuasion is needed, it is to the less developed countries themselves about the advantages of their economies of bringing in the skills and experiences of the food processing industries of the industrialized countries, and in permitting these industries to operate under conditions which make profits possible.

Our experience in financing and considering projects for financing in the food-processing field prompts me to comment on what is an especially suitable field for foreign investment. Higher living standards in the industrialized countries coupled with a broadening of tastes arising from more international travel and assisted by rapid modern transportation availabilities mean that there are significant opportunities for the processing and export of food products. I have in mind not only so-called exotic products and luxury foodstuffs but some of the more ordinary fruit and vegetable products which can be supplied from countries whose climates result in their output at times of the year when they are not produced here or in the important European markets.

This is a different type of activity since it is not directed at meeting the food needs of the under-developed countries but is none the less of great importance to them as these projects produce foreign exchange which is so urgently needed.

The size of the potential market and consequently the potential profit prospects are very great indeed. We have financed several processing projects aimed at the local market which have been very successful. On the other hand two of our ventures have had and still face serious difficulties as the result of rapidly rising costs of production unmatched by equivalent adjustments in the prices of the products sold because of governmental price control actions. The cost increases have resulted both because of governmental pressures requiring increased labor rates or because of the general consequences of inflation.

The lesson follows that foreign investment in food processing aimed at the domestic market can be successful only where the over-all economic environment and general governmental policies are satisfactory.

What I particularly want to stress in the agribusiness area, however, is the existence of opportunities for the production of the various inputs which are needed to raise agricultural output above the subsistence level and keep it rising. I have in mind equipment, seeds, fertilizers and other supplies used by the farmer, and I am going to speak especially about fertilizer.

I pointed out earlier the irony that the low income agricultural countries depend upon grain imports from the high income industrialized countries for a critical margin of their food. Attempting to meet the food deficiencies of the low income countries by exports of food to them has been a noble effort and it will probably have to continue for some time. But the result too frequently has been the inhibition of agriculture in the under-developed countries with the failure of the agricultural sector to develop adequately.

In my opinion what the more developed countries should be transferring to their less developed neighbors -- except, of course, to meet emergency humanitarian needs -- is not food itself and not even the inputs which the farmer needs to produce food, although it is far more helpful, I believe, to supply fertilizer and tractors than it is to supply wheat and corn. What the industrialized countries should be making available is the capital and know-how and management and organization which will permit the developing countries significantly to increase the production of the required agricultural inputs themselves.

There is a vast opportunity open in this area and I would like to sketch it out, perhaps in a somewhat visionary scope, as one way in which the task could be accomplished.

I am going to concentrate on fertilizer production, not because better seeds, better farming equipment, better farming methods and the like are not also vital. They are. But the availability of fertilizer to the farmer, for application to his soil at a cost that will raise his income from farming his land, makes possible a quick rate of gain in agricultural output. Increased fertilizer production and use therefore represent a breakthrough point for raising agricultural output.

All projections are uncertain, but, painting with a broad brush, one can say that the developing countries of the non-communist world would need to increase their food production by almost two-thirds by 1985 just in order to keep pace with their population growth. If anything like this increase in consumption is to occur -- and something like it will have to take place or there will be mass starvation -- food production in these countries must increase to meet the problem. In fact, a higher increase in production is needed in order to prevent the present agricultural deficit from increasing and to improve nutritional standards. This will mean the need for application of tremendously increased amounts of fertilizer.

The many estimates of additional fertilizer required give figures which are staggering. For example, a recent report by the Science Advisory Committee appointed by President Johnson considering the world food problem postulate a more than ten-fold increase in fertilizer use in the underdeveloped countries from approximately six million tons in 1966, in order to double their agricultural output by 1985. These estimates would call for fertilizer use to double by 1970, and triple by 1975.

Speaking as an investor, I do not know of any activity which is expected to grow faster than the fertilizer business.

Demands for fertilizer will rise in all of the developing countries but the big increase in tonnage will occur in Asia, for this is where we find the population and this is where the agricultural problem is most acute and where most of the needed increases in food production must come from increased yields on existing cropland.

Production of the quantities of fertilizer which I have just mentioned of course means the need for huge quantities of the raw materials required for fertilizer output. The raw materials involved are principally four. First, a hydrocarbon source is needed to supply the hydrogen which, mixed with nitrogen from the air, produces ammonia. The other three are phosphate, potash and sulphur. Fortunately three out of the four of these raw materils are in plentiful supply even though resources are not now being exploited and in some cases are being wasted. The wastage occurs when great amounts of natural gas being produced, especially in the Middle East but also in places in Latin America and Africa in association with the production of crude oil, is flared when released into the atmosphere. There is now being burned in this way gas which could be used to produce virtually millions of tons of nitrogenous fertilizer.

Phosphate and potash are not now in short supply but present productive capacity is far too little for the anticipated future needs. Fortunately, known resources of these do exist and can be put into production. Sulphur is now in short supply but here too additional resources are known and will certainly be developed.

The visionary task that I see ahead for private investment involves the building of facilities for the production of fertilizer raw materials in the countries where the materials are to be found, the transport of these materials to the under-developed countries which will be consuming fertilizer, and the building of a network of fertilizer manufacturing facilities in those countries.

This could, for example, mean a project in Kuwait or Saudi Arabia to produce ammonia from the gas now being flared. There could be a project in Jordan or in Ethiopia to extract potash from the brines of the Dead Sea or from the fabulous salt deserts of Ethiopia. There could be a project in Tunisia or Morocco to utilize lower grade phosphate rock not now being exported and to process it with sulphur imported from a new resource to be developed in Iraq to produce phosphoric acid. The ammonia and the phosphoric acid would then be shipped by tanker to, for example, India where there could be a series of manufacturing facilities using these intermediate products as raw materials to produce the complex fertilizer needed by agriculture.

Use of these economical raw material resources, production of the intermediate products on a very large scale, organized and systematized transportation with large tankers and strategically located manufacturing facilities placed near various marketing centers, would mean the availability of fertilizer to the consumer at reduced prices and in quantities which would help make a meaningful impact on the food problem.

This whole concept may seem visionary, but it is based on the realities of needs and of availabilities. It will require cooperation between the developing and the developed world, the developing countries themselves and between government and private industry. It also requires a reasonable degree of stability in the developing countries. I am convinced that if such a scheme is achieved it can be carried out only by private companies or a group of private companies acting together in view of the complexity of the organizational, managerial and administrative features of the concept.

I believe that something along the lines of what I have described will in fact be organized by private industry and that it is more likely to be in the near rather than in the far future that this will occur. But whether one is as visionary or as all-inclusive as is the scheme I have sketched or seeks to tackle the problem is a less inclusive manner, the conclusion remains the same. The opportunities for productive and socially useful and profitable investment in agribusiness in the less-developed countries should have a high place in the business plans of industry in the United States and the other industrialized countries.

* * * * *

# PRIVATE INVESTMENT
# in the
# DEVELOPING COUNTRIES

Address by
MARTIN M. ROSEN
Executive Vice President
INTERNATIONAL FINANCE CORPORATION
to the
National Convocation on World Hunger
National Industrial Conference Board

New York City, September 12, 1967

THE NATIONAL Industrial Conference Board, in its more than fifty years of activity, has consistently shown an ability to focus on the important economic problems facing the American business community. It has once again done so by arranging this national convocation on the problem of world hunger. For, like others participating in this convocation I am strongly convinced that the problem of providing sufficient food for the world's rapidly growing population presents challenges, demands and opportunities to the American business community whose importance is probably unequalled, on a long time continuing basis, by any other world problem except perhaps that of world peace.

I am pleased to be here to speak on the important topic of private investment in agribusiness in developing countries, and on the broader aspects of the type of economic development in these countries which provides a sound basis for profitable and successful private investment. I do want to stress at the beginning of my remarks that what I am saying in this talk is predicated on the belief that private investment in agribusiness in the less developed countries—as, of course is true of private investment in any activity in any country—will occur and can be expected to occur only if circumstances exist for the investment to be profitable. I do believe, however, that there are significant opportunities for profit in agribusiness investments aimed at meeting the food needs of the underdeveloped world.

I do not plan to speak primarily about the activities and experiences of the International Finance Corporation, but my talk is based on the more general lessons arising from the eleven years of IFC's efforts to expand the role of the private sector in the developing countries.

As the only international and intergovernmental institution devoted to financing the private sector in the developing world, we have had the opportunity to generalize from our experiences in financing 143 projects in 36 countries. This experience has included diversified activities in the agribusiness area. We have taken part in financing nine private ventures directly involved in the production and processing of food and four ventures in the fertilizer field. In the agribusiness area we have put our money into cattle raising, grain storage, sugar production, sugar refining and flour milling, as well as into several food canning and processing activities aimed at production for both the domestic and export markets. These ventures, together with the four fertilizer projects I have mentioned, include all the lower income regions—Latin America, Africa and Asia. Fertilizer projects have played an increasingly important role in our activity. Last year fertilizer occupied more of our attention and got more of our money than any other business.

BEFORE FOCUSING specifically on opportunities for private investment in agribusiness I want to mention four general points that bear importantly on such investment in the lower income countries.

At this point, however, let me digress for a moment to put in a word of caution about the agribusiness concept. Since we are using a relatively new word—agribusiness—I would like to define exactly what I mean by it. In my mind, the term includes three broad activities. The first is the production and supply of all of the various inputs—seeds, equipment, fertilizer, other chemicals and all the supplies and services needed, including agricultural credit. The second is the actual production on the soil of agricultural products themselves. The third type of activity is the whole process of collecting, storing, marketing,



processing and up-grading the products once they have been produced on the farm. Agribusiness encompasses all of these. My word of caution is the reminder that the use of a newly coined word should not lead to the mistaken conclusion that we have newly coined a magic solution to the very tough and long enduring problems of economic development. The problems remain the same.

But the agribusiness concept is nevertheless significant, because it helps in two important ways in focusing on solutions to the problems. First, the fact that we are at the same time talking both about agriculture and business emphasizes the importance of *balanced* economic development; the importance, that is, of giving the proper weight to the role of agriculture, as well as to industry, the services and commerce, in the development process.

Second, the word "business" in the term "agribusiness" makes it clear that we are talking about making use of the energies, abilities and incentives of private profit making enterprise in meeting the food problems facing the world today.

THIS BRINGS ME to the first general point that I want to make—the importance of recognizing the need for balanced economic development as one of the preconditions for successful private investment in the developing countries.

I know I do not need in this group to talk about the importance in the process of economic development of building an adequate infrastructure. We all know that any substantial expansion of any specific product, whether it be industrial or agricultural, requires the availability of ports, roads, communications, financial and governmental services which connect the new source of production with the whole economy of which it is a part and, indeed, with the economy of the rest of the world. Infrastructure has received its share of attention in the development plans and activities of the underdeveloped world.

*What has not been adequately recognized is that a balanced economic interstructure is just as important as having adequate economic infrastructure. This is simply to say that satisfactory economic progress is dependent on there being a proper balance in the development of all of the key sectors of the economy. The reality of the situation is that in too many of the developing countries there has not been this proper balance and agriculture has been the neglected sector. That is an important part of the reason why there is a problem of world hunger which this convocation is discussing. The solution to this problem is to have a sound and successful agribusiness sector created and maintained.*

MY SECOND general point relates to the key role that the agricultural sector occupies in the economic structure of almost all developing countries. Agriculture is the sector in which most of the population of these countries works. It is the sector where a high proportion of under-employed resources is to be found. Further, this is the sector where most of the income is generated, and yet, where incomes are lowest.

Sustained and broadly based growth processes cannot occur if the agricultural sector stagnates. Agricultural incomes and productivity have to increase if there is to be effective and increasing demand for the goods and services which can be produced by those who cannot be effectively absorbed in agricultural production. Moreover, agricultural production in excess of the requirements of rural areas has to provide for the growing food, fiber and other needs of those employed in non-agricultural activities. This agricultural surplus is a fund for financing investment.



*In a low income country, the initial surpluses are to be found in raising agriculture above subsistence level. The higher agriculture rises above subsistence, the greater the national savings for investment in still better agriculture, and in industry, commerce and the social services.*

MY THIRD general point, another precondition to successful agribusiness, is the simple fact that unless the farmer be rewarded, he will not increase his productivity sufficiently to produce those agricultural products in excess of his own needs that can be used to finance economic development.

We are all aware that in those centrally planned economies where agriculture has been collectivized, or in those places where other means have been used to deprive the farmer of the profits of his labor and of his expert attention to his business, there has been and there is an endemic failure of the agricultural sector to grow adequately, or in some cases to grow at all. In consequence, economic development of these countries as a whole has been seriously and adversely affected.

One of the most interesting aspects of the problem of raising agricultural efficiency is that it does not seem to be primarily dependent, and certainly is not exclusively dependent, on agricultural research and extension services, or even upon the availability of equipment or other mechanical inputs for agriculture.

The comparative experience of agricultural output in Western Europe and in Eastern Europe has made clear that farmers, in fact, farm for personal profit and where circumstances permit profitable farming agricultural output will increase substantially. The technologies and the inputs available will in fact be used. As Professor

Schultz, the distinguished agricultural economist of the University of Chicago has put it:

> ". . . *there is a basic proposition with respect to the rate at which farmers will accept a new agricultural input. It is . . . The rate of acceptance depends predominantly on the profitability of the new input.*"

A clear instance of this is shown by differences in the results of agriculture in Yugoslavia in the early 1950s, and in recent years. In the five years from 1950 to 1955, production of food grains in Yugoslavia averaged less than six million tons. In the similar period from 1960 to 1965, food grain production averaged more than 10 million tons. In the earlier period inputs were in relatively short supply but more important were the factors that an attempt was made to carry out forced collectivization, and prices paid to farmers were very low. There was a better availability of inputs in the latter period but these would not have been effectively utilized if Yugoslavia had not introduced incentives for the agricultural producer. These economic incentives seem to be essential, no matter what the political ideology of the country, if agriculture is to prosper. Successful agriculture depends at bottom on suitable economic incentives for the farmer.

I should mention that the incentive system can work only when the man responsible for the additional growth in agricultural production in reality obtains the fruits of his initiative and effort. In many low income countries, outmoded agricultural tenure systems stand in the way of a breakthrough in agriculture. Nevertheless, the problem is solvable. What has been done in Japan and Taiwan in the postwar period by way of land reform and the spectacular gains in agricultural production which followed, show how much other countries can benefit from these examples.



Land reform, of course, needs to be properly done; there are unfortunately other cases which could be cited where land reforms done too hastily or in an improper manner have reduced agricultural output.

My final general point is the fact, that far from producing a rising surplus over subsistence that would be available for development investment, per capita food production in the developing countries is lower now than it was thirty years ago, and it has been declining in the last several years.

Before the war, the developing countries were net exporters of grain. Asia and Africa were self-sufficient at low levels of per capita consumption, while Latin America and Southern Europe generated export surpluses for the Western European market. Since 1945, the situation has been dramatically reversed. Africa, primarily North Africa, is now importing grains, and so is Southern Europe. A part of the Latin American export surpluses is absorbed within the region. But the most striking change has taken place in Asia. The import requirements of India and Pakistan have risen greatly; Indonesia has become a large net importer of rice, while rice export supplies of Burma, Korea and former Indo-China have been cut in less than a half. The net effect of all these changes has been that the developing countries were importing, in the mid-1960s, about 25 million tons of grains, compared to an export flow of 10 million tons before the war—a swing of 35 million tons with an approximate value of $2.5 billion.

*Putting it another way, the low income countries currently must import 10 per cent of the grains they consume, getting their imports from the industrialized countries. This is despite the fact that in these low income countries from two-thirds to four-fifths of the population is engaged* *in working in agriculture, whereas in the industrialized countries less than 20 per cent of the population is directly involved in agriculture.*

When you consider that the poor people of the low income countries, where most of the people are poor, depend upon grains almost exclusively to keep alive, a dependence upon the outside world for a tenth of their grain supplies means that famine will always be hanging over the heads of millions of people in the low income countries until they can bring their own production up.

All of this leads to the broad conclusion that the low income countries need an agribusiness that is strong, dynamic and expanding if the problem of agricultural lag is to be overcome.

I WANT TO TURN now to the opportunities for private investment in agribusiness in the developing countries. I do not believe that these opportunities in general will be involved in the second of the three areas of agribusiness activity as I have earlier defined it—that is, the direct production of the agricultural products themselves at the farm level. I do not wish to imply that this area should be excluded completely. There are certain countries and certain products for which the so-called plantation type agriculture is appropriate. In such a case, opportunities do exist for knowledgeable foreign investors, and the International Finance Corporation itself has invested in two plantation type projects in Africa. In general, however, this second area of agribusiness will be carried out by the nationals of the country rather than by foreign investors. It will be, I believe, primarily in the first and third parts of agribusiness, that is in the area of manufacture of the various inputs needed for farm production and in the area of processing, storing and up-grading of farm products, where opportunities for foreign investment will be found. I do



not plan to talk at any length about the investment needs and opportunities in the general sector of food collection, processing, up-grading and marketing. The genius of industrial and marketing skills is nowhere better represented than in what has been done in the food processing field. If any persuasion is needed, it is to the less developed countries themselves about the advantages to their economies of bringing in the skills and experiences of the food processing industries of the industrialized countries, and in permitting these industries to operate under conditions which make profits possible.

Our own experience in financing and considering projects for financing in the food processing field prompts me to comment on what is an especially suitable field for foreign investment. Higher living standards in the industrialized countries coupled with a broadening of tastes arising from more international travel and assisted by rapid modern transportation availabilities mean that there are significant opportunities for the processing and export of food products. I have in mind not only so-called exotic products and luxury foodstuffs but some of the more ordinary fruit and vegetable products which can be supplied from countries whose climates result in their output at times of the year when they are not produced here or in the important European markets.

This is a different type of activity since it is not directed at meeting the food needs of the underdeveloped countries but is none the less of great importance to these countries, because their export of these products produces foreign exchange which is so urgently needed.

The size of the potential market and consequently the potential profit prospects are very great indeed. We have financed several processing projects aimed at the local market which have been very successful. On the other hand, two of our ventures have had and still face serious difficulties as the result of rapidly rising costs of production unmatched by equivalent adjustments in the prices of the products sold because of governmental price control actions. The cost increases have resulted both because of governmental pressures requiring increased labor rates and because of the general consequences of inflation.

The lesson follows that foreign investment in food processing aimed at the domestic market can be successful only where the over-all economic environment and general policies of the local government are satisfactory.

What I particularly want to stress in the agribusiness area, however, is the existence of opportunities for the production of the various inputs which are needed to raise agricultural output above the subsistence level and to keep it rising. I have in mind equipment, seeds, fertilizers and other supplies used by the farmer. I am going to speak especially about fertilizer.

I pointed out earlier the irony that the low income agricultural countries depend upon grain imports from the high income industrialized countries for a critical margin of their food. Attempting to meet the food deficiencies of the low income countries by exports of food to them has been a noble effort and it will probably have to continue for some time. But the result too frequently has been the inhibition of agriculture in the underdeveloped countries with the failure of the agricultural sector to develop adequately.

In my opinion what the more developed countries should be transferring to their less developed neighbors—except, of course, to meet emergency humanitarian needs—is not food itself and not



even the inputs which the farmer needs to produce food, although it is far more helpful to supply fertilizer and tractors than it is to supply wheat and corn. What the industrialized countries should be making available is the capital and know-how and management and organization which will permit the developing countries significantly to increase the production of the required agricultural inputs themselves.

There is a vast opportunity open in this area and I would like to sketch out, perhaps in a somewhat visionary scope, one way in which the task could be accomplished.

I AM GOING TO concentrate on fertilizer production, not because better seeds, better farming equipment, better farming methods and the like are not also vital. They are. But the availability of fertilizer to the farmer, for application to his soil at a cost that will raise his income from farming his land, makes possible a quick rate of gain in agricultural output. Increased fertilizer production and use therefore represent the breakthrough point for raising agricultural output.

All projections are uncertain, but, painting with a broad brush, it would seem that the developing countries of the non-communist world would need to increase their food production by almost two-thirds by 1985 just in order to keep pace with their population growth. If anything like this increase in consumption is to occur—and something like it will have to take place or there will be mass starvation—food production in these countries must increase to meet the problem. In fact, a higher increase in production is needed in order to prevent the present agricultural deficit from increasing and to improve nutritional standards. This will mean the need for application of tremendously increased amounts of fertilizer.

The many estimates of additional fertilizer required give figures which are staggering. For example, a recent report by the Science Advisory Committee appointed by President Johnson considering the world food problem postulates a more than tenfold increase in fertilizer use in the underdeveloped countries, from approximately six million tons in 1966, in order to double their agricultural output by 1985. These estimates would call for fertilizer use to double by 1970, and to triple by 1975.

Speaking as an investor, I do not know of any activity which is expected to grow faster than the fertilizer business.

Demands for fertilizer will rise in all of the developing countries but the big increase in tonnage will occur in Asia, for this is where we find the population and this is where the agricultural problem is most acute and where most of the needed increases in food production must come from increased yields on existing cropland.

Production of the quantities of fertilizer which I have just mentioned implies the need for huge quantities of the raw materials required for fertilizer output. The raw materials involved are principally four. First, a hydrocarbon source is needed to supply the hydrogen which, mixed with nitrogen from the air, produces ammonia. The other three raw materials required are phosphate, potash and sulphur. Fortunately three out of the four of these raw materials are in plentiful supply even though resources are not now being exploited and in some cases are being wasted. The wastage occurs when great amounts of natural gas being produced, especially in the Middle East but also in places in Latin America and Africa in association with the production of crude oil, is flared when released into the atmosphere. There is now being burned and wasted in



this way gas which could be used to produce virtually millions of tons of nitrogenous fertilizer.

Phosphate and potash are not now in short supply but present productive capacity is far too little for the anticipated future needs. Fortunately, known resources of these do exist and can be put into production. Sulphur is now in short supply but here, too, additional resources are known and will certainly be developed.

The visionary task that I see ahead for private investment involves the building of facilities for the production of fertilizer raw materials in the countries where the materials are to be found, the transport of these materials to the underdeveloped countries which will be consuming fertilizer, and the building of a network of fertilizer manufacturing facilities in those countries.

This could, for example, mean a project in Kuwait or Saudi Arabia to produce ammonia from gas now being flared. There could be a project in Jordan or in Ethiopia to extract potash from the brines of the Dead Sea or from the fabulous salt deserts of Ethiopia. There could be a project in Tunisia or Morocco to utilize lower grade phosphate rock not now being exported and to process it with sulphur imported from a new resource to be developed in Iraq to produce phosphoric acid. The ammonia and the phosphoric acid would then be shipped by tanker to, for example, India where there could be a series of manufacturing facilities using these intermediate products as raw materials to produce the complex fertilizer needed by agriculture.

Use of these economical raw materials, production of the intermediate products on a very large scale, organized and systematized transportation with large tankers and strategically located manufacturing facilities placed near various marketing centers, would mean the availability of fertilizer to the consumer at reduced prices and in quantities which would help make a meaningful impact on the food problem.

THIS WHOLE CONCEPT may seem visionary, but it is based on the realities of needs and the realities of availabilities. It will require cooperation between the developing and the developed world, the developing countries themselves and between government and private industry. It also requires a reasonable degree of stability—political and economic—in the developing countries. I am convinced that if such a scheme is achieved it can be carried out only by private companies or a group of private companies acting together in view of the complexity of the organizational, managerial and administrative features of the concept.

And I believe that something along the lines of what I have described will in fact be organized by private industry and that it is more likely to be in the near rather than in the far future that this will occur. But whether one is as visionary or as all-inclusive as is the scheme I have sketched, or, whether one seeks to tackle the problem in a less inclusive manner, the conclusion remains the same. The opportunities for productive and socially useful and profitable investment in agribusiness in the less developed countries should have a high place in the business plans of industry in the United States and the other industrialized countries.

HOLD FOR RELEASE

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXecutive 3-6360

For use in afternoon newspapers of
Tuesday, November 7, 1967

Remarks of
Mr. Martin M. Rosen, Executive Vice President
The International Finance Corporation
World Bank Group
to the
Seminar on International Development
York University School of Business
The Royal York Hotel
November 7, 1967
at 12:30 p.m.

I know that it is usual for a speaker to pay tribute to the meeting where he speaks, and to its organizers. Nevertheless, I hope you will take me at my word when I say that I want most sincerely to compliment those who conceived and brought this conference into being, for they have brought together the three elements basic to a successful development effort.

To begin with, we have among the sponsors of this conference the untrammeled spirit of enquiry of the academic world, seeking to learn what is right, and to learn how to make possible in the practical world what it knows to be right.

Next, there is represented the tough liberalism of the world of commerce and trade, seeking freedom to go everywhere in competition for profit out of the exchange of those goods and services that are the bricks and mortar with which nations are built.

And, finally, there is the enlightened interest of the governmental assistance agency, seeking to redeem that "affront of human dignity", as Minister of External Affairs Paul Martin has so memorably described it, arising from the fact that tremendous differences exist in the economic circumstances of the peoples of the world.

Your previous speakers have dealt with the basic questions before us: what is development, why should the industrial nations be concerned with the economic improvement of low income nations, and why should Canada, in particular, be interested? Professor Kuhn put his finger on what I regard as a critical point: there are many valid reasons for higher income nations to assist the lower income countries, and any one nation can and probably does engage in development assistance for many -- perhaps all -- of those reasons. I think development assistance would arouse less heat, and could generate more economic progress, if it were more widely understood that the varied motivations we feel toward it can all be served at once, and probably are.

In his discussion here of the character of Canada's assistance program Minister of Trade and Commerce Winters laid stress on the importance of greater involvement of Canadian private business, calling in effect for a greater effort to harness to the development effort the substantial resources that exist in the private sector of Canadian society.

I would like to dwell for a moment on this important thought, because I regard it as pointing to a new direction that development assistance must now take, and also because it is fundamental to my purposes as a mobilizer of private capital for development investment.

Unfortunately, in a number of countries that have long been major contributors of governmental assistance to economic development around the world, there is now a tendency to reduce the levels of official economic aid.

To the extent that official aid from the capital exporting countries tends to recede, responsibility for keeping up the flow of capital to the developing countries shifts to the private sector. In addition, I think there are economic reasons for believing that private investors will be called upon to do more of the development job in the future than in the past.

I refer to the fact that over the last two decades of development assistance work the things best done by public funds -- the building of the infrastructure of developing economies -- has in many places gone very far. A great many harbors have been improved. A great many basic transportation systems have been built. A great many dams have been put up, to provide electric power and irrigation. A beginning has been made on improving education in many places, making for more able labor forces. These labor forces, in turn, are in better health and vigor because malarial swamps have been cleared and public health and sanitation systems have been put to work. I do not by any means suggest that enough has been done in all the necessary places. On the contrary, there is more need for infrastructural work than we are likely to have the official capital to finance, as far into the future as can be seen.

What I am saying is that in many countries enough has been done in many places about the infrastructure to bring on the day when a larger portion of further development investment must go to build up capacity to produce goods and services. I think this is a natural next phase in development work. Infrastructures do not themselves produce consumer or capital goods and services. To take one, over-simplified, example, a subsistence economy will remain a subsistence economy, no matter how much electric power it is able to produce, until that power is used for production that raises the level of supply of needed goods and services. Wherever the infrastructure now provides increased electric power, transportation, communications, better educated people and the like, it is now the turn of private investors to step forward and make productive use of these basic facilities.

The International Finance Corporation was created eleven years ago with the function of encouraging the growth of the private sectors of the developing economies. And it is with the background of the eleven years of IFC's activities that I want -- in step with the motto of this Seminar, "A New Dimension for Canadian Business" -- to speak to you. Let me, therefore, tell you a little about the Corporation, and how we can assist Canadian business and finance to join in our work.

IFC is unique. It is the only international organization which operates for the sole purpose of assisting the international spread of private enterprise. We are an affiliate of the World Bank. To be a member of IFC it is necessary that a country also be a member of the Bank. Currently, 84 of the Bank's 107 members have joined IFC. Canada helped found the Corporation, in 1956.

We have our own capital -- $100 million -- paid in by all our member countries and consisting entirely of United States dollars. Canada's share is $3.6 million. We can also borrow up to $400 million from the World Bank for our lending operations. George Woods is President of IFC as well as of the World Bank, but we have a separate operating staff. Unlike the World Bank -- or for that matter unlike any other intergovernmental institution -- the Corporation can and does provide equity capital to the companies in which it invests. Usually, our investments include both a long term loan and purchase of stock.

We have so far made 144 commitments in 36 of our member countries. They include $214 million of investments, and more than $27 million of standby and underwriting commitments, covering the sale and distribution of corporate shares or obligations. All of our investments are in the developing countries; under today's conditions we would not, for example, invest in Germany, Italy, France or Japan, or in Canada and the United States. All of our investments are made in association with private business and we never provide more than a portion of the total money needed.

Most of our investments have been industrial. But we are diversifying our interests. Last year, we invested for the first time in tourism -- in Kenya -- and in a public utility -- in the Philippines. We also invest in agriculture when the enterprise is in corporate form, is large enough to conform to our usual investment scale -- $500,000 or more -- and fits our other criteria of economic priority and profitability. We believe that major improvement of the agricultural sectors of the lower income countries is essential if development is to proceed at anything like a satisfactory pace. Our approach to this is chiefly through a world wide effort to increase the capacity of the developing countries to produce fertilizers. Last year, more of our money went into this than into any other industry. I expect this to be the shape of the future.

In the industrial area, our financing has covered a wide range of activity. Our biggest single field has been chemicals and chemical products, including fertilizers. Our other major investment fields have been in iron and steel basic industries, paper and paper products, cement, machinery and transportation equipment, textiles and food processing.

We try to perform three main functions as our particular responsibilities in the World Bank Group. First, we finance private business ventures in low income member countries. Second, we attempt to spur development of local capital markets in those countries. Our third purpose is to stimulate the international flow of private capital.

Like all financial institutions we apply investment standards that must be met before IFC will support a project. We have three criteria for investment. The first requires that the project must be of high economic priority to the development efforts of the host country. I list this first because, while our other standards are also essential for approval of an investment, the matter of fitting into the economic development of the country involved is the first essential. Our resources are quite limited and so too are private capital resources in the underdeveloped countries. It is for this reason that we have concentrated on helping industry, especially manufacturing industry, in the less developed countries.

Our second investment standard is what we call the investment banker's criterion. It requires that the project should be profitable, that it should be properly prepared technically and financially, and that it should satisfy all the tests any sound investment banker would apply to any project in which he might invest.

The third criterion states that we will come in only where there is a particular need for IFC, that is, where adequate financing is not available on reasonable terms from private sources. This does not mean that we will enter a venture only at a late stage. We may serve our purpose by being ready to enter at an early stage. We have found that our readiness to join a venture is sometimes the factor needed to make it go. In such cases, our willingness to get in often makes it possible for the sponsors to round up more private funds than they would otherwise be able to find. There have been cases where the fact that IFC was prepared to join made it possible to find all the necessary financing without our money. In such a case we are not unhappy. On the contrary, we feel especially that we have accomplished our purpose.

As I mentioned, we have had available to us some $100 million from the subscriptions of our member countries to our capital, and we now have available, for use in our lending, a line of credit that could amount to $400 million from our parent organization, the World Bank. We have made arrangements for the use of $100 million of our credit with the World Bank, but we have not yet actually drawn down any of it. As we have already disbursed $148 million, and still have commitments undisbursed amounting to $62 million, a total more than double our subscribed capital, it is obvious that we have been successful in replenishing our funds in other ways.

The answer is that we keep liquid by revolving our funds in two ways. One way involves selling all or part of our interest in an investment when a company has become solid enough not to need our presence any longer, and when the company's progress has made a market for its stock or for its loan maturities.

Let me illustrate with a transaction carried out in Venezuela:

In this case we made an investment which ended by our holding an equity position in a steel rolling mill. When the investment was made -- to provide money for an expansion being carried out by the company -- the general political climate was such that the necessary funds could not be raised in Venezuela, or from the normal financial channels elsewhere.

The company was successful. The political situation developed so that the capital market in Venezuela revived, and local investors were willing to consider making new commitments within the country. IFC was able to sell all of its holdings in the company to Venezuelan investors.

Thus, in this investment, we helped bring about a useful addition to the productive capacity of Venezuela, that would otherwise not have been possible at the time due to lack of investment funds. And, subsequently, we helped to develop the Venezuelan capital market through the resale of our shares in the company.

We revolve our funds in a second way by offering firms in the capital exporting countries a chance to participate with us in an investment at the time the investment is made. The potential participant is offered a choice between taking a pro rata interest in the entire transaction, including equity, or taking loan maturities, without equity. In the latter case, he can take up either a strip of the entire loan, or a portion of early maturities.

Since subscriptions to the Corporation's own capital have been paid in by all its members in US dollars, nearly all IFC loans are denominated in dollars. However, IFC has been able to arrange for the sale of loan participations in some other currencies, such as sterling, Swiss francs and Deutsche marks.

Investors purchasing parts of IFC loans normally do so through participation certificates. The administration and exercise of rights under the investment documents are handled by IFC.

The terms of the sale of paper from the IFC portfolio are negotiated in each case, so as to reflect the history of the investment since the original commitment. In the case of sales of equity, the shares sold by IFC are transferred to the participant, so that a direct relationship may be established between the company in the low income nation and the private shareholder in a more developed country. It is IFC's practice to consult its partners on sales of equity to be sure that there are no objections to the proposed sale for valid business reasons.

IFC makes use of several methods in selling shares held in its portfolio. Some of the companies in which IFC has acquired an equity interest are owned by a broad range of local investors, with the shares quoted and traded on local stock exchanges. In such cases there is an opportunity for IFC to sell its holdings through the normal mechanism of the market. In many cases a public market for the shares held by IFC does not exist or is too narrow to allow sales of the volume desired. In such cases a sale may be privately negotiated.

In general, IFC's individual sales of investments have involved amounts not smaller than $100,000. The purchasers represent a diversified group of banks and other investment institutions in the United States, the United Kingdom and other European countries, including Edge Act affiliates of U.S. commercial banks, as well as investment companies in such widely scattered areas as Kuwait and the Bahamas. Pension funds, mutual funds and insurance companies are among the types of institutions that have purchased parts of IFC investments. Approximately $16 million of the securities sold or agreed to be sold by IFC have been taken by institutions or affiliates based in the United States, while institutions domiciled in the United Kingdom and other countries in Europe have taken a total of approximately $13 million of our investments. Other countries have taken a further $13 million.

Our sales to private investors from our holdings have not only helped keep IFC liquid for continued assistance to the economic growth and improvement of the low income countries. They have also added to the amount of non-IFC funds that the Corporation's investment activities have helped mobilize to finance new businesses or to expand existing businesses in these countries. Just a few figures will illustrate the importance of IFC's role as a mobilizer of funds other than its own:

The capital costs of projects where IFC committed some $49 million in 1966/67 totaled approximately $330 million.

Excluding investments in development banks, development finance companies and other financial intermediaries, IFC has now taken part in financing projects with total capital costs in excess of $1,000 million. This means that, overall, other investors put six dollars into private businesses in the low income countries for every one dollar of IFC money.

Private investors have participated with us in our investments for two reasons. Some institutions have taken up part of our paper simply because it provided an attractive return. These returns have indeed been good. Over the life of all investments that we have closed out -- either by sale, or total repayment of the investment -- the net return has averaged over 11-1/2 per cent, even including write-offs.

Other participants in our investments have been attracted by the actual or potential side benefits. This is the case particularly with banks looking for business with new companies abroad, or seeking to get into business in a country where they have not yet become established. In either case, the presence of IFC, with its experience in doing business with companies in the less developed areas of the world, is a reassuring factor to a newcomer. We regard this reassurance as a vital part of our function, and it is one of our ever present aims to keep it such as to make our presence a thing of value.

As I have indicated, in addition to investments in industry, agriculture, tourism and other services, IFC has another major field of investment, that is, in development banks.

A host of different types of institutions sharing the common objectives of providing medium and long term funds for productive investments and also, usually, technical advice needed to formulate and carry out such investments, are broadly identified as "development banks".

Institutions of this type are designed to provide equity capital, as well as medium and long term loans, for industry and other private productive enterprises. They also underwrite the issue of the securities of such enterprises. They promote new enterprises and assist entrepreneurs in preparing investment proposals. They act as channels for foreign capital and technology, in particular by bringing together foreign and local investors in joint ventures. By helping mobilize domestic savings and, in combination with technical know-how, channeling them into productive activities, they can become an important element in developing a country's capital market.

To perform these functions, development banks in the low income countries need three main tools. The first is a supply of long term capital. Since developing countries typically do not produce a full range of capital goods, a considerable part of the development bank's funds need to be available in foreign exchange.

The second need of the development bank located in a less developed country is experienced management. Management should possess a wide acquaintance with modern investment techniques, and a knowledge of national conditions. It should be capable of appraising objectively investment opportunities, market possibilities and investment risks. Management should also be able to assist clients to obtain technical and managerial help.

The third tool is contact with foreign business and investment institutions, and international financial and technical assistance agencies, to help in recruiting outside capital and know-how.

Our assistance to development banks usually takes the form of an equity investment by IFC accompanied by loan funds from the World Bank. By the end of September 1967, the Bank Group's direct financial assistance to development banks in the form of loans, equity investments and credits amounted to $662 million to 25 companies in 21 countries. Of this total, some $595 million represented World Bank loans, $40 million was in the form of IDA credits and $27 million was IFC investments and underwriting commitments in 18 development banks.

As it does in other types of investments, IFC seeks to associate private funds from sources in the capital exporting countries with IFC, World Bank and local money in financing development banks in the lower income countries. In fact, we have been doubly successful as a mobilizer of foreign capital where development banks are concerned, since twelve non-IFC dollars have followed every one IFC dollar into these investments. Recruitment of foreign capital for the development banks goes hand in hand with a range of other very important activities, which might be lumped together under the heading of technical assistance by IFC. We have helped to draft statutes for development banks to operate under, to prepare policy statements, and -- a very important form of assistance -- we have helped to find experienced management and have helped train staff and develop procedures for project analysis.

In extending such assistance, we draw upon our friends in the developed nations, and here I want to pay tribute to Canada's Industrial Development Bank and its General Manager, A.N.H. James. We have used the facilities of the IDB to train the staffs of institutions in such varied countries as Pakistan, Finland, Nigeria and Morocco. Mr. James himself acted as our consultant in advising on the creation of a new development bank.

I would like to close by telling you about several of our investments. I will be telling you success stories. We do have failures -- if we never had any bad ventures, we would be investing only in sure things, and that is neither good risk taking nor good development investment. But our record, as I have already indicated, even when effect is given to losses, still shows a reasonable return of over 11-1/2 per cent.

To give you a more specific picture of our operations, therefore, let me wind up with three thumbnail sketches of investments that we regard as successes because they worked out well for us, for the country concerned, and for the investors who participated with us. They are in three different areas of the world, and in three different fields of economic activity.

The first is the Private Development Corporation of the Philippines. This is the first instance in which we have gone full cycle in an investment in a development bank, from supplying some of the money needed to bring it into being, to helping it through its formative and initial business stages, seeing it develop to the point where IFC was no longer needed, and selling our investment, thereby getting our money back -- and more -- to invest elsewhere.

We went into PDCP early in 1963 with a purchase of shares amounting to $200,000. We also entered into an underwriting commitment of $4¼ million to ensure the placement of sufficient equity shares among Philippine investors. The share offering was successful, and IFC did not need to take up any of the underwritten shares. The shares are actively traded in the Manila market, and rose from 10 pesos to 14 pesos, at which price, a few months ago, we sold all our holdings to Philippine institutional investors.

The sale of our holdings was done in a way calculated to contribute to the development of the capital market in the Philippines, by increasing and broadening Philippine ownership of common stocks.

The formation of this company has been of manifold benefit to the Philippine economy. It has made investments in local transportation, power, food, textiles, wood and cork, printing and publishing, chemicals, glass, clay and stone products, basic metal products, machinery, electrical machinery and mining fields. It has helped develop the capital market in the Philippines by participating in four underwritings.

PDCP is obviously well thought of by investors in the industrialized countries. It has 18 foreign shareholders, all banks or other financing concerns, in the United States, Britain, Germany, Hong Kong and Japan.

Second is AREWA Textiles, in Northern Nigeria. This project was sponsored by a group of major Japenese cotton textile companies, in a consortium called the Overseas Spinning Investment Co., Ltd. It was carried out in company with the Northern Nigeria Development Corporation and Northern Nigeria Investments, Ltd., which is 50 per cent British owned.

IFC financing was instrumental in bringing the sponsors into association with local Nigerian and foreign financial institutions.

One of the outstanding features of this company is the showing made by Japanese management in its initial operating stages, and in training Nigerian personnel. Japan had extensive textile marketing experience in West Africa but no previous operating experience.

The project was launched in the spring of 1964 at a total estimated cost of $4.5 million, of which IFC's loan and equity investment was $700,000. IFC's share amounted to some 17 per cent of the equity and Japanese sponsors took up some 60 per cent of the shareholding. The Nigerian financial institutions took up the balance. By the spring of 1965 the plant was built, the machinery was installed and equipped, and the plant readied for start-up.

Within three to four months the mill was running at full three shift production, almost one year ahead of schedule. Output by the beginning of 1966 was 12 million square yards per year as against 10 million as originally planned.

In May 1966, IFC's Board approved a second investment in AREWA to permit doubling of its capacity. This second financing raised IFC's share in the equity of AREWA to 18 per cent.

Despite recent political problems in Nigeria this expansion has been carried through some four months ahead of schedule and within the budget. The mill's output has in fact doubled. Printing facilities for a further 12 million square yards of output will be in operation by the end of 1967, some 9 months ahead of the original estimates.

The mill uses Nigerian grown cotton, and will take some 9 per cent of the total annual crop. With this locally available raw material it makes some 12 to 15 per cent of the textiles used in Nigeria. All of this was formerly imported.

IFC has attracted participations in its loans to AREWA from investment houses in the Middle East and Europe such as Kuwait Investment Co., Handelsfinanz, Standard Bank Finance and Development Corporation and Barclay's Overseas Development Corporation. Some 30 per cent of the total loan maturities of $1 million now remain with IFC.

AREWA has declared its first dividend, of 10 per cent on the earnings during the year ending April 20, 1967. This is an unusually early time for a company to begin to pay dividends to its financial backers, and augurs well for future profits from this company.

My third example is SIVENSA, in Venezuela. This is the steel rolling company whose story I have already mentioned. The investment was a successful one for IFC: we made capital gains on the whole transaction of just over $1 million -- or, a third of our original investment -- in addition to interest payments and dividends earned while we were in the company.

The investment was equally good for Venezuela. It permitted SIVENSA to increase its rolling capacity by half -- from 60,000 tons to 90,000 tons a year. This increase represented approximately a seventh of Venezuela's annual consumption at the time of the expansion.

- - - -

I would like, in closing, to join the Canadian speakers who have described Canada's potential for providing assistance, out of the resources of Canada's private sector, to the private sectors of the developing countries of the world.

I believe this potential to be great and, possibly, unexampled, not only in terms of money and materials, but especially in terms of talent and outlook.

It is possible for Canada to have, at one and the same time, the confidence both of the capital exporting and the capital importing countries, because each group feels that Canada is at one with it. At the present time, there may be no other country with such an advantage. This gives Canada a leadership potential that I sincerely hope will be utilized to the fullest degree.

It was for these reasons that I was both willing and anxious to participate in this conference, where I hope to form a closer relationship between Canada, with its unique possibilities in the development field, and IFC, with its unique position halfway between the private investor and the projects needing investment help in the lower income countries.

A country growing with Canada's vigor will in the natural course of events play a greater role in the coming years and decades in international investment, including investment in the developing countries. The Canadian talent for making developmental ventures go will accompany Canada's funds. This should make Canada's role profitable to Canadian business and at the same time helpful to the developing economies. It is my expectation that as Canada goes increasingly out into the world with its capital and its managerial skills, there will be greatly enlarged ties between IFC and the Canadian business and investment community.

* * * *

INTERNATIONAL FINANCE CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-25-10

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1., England
Telephone: 930-3886-7

Cable Address: CORINTFIN

# IFC AND THE GROWING NEED FOR PRIVATE INVESTMENT in the LOW INCOME COUNTRIES

An Address of
MARTIN M. ROSEN
Executive Vice President
The International Finance Corporation
to the
Seminar on International Development
sponsored by
York University School of Business
in cooperation with
The Canadian Department of Trade
and Commerce
and
The Canadian Office of External Aid

Toronto
November 7, 1967

I HOPE YOU WILL take me at my word when I say that I want most sincerely to compliment those who conceived and brought this conference into being, for they have brought together the three elements basic to a successful development effort.

To begin with, we have among the sponsors of this conference the untrammeled spirit of enquiry of the academic world, seeking to learn what is right, and to learn how to make possible in the practical world what it knows to be right.

Next, there is the tough liberalism of the world of commerce and trade, seeking freedom to go anywhere in competition for profit out of the exchange of those goods and services that are the brick and mortar by which nations are built.

And, finally, there is the enlightened interest of the governmental assistance agency, seeking to redeem that "affront to human dignity", as Canada's Minister of External Affairs Paul Martin has described the fact that tremendous differences exist in the economic circumstances of the peoples of the world.

Your previous speakers have dealt with the basic questions before us: what is development, why should the industrial nations be concerned with the economic improvement of low income nations, and why should Canada, in particular, be interested? In this area let me just reiterate one point that I regard as critical: there are many valid reasons, ranging from political and economic to the humanitarian, for higher income nations to assist the lower income countries. Any one nation can and probably does engage in development assistance for many—perhaps all—of those reasons. I think development assistance would arouse less heat, and could generate more economic progress, if it were more widely understood that the varied motivations we feel toward it can all be served simultaneously, and probably are.

Canada's Minister of Trade and Commerce has laid stress on the importance of greater involvement of Canadian private business in the development effort.

**Growing Need for Private Investment**

I would like to dwell for a moment on this important thought, because I regard it as pointing to a new direction that development assistance must now take, and also because it is fundamental to my purposes as a mobilizer of private capital for development investment.

Unfortunately, in a number of countries, particularly those that have long been major contributors of governmental assistance to economic development around the world, there has been a slowing down, or actual reduction, of the levels of official economic aid.

To the extent that official aid from the capital exporting countries tends to recede, responsibility for keeping up the flow of capital to the developing countries shifts to the private sector. This shift is needed not only to make up the shortfall. There are additional, economic, reasons for believing that private investors will be called upon to do more of the development job in the future than in the past.



I refer to the fact that over the last two decades of development assistance work the things best done by public funds—the building of the infrastructure of developing economies—has in many places gone far. A great many harbors have been improved. A great many basic transportation systems have been built. A great many dams have been put up, to provide electric power and irrigation. A beginning has been made on improving education in many places, making for a more able labor force. These labor forces, in turn, are in better health and vigor because malarial swamps have been cleared and public health and sanitation systems have been put to work. I do not by any means suggest that enough has been done in all the necessary places. Far from it. There is more need for infrastructural work than we are likely to have the official capital to finance, as far into the future as can be seen.

What I am saying is that in many places in many countries enough has been done about the infrastructure to bring on the day when a larger portion of further development investment must go to build up capacity to produce goods and services. I think this is a natural next phase in development work. Infrastructures do not themselves produce those goods and services that make up the basic elements of the standard of living. I am excluding education, transportation and the like. But to take one, over-simplified, example, a subsistence economy will remain a subsistence economy, no matter how much electric power it is able to produce, until that power is used for production that raises the level of supply of needed goods and services. Wherever the infrastructure now provides increased electric power, transportation, communications, better educated people and the like, it is now the turn of private investors to step forward and make productive use of these basic capacities.

### The IFC

The International Finance Corporation was created eleven years ago with the function of encouraging the growth of the private sector of the developing economies. And it is with the background of the eleven years of IFC's activities that I want to speak to you.

IFC is unique. It is the only international organization which operates for the sole purpose of assisting the international spread of private enterprise. We are an affiliate of the World Bank. To be a member of IFC it is necessary that a country also be a member of the Bank. Currently, 84 of the Bank's 107 members have joined IFC. Canada was one of the founding members in 1956.

We have our own capital—$100 million—paid in by all our member countries and consisting entirely of United States dollars. Canada's share is $3.6 million. We have the right to borrow from any source that can lend to us, including the right to borrow up to $400 million from the World Bank for our lending operations. President Woods of the World Bank is President of IFC as well, but we have a separate operating staff. Unlike the World Bank—or for that matter unlike any other intergovernmental institution—the Corporation can and does provide equity capital to the companies in which it invests. Usually, our investments include both a long term loan and purchase of stock.

### IFC's Investments

We have so far made 144 commitments in 36 of our member countries. They include $214 million of investments, and more than $27 million of standby and underwriting commitments



in which we have assured the sale and distribution of corporate shares or obligations. All of our investments are in the developing countries; under today's conditions we would not, for example, invest in Germany, Italy, France or Japan, or in Canada and the United States. All of our investments are made in association with private business and we never provide more than a portion of the total money needed.

Most of our investments have been industrial. But we are diversifying our interests. Last year, we invested for the first time in tourism—in Kenya. Last year also we invested in a public utility—in the Philippines. We also invest in agriculture when the enterprise is in corporate form, is large enough to conform to our usual investment scale—generally speaking $500,000 or more—and fits our other criteria of economic priority and profitability.

We believe that major improvement of the agricultural sectors of the lower income countries is essential if development is to proceed at anything like a satisfactory pace. As I have already indicated, in the past two decades a great deal has been done on infrastructure building. Along with this building of harbors, roads and the like, other developmental steps have been taken. But unfortunately agriculture has been the neglected area. IFC has made direct agricultural investments, in plantations, and in food processing. Our major approach to the problem of agricultural lag, however, is through a world wide effort to increase the capacity of the developing countries to produce fertilizers. Last year, more of our money went into this than into any other industry. I expect this to be the shape of the future.

In the industrial area, our financing has covered a wide range of activity. Our biggest single field has been chemicals and chemical products, including fertilizers. Our other major investment fields have been in iron and steel, metalworking industries, paper and paper products, cement, textiles and food processing.

IFC performs three main functions. First, we finance private business ventures in low income member countries, to get worthwhile things built that otherwise would not be built. Second, we attempt to spur development of local capital markets in those countries. Our third purpose is to stimulate the international flow of private capital.

**Investment Criteria**

Like all financial institutions we apply investment standards that must be met before IFC will support a project. We have three criteria for investment. The first requires that the project must be of high economic priority to the development efforts of the host country. I list this first because, while our other standards are also essential for approval of an investment, the matter of fitting into the economic development of the country involved is the first essential. Our resources are quite limited and so too are private capital resources in the underdeveloped countries. It is for this reason that we have concentrated on helping industry, especially maufacturing industry, in the less developed countries.

Our second investment standards is what we call the investment banker's criterion. It requires that the project should be profitable, that it should be properly prepared technically and financially, and that it should satisfy all the tests any sound investment banker would apply to any project in which he might invest.

The third criterion states that we will come in only where there is a particular need for IFC, that is, where adequate financing is not available on reasonable terms from private sources. This does not mean that we will enter a venture only at a late stage. We may serve our purpose by being ready to enter at an early stage. We have found that our readiness to join a venture is sometimes the factor needed to make it go. In such cases, our willingness to get in often makes it possible for the sponsors to round up more private funds than they would otherwise be able to find. There have been cases where the fact that IFC was prepared to join made it possible to find all the necessary financing without our money. In such a case we are not unhappy. On the contrary, we feel especially that we have accomplished our purpose.

**Revolving IFC's Funds**

As I mentioned, we have had available to us some $100 million from the subscriptions of our member countries to our capital, and we now have available, for use in our lending, a line of credit from our parent organization, the World Bank, that could amount to $400 million. We have made arrangements for the use of $100 million of our credit with the World Bank, but we have not yet actually drawn down any of it. We have already disbursed some $150 million, and still have liquid funds on hand of more than $40 million, a total almost double our original subscribed capital. Thus, it is obvious that we have been successful in replenishing our funds in other ways.

The answer is that we keep liquid by revolving our funds, in two ways.

One way involves selling all or part of our interest in an investment when a company has become solid enough not to need our presence any longer, and when the company's progress has made a market for its stock or for its loan maturities.

Let me illustrate with a transaction carried out in Venezuela:

In this case we made an investment which resulted in our holding an equity position in a steel rolling mill. When the investment was made —to provide money for an expansion—the general political climate was such that the necessary funds could not be raised in Venezuela, or from the normal financial channels elsewhere.

The company was successful. The political situation developed so that the capital market in Venezuela revived, and local investors were willing to consider making new commitments within the country. In the end, we sold all of our holdings in the company to Venezuelan investors.

Thus, in this investment, we helped bring about a useful addition to the productive capacity of Venezuela by getting a worthwhile plant built that would otherwise not have been possible at the time, due to lack of investment funds. And, subsequently, we helped to develop the Venezuelan capital market through the resale of our shares in the company.

We revolve our funds in a second way by offering firms in the capital exporting countries a chance to participate with us in an investment at the time the investment is made. The potential participant is offered a choice between taking a *pro rata* interest in the entire transaction, including equity, or taking loan maturities, without equity. In the latter case, he can take up either a strip of the entire loan, or a portion of early maturities.

Since subscriptions to the Corporation's own capital have been paid in by all its members in US dollars, nearly all IFC loans are denominated in dollars. However, IFC has been able to arrange for the sale of loan participations in some other



currencies, such as sterling, Swiss francs and Deutsche marks.

Investors purchasing parts of IFC loans normally do so through participation certificates. The administration and exercise of rights under the investment documents are handled by IFC, which serves as collecting and paying agent.

The terms of the sale of paper from IFC portfolio are negotiated in each case, so as to reflect the history of the investment since the original commitment. In the case of sales of equity, the shares sold by IFC are transferred to the participant, so that a direct relationship may be established between the company in the low income nation and the private shareholder in a more developed country. It is IFC's practice to consult its partners on sales of equity to be sure that there are no objections to the proposed sale for valid business reasons.

IFC makes use of several methods in selling shares held in its portfolio. Some of the companies in which IFC has acquired an equity interest are owned by a broad range of local investors, with the shares quoted and traded on local stock exchanges. In such cases there is an opportunity for IFC to sell its holdings through the normal mechanism of the market. In many cases a public market for the shares held by IFC does not exist or is too narrow to allow sales of the volume desired. In such cases a sale may be privately negotiated.

In general, IFC's individual sales of investments have involved amounts not smaller than \$100,000. The purchasers represent a diversified group of banks and other investment institutions in the United States, the United Kingdom and other European countries, including Edge Act affiliates of US commercial banks, as well as investment companies in such widely scattered areas as Kuwait and the Bahamas. Pension funds, mutual funds and insurance companies are among the types of institutions that have purchased parts of IFC investments. Approximately $16 million of the securities sold or agreed to be sold by IFC have been taken by institutions or affiliates based in the United States, while institutions domiciled in the United Kingdom and other countries in Europe have taken a total of approximately $13 million of our investments. Other countries have taken a further $13 million.

### Mobilizing Other Funds

Our sales to private investors from our holdings have not only helped keep IFC liquid for continued assistance to the economic growth and improvement of the low income countries. They have also added to the amount of non-IFC funds that the Corporation's investment activities have helped mobilize to finance new businesses or to expand existing businesses in these countries. Just a few figures will illustrate the importance of IFC's role as a mobilizer of funds other than its own:

The capital costs of projects where IFC committed $49 million in 1966/67 totaled approximately $330 million, or better than six dollars from others for each one IFC dollar.

Excluding investments in development banks, development finance companies and other financial intermediaries, IFC has now taken part in financing projects with total capital costs in excess of $1,000 million. IFC's commitment was $202 million.

Private investors have participated with us in our investments for two reasons. Some institutions have taken up part of our paper simply because it provided an attractive return. These returns have indeed been reasonable, taking ac-



count of the risks and the costs of administration. Over the life of all investments that we have closed out—either by sale, or total repayment of the investment—the net return has averaged over 11½ per cent, even including write-offs.

Other participants in our investments have been attracted by the actual or potential side benefits. This is the case particularly with banks looking for business with new companies abroad, or seeking to get into business in a country where they have not yet become established. In either case, the presence of IFC, with its experience in doing business with companies in the less developed areas of the world, is a reassuring factor to a newcomer. We regard this reassurance as a vital part of our function, and it is one of our ever present aims to keep it such as to make our presence a thing of value.

### Development Institutions

In addition to investments in industry, agriculture, tourism and other services, IFC has another major field of investment, in development institutions.

A host of different types of institutions sharing the common objectives of providing medium and long term funds for productive investments and also, usually, technical advice needed to formulate and carry out such investments, are broadly identified as "development banks".

Institutions of this type are designed to provide equity capital, as well as medium and long term loans, for industry and other private productive enterprises. They also underwrite the issue of the securities of such enterprises. They promote new enterprises and assist entrepreneurs in preparing investment proposals. They act as channels for foreign capital and technology, in particular by bringing together foreign and local investors in joint ventures. By helping mobilize domestic savings and, in combination with technical know-how, channeling them into productive activities, they can become an important element in developing a country's capital market.

To perform these functions, development banks in the low income countries need three main tools. The first is a supply of long term capital. Since developing countries typically do not produce a full range of capital goods, a considerable part of the development bank's funds needs to be available in foreign exchange.

The second need of the development bank located in a less developed country is experienced management. Management should possess a wide acquaintance with modern investment techniques, and a knowledge of national conditions. It should be capable of appraising objectively investment opportunities, market possibilities and investment risks. Management should also be able to assist clients to obtain technical and managerial help.

The third tool is contact with foreign business and investment institutions, and international finacial and technical assistance agencies, to help in recruiting outside capital and know-how.

Our assistance to development banks usually takes the form of an equity investment by IFC accompanied by loan funds from the World Bank. By the end of September 1967, the Bank Group's direct financial assistance to development banks in the form of loans, equity investments and credits amounted to $662 million to 25 companies in 21 countries. Of this total, some $595 million represented World Bank loans, $40 million was in the form of IDA credits and $27 million was IFC investments and underwriting commitments in 18 development banks.



As it does in other types of investments, IFC seeks to associate private funds from sources in the capital exporting countries with IFC, World Bank and local money in financing development banks. Recruitment of foreign capital for the development banks goes hand in hand with a range of other very important activities, which might be lumped together under the heading of technical assistance by IFC. We have helped to draft statutes for development banks to operate under, to prepare policy statements, and—a critical form of assistance—we have helped to find experienced management and have helped train staff and develop procedures for project analysis.

In extending such assistance, we draw upon our friends in the developed nations, and here I want to pay tribute to Canada's Industrial Development Bank. We have used the facilities of the IDB to train the staffs of institutions in such varied countries as Pakistan, Finland, Nigeria and Morocco. Mr. A. N. H. James, General Manager of IDB, acted as our consultant in advising on the creation of a new development bank.

**Three Investments**

I would like to tell you about several of our investments. I will be telling you success stories. We do have failures—if we never had any bad ventures, we would be investing only in sure things, and that is neither good risk taking nor good development investment. But our record, as I have already indicated, even when effect is given to losses, still shows a reasonable return of over 11½ per cent.

To give you a more specific picture of our operations, therefore, let me wind up with three thumbnail sketches of investments that we regard as successes because they worked out well for us, for the country concerned, and for the investors who participated with us. They are in three different areas of the world, and in three different fields of economic activity.

The first is the Private Development Corporation of the Philippines. This is the first instance in which we have gone full cycle in an investment in a development bank, from supplying some of the money needed to bring it into being, to helping it through its formative and initial business stages, seeing it develop to the point where IFC was no longer needed, and selling our investment, thereby getting our money back to invest elsewhere.

We went into PDCP early in 1963 with a purchase of shares amounting to $200,000. We also entered into an underwriting commitment of $4¼ million to ensure the placement of sufficient equity shares among Philippine investors. The share offering was successful, and IFC did not need to take up any of the underwritten shares. The shares are actively traded in the Manila market, and rose from 10 pesos to 14 pesos, at which price, a few months ago, we sold all our holdings to Philippine institutional investors.

The sale of our holdings was done in a way calculated to contribute to the development of the capital market in the Philippines, by increasing and broadening Philippine ownership of common stocks.

The formation of this company has been of manifold benefit to the Philippine economy. It has made investments in Philippine transportation, power, food, textiles, wood and cork, printing and publishing, chemicals, glass, clay and stone products, basic metal products, machinery, electrical machinery, and mining. It has helped develop the capital market in the Philippines by participating in four underwritings.



PDCP is obviously well thought of by investors in the industrialized countries. It attracted 18 foreign shareholders, all banks or other financing concerns, in the United States, Britain, Germany, Hong Kong and Japan.

My second example is AREWA Textiles, in northern Nigeria. This project was sponsored by a group of major Japanese cotton textile companies, in a consortium called the Overseas Spinning Investment Co., Ltd. It was carried out in company with the Northern Nigeria Development Corporation and Northern Nigeria Investments, Ltd., which is 50 per cent British owned.

One of the outstanding features of this venture was the showing made by Japanese management in the company's initial operating stages, and in training Nigerian personnel. Japan had extensive textile marketing experience in West Africa but no previous operating experience there.

The project was launched in the spring of 1964 at a total estimated cost of $4.5 million, of which IFC's loan and equity investment was $700,000. IFC's share amounted to 17 per cent of the equity. Japanese sponsors took up 60 per cent of the shareholding. The Nigerian financial institutions took up the balance. By the spring of 1965 the plant was built, the machinery was installed and equipped, and the plant readied for start-up.

Within three to four months the mill was running at full three-shift production, almost one year ahead of schedule. Output by the beginning of 1966 was 12 million square yards of cloth per year as against 10 million as originally planned.

In May 1966, IFC's Board approved a second investment in AREWA to permit doubling of its capacity. This second financing raised IFC's share in the equity of AREWA to 18 per cent.

Despite political problems in Nigeria this expansion was carried through months ahead of schedule and within the budget. The mill's output doubled as planned. Printing facilities for a further 12 million square yards of output were scheduled to be in operation by the end of 1967, about 9 months ahead of the original estimates.

The mill uses Nigerian grown cotton, and was planned to take some 9 per cent of the total annual crop. With this locally available raw material it makes some 12 to 15 per cent of the textiles used in Nigeria. All of this was formerly imported.

IFC has attracted participations in its loans to AREWA from investment houses in the Middle East and Europe such as Kuwait Investment Co., Handelsfinanz, Standard Bank Finance and Development Corporation and Barclay's Overseas Development Corporation. Some 30 per cent of the total loan maturities of $1 million remained with IFC at the end of October 1967.

AREWA declared its first dividend, of 10 per cent, on earnings during the year ended April 20, 1967. This was an unusually early time for a company to begin to pay dividends to its financial backers, and augured well for future profits from this company.

My third example is SIVENSA, in Venezuela. This is the steel rolling company whose story I have already mentioned. The investment was a successful one for IFC: we made capital gains on the whole transaction of just over $1 million —or, a third of our original investment—in addition to interest payments and dividends earned while we were in the company.



The investment was equally good for Venezuela. It permitted SIVENSA to increase its rolling capacity by half—from 60,000 tons to 90,000 tons a year. This increase represented approximately a seventh of Venezuela's annual consumption at the time of the expansion.

### Canada's Potential

I would like, in closing, to emphasize Canada's potential for providing assistance, out of the resources of Canada's private sector, to the private sectors of the developing countries of the world.

I believe this potential to be great and, possibly, unexampled, not only in terms of money and materials, but especially in terms of talent and outlook.

It is possible for Canada to have, at one and the same time, the confidence both of the capital exporting and the capital importing countries, because each group feels that Canada is at one with it. Because of this posture, I think the investment opportunity for Canada is good, and the opportunity for Canadian leadership is great. At the present time, there may be no other country with such an advantage.

A country growing with Canada's vigor will in the natural course of events play a greater role in the coming years and decades in international investment, including investment in the developing countries. The Canadian talent for making developmental ventures go will accompany Canada's funds. It is my expectation that as Canada goes increasingly out into the world with its capital and its managerial skills, there will be greatly enlarged ties between IFC and the Canadian business and investment community.

MARTIN ROSEN

See Interview - FINANCIAL POST, Toronto

Filed with IFC Articles

November 4, 1967

# IFC AND THE GROWING NEED FOR PRIVATE INVESTMENT
## in the
# LOW INCOME COUNTRIES

An Address of
MARTIN M. ROSEN
Executive Vice President
The International Finance Corporation
to the
Seminar on International Development
sponsored by
York University School of Business
in cooperation with
The Canadian Department of Trade and Commerce
and
The Canadian Office of External Aid

INTERNATIONAL FINANCE CORPORATION IFC



Toronto
November 7, 1967

I HOPE YOU WILL take me at my word when I say that I want most sincerely to compliment those who conceived and brought this conference into being, for they have brought together the three elements basic to a successful development effort.

To begin with, we have among the sponsors of this conference the untrammeled spirit of enquiry of the academic world, seeking to learn what is right, and to learn how to make possible in the practical world what it knows to be right.

Next, there is the tough liberalism of the world of commerce and trade, seeking freedom to go anywhere in competition for profit out of the exchange of those goods and services that are the brick and mortar by which nations are built.

And, finally, there is the enlightened interest of the governmental assistance agency, seeking to redeem that "affront to human dignity", as Canada's Minister of External Affairs Paul Martin has described the fact that tremendous differences exist in the economic circumstances of the peoples of the world.

Your previous speakers have dealt with the basic questions before us: what is development, why should the industrial nations be concerned with the economic improvement of low income nations, and why should Canada, in particular, be interested? In this area let me just reiterate one point that I regard as critical: there are many valid reasons, ranging from political and economic to the humanitarian, for higher income nations to assist the lower income countries. Any one nation can and probably does engage in development assistance for many—perhaps all—of those reasons. I think development assistance would arouse less heat, and could generate more economic progress, if it were more widely understood that the varied motivations we feel toward it can all be served simultaneously, and probably are.

Canada's Minister of Trade and Commerce has laid stress on the importance of greater involvement of Canadian private business in the development effort.

### Growing Need for Private Investment

I would like to dwell for a moment on this important thought, because I regard it as pointing to a new direction that development assistance must now take, and also because it is fundamental to my purposes as a mobilizer of private capital for development investment.

Unfortunately, in a number of countries, particularly those that have long been major contributors of governmental assistance to economic development around the world, there has been a slowing down, or actual reduction, of the levels of official economic aid.

To the extent that official aid from the capital exporting countries tends to recede, responsibility for keeping up the flow of capital to the developing countries shifts to the private sector. This shift is needed not only to make up the shortfall. There are additional, economic, reasons for believing that private investors will be called upon to do more of the development job in the future than in the past.



I refer to the fact that over the last two decades of development assistance work the things best done by public funds—the building of the infrastructure of developing economies—has in many places gone far. A great many harbors have been improved. A great many basic transportation systems have been built. A great many dams have been put up, to provide electric power and irrigation. A beginning has been made on improving education in many places, making for a more able labor force. These labor forces, in turn, are in better health and vigor because malarial swamps have been cleared and public health and sanitation systems have been put to work. I do not by any means suggest that enough has been done in all the necessary places. Far from it. There is more need for infrastructural work than we are likely to have the official capital to finance, as far into the future as can be seen.

What I am saying is that in many places in many countries enough has been done about the infrastructure to bring on the day when a larger portion of further development investment must go to build up capacity to produce goods and services. I think this is a natural next phase in development work. Infrastructures do not themselves produce those goods and services that make up the basic elements of the standard of living. I am excluding education, transportation and the like. But to take one, over-simplified, example, a subsistence economy will remain a subsistence economy, no matter how much electric power it is able to produce, until that power is used for production that raises the level of supply of needed goods and services. Wherever the infrastructure now provides increased electric power, transportation, communications, better educated people and the like, it is now the turn of private investors to step forward and make productive use of these basic capacities.

### The IFC

The International Finance Corporation was created eleven years ago with the function of encouraging the growth of the private sector of the developing economies. And it is with the background of the eleven years of IFC's activities that I want to speak to you.

IFC is unique. It is the only international organization which operates for the sole purpose of assisting the international spread of private enterprise. We are an affiliate of the World Bank. To be a member of IFC it is necessary that a country also be a member of the Bank. Currently, 84 of the Bank's 107 members have joined IFC. Canada was one of the founding members in 1956.

We have our own capital—$100 million—paid in by all our member countries and consisting entirely of United States dollars. Canada's share is $3.6 million. We have the right to borrow from any source that can lend to us, including the right to borrow up to $400 million from the World Bank for our lending operations. President Woods of the World Bank is President of IFC as well, but we have a separate operating staff. Unlike the World Bank—or for that matter unlike any other intergovernmental institution—the Corporation can and does provide equity capital to the companies in which it invests. Usually, our investments include both a long term loan and purchase of stock.

### IFC's Investments

We have so far made 144 commitments in 36 of our member countries. They include $214 million of investments, and more than $27 million of standby and underwriting commitments



in which we have assured the sale and distribution of corporate shares or obligations. All of our investments are in the developing countries; under today's conditions we would not, for example, invest in Germany, Italy, France or Japan, or in Canada and the United States. All of our investments are made in association with private business and we never provide more than a portion of the total money needed.

Most of our investments have been industrial. But we are diversifying our interests. Last year, we invested for the first time in tourism—in Kenya. Last year also we invested in a public utility—in the Philippines. We also invest in agriculture when the enterprise is in corporate form, is large enough to conform to our usual investment scale—generally speaking $500,000 or more —and fits our other criteria of economic priority and profitability.

We believe that major improvement of the agricultural sectors of the lower income countries is essential if development is to proceed at anything like a satisfactory pace. As I have already indicated, in the past two decades a great deal has been done on infrastructure building. Along with this building of harbors, roads and the like, other developmental steps have been taken. But unfortunately agriculture has been the neglected area. IFC has made direct agricultural investments, in plantations, and in food processing. Our major approach to the problem of agricultural lag, however, is through a world wide effort to increase the capacity of the developing countries to produce fertilizers. Last year, more of our money went into this than into any other industry. I expect this to be the shape of the future.

In the industrial area, our financing has covered a wide range of activity. Our biggest single field has been chemicals and chemical products, including fertilizers. Our other major investment fields have been in iron and steel, metalworking industries, paper and paper products, cement, textiles and food processing.

IFC performs three main functions. First, we finance private business ventures in low income member countries, to get worthwhile things built that otherwise would not be built. Second, we attempt to spur development of local capital markets in those countries. Our third purpose is to stimulate the international flow of private capital.

**Investment Criteria**

Like all financial institutions we apply investment standards that must be met before IFC will support a project. We have three criteria for investment. The first requires that the project must be of high economic priority to the development efforts of the host country. I list this first because, while our other standards are also essential for approval of an investment, the matter of fitting into the economic development of the country involved is the first essential. Our resources are quite limited and so too are private capital resources in the underdeveloped countries. It is for this reason that we have concentrated on helping industry, especially maufacturing industry, in the less developed countries.

Our second investment standards is what we call the investment banker's criterion. It requires that the project should be profitable, that it should be properly prepared technically and financially, and that it should satisfy all the tests any sound investment banker would apply to any project in which he might invest.

The third criterion states that we will come in only where there is a particular need for IFC,



that is, where adequate financing is not available on reasonable terms from private sources. This does not mean that we will enter a venture only at a late stage. We may serve our purpose by being ready to enter at an early stage. We have found that our readiness to join a venture is sometimes the factor needed to make it go. In such cases, our willingness to get in often makes it possible for the sponsors to round up more private funds than they would otherwise be able to find. There have been cases where the fact that IFC was prepared to join made it possible to find all the necessary financing without our money. In such a case we are not unhappy. On the contrary, we feel especially that we have accomplished our purpose.

**Revolving IFC's Funds**

As I mentioned, we have had available to us some $100 million from the subscriptions of our member countries to our capital, and we now have available, for use in our lending, a line of credit from our parent organization, the World Bank, that could amount to $400 million. We have made arrangements for the use of $100 million of our credit with the World Bank, but we have not yet actually drawn down any of it. We have already disbursed some $150 million, and still have liquid funds on hand of more than $40 million, a total almost double our original subscribed capital. Thus, it is obvious that we have been successful in replenishing our funds in other ways.

The answer is that we keep liquid by revolving our funds, in two ways.

One way involves selling all or part of our interest in an investment when a company has become solid enough not to need our presence any longer, and when the company's progress has made a market for its stock or for its loan maturities.

Let me illustrate with a transaction carried out in Venezuela:

In this case we made an investment which resulted in our holding an equity position in a steel rolling mill. When the investment was made —to provide money for an expansion—the general political climate was such that the necessary funds could not be raised in Venezuela, or from the normal financial channels elsewhere.

The company was successful. The political situation developed so that the capital market in Venezuela revived, and local investors were willing to consider making new commitments within the country. In the end, we sold all of our holdings in the company to Venezuelan investors.

Thus, in this investment, we helped bring about a useful addition to the productive capacity of Venezuela by getting a worthwhile plant built that would otherwise not have been possible at the time, due to lack of investment funds. And, subsequently, we helped to develop the Venezuelan capital market through the resale of our shares in the company.

We revolve our funds in a second way by offering firms in the capital exporting countries a chance to participate with us in an investment at the time the investment is made. The potential participant is offered a choice between taking a *pro rata* interest in the entire transaction, including equity, or taking loan maturities, without equity. In the latter case, he can take up either a strip of the entire loan, or a portion of early maturities.

Since subscriptions to the Corporation's own capital have been paid in by all its members in US dollars, nearly all IFC loans are denominated in dollars. However, IFC has been able to arrange for the sale of loan participations in some other



currencies, such as sterling, Swiss francs and Deutsche marks.

Investors purchasing parts of IFC loans normally do so through participation certificates. The administration and exercise of rights under the investment documents are handled by IFC, which serves as collecting and paying agent.

The terms of the sale of paper from IFC portfolio are negotiated in each case, so as to reflect the history of the investment since the original commitment. In the case of sales of equity, the shares sold by IFC are transferred to the participant, so that a direct relationship may be established between the company in the low income nation and the private shareholder in a more developed country. It is IFC's practice to consult its partners on sales of equity to be sure that there are no objections to the proposed sale for valid business reasons.

IFC makes use of several methods in selling shares held in its portfolio. Some of the companies in which IFC has acquired an equity interest are owned by a broad range of local investors, with the shares quoted and traded on local stock exchanges. In such cases there is an opportunity for IFC to sell its holdings through the normal mechanism of the market. In many cases a public market for the shares held by IFC does not exist or is too narrow to allow sales of the volume desired. In such cases a sale may be privately negotiated.

In general, IFC's individual sales of investments have involved amounts not smaller than \$100,000. The purchasers represent a diversified group of banks and other investment institutions in the United States, the United Kingdom and other European countries, including Edge Act affiliates of US commercial banks, as well as investment companies in such widely scattered areas as Kuwait and the Bahamas. Pension funds, mutual funds and insurance companies are among the types of institutions that have purchased parts of IFC investments. Approximately $16 million of the securities sold or agreed to be sold by IFC have been taken by institutions or affiliates based in the United States, while institutions domiciled in the United Kingdom and other countries in Europe have taken a total of approximately $13 million of our investments. Other countries have taken a further $13 million.

### Mobilizing Other Funds

Our sales to private investors from our holdings have not only helped keep IFC liquid for continued assistance to the economic growth and improvement of the low income countries. They have also added to the amount of non-IFC funds that the Corporation's investment activities have helped mobilize to finance new businesses or to expand existing businesses in these countries. Just a few figures will illustrate the importance of IFC's role as a mobilizer of funds other than its own:

The capital costs of projects where IFC committed $49 million in 1966/67 totaled approximately $330 million, or better than six dollars from others for each one IFC dollar.

Excluding investments in development banks, development finance companies and other financial intermediaries, IFC has now taken part in financing projects with total capital costs in excess of $1,000 million. IFC's commitment was $202 million.

Private investors have participated with us in our investments for two reasons. Some institutions have taken up part of our paper simply because it provided an attractive return. These returns have indeed been reasonable, taking ac-



count of the risks and the costs of administration. Over the life of all investments that we have closed out—either by sale, or total repayment of the investment—the net return has averaged over 11½ per cent, even including write-offs.

Other participants in our investments have been attracted by the actual or potential side benefits. This is the case particularly with banks looking for business with new companies abroad, or seeking to get into business in a country where they have not yet become established. In either case, the presence of IFC, with its experience in doing business with companies in the less developed areas of the world, is a reassuring factor to a newcomer. We regard this reassurance as a vital part of our function, and it is one of our ever present aims to keep it such as to make our presence a thing of value.

### Development Institutions

In addition to investments in industry, agriculture, tourism and other services, IFC has another major field of investment, in development institutions.

A host of different types of institutions sharing the common objectives of providing medium and long term funds for productive investments and also, usually, technical advice needed to formulate and carry out such investments, are broadly identified as "development banks".

Institutions of this type are designed to provide equity capital, as well as medium and long term loans, for industry and other private productive enterprises. They also underwrite the issue of the securities of such enterprises. They promote new enterprises and assist entrepreneurs in preparing investment proposals. They act as channels for foreign capital and technology, in particular by bringing together foreign and local investors in joint ventures. By helping mobilize domestic savings and, in combination with technical know-how, channeling them into productive activities, they can become an important element in developing a country's capital market.

To perform these functions, development banks in the low income countries need three main tools. The first is a supply of long term capital. Since developing countries typically do not produce a full range of capital goods, a considerable part of the development bank's funds needs to be available in foreign exchange.

The second need of the development bank located in a less developed country is experienced management. Management should possess a wide acquaintance with modern investment techniques, and a knowledge of national conditions. It should be capable of appraising objectively investment opportunities, market possibilities and investment risks. Management should also be able to assist clients to obtain technical and managerial help.

The third tool is contact with foreign business and investment institutions, and international financial and technical assistance agencies, to help in recruiting outside capital and know-how.

Our assistance to development banks usually takes the form of an equity investment by IFC accompanied by loan funds from the World Bank. By the end of September 1967, the Bank Group's direct financial assistance to development banks in the form of loans, equity investments and credits amounted to $662 million to 25 companies in 21 countries. Of this total, some $595 million represented World Bank loans, $40 million was in the form of IDA credits and $27 million was IFC investments and underwriting commitments in 18 development banks.



As it does in other types of investments, IFC seeks to associate private funds from sources in the capital exporting countries with IFC, World Bank and local money in financing development banks. Recruitment of foreign capital for the development banks goes hand in hand with a range of other very important activities, which might be lumped together under the heading of technical assistance by IFC. We have helped to draft statutes for development banks to operate under, to prepare policy statements, and—a critical form of assistance—we have helped to find experienced management and have helped train staff and develop procedures for project analysis.

In extending such assistance, we draw upon our friends in the developed nations, and here I want to pay tribute to Canada's Industrial Development Bank. We have used the facilities of the IDB to train the staffs of institutions in such varied countries as Pakistan, Finland, Nigeria and Morocco. Mr. A. N. H. James, General Manager of IDB, acted as our consultant in advising on the creation of a new development bank.

**Three Investments**

I would like to tell you about several of our investments. I will be telling you success stories. We do have failures—if we never had any bad ventures, we would be investing only in sure things, and that is neither good risk taking nor good development investment. But our record, as I have already indicated, even when effect is given to losses, still shows a reasonable return of over 11½ per cent.

To give you a more specific picture of our operations, therefore, let me wind up with three thumbnail sketches of investments that we regard as successes because they worked out well for us, for the country concerned, and for the investors who participated with us. They are in three different areas of the world, and in three different fields of economic activity.

The first is the Private Development Corporation of the Philippines. This is the first instance in which we have gone full cycle in an investment in a development bank, from supplying some of the money needed to bring it into being, to helping it through its formative and initial business stages, seeing it develop to the point where IFC was no longer needed, and selling our investment, thereby getting our money back to invest elsewhere.

We went into PDCP early in 1963 with a purchase of shares amounting to \$200,000. We also entered into an underwriting commitment of \$4¼ million to ensure the placement of sufficient equity shares among Philippine investors. The share offering was successful, and IFC did not need to take up any of the underwritten shares. The shares are actively traded in the Manila market, and rose from 10 pesos to 14 pesos, at which price, a few months ago, we sold all our holdings to Philippine institutional investors.

The sale of our holdings was done in a way calculated to contribute to the development of the capital market in the Philippines, by increasing and broadening Philippine ownership of common stocks.

The formation of this company has been of manifold benefit to the Philippine economy. It has made investments in Philippine transportation, power, food, textiles, wood and cork, printing and publishing, chemicals, glass, clay and stone products, basic metal products, machinery, electrical machinery, and mining. It has helped develop the capital market in the Philippines by participating in four underwritings.



PDCP is obviously well thought of by investors in the industrialized countries. It attracted 18 foreign shareholders, all banks or other financing concerns, in the United States, Britain, Germany, Hong Kong and Japan.

My second example is AREWA Textiles, in northern Nigeria. This project was sponsored by a group of major Japanese cotton textile companies, in a consortium called the Overseas Spinning Investment Co., Ltd. It was carried out in company with the Northern Nigeria Development Corporation and Northern Nigeria Investments, Ltd., which is 50 per cent British owned.

One of the outstanding features of this venture was the showing made by Japanese management in the company's initial operating stages, and in training Nigerian personnel. Japan had extensive textile marketing experience in West Africa but no previous operating experience there.

The project was launched in the spring of 1964 at a total estimated cost of \$4.5 million, of which IFC's loan and equity investment was \$700,000. IFC's share amounted to 17 per cent of the equity. Japanese sponsors took up 60 per cent of the shareholding. The Nigerian financial institutions took up the balance. By the spring of 1965 the plant was built, the machinery was installed and equipped, and the plant readied for start-up.

Within three to four months the mill was running at full three-shift production, almost one year ahead of schedule. Output by the beginning of 1966 was 12 million square yards of cloth per year as against 10 million as originally planned.

In May 1966, IFC's Board approved a second investment in AREWA to permit doubling of its capacity. This second financing raised IFC's share in the equity of AREWA to 18 per cent.

Despite political problems in Nigeria this expansion was carried through months ahead of schedule and within the budget. The mill's output doubled as planned. Printing facilities for a further 12 million square yards of output were scheduled to be in operation by the end of 1967, about 9 months ahead of the original estimates.

The mill uses Nigerian grown cotton, and was planned to take some 9 per cent of the total annual crop. With this locally available raw material it makes some 12 to 15 per cent of the textiles used in Nigeria. All of this was formerly imported.

IFC has attracted participations in its loans to AREWA from investment houses in the Middle East and Europe such as Kuwait Investment Co., Handelsfinanz, Standard Bank Finance and Development Corporation and Barclay's Overseas Development Corporation. Some 30 per cent of the total loan maturities of $1 million remained with IFC at the end of October 1967.

AREWA declared its first dividend, of 10 per cent, on earnings during the year ended April 20, 1967. This was an unusually early time for a company to begin to pay dividends to its financial backers, and augured well for future profits from this company.

My third example is SIVENSA, in Venezuela. This is the steel rolling company whose story I have already mentioned. The investment was a successful one for IFC: we made capital gains on the whole transaction of just over $1 million —or, a third of our original investment—in addition to interest payments and dividends earned while we were in the company.



The investment was equally good for Venezuela. It permitted SIVENSA to increase its rolling capacity by half—from 60,000 tons to 90,000 tons a year. This increase represented approximately a seventh of Venezuela's annual consumption at the time of the expansion.

### Canada's Potential

I would like, in closing, to emphasize Canada's potential for providing assistance, out of the resources of Canada's private sector, to the private sectors of the developing countries of the world.

I believe this potential to be great and, possibly, unexampled, not only in terms of money and materials, but especially in terms of talent and outlook.

It is possible for Canada to have, at one and the same time, the confidence both of the capital exporting and the capital importing countries, because each group feels that Canada is at one with it. Because of this posture, I think the investment opportunity for Canada is good, and the opportunity for Canadian leadership is great. At the present time, there may be no other country with such an advantage.

A country growing with Canada's vigor will in the natural course of events play a greater role in the coming years and decades in international investment, including investment in the developing countries. The Canadian talent for making developmental ventures go will accompany Canada's funds. It is my expectation that as Canada goes increasingly out into the world with its capital and its managerial skills, there will be greatly enlarged ties between IFC and the Canadian business and investment community.

INTERNATIONAL FINANCE
CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-25-10

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1., England
Telephone: 930-3886-7

Cable Address: CORINTFIN

# INVERSIONES DE BENEFICIO PUBLICO Y PRIVADO

Palabras del señor
MARTIN M. ROSEN
Vicepresidente Ejecutivo
de la
Corporación Financiera Internacional
con ocasión de la
firma del acuerdo de inversion en
Textiles Fabricato de Nicaragua, S.A.

CORPORACION FINANCIERA INTERNACIONAL

Managua, Nicaragua
1 de Marzo de 1968

ME SIENTO SINCERAMENTE complacido de encontrarme hoy aquí para participar con este distinguido grupo en el impulso inicial de una nueva industria que será algo de valor permanente para Nicaragua y las demás Repúblicas de Centro América.

Es, en realidad, una oportunidad feliz, una ocasión especial, que quiero destacar para corresponder en parte a la cordialidad y la amistad que trasunta la generosa hospitalidad que ustedes nos han ofrecido a mí y a su representante ante la Junta de la Corporación Financiera Internacional, el Doctor Luis Machado, así como a los demás miembros de nuestro grupo.

El Doctor Machado ha aportado al proyecto de Fabritex su apoyo sumamente eficaz durante todas las fases del mismo, y por eso lo conoce a fondo y aprecia su trascendencia. Tengo la certeza de que concuerda conmigo en que la empresa a la cual nos asociamos hoy con nuestro financiamiento y nuestra fe, constituye un acontecimiento auspicioso y singular por varias razones, todas muy válidas y que auguran un futuro de éxito.

Permítanme empezar mencionando algunos de los aspectos únicos y prometedores de la inversión en Fabritex.

El primero es el hecho de que una firma latinoamericana—Fabricato, de Colombia—sea el patrocinador técnico, que asumirá las funciones administrativas durante los primeros años de la empresa. Este factor nos permite vislumbrar el fin de la división del mundo en sectores de Norte y Sur, compuesto el primero de países desarrollados y el segundo de países en vías de desarrollo. Dentro de su esfera particular, el proyecto de Fabritex nos da la seguridad de que esta realidad actual, de la división Norte-Sur, no es más que un accidente histórico pasajero, que cede ante el progreso y que, con el tiempo, desaparecerá; un accidente cuyas consecuencias se han aminorado en cierto modo al poner nuestras firmas al acuerdo de Fabritex.

Pero se trata de un accidente histórico que no desaparecerá sin la labor de individuos dotados de la imaginación y determinación necesarias para romper viejos moldes, y reemplazarlos con otros nuevos y mejores. Por esa razón, deseo aplaudir la decisión de Jorge Posada, Presidente de Fabricato, y Jaime Olarte, su Vicepresidente, y de sus consejeros y colaboradores, de hacerse cargo de la responsabilidad—en el orden financiero y administrativo—que implica su participación como asociados técnicos, en el proyecto de Fabritex.

Deseo también rendir tributo a la visión y capacidad de Alberto Knoepffler, que ha asumido la Presidencia de Fabritex, y de Alberto Bernal, que ha traído su familia a Nicaragua y se encargará de la dirección de Fabritex en su período formativo. Ambos han dedicado a Fabritex muchos esfuerzos y han puesto su fe en la empresa, pero habrán de aportar todavía mucho



más. Por mi parte, tengo la seguridad de que se verán recompensados por una sana inversión en beneficio de sus accionistas y que ellos, junto con todos los patrocinadores de Fabritex, tendrán la satisfacción de haber sido pioneros en una nueva fase de la cooperación económica centroamericana y latinoamericana.

Ahora bien, lo más notable respecto al proyecto de Fabritex, lo que nos ha reunido aquí para dar solemnidad a la firma del acuerdo oficial, no es ninguna combinación particular de factores que intervienen en esta inversión, por sorprendentes y significativos que sean, sino el hecho de que este proyecto ha aunado una serie de elementos que son importantes tanto individual como colectivamente.

Fabritex constituye un ejemplo altamente interesante de asociación de inversionistas públicos y privados. A mi juicio, esta es la clase de cooperación que nuestro común amigo, Luis Machado, tiene presente cuando nos recuerda—como lo hace a menudo—que para avanzar hacia un mundo mejor, una nación en desarrollo necesita contar no sólo con el apoyo del sector público, sino también de la iniciativa privada. Por simple que este hecho parezca, lo cierto es que a veces no se tiene en cuenta.

Pero no ha sido olvidado en el caso de Fabritex. Cabe decir que, por la estructura de su financiamiento, en esta empresa se asocian las energías, el dinamismo y la eficiencia de la iniciativa privada, con amplia oportunidad para utilizarlos en bien del interés público y privado.

La presencia, como patrocinador y asociado técnico, de Fabricato, veterana empresa competidora en la elaboración y comercialización de textiles, tanto en escala nacional como internacional, aseguran que Fabritex contará con el empuje dinámico y los conocimientos tecnológicos del sector privado.

Consideramos que no es menos importante para el éxito futuro de Fabritex el hecho de que el sector privado nicaragüense haya contraído un compromiso sustancial en esta empresa, tanto en fondos como en la aportación de personal capacitado porque, a la postre, su éxito o fracaso dependerá del apoyo nicaragüense. Por esta razón, la importante inversión en Fabritex de la activa y eficiente sociedad privada de fomento de Nicaragua, la Corporación Nicaragüense de Inversiones, y el interés que personalmente han demostrado en este proyecto su Presidente, Carlos Gómez, y el Gerente General, Jorge Montealegre, son destacados factores de garantía a ese respecto.

Me satisface poder agregar a la lista de los principales participantes privados en el financiamiento de Fabritex, el nombre del Bank of America, y subrayar el hecho de que haya enviado representantes a este acto como testimonio de su interés en la empresa. Sería difícil encontrar prueba más concluyente de que Fabritex constituye una excelente inversión, que la participación en ella de este inversionista privado que opera en escala mundial.

A este notable grupo de inversionistas del sector privado de América del Sur, Centro América y América del Norte, hay que agregar dos nombres muy importantes del sector oficial. En primer término, el banco gubernamental de desarrollo de Nicaragua, el Instituto de Fomento Nacional (INFONAC), cuyo Presidente es José María Castillo. INFONAC participa en una proporción igual que la CNI, Fabricato y la Corporación Financiera Internacional, en el capital social inicial de Fabritex.



Y como testimonio de que el interés públlco en esta empresa trasciende las fronteras de Nicaragua, hasta toda la zona del Mercado Común Centroamericano que ha de servir, el Banco Centroamericano de Integración Económica, representado aquí hoy por su Presidente, Gustavo A. Guerrero, ha considerado apropiado efectuar la inversión de mayor cuantía en ella. Tiene plena justificación el hecho de que fondos del Banco Centroamericano de Integración Económica constituya la principal aportación al financiamiento de Fabritex, ya que es una industria nicaragüense concebida para servir y beneficiar a las cinco repúblicas que integran el Mercado Común.

Permítanme ahora que me refiera brevemente al significado de la combinación de intereses públicos y privados que encontramos en la inversión en Fabritex. Con frecuencia se considera que una combinación de este tipo es una suerte de juego de equilibrio, en el que se enfrentan dos elementos contrapuestos para neutralizarlos. Mi opinión, y creo que es un punto de vista que está reemplazando rápidamente a esa anticuada noción, es la muy sencilla que he señalado antes, es decir, que de una inversión en un país y en una región en desarrollo, como la efectuada en Fabritex, pueden derivarse beneficios tanto públicos como privados.

El beneficio privado es el que todos conocemos, a saber, un rendimiento para el capital privado invertido que compense en forma equitativa el trabajo y los sacrificios que representa el ahorro mediante el cual se amasa el capital. Estimo que los fondos públicos aportados para esa clase de empresas deparan un rendimiento no menos evidente. Este beneficio público se refleja en hechos concretos y mensurables: un aumento del ingreso nacional; una reducción neta en los desembolsos de escasas divisas; un aumento, en términos reales, de los montos absolutos y *per capita* de los bienes y servicios suministrados al público y utilizados por él. Estos son beneficios no menos reales que las utilidades que obtienen y deben obtener los participantes privados.

La tarea de la Corporación Financiera Internacional, al considerar si debe comprometerse en una inversión como la de Fabritex, consiste en determinar si rendirá beneficios públicos y privados adecuados. No participamos en algunas inversiones por el hecho de que estimemos serán rentables para los intereses privados, ni nos comprometemos en otras porque creamos que serán de beneficio público. Por el contrario, procuramos que nuestras transacciones beneficien por igual a uno y otro sector.

Cada inversión de la CFI debe ser, a nuestro juicio, una operación comercial sólida y productiva, que proporcione un rendimiento razonable al capital aportado por la Corporación y los inversionistas privados. Y cada inversión debe ofrecer, también a nuestro juicio, la perspectiva de un rendimiento equitativo al capital público aportado, en términos de un mayor ingreso nacional y *per capita.*

Participamos en el proyecto de Fabritex porque, en nuestra opinión, promete beneficios para los sectores privado y público, y sigo convencido de que el futuro nos dará la razón. Deseo sinceramente que nuestra decisión respecto a Fabritex resulte acertada, porque esta es nuestra primera inversión en Nicaragua, nuestra mayor inversión en Centro América y la primera operación que realizamos conjuntamente con el Banco Centroamericano de Integración Económica; y deseo que en el futuro podamos efectuar más y mayores inversiones de la CFI en esta zona.

Hay otras características, interesantes y significativas, entre los inversionistas en Fabritex. Son nacionales e internacionales. Figuran entre ellos instituciones y empresas de negocios. Pero quizás lo más trascendente sea el hecho de que el mayor inversionista en Fabritex—el Banco Centroamericano de Integración Económica—es un instrumento de expansión y racionalización económica regional. La CFI llegó a la conclusión de que Fabritex beneficiaría al Mercado Común Centroamericano y contribuiría a alcanzar sus principales objetivos, en razón a los siguientes factores:

La fábrica de tejidos que se va construir, moderna, eficiente y competitiva, representará una aportación valiosa al futuro desarrollo industrial, tanto de Nicaragua como de la zona del Mercado Común;

La ejecución del proyecto de Fabritex elevará el nivel de capacitación de gran número de trabajadores, así como del personal directivo empresarial, mejora que constituye uno de los principales factores para el progreso económico;

Los desembolsos para la construcción, retribución del personal y producción contribuirán a dar nuevo impulso a la desaceleración temporal que acusa actualmente el crecimiento económico de la zona del Mercado Común;

Fabritex producirá clases de tejidos que, por lo general, ahora se importan, lo que redundará en las consiguientes economías en divisas que representan los costos de dichas importaciones;

La construcción de esta industria, de importancia fundamental, permitirá que Nicaragua pueda colocarse en un plano de igualdad con sus asociados del Mercado Común y permitirá así lograr un mayor equilibrio en el intercambio comercial entre las cinco repúblicas;

Por último, Fabritex utilizará algodón de producción nacional, lo cual estimulará el intercambio agrícola del Mercado Común, que ha ido a la zaga de los progresos alcanzados en el comercio de productos industriales.

Por todo ello, la Corporación Financiera Internacional se siente a la vez orgullosa y complacida de haber contribuido—con la segunda aportación más importante de fondos—a convertir Fabritex en realidad. Confiamos en poder participar en el futuro, junto con otros empresarios de Nicaragua y Centro América, en industrias que, como Fabritex, contribuyan a la consecución de los objectivos nacionales y del Mercado Común. Creemos que el Mercado Común Centroamericano ya ha demostrado que su establecimiento fue una idea acertada. Estimamos asimismo que merece nuestro apoyo en forma de inversiones en empresas provechosas que sirvan y beneficien a las cinco naciones de su región. De acuerdo con estos propósitos, estamos dispuestos a estudiar las propuestas que ustedes tengan a bien presentarnos.

CORPORACION FINANCIERA
INTERNACIONAL

OFICINA PRINCIPAL

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Teléfono: EXecutive 3-6360

OFICINA DE NUEVA YORK

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Teléfono: WHitehall 3-5400

OFICINA DE EUROPA

4 Ave. d'Iéna
Paris 16e, France
Teléfono: 553-25-10

OFICINA DE LONDRES

New Zealand House
Haymarket
London S.W.1, England
Teléfono: 930-3886-7

Dirección cablegráfica: CORINTFIN



# INVERSIONES DE BENEFICIO PUBLICO Y PRIVADO

Palabras del señor
MARTIN M. ROSEN
Vicepresidente Ejecutivo
de la
Corporación Financiera Internacional
con ocasión de la
firma del acuerdo de inversion en
Textiles Fabricato de Nicaragua, S.A.

Managua, Nicaragua
1 de Marzo de 1968

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

INVESTING FOR BOTH PUBLIC AND PRIVATE PROFIT

Address by

Martin M. Rosen
Executive Vice President
International Finance Corporation
Upon the Occasion of the
Signing of the Fabritex Investment Agreement
Managua, Nicaragua
March 1, 1968

I am truly delighted to be here today to participate with this distinguished group in getting a new industry started that will be of lasting value to Nicaragua and to the other Central American republics.

It is indeed a felicitous occasion, a special occasion, and I say so not only to reflect back to you some of the warmth and friendship of the wonderful hospitality that you have extended to me and to your representative on the Corporation's Board, Dr. Luis Machado, and the other members of our party.

Dr. Machado has given the Fabritex project the very effective benefit of his support throughout all the formative stages and therefore knows it and understands its significance. So I am sure that he agrees with me that the undertaking in which we have joined our finances and our faith today is a happy and special event in a number of very real ways, all of them auguring well for the future.

Let me begin by mentioning some of the unusual and promising aspects of the Fabritex investment.

The first such thing that comes to my mind is the fact that a Latin American firm -- Fabricato, of Colombia -- is the technical sponsor, and will assume managerial responsibilities during the first years. In this fact we can foresee the coming end of the world wide "North-South" pattern of developed, and less developed, countries. In its own particular way, the Fabritex project assures us that this current North-South fact of life is no more than a temporary historical accident, one that gives way to progress, and one that will disappear in due time, one, in fact, that disappeared a little here today as we set our signatures to the Fabritex venture.

But it is an accident of history that does not disappear without the work of people with the imagination and the courage to break old patterns and bring the new and the better into being. So let me salute the fact that Jorge Posada, President of Fabricato, and Jaime Olarte, Fabricato's Vice President, and their advisers and collaborators, have been willing to assume the responsibility -- financial and managerial -- of becoming the technical partner in the Fabritex project.

Let me salute also the vision and ability of Alberto Knoepfler, who has assumed the Presidency of Fabritex, and of Alberto Bernal, who has brought his family to Nicaragua and will take the managerial helm of Fabritex in the formative period ahead. These men have already put into Fabritex much work and even more faith, and much more expenditure of both kinds lies before them. I, for one, am sure that they will be rewarded by a good investment benefitting their stockholders, and that they, and all the other sponsors of Fabritex, will be rewarded by a sense of having been pioneers in a new phase of Central American, and Latin American, economic cooperation.

However, what is most special about the Fabritex project, what brought us here to help make a special occasion of its formal conclusion, is not any single combination of the elements of this investment, however striking and significant, but the fact that the project has brought together a number of combinations that are important both individually and collectively.

We have in the Fabritex project a highly interesting partnership of public and private investors. This combination is the sort, I think, that our mutual friend Luis Machado has in mind when he reminds us -- as he frequently does -- that a developing nation needs not just one, but two legs to move it toward better things: the public and the private leg. As simple as that seems to be, it is a fact that can be, and sometimes has been forgotten.

But it has not been forgotten in the Fabritex investment. Fabritex brings together in its investment make-up a very full quota of the energies and drive and efficiencies of private profit-motivated business, with full scope for utilizing them in the public as well as in private interest.

The energies and know-how of the private sector are evident in Fabritex by the presence as sponsor and technical partner of Fabricato, an already proved competitor in textiles making and marketing on both the national and international scale.

It is no less important in our estimation of the future success of Fabritex, that the Nicaraguan private sector has made a major pledge of both money and talent to the Fabritex venture, for in the end, Fabritex will stand or fall by virtue of Nicaraguan support. Consequently, the substantial investment in Fabritex of Nicaragua's active and effective private development bank, the Corporacion Nicaraguense de Inversiones, and the personal interest in this project of CNI's President, Carlos Gomez and General Manager, Jorge Montealegre, are both prime factors of assurance.

When Jorge, my friend of long standing, first came to talk to us about the Fabritex project, he made me promise that I would come to Managua for the signing ceremony, and there is no promise I have been happier to redeem.

I am proud to be able to add to the list of the principal private participants in the financing of Fabritex the name of the Bank of America, and to note that they have sent representatives here to mark their Bank's interest. It would be difficult to think of a better indication that Fabritex is an excellent investment than the presence in it of this world-wide private investor.

To this outstanding assemblage of investors from the private sector of South America, Central America and North America should be added two very important names from the official sector. First I mention Nicaragua's publicly financed development bank, Instituto de Fomento Nacional -- Infonac. Under the leadership of its President Jose Maria Castillo, Infonac is an equal investor with CNI, Fabricato and the International Finance Corporation in Fabritex' initial issue of stock.

And, spreading the public interest in Fabritex beyond the borders of Nicaragua, to the entire Central American Common Market that Fabritex is to serve, the Central American Bank for Economic Integration, represented here today by its President, Gustavo A. Guerrero, has seen fit to make the largest single investment in Fabritex. It is altogether appropriate that funds of the Central American Bank for Economic Integration should be the chief single financing element in Fabritex, because Fabritex is a

Nicaraguan industry designed to serve and to benefit all five of the Common Market republics.

Permit me to pause just a moment to comment on the signficance of the combination, such as we find in the Fabritex investment, of public and private interests. Such a combination is often taken to be a species of balancing act, in which two antipathetic elements are placed together to neutralize one another. My own view, and a view that I think is rapidly replacing this older notion, is the very simple one that I expressed above, that there is both a public and a private profit to be sought in an investment in a developing country and a developing area, such as the Fabritex investment.

The private profit is the one we all know -- a return to privately invested capital that is an appropriate reward for the work and self denial that goes into the saving by which capital is amassed. I think that there is a no less clear return to the use of the public funds involved. This public profit is found in demonstrable and measurable terms: a rise in the national income stream, a net decline in expenditures of scarce foreign exchange, a rise, in real terms, in the absolute and per capita amounts of goods and services available to the public and used by them. These are profits no less real than the money profits that are and should be registered by the private participants.

It is the job of the International Finance Corporation, in considering whether to enter into an investment such as Fabritex, to decide whether there will be adequate public as well as private profits. We do not enter into some investments because we think they will be profitable to the private participants and into others because we think they will yield a public profit. On the contrary, we keep our books balanced for each transaction.

Each IFC investment must be one that in our judgment will show that it is a sound and productive business transaction, by yielding a reasonable return to the capital put into it by the IFC and by private investors. And every investment must hold out the prospect, to the best of our judgment, of yielding a reasonable return to the public capital put into it, in terms of higher national and per capita income.

We entered the Fabritex project because in our view it promised profits in both the private and the public sector, and I continue to be sure today that the future will bear us out. I want very much for our judgment of Fabritex to be proved right, because this is our first investment in Nicaragua, our largest investment in Central America and our first joint venture with the Central American Bank for Economic Integration, and I am anxious that there should be more and larger IFC commitments here in the future.

There are other interesting and significant combinations among the investors in Fabritex. They are both national and international. They are both institutional and business oriented. But perhaps the most outstanding is the fact that the single biggest investor in Fabritex -- the Central American Bank for Economic Integration -- is an instrument of regional economic expansion and rationalization. IFC concluded Fabritex would fit into the Central American Common Market and help achieve its major goals because:

The modern, efficient and competitive textile mill that is to be built will set high standards for future Nicaraguan and Common Market industrial development;

Implementation of the Fabritex project will upgrade the skills and capabilities of a large number of workers and an important number of industrial management personnel, which upgrading of work force skills is one of the chief ingredients of economic progress;

Expenditures for construction, payroll and production will be a stimulating and encouraging factor during the current, temporary slowdown in the economic growth of the Common Market area;

Fabritex will market types of fabric now generally imported into the market area, thereby saving the foreign exchange costs of such imports;

The building of this major, basic industry in Nicaragua will help put Nicaragua on a more equal footing with its partners in the Common Market and help achieve a better balance of trade among the five Republics;

Because Fabritex will use domestic cotton in its production, it will stimulate the Common Market's agricultural trade, which has lagged behind industrial trade gains.

The International Finance Corporation is consequently both proud and pleased to have been a party -- the second largest factor in terms of funds supplied -- to bringing Fabritex into reality. We look forward in the Corporation to participating in partnership with other Nicaraguan and Central American entrepreneurs in industries that, like Fabritex, will further both national and Common Market goals. We believe that the Central American Common Market has already proved itself to be a sound idea. We believe that it deserves our support in the form of investments in sound businesses that are scaled to the service and the benefits of all five nations in the Market area. We stand ready to consider your proposals along those lines.

* * *

July 1, 1968 - Article by Martin M. Rosen, transmitted by Mr. O'Brien to Managing Editor, Matthew Bender, New York City, for inclusion in Proceedings of the Symposium on International Business 1968 -- Problems and Solutions -- sponsored at Dallas in June by the Southwestern Legal Foundation

# The International Finance Corporation and Private Investment for Economic Development



**Mr. Martin M. Rosen**
**Executive Vice President**
**International Finance Corporation**

(speech June 19, 1968, to International and Comparative Law Center, Dallas)

Many attorneys are acquainted with the difficulties, the tangled threads, the slowness and the confusions and misunderstandings that can be involved when a single company does business in one other country. The problems of the International Finance Corporation, which has taken part in more than 110 projects in 38 less developed countries around the world, are vastly more difficult and complex. The economies of these countries are in various stages -- from the well advanced, such as Mexico, on down. Legal systems and, more importantly, legal practice differ from country to country. Social, cultural and business practices are equally diverse and at varying levels of sophistication.

Further, a business project in which the International Finance Corporation invests is likely to involve sponsorship of a wide ranging and complex character. The sponsors may include private business and financial concerns from the developed countries; governmental organizations concerned with assistance to less developed countries; and intergovernmental institutions other than IFC, including the World Bank, with which IFC is ~~an~~ affiliated.

Into this must also be stirred the problems caused by doing business in the numerous languages spoken by the various partners in IFC's investments.

It is one of the attributes of the International Finance Corporation that its professional staff has learned to live with these complexities. The legal department, with the help of local attorneys where IFC invests, manages to make the Corporation understood to its partners wherever they may be and to make them understood to the Corporation. The legal department also manages to write contracts that are legally binding despite multiple differences of language and law.

The foregoing makes the Corporation appear quite unusual. Actually, it is even more: it is unique.

The International Finance Corporation was created twelve years ago with the function of encouraging the growth of the private sector of the developing economies. It is an ~~affiliate of the World Bank and is~~ the only international organization which operates for the sole purpose of assisting the international spread of private enterprise. To be a member of IFC it is necessary that a country also be a member of the World Bank. Currently, 86 of the Bank's members have joined IFC. The United States was one of the founding members, in 1956.

IFC has its own capital -- a little more than $100 million -- paid in by member countries and consisting entirely of United States dollars. The Corporation has the right to borrow from any source that can lend to it, including the right to borrow up to $400 million from the World Bank for lending operations. President McNamara of the World Bank is President of

IFC as well, but the Corporation has a separate operating staff. Unlike the World Bank -- or for that matter unlike any other intergovernmental institution -- the Corporation can and does provide equity capital to the companies in which it invests. Usually, investments include both a long term loan and purchase of stock.

IFC's commitments in 38 of its member countries include more than $217 million of investments, and more than $34 million of standby and underwriting commitments, in which IFC assured the sale and distribution of corporate shares or obligations. All of the Corporation's investments are in the developing countries; under today's conditions it would not, for example, invest in Germany, Italy, France or Japan, or in Canada or the United States. All investments are made in association with private business and only a portion of the total money needed for a given project is ever provided by IFC.

Most IFC investments have been industrial. IFC resources are quite limited and so too are private capital resources in the underdeveloped countries. It is for this reason that the Corporation has concentrated on helping industry, especially manufacturing industry, in the less developed countries.

But the Corporation is diversifying its interests. In 1967, IFC invested for the first time in tourism, in Kenya. That year IFC also invested for the first time in a privately-owned utility company, in the Philippines. The Corporation also invests in agriculture when the enterprise is in corporate form, when it is large enough to conform to IFC's usual investment scale -- generally speaking $500,000 or more -- and when it fits the Corporation's other criteria of economic priority and profitability. At the other end of the scale, the Corporation will, at present, invest as much as $20 million in a venture. It reached that level for the first time with an investment in a Mauritanian copper project, in May, 1968. This commitment was made in a new, $60 million mining company called Societe Miniere de Mauritanie.

IFC takes the position that major improvement of the agricultural sector of the lower income countries is essential if development is to proceed at anything like a satisfactory pace. In the past two decades a great deal has been done on infrastructure building. Along with this building of harbors, roads and the like, other developmental steps have been taken. But unfortunately agriculture has been the neglected area. IFC has made direct agricultural investments, in plantations, and in food processing. However, a broader attack must be made on this problem than can be made through investment in agricultural projects.

One critical need, if world agriculture is to meet its problems, is for a great increase in the availability, on a world scale, of fertilizers. IFC is engaging vigorously in this attack upon agricultural deficiency in the developing countries. In the Corporation's 1967 fiscal year, over half its investments were for increasing fertilizer production in the developing countries and they spanned three continents -- Asia, Africa and Latin America. In May, 1968, one of these new fertilizer plants, the $12.4 million Societe Industrielle d'Engrais au Senegal factory near Dakar, to which IFC committed $3.46 million, was inaugurated. It is the first fertilizer production facility of its kind in West Africa. This investment, like others in fertilizer plants, has the virtue of being a double edged development tool: it is an industrial development that assists agricultural development.

In the industrial area, IFC financing has covered a wide range of activity. The biggest single field has been chemicals and chemical products, including fertilizers. Other major investment fields have been in iron and steel, metalworking industries, paper and paper products, cement, textiles and food processing.

IFC performs three main functions. First, it finances private business ventures in low income member countries, to get worthwhile things built that otherwise would not be built. Second, it attempts to spur development of local capital markets in those countries. The third purpose is to stimulate the international flow of private capital.

Like all financial institutions IFC applies investment standards that must be met before it will support a project. There are three criteria for investment. The first requires that the project must be of economic priority to the development efforts of the host country.

The second investment standard is what could be called the investment banker's criterion. It requires that the project should be profitable, that it should be properly prepared technically and financially, and that it should satisfy all the tests any sound investment banker would apply to any project in which he might invest.

The third criterion states that IFC will come in only where it is in fact needed -- that is, where adequate financing is not available on reasonable terms from private sources. This does not mean that IFC will enter a venture only at a late stage. IFC's purpose may be served by being ready to enter at an early stage, because it has been found that IFC's readiness to join a venture is sometimes the factor needed to make it go. In such cases, IFC's willingness to get in often makes it possible for the sponsors to mobilize more private funds than they would otherwise be able to find. There have been cases where the fact that IFC was prepared to join made it possible to find all the necessary financing, without IFC money.

As previously mentioned, IFC has had available some $100 million from the subscriptions of member countries to capital. It now also has available, for use in lending, a line of credit from the World Bank that could amount to $400 million. Arrangements have been made for the use of $100 million of our credit with the World Bank, but none of it has actually been drawn down yet. IFC has already disbursed some $169 million, and still has approximately $92.8 million in funds available for making new commitments. Thus, it is obvious that the Corporation has been successful in replenishing funds by other means.

The answer is that it keeps liquid by revolving funds, in two ways.

One way involves selling all or part of the Corporation's interest in an investment when a company has matured sufficiently not to need IFC's presence, and when the company's progress has made a market for its stock or for its loan maturities.

IFC revolves its funds in a second way by offering firms in the capital exporting countries a chance to participate with it in an investment at the time the investment is made. The potential participant is offered a choice between taking a pro rata interest in the entire transaction, including equity, or taking loan maturities, without equity. In the latter case, the participant can take up either a strip of the entire loan, or a portion of early maturities.

Since subscriptions to the Corporation's own capital have been paid in by all its members in US dollars, nearly all IFC loans are denominated in dollars. However, IFC has been able to arrange for the sale of loan participations in some other currencies, such as sterling, Swiss francs and Deutsche marks.

Investors purchasing parts of IFC loans normally do so through participation certificates. The administration and exercise of rights under the investment documents are handled by IFC, which serves as collecting and paying agent.

The terms of the sale of paper from IFC's portfolio are negotiated in each case, so as to reflect the history of the investment since the original commitment. In the case of sales of equity, the shares sold by IFC are transferred to the participant, so that a direct relationship may be established between the company in the low income nation and the private shareholder in a more developed country. It is IFC's practice to consult its partners on sales of equity to be sure that there are no objections to the proposed sale for valid business reasons.

IFC makes use of several methods in selling shares held in its portfolio. Some of the companies in which IFC has acquired an equity interest are owned by a broad range of local investors, with the shares quoted and traded on local stock exchanges. In such cases there is an opportunity for IFC to sell its holdings through the normal mechanism of the market. In many cases a public market for the shares held by IFC does not exist or is too narrow to allow sales of the volume desired. In such cases a sale may be privately negotiated.

In general, IFC's individual sales of investments have involved amounts not smaller than $100,000. The purchases represent a diversified group of banks and other investment institutions in the United States, the United Kingdom and other European countries, including Edge Act affiliates of U.S. commercial banks, and investment companies in such widely separated areas of Kuwait and the Bahamas. Pension funds, mutual funds and insurance companies are among the types of institutions that have purchased parts of IFC commitments.

Sales to private investors from holdings have not only helped keep IFC liquid for continued assistance to the economic growth and improvement of the low income countries. They also add to the amount of non-IFC funds that the Corporation's investment activities have helped mobilize to finance new businesses in these countries.

Private investors have participated with IFC in its investments for two reasons. Some institutions have taken up part of the Corporation's paper simply because it provided an attractive return. Over the life of all investments that IFC has closed out -- either by sale, or total repayment of the investment -- the annual net return has averaged approximately ~~7¼~~ 11.6 per cent, ~~even including write-offs~~.

Other participants in IFC investments have been attracted by the actual or potential side benefits. This is the case particularly with banks looking for business with new companies abroad, or seeking to get into business in a country where they have not yet become established. In either case, the presence of IFC, with its experience in doing business with companies in the less developed areas of the world, is a reassuring factor to a newcomer. The Corporation regards this reassurance as a vital part of its function, and it is one of IFC's ever present aims to keep it as such to make the Corporation's presence a matter of value.

In addition to investments in industry, agriculture, tourism and other services, IFC has another major field of investment, in local development finance institutions.

IFC's assistance to development banks usually takes the form of an equity investment although it has, on one occasion, made a loan. The Corporation has committed $22.6 million to 18 development finance companies in 16 countries. Of these commitments, $15.1 million was in equity and $7.5 million was loan.

The need for technical assistance spans all IFC projects. The Corporation's experience shows that it is vital to find competent management and know-how to go with the financing of a project. This is accomplished by arranging joint ventures in which a sponsor takes on both financial and technical responsibilities. This year, for the first time, IFC sponsored a developing country project in which the technical sponsor was from another developing country. This occurred when one of Latin America's most experienced textile makers -- Fabrica de Hilados y Tejidos de Hato, S.A., of Colombia became the technical sponsor of a new Managua textile mill established by Textiles Fabricato de Nicaragua, S.A. Other technical sponsors of IFC projects during the 1968 fiscal year included United HVA of Amsterdam and HVA Ethiopia, in the HVA Metahara sugar plantation and refining project in Ethiopia; Yawata Iron and Steel Ltd., principal sponsor, together with Mitsui

& Co., Mitsubishi Shoji Kaisha Ltd., Nittetsu Mining, Ltd., Irimaru Co., Ltd., Malaysian Industrial Development Finance Berhad, in the Malayawata steel project in Malaysia, and Charter Consolidated, Ltd. of London, in the Mauritanian copper mining project, Somima.

Prepared for delivery at 12 noon
Friday, October 25, 1968

Address

by

Mr. Martin M. Rosen

at

Kingston, Jamaica

October 25, 1968

Upon the occasion of the signature of the

Investment Agreement for the Jamaica Pegasus Hotel

In Washington there used to be a lady who gave such successful parties that she became known as "The Hostess with the Mostest". I am reminded of her by your beautiful island. As a tourist spot, Jamaica might well be called "The Hostess with the Mostest". You have the climate, you have the natural beauty, you have the beaches, the water, the opportunity for sports the year round, and, the most important thing of all, like our Washington hostess, Jamaicans, as I have already discovered, have the friendly and hospitable attitude that make for a good party and a happy vacation.

Certainly, Jamaica can make at least one tourist claim that few can match. It is already more than 474 years since Jamaica's first known tourist arrived. That is a very long time to have been receiving visitors in the New World.

It is true that your first known guest, Christopher Columbus, did not stay very long on his first visit, in 1494. Perhaps he did not like the accommodations. And that brings me to the real reason we are here today. We want to make sure that others are never similarly disappointed. There is nothing like getting after a problem promptly.

But it is not only because Jamaica has been receiving travellers for so long, nor because the name Christopher Columbus leads all the rest in Jamaica's guestbook, nor even because it would be difficult indeed to imagine a more attractive tourist setting than the island of Jamaica, that I am convinced Pegasus is going to be a highly successful venture. Had there been any doubts at all in my mind, they would have been erased when I looked up the name Pegasus, to see just what, besides a flying horse, it signified. The results were entirely gratifying.

We can start by taking as an excellent omen the well known fact that Pegasus was, indeed, the name of a flying horse of Greek mythology. The hotel by that same name that will rise in Kingston will open its doors just as a generation of true flying workhorses, the jumbo jets, are ready to fly in, each capable of bringing as many passengers as there are to be rooms in the Jamaica Pegasus. That is obviously very good for business. I can assure you that the calculations that brought this hotel into being took into consideration the tourist potential of the flying horses just now being foaled.

But Pegasus was not just any flying horse. He was the flying horse who, by a blow of his hoof, released the waters of the spring Hippocrene on Mount Helicon. From this it may readily be foreseen that the Jamaica Pegasus is destined to be an instrument of development, helping Jamaica to burst its current economic bonds.

There is more, and we could make much of it -- Pegasus signifies poetic inspiration, and it is the name of a constellation of the northern skies lying close to the point of the vernal equinox -- but I know that you are waiting eagerly for me to supply you with those facts and figures, not of mythology, that are expected of an investor, perhaps especially of an investor charged with economic development as well as business objectives. I see no reason to disappoint you.

It has been my good fortune to speak on a number of other occasions when the International Finance Corporation had just had a hand, as it has today, in bringing a new business into being in a developing economy. It is an event that is always a thrill, no matter how often repeated. But I must confess that ordinarily, mixed with the exhilaration of bringing a complicated and generally difficult piece of business to a satisfactory conclusion, there is something very much like the anxious pride with which you send your five-year old off to school all alone for the first time.

Today our confidence overrides our qualms.

The Jamaica Pegasus has strong financial and managerial foundations in its sponsors, BOAC Associated Companies and Forte's Limited. Forte's will bring to Jamaica its experience in hotel management in Britain and many other places. BOAC will bring customers.

Further, the Jamaica Pegasus has received financial backing from a very wide international base. The International Finance Corporation, with a membership of 90 nations, is providing approximately a third of the initial finance for Pegasus. I take pride in the fact that investors in the United Kingdom, the United States, Italy and the Bahamas are participating in IFC's commitment to Pegasus. Representatives of these firms, Barclays Overseas Development Corporation of London; The Citizens and Southern National Bank in Atlanta, Georgia, through a subsidiary, Citizens and Southern International Corporation; Banca Nazionale del Lavoro, of Rome; and The Royal Bank of Canada International Limited, of Nassau, signed participation agreements here today at the same time as the fundamental financing agreements for Pegasus were signed. Further important financing is being provided by Barclays D.C.O., of London.

Nevertheless, one of the most important elements of strength for Pegasus is the fact that it will have substantial backing originating in Jamaica. This will be in the form of a share issue of some 300,000 Jamaican pounds, to be made available to the Jamaican public in an offering underwritten by the Jamaican Development Finance Corporation. I am especially pleased that the Pegasus transaction has provided an occasion for collaboration between the International Finance Corporation and the Jamaican Development Finance Corporation. Pegasus is the second IFC investment in Jamaica, the first since Independence. I am looking forward to further transactions in the future.

Any project would be promising with a financial and managerial background such as the Jamaica Pegasus has. But there is always another critical element for a new business: the market. For the Jamaica Pegasus, I think we could say with modesty that the outlook is pleasing.

Not only, as we have already noted, does Jamaica have the climate, the beaches, the fishing and swimming waters and the distinctive way of life that attract the tourist. As the wide ranging financial backing for Pegasus suggests, the effective market for these tourist wares stretches, in the age of the jet transport, from Northern Europe to Canada and United States. That is a very big stretch, and Jamaica is situated near the center of it.

It is also a high potential tourist market, in terms of numbers of solvent inhabitants who might become visitors to Jamaica. This solvency establishes a kind of cycle, of which all the vacation lands Europeans and North Americans can reach in large numbers, including Jamaica, are the beneficiaries. I would state this economic theory as follows: earning enough to go on a vacation to Jamaica, or Kenya, or North Africa, is exhausting enough to make it almost a necessity to go on vacation to Jamaica, Kenya, North Africa, or somewhere equally refreshing.

I think the fact that North Europeans now vacation in large numbers as far from home as Kenya suggests that when the jumbo jets can bring them to a Jamaica with improved tourist facilities Europeans may come here in larger numbers. But some 90 per cent of Jamaica's tourist traffic now comes from Canada and the United States. To be sure, this alone is a market that will not soon be exhausted: within an afternoon's jet flying of Kingston there are scores of millions of people, including those in the cities of Toronto, Montreal, Boston, New York City -- Jamaica's single biggest market -- Philadelphia, Baltimore and Washington. Moreover, the jet transport is lengthening Jamaica's reach in the North American market: while visitors to Jamaica from New York doubled between 1963 and 1967, visitors from the Midwest and the West Coast tripled.

But we are not talking only about tourism, as important as that is. Kingston is Jamaica's business and governmental center, and as such the Pegasus hotel will provide accommodations for a year round flow of business travellers to Kingston. Further, many of the world's great professional and business associations are looking for new places to take their annual meetings. They will take note of the fact that Pegasus will provide convention facilities now lacking on the island, and that when Pegasus is up, Kingston will have a complex of 800 modern hotel rooms within walking distance of those convention facilities. That means that even very large meetings, of more than 1,000 people, can come to Kingston. And it can be expected that many of their members, once here, will also visit Montego Bay and Jamaica's other attractions.

One other fact about the travel market: Jamaica's traditional winter tourism is now being supplemented by a new wave of people who come in the summer because that is their vacation time and they like the summer sun. These visitors now account for about a fifth of Jamaica's tourist arrivals, in a new peak season in July and August.

So I think we can say with confidence that the business outlook for this investment is not unsatisfactory. The prospects that this investment will help Jamaica to achieve its economic growth goals are equally good.

Jamaica's economic development has been dominated in the past by the island's tropical setting. For more than 300 years, Jamaica produced sugar, rum, bananas and other tropical agricultural products for export.

Since the early 1950s, there have been two sharp departures from this long-lasting economic pattern. The first stemmed from the discovery of extensive and rich deposits of bauxite.

Tourism provided the other major break with Jamaica's economic past. The growth of travel to Jamaica during the 1963-1967 Independence Plan period has been impressive.

But in 1967 the growth of tourism slowed down from the almost dizzying pace of 28 per cent a year, in 1964 through 1966, to some 4 per cent. I am told that this year so far the increase is around 18 per cent. The chief restraint has been the same one that Christopher Columbus experienced: a lack of accommodations.

Tourism has moved up to be the second most important element in the Jamaican economy, and a leading foreign exchange earner. Thus, the benefits to Jamaica of the travel boom, before lack of hotel space throttled it down in 1967, indicate that hotel building in Jamaica is a wise use of the country's development resources. The fact that IFC has joined in helping to bring the Jamaica Pegasus investment to a conclusion is witness to our conviction that tourism is a development factor with an unusually high potential.

World demand for travel is growing considerably faster than demand for merchandise exports, and travel to the developing countries has been growing faster than travel to the industrialized countries. Tourism contributes to economic growth in a way that is usually of special importance to the developing country, by increasing foreign exchange earnings. Pegasus is expected to bring over $3 million foreign exchange a year to Jamaica. Further, tourism is relatively labor intensive -- a factor of great importance for Jamaica, and, specifically, the Pegasus project. During construction the Jamaica Pegasus is expected to create some 1,000 man years of work, and in operation it will open up some 450 jobs, 95 per cent to be filled by Jamaicans.

In addition to the direct increase of employment that tourism generates, there are other, indirect, benefits spread throughout the entire economy, affecting services, construction, demand for local foodstuffs, artisanry products, transport and much else. For instance, during the two year construction period the Jamaica Pegasus will generate about $2 million purchases of Jamaican raw materials.

Tourism, then, would seem to me to be not only a prime economic growth tool for Jamaica -- and Kingston -- but also one that should be nurtured with care. IFC stands ready to lend its hand in further sound tourism projects in Jamaica, and I expect to be looking today and tomorrow at other places on the island where such projects may arise.

I have pointed out that tourism has growth and earnings potentials in virtually all sectors of the economy. The extent to which these collateral benefits may be realized depends, of course, upon the extent to which tourist demand for food and transport, for instance, as well as for hotel space, can be met out of local resources. Investment for the improvement of the tourism potential is not merely hotel building, but involves also improvement of the supply and performance potential throughout the economy.

As an international development agency, we stand ready to assist, at points over the whole range of Jamaica's requirements for development investment, where our help is needed and wanted. I am confident that the International Finance Corporation will be a part of other transactions in your up and moving island nation.

# # #

INTERNATIONAL FINANCE
CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-2510

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1, England
Telephone: 930-3886

Cable Address: CORINTFIN

# TOURISM, JAMAICA and ECONOMIC DEVELOPMENT

Address by

**MARTIN M. ROSEN**

Executive Vice President

**INTERNATIONAL FINANCE CORPORATION**

Upon the Occasion
of the
Signing of the Investment Agreement
for the
Jamaica Pegasus Hotel

Kingston, Jamaica,
October 25, 1968

In Washington there used to be a lady who gave such successful parties that she became known as "The Hostess with the Mostest". I am reminded of her by your beautiful island. As a tourist spot, Jamaica might well be called "The Hostess with the Mostest". You have the climate, you have the natural beauty, you have the beaches, the sea, the opportunity for sports the year round, and, the most important thing of all, like our Washington hostess, Jamaicans, as I have already discovered, have the friendly and hospitable attitude that makes for a happy vacation.

Certainly, Jamaica can make at least one tourist claim that few can match. It is already more than 474 years since Jamaica's first famous tourist arrived. That is a very long time to have been receiving visitors in the New World.

It is true that your first well known guest, Christopher Columbus, did not stay very long on his first visit, in 1494. Perhaps he did not like the accommodations.

But it is not only because Jamaica has been receiving travellers for so long, nor because the name Christopher Columbus leads all the rest in Jamaica's guestbook, nor even because it would be difficult indeed to imagine a more attractive tourist setting than the island of Jamaica, that I am convinced Pegasus is going to be a highly successful venture. Had there been any doubts at all in my mind, they would have been erased when I looked up the name Pegasus, to see just what, besides a flying horse, it signified. The results were entirely gratifying.

We can start by taking as an excellent omen the well known fact that Pegasus was, indeed, the name of a flying horse of Greek mythology. The hotel by that same name that will rise in Kingston will open its doors just as a generation of true flying workhorses, the jumbo jets, are ready to fly in, each capable of bringing as many passengers as there are to be rooms in the Jamaica Pegasus. That is obviously very good for business. I can assure you that the calculations that brought this hotel into being took into consideration the tourist potential of the flying horses just now being foaled.

But Pegasus was not just any flying horse. He was the flying horse who, by a blow of his hoof, released the waters of the spring Hippocrene on Mount Helicon. From this it may readily be foreseen that the Jamaica Pegasus is destined to be an instrument of development, helping Jamaica to burst its current economic bonds.

There is more, and we could make much of it—Pegasus signifies poetic inspiration, and it is the name of a constellation of the northern skies lying close to the point of the vernal equinox—but I know that you are waiting eagerly for me to supply you with those facts and figures, not of mythology, that are expected of an investor, perhaps especially of an investor charged with economic development as well as business objectives. I see no reason to disappoint you.

It has been my good fortune to speak on a number of other occasions when the International Finance Corporation had just had a hand, as it has today, in bringing a new business into being in a developing economy. It is an event that



is always a thrill, no matter how often repeated. But I must confess that ordinarily, mixed with the exhilaration of bringing a complicated and generally difficult piece of business to a satisfactory conclusion, there is something very much like the anxious pride with which you send your five-year old off to school all alone for the first time.

Today our confidence overrides our qualms.

The Jamaica Pegasus has strong financial and managerial foundations in its sponsors, BOAC Associated Companies and Forte's Limited.

Further, the Jamaica Pegasus has received financial backing from a very wide international base. The International Finance Corporation, with a membership of 90 nations, is providing approximately a third of the initial finance for Pegasus. I take pride in the fact that investors in the United Kingdom, the United States, Italy and Canada are participating in IFC's commitment to Pegasus. Representatives of these firms—Barclays Overseas Development Corporation of London; The Citizens and Southern National Bank in Atlanta, Georgia, through a subsidiary, Citizens and Southern International Corporation; Banca Nazionale del Lavoro of Rome; and The Royal Bank of Canada acting through its subsidiary in Nassau—signed participation agreements here today at the same time as the fundamental financing agreements for Pegasus were signed. Further important financing is being provided by Barclays D.C.O., of London.

Nevertheless, one of the most important elements of strength for Pegasus is the fact that it will have substantial backing originating in Jamaica. This will be in the form of a share issue of some 300,000 Jamaican pounds, to be made available to the Jamaican public in an offering underwritten by the Jamaican Development Finance Corporation. I am especially pleased that the Pegasus transaction has provided an occasion for collaboration between the International Finance Corporation and the Jamaican Development Finance Corporation. Pegasus is the second IFC investment in Jamaica, the first since Independence. I am looking forward to further transactions in the future.

Any project would be promising with a financial and managerial background such as the Jamaica Pegasus has. But there is always another critical element for a new business: the market. For the Jamaica Pegasus, I think we could say with modesty that the outlook is pleasing.

Not only, as we have already noted, does Jamaica have the climate, the beaches, the fishing and swimming waters and the distinctive way of life that attract the tourist. As the wide ranging financial backing for Pegasus suggests, the effective market for these tourist wares stretches, in the age of the jet transport, from Northern Europe to Canada and the United States. That is a very big stretch, and Jamaica is situated near the center of it.

The fact that financial institutions in Canada, Europe and the United States have joined in the transaction is concrete proof of the broad based interest in the Jamaican tourist market.

It is a high potential tourist market, in terms of numbers of solvent inhabitants who might become visitors to Jamaica. This solvency establishes a kind of cycle, of which all the vacation lands Europeans and North Americans can reach in large numbers, including Jamaica, are the beneficiaries. I have an economic law which is not taught in our leading universities but which I will pass on to you: earning enough to go on a vacation to Jamaica, or Kenya, or North Africa, is exhausting enough to make it almost a necessity to go on vacation to Jamaica, Kenya, North Africa, or somewhere equally refreshing.



I think the fact that North Europeans now vacation in large numbers as far from home as Kenya suggests that when the jumbo jets can bring them to a Jamaica with improved tourist facilities Europeans may come here in larger numbers. But some 90 per cent of Jamaica's tourist traffic now comes from Canada and the United States. To be sure, this alone is a market that will not soon be exhausted: within an afternoon's jet flying of Kingston there are scores of millions of people, including those in the cities of Toronto, Montreal, Boston, New York City—Jamaica's single biggest market—Philadelphia, Baltimore and Washington. Moreover, the jet transport is lengthening Jamaica's reach in the North American market: while visitors to Jamaica from New York doubled between 1963 and 1967, visitors from the Midwest and the West Coast tripled.

But we are not talking only about tourism, as important as that is. Kingston is Jamaica's business and governmental center, and as such the Pegasus Hotel will provide accommodations for a year round flow of business travellers to Kingston. Further, many of the world's great professional and business associations are looking for new places to take their annual meetings. They will take note of the fact that Pegasus will provide convention facilities now lacking on the island, and that when Pegasus is up, Kingston will have a complex of 800 modern hotel rooms within walking distance of those convention facilities. That means that even very large meetings, of more than 1,000 people, can come to Kingston. And it can be expected that many of their members, once here, will also visit Montego Bay and Jamaica's other attractions.

One other fact about the travel market: Jamaica's traditional winter tourism is now being supplemented by a new wave of people who come in the summer because that is their vacation time and they like the summer sun. These visitors now account for about a fifth of Jamaica's tourist arrivals, in a new peak season in July and August.

So, if I may make use of British understatement, in view of the sponsors of the project, I think we can say that the business outlook for this investment is not unsatisfactory. The prospects that this investment will help Jamaica to achieve its economic growth goals are equally good.

Jamaica's economic development has been dominated in the past by the island's tropical setting. For more than 300 years, Jamaica produced sugar, rum, bananas and other tropical agricultural products for export.

Since the early 1950's, there have been two sharp departures from this long-lasting economic pattern. The first stemmed from the discovery of extensive and rich deposits of bauxite.

Tourism provided the other major break with Jamaica's economic past. The growth of travel to Jamaica during the 1963-1967 Independence Plan period has been impressive.

But in 1967 the growth of tourism slowed down from the almost dizzying pace of 28 per cent a year, in 1964 through 1966, to some 4 per cent. I am told that this year so far the increase is around 18 per cent. The chief restraint has been the same one that Christopher Columbus experienced: a lack of accommodations.

Tourism has moved up to be the second most important element in the Jamaican economy, and a leading foreign exchange earner. Thus, the benefits to Jamaica of the travel boom, before lack of hotel space throttled it down in 1967, indicate that hotel building in Jamaica is a wise use of the country's development resources. The fact that IFC has joined in helping to bring the Jamaica Pegasus investment to a conclusion is witness to our conviction that tourism is a development factor with an unusually high potential.



World demand for travel is growing considerably faster than demand for merchandise exports, and travel to the developing countries has been growing faster than travel to the industrialized countries. Tourism contributes to economic growth in a way that is usually of special importance to the developing country, by increasing foreign exchange earnings. Pegasus is expected to bring over $3 million foreign exchange a year to Jamaica. Further, tourism is relatively labor intensive—a factor of great importance for Jamaica. During construction the Jamaica Pegasus is expected to create some 1,000 man years of work, and in operation it will open up some 450 jobs, 95 per cent to be filled by Jamaicans.

In addition to the direct increase of employment that tourism generates, there are other, indirect, benefits spread throughout the entire economy, affecting services, construction, demand for local foodstuffs, artisanry products, transport and much else. For instance, during the two year construction period the Jamaica Pegasus will generate about $2 million of purchases of Jamaican raw materials.

I have pointed out that tourism has growth and earnings potentials in virtually all sectors of the economy. The extent to which these collateral benefits may be realized depends, of course, upon the extent to which tourist demand for food and transport, for instance, as well as for hotel space, can be met out of local resources. Investment for the improvement of the tourism potential is not merely hotel building, but involves also improvement of the supply and performance potential throughout the economy.

As an international development agency, we stand ready to assist, at points over the whole range of Jamaica's requirements for development investment, where our help is needed and wanted. I am confident that the International Finance Corporation will be a part of other transactions in your up and moving island nation.

SPANISH

IFC RECRUITS CAPITAL FOR DEVELOPMENT reprinted from Columbia Journal of World Business

# LA CFI ATRAE CAPITAL PARA FINES DE DESARROLLO


**POR MARTIN M. ROSEN**
Vicepresidente Ejecutivo
**CORPORACION FINANCIERA INTERNACIONAL**


CFI
CORPORACION FINANCIERA INTERNACIONAL




Traducción de un artículo aparecido
en el número correspondiente a
noviembre-diciembre de 1968 del
**Columbia Journal of World Business**

SPANISH

IFC RECRUITS CAPITAL FOR DEVELOPMENT reprinted from Columbia Journal of World Business

*LA CFI ATRAE CAPITAL PARA FINES DE DESARROLLO se ha traducido de un artículo aparecido en el número correspondiente a noviembre-diciembre de 1968 del* **Columbia Journal of World Business,** *publicación bimensual de la Escuela de Administración para Posgraduados, de la Universidad de Columbia.*

En momentos como el presente en que los dirigentes del proceso del desarrollo en todo el mundo están llevando a cabo un análisis de las técnicas que se utilizan actualmente para acelerar el ritmo del crecimiento económico de los países menos desarrollados y están elaborando otras nuevas, es cada vez más necesario que aumente la corriente de personal capacitado y capital del sector privado de los países más industrializados hacia los menos avanzados. Ese incremento es el factor básico de una nueva estrategia en materia de desarrollo.

Constituye también la continuación de un proceso que viene registrándose desde hace algún tiempo. La expansión económica lograda en los últimos años por varios países en desarrollo, particularmente en sus sectores industriales, se ha debido, en medida considerable, a la inversión directa de capitales privados extranjeros. Aunque no es posible establecer una relación precisa de causa y efecto, es innegable que la inversión privada ha contribuido en forma significativa—conjuntamente con la importancia atribuida a la industrialización en la mayoría de los planes nacionales de desarrollo—al aumento anual medio del 7 por ciento registrado en la producción fabril de los países en desarrollo durante el último decenio.

S P A N I S H

IFC RECRUITS CAPITAL FOR DEVELOPMENT reprinted from Columbia Journal of World Business

La corriente de capital privado, a pesar de haber experimentado pronunciadas fluctuaciones, ha constituido una proporción importante de la afluencia total de recursos hacia el mundo en desarrollo. En 1967, las inversiones privadas extranjeras, tanto directas como en valores de cartera, efectuadas en esos países ascendieron a más de $2.600 millones.[1] Esa cifra representa el 23 por ciento del monto total neto, $11.400 millones, de los recursos financieros y técnicos suministrados, tanto en forma de ayuda oficial como de capital privado, a los países en desarrollo por los miembros del Comité de Ayuda para el Desarrollo de la Organización de Cooperación y Desarrollo Económicos (Alemania, Australia, Austria, Bélgica, Canadá, Dinamarca, Estados Unidos, Francia, Italia, Japón, Noruega, Países Bajos, Portugal, Reino Unido, Suecia, Suiza y la Comisión de las Comunidades Europeas). Entre 1960 y 1967, la afluencia neta de capital privado a los países en desarrollo (inversiones y préstamos privados, así como créditos privados de exportación) aumentó de $3.182 millones a $4.390 millones anuales, en tanto que la ayuda pública se elevó de $4.930 millones a casi $7.000 millones.

En muchos países ya existen las condiciones necesarias para que la empresa privada desempeñe en el futuro un papel más importante en el proceso de desarrollo económico. Esos países han mejorado y ampliado sus instalaciones de infraestructura durante los últimos 20 años con la ayuda de fondos públicos, y ahora cuentan con un mayor suministro de energía eléctrica, sistemas de regadío más extensos, medios modernos de comunicaciones, importantes redes de transportes y mejores servicios. Gracias a esas mejoras y a las implantadas en los campos de la educación y la salud, se dispone, para ese mayor abastecimiento de fuerza eléctrica y los sistemas de comunicaciones y de transportes más eficientes, de mano de obra mejor capacitada, elemento imprescindible para ampliar la producción de bienes y servicios.

[1] *Salvo indicación contraria, todas las cantidades de dinero mencionadas en este artículo se expresan en dólares de los Estados Unidos.*



De modo que el llamamiento que se hace ahora en favor de una mayor participación de la empresa privada en el proceso de desarrollo no es simplemente un *cri d'alarme* destinado a atraer a la inversión privada a los sectores en que la pública se encuentra en un bajo nivel, como sucede en muchos lugares. Ese llamamiento se basa también en otras razones que es posible que el inversionista privado encuentre más afines a sus consideraciones. Constituye un signo de los tiempos, y refleja el hecho de que el desarrollo ha llegado a una etapa en que, gracias a la existencia de más y mejores elementos básicos en muchos lugares, hay mayores oportunidades para la realización de inversiones privadas en los países en desarrollo; pero la mayor parte de esas instalaciones de infraestrucura pueden utilizarse para fines productivos solamente mediante inversiones privadas en la producción de bienes y servicios.

Esto no quiere decir que ya se cuente con toda la infraestructura necesaria, ni que siquiera se esté llegando a ese punto. Todo lo contrario: esas actividades nunca terminan. Hasta los países industriales más desarrollados, como el Japón, los Estados Unidos, y los países de Europa Occidental, constantemente están incrementando, renovando y mejorando sus instalaciones básicas, con el objeto de poder alcanzar un nivel de crecimiento aún mayor. Son pocas las ocasiones en que el desarrollo de la infraestructura de un país alcanza un grado tal que no se necesitan más instalaciones de esa índole; lo más frecuente es que se llegue a un punto en que un mayor desarrollo y la implantación de cambios reales en el nivel de vida (que es la finalidad de la labor en pro del desarrollo) no sólo se hagan necesarios, sino también viables, a través de la inversión privada.

### Papel del sector privado en las actividades de desarrollo

Hay otros factores económicos que militan en favor de una participación más intensa del sector privado en el proceso del desarrollo. Por una parte, en muchas naciones en desarrollo la necesidad de ofrecer servicios y elementos esenciales a una población que aumenta a un ritmo acelerado, ha constituido una pesada carga para los recursos pecuniarios y humanos del sector público. Los gobiernos respectivos no están en condiciones de emplear sus limitados recursos en actividades que pueda financiar la inversión privada.

Por otra parte, mientras que en una época solamente los Estados Unidos podían producir lo suficiente para atender tanto sus propias necesidades como las de los países en desarrollo, en la actualidad muchas otras naciones también pueden hacerlo. Por consiguiente, un número cada vez mayor de hombres de negocios de muchos países están ahora en situación de proporcionar capital, maquinaria y conocimientos técnicos a las naciones de Africa, América Latina y Asia. La existencia de materias primas aún inexplotadas y de mano de obra abundante y deseosa de aprender técnicas modernas, constituye un incentivo adicional para la realización de esas inversiones. Además, la inversión privada en empresas productivas de las naciones en desarrollo contribuye a satisfacer el objetivo de muchas de ellas de ahorrar divisas, mediante la producción en el país de bienes que antes adquirían en el extranjero.

Estos factores ponen de relieve la importancia de la Corporación Financiera Internacional (CFI) tanto en su calidad de inversionista por cuenta propia, como en la de elemento catalítico para atraer capital de terceros hacia inversiones en los países en desarrollo. Fundada en 1956 como afiliada del Banco Internacional de Reconstrucción y Fomento (Banco Mundial), la CFI no tiene paralelo o precedente entre los organismos intergubernamentales, ya que su único objetivo es coadyuvar a promover la empresa privada en escala internacional. Las operaciones de inversión de la CFI complementan las actividades crediticias del Banco Mundial; ahora bien, a diferencia de éste, otorga préstamos a entidades privadas sin garantía gubernamental, y puede proporcionar capital en cualquier forma, incluso mediante inversiones en acciones de capital. El Banco Mundial y su otra afiliada, la Asociación Internacional de Fomento (AIF), se limitan a realizar actividades crediticias.

El capital social autorizado de la CFI es de \$110 millones, y de esa suma \$102.386.000 han sido suscritos por 90 países miembros.[2] Los recursos a disposición de la CFI para sus operaciones se han incrementado con sus ingresos, la rotación de los fondos recibidos por concepto de reembolsos, las ventas de sus inversiones a terceros, y una línea de crédito de \$100 millones que le ha concedido el Banco Mundial (como parte de la suma de aproximadamente \$400 millones que está autorizada para obtener en préstamo de la institución matriz), para que otorgue préstamos a empresas privadas. Al cierre del ejercicio económico de 1968, el total acumulado de estos recursos ascendía a \$340 millones.

### Misión de la Corporación

De acuerdo con su Convenio Constitutivo, la CFI tiene tres objetivos principales, a saber: proporcionar capital de riesgo para empresas privadas productivas, en asociación con inversionistas y empresarios privados; promover el desarrollo de

[2] *Después de publicado este artículo, China ingresó en la CFI con lo que sus países miembros al 31 d marzo de 1969 eran 91 y su capital suscrito sumaba \$106.540.000.*

los mercados de capital locales, y estimular la corriente internacional de capital.

La Corporación realiza inversiones en los países miembros en desarrollo si es imposible obtener en ellos capital privado en cantidad suficiente y en condiciones razonables. Todas sus inversiones las lleva a cabo en asociación con empresarios privados, y proporciona solamente una parte del financiamiento total necesario. El monto de los compromisos iniciales de la CFI fluctúa entre $500.000 y $20 millones, salvo en el caso de los correspondientes a costos de promoción, cuyo límite máximo es $50.000.

La CFI proporciona financiamiento para proyectos específicos, incluso para ser utilizado como capital de explotación, y puede destinarse a atender tanto gastos en moneda nacional, como costos en divisas. La CFI no toma parte en el financiamiento directo de importaciones o exportaciones.

Hasta el 30 de junio de 1968, término de su último ejercicio económico,[3] la CFI había comprometido cerca de $272 millones de sus fondos propios en 113 empresas del sector privado de 39 países. Estas cifras no reflejan plenamente los resultados de la actuación de la Corporación. En muchos casos, la CFI ha aportado el último financiamiento que faltaba para un proyecto, que de lo contrario nunca se hubiera llevado a cabo. Por ejemplo, en su primera operación relacionada con la industria turística, un compromiso contraído en diciembre de 1966 con la Kenya Hotel Properties Limited, la Corporación aportó el elemento que faltaba—capital en préstamo—y reforzó la transacción mediante una inversión en el capital social de la empresa. El compromiso de la CFI ($8 millones en préstamo y $4 millones en forma de suscripción de acciones) para un plan de expansión de la Manila Electric Company, la principal empresa eléctrica de las Filipinas que es propiedad de accionistas, constituyó un complemento clave del capital tomado en préstamo de otras fuentes, principalmente en forma de créditos de proveedores. En ocasiones, como en el caso de la inversión de la Corporación en la Cía. Manufacturera de Papeles y Cartones, una empresa chilena, la CFI facilita la obtención de préstamos de otras fuentes mediante la subordinación de su propio préstamo. Hay otras oportunidades en que la empresa no tiene dificultad para obtener capital en préstamo, como en el de Enka de Colombia, S. A., la mayor fábrica de fibras sintéticas de ese país, y en ellas la inversión en capital social realizada por la Corporación contribuye a completar el programa de financiamiento.

Por lo general, la CFI colabora en la determinación de las necesidades financieras de un proyecto y ayuda a los patrocinadores a establecer un plan que responda a sus necesidades y a las perspectivas futuras de la empresa. Como el financiamiento que proporciona no está condicionado a la adquisición de equipo específico o la realización de compras en un país determinado, la Corporación está en condiciones de examinar objetivamente las características de ingeniería de un proyecto y determinar si, desde un punto de vista técnico, constituye una base adecuada para la formulación de un plan financiero realista.

Cabe subrayar que en lo que respecta a la CFI, la utilización de los fondos reviste caracteres mucho más complejos que en el caso de una entidad inversionista privada o de un banco de negocios. Esto se debe a que la CFI tiene obligaciones tanto en materia de desarrollo como de inversiones. Al considerar una propuesta de inversión, la Corporación debe cerciorarse de que el proyecto tenga buenas perspectivas de producir beneficios adecuados, tanto a nivel público como pri-

[3] *Los datos utilizados en el presente artículo corresponden al término del ejercicio económico de 1968 de la CFI.*

vado. Toda operación de la CFI debe tener posibilidades de proporcionar un rendimiento pecuniario razonable sobre el capital en ella invertido, tanto por la propia Corporación como por inversionistas privados. Asimismo, ha de tener perspectivas de producir beneficios para la economía del país receptor, en forma de un incremento tanto en la renta nacional como en los ingresos *per capita.*

### Normas que rigen sus actividades

Suele ser difícil encontrar inversiones que reúnan ambos requisitos. Además, se plantean problemas operativos debido a que la CFI realiza actividades en muchos países que tienen diferentes costumbres, idiomas, leyes y otras características, y surgen complicaciones respecto a la aplicación de sus normas de inversión a situaciones muy diversas.

En sus primeros años de existencia, es decir, en la segunda mitad del decenio de 1950, las actividades de financiamiento de la CFI se orientaron principalmente hacia empresas mineras y fabriles privadas y hacia sociedades de financiamiento del desarrollo (financieras o bancos de fomento). Posteriormente, la Corporación ha venido diversificando sus operaciones.

Dentro del Grupo de instituciones del Banco Mundial, se ha encomendado a la CFI la tarea de coadyuvar al establecimiento de industrias de fertilizantes en los países menos desarrollados, reflejando la importancia que aquél concede al incremento de la producción de alimentos y de la productividad agrícola en general para el éxito de todo el proceso de desarrollo, incluso el logro de un crecimiento industrial constante. Durante los últimos dos años y medio, la Corporación ha contribuido al financiamiento de fábricas de abonos en Brasil, India, Paquistán y Senegal. De los compromisos que contrajo durante el ejercicio económico de 1967, más de la mitad se destinaron a intensificar la producción de fertilizantes.



La CFI ha realizado recientemente un importante esfuerzo para dotar de mayor flexibilidad a sus actividades encaminadas a impulsar el aprovechamiento del potencial de desarrollo de sus países miembros. Ha modificado su política de forma que ahora puede contraer compromisos para fines de promoción, es decir, para coadyuvar al establecimiento de una empresa. Esas actividades de promoción se orientarán hacia proyectos que tengan perspectivas razonables de llegar a ser adecuados para su financiamiento por la CFI con arreglo a sus normas habituales. La Corporación ha fijado una cifra máxima de $50.000 para los costos de promoción de cada proyecto.

### Mayor diversificación

Con el fin de lograr una mayor diversificación geográfica, la CFI realizó durante el pasado ejercicio financiero sus primeras inversiones en tres países: Corea, Mauritania y Nicaragua. Durante los últimos cinco años, la CFI había realizado las primeras inversiones en otros catorce países: Costa de Marfil, Costa Rica, Etiopía, Filipinas, Honduras, Kenia, Malasia, Marruecos, Nigeria, Senegal, Sudán, Túnez, Turquía y Uganda.

Las inversiones principales realizadas durante el ejercicio pasado por la CFI dieron la vuelta al mundo: dos fueron hechas en Africa, otras dos en Asia y tres en América Latina. Más de la mitad de los fondos comprometidos durante el ejercicio de 1968 se destinaron al Africa, incluida la mayor inversión efectuada en la historia de la CFI: un compromiso por valor de $20 millones en favor de la Société Minière de Mauritanie (SOMIMA) para la explotación de yacimientos de cobre en el desierto de Sahara. De esta manera prosiguió la diversificación geográfica del año precedente, en que más de la mitad de los fondos comprometidos por la CFI fueron para países de Asia y el Oriente Medio. Al finalizar el ejercicio de 1968, y al cabo de los 12 años de actividades de la Corporación, sus compromisos en Asia y el Oriente Medio alcanzaron un total de $65,4 millones, es decir, el 24 por ciento del total acumulado de sus inversiones; los de Africa sumaron $59,2 millones (22 por ciento); y los de América Latina, $129,2 millones (48 por ciento). El 6 por ciento restante representó inversiones en Europa y Australia.

El monto promedio de los compromisos principales de la CFI (cualquier inversión superior a $500.000 en una empresa constituye un compromiso "principal") ha ido en aumento. En el ejercicio de 1967, dicho promedio fue de $5,4 millones, un aumento sustancial con respecto al de $2,3 millones registrado el ejercicio precedente, y durante el de 1968 se elevó a $7,1 millones.

No hay ningún otro elemento que sea tan importante para el éxito de una inversión como una buena administración. Por consiguiente, las inversiones de la CFI siempre se hacen en forma de operaciones conjuntas. Con ello se trata de lograr la participación de inversionistas y empresarios locales, así como de patrocinadores técnicos de los países desarrollados, que también estén dispuestos a prestar apoyo financiero a los proyectos.

En los casos que requieren la aplicación de una tecnología nueva o avanzada, es probable que gran parte del éxito dependa de los socios técnicos. En Malasia, la CFI ayudó a completar el financiamiento necesario para establecer una acería cuya capacidad y tipo de producción corresponden a las necesidades de un mercado relativamente pequeño, y cuyos métodos de producción aprovechan materias primas de que dispone el país, incluso la madera de árboles de caucho para la producción de carbón vegetal. El principal socio técnico del proyecto es la Yawata Iron and Steel Company Limited, la mayor empresa siderúrgica del Japón.



En marzo de 1968 se realizó una inversión con una nueva modalidad de asociación: por vez primera un proyecto de Centroamérica, respaldado por la CFI, contó con un patrocinador técnico latinoamericano. En esa ocasión, la firma nicaragüense Textiles Fabricato de Nicaragua S. A. (Fabritex) obtuvo el patrocinio técnico de la empresa colombiana Fábrica de Hilados y Tejidos del Hato, S. A. (Fabricato).

La participación en una empresa conjunta de elementos locales y extranjeros, experimentados y neófitos, así como de inversionistas financieros e industriales, gubernamentales o intergubernamentales, nacionales e internacionales, puede realizarse en muy diversas formas.

El propio gobierno de un país en desarrollo podría copatrocinar inicialmente un proyecto. Este fue el caso de la Ethiopian Pulp and Paper Share Company, la primera papelera importante instalada en Etiopía, que fue patrocinada conjuntamente por el Gobierno y por la firma Parsons and Whittemore, Inc., de Nueva York. Puesto que la única esperanza de obtener un cierto grado de participación nacional en la propiedad de la compañía radicaba en la garantía de una emisión de acciones, en noviembre de 1965 la CFI aceptó actuar como cogarante de una oferta pública a los inversionistas privados de Etiopía.

La firma Papel e Celulose Catarinense, S. A., de Brasil, productora de pulpa y papel kraft, está patrocinada por el Grupo Klabin, importante consorcio industrial brasileño. En la India, la Jayshree Chemicals Limited, empresa productora de sosa cáustica, tiene al Grupo Bangur, prominente organización industrial del país, como patrocinador técnico.

La Arewa Textiles Limited, de Nigeria, constituye una interesante modalidad de asociación para el patrocinio de una empresa. Los participantes son la Overseas Spinning Investment Company Limited, que representa a una consorcio de nueve importantes firmas textiles japonesas, y dos instituciones nigerianas de fomento, la Northern Nigeria Development Corporation (NNDC) y la Northern Nigeria Investments Limited (NNIL).

### Elemento catalizador

Una de las funciones más importantes de la CFI es la de servir como elemento catalizador para atraer capital adicional hacia las empresas que financia. Mientras que su participación en estos proyectos ha ascendido a unos $272 millones, otros inversionistas han aportado más de $1.000 millones para los mismos. Una proporción sustancial de esta corriente de capitales de los países más ricos a los menos prósperos no se habría registrado sin la intervención de la CFI.

Durante el pasado ejercicio, la CFI tomó parte en grupos inversionistas de excepcional amplitud, que financiaron una empresa minera de cobre en Mauritania, un banco de fomento en Corea, y una fábrica de tejidos en Nicaragua. El compromiso de $20 millones contraído por la CFI en favor de la Société Minière de Mauritanie, con destino a un proyecto por valor de $60 millones para la explotación de yacimientos de cobre en el desierto de Sahara, constituye la mayor inversión que ha efectuado hasta ahora. En dicho proyecto ha participado el grupo de inversionistas más numeroso que se ha asociado a una transacción de la CFI. El grupo está integrado por patrocinadores del Reino Unido y de Francia; el Banco Europeo de Inversiones, el órgano inversionista de la Comunidad Económica Europea; bancos privados europeos; y el Gobierno de Mauritania. En él participan inversionistas gubernamentales (el Gobierno de Mauritania y el Bureau de Recherches Géologiques et Minières, organismo del Gobierno de Francia) e intergubernamentales (la CFI y el Banco Europeo de Inversiones—BEI); los sectores privado (Charter Consolidated y tres compañías privadas francesas) y público (el Gobierno de Mauritania y la compañía francesa financiada con fondos públicos); e intereses financieros e industriales (la CFI, el BEI, Charter y su subsidiaria, e instituciones de inversión de los Estados Unidos, Europa y el Oriente Medio).

### Venta de inversiones

Además de contribuir a movilizar capitales, la CFI actúa, de hecho, como administradora de capitales privados. Siempre que considera oportuno hacerlo, vende sus inversiones a compradores privados. En los países donde todavía no está arraigado el hábito de realizar inversiones industriales, la CFI reserva parte de sus acciones para venderlas posteriormente a los compradores nacionales que puedan surgir una vez que una nueva empresa haya comenzado a dar resultados tangibles. La CFI vende porciones de sus inversiones a instituciones que se dedican a realizar transacciones internacionales. De los compromisos brutos que la Corporación ha contraído por valor de $271,8 millones, aproximadamente $53,7 millones han sido vendidos a otros inversionistas.

El inversionista puede adquirir una porción de todo el compromiso de la CFI, con igual participación porcentual en la parte correspondiente a capital social, y a cada uno de los vencimientos del préstamo. O puede preferir comprar solamente los vencimientos más próximos de la porción en préstamo del compromiso. En los casos en que un inversionista participa en la inversión desde el primer momento, la Corporación está dispuesta a ofrecerle condiciones idénticas a las que ella misma ha obtenido. Pero cuando un inversionista desea adquirir valores ya más acreditados de la cartera de la CFI, es posible que ésta cobre una prima.

El hecho de que unas 40 instituciones financieras hayan adquirido porciones de compromisos de la CFI en más de una ocasión—algunas de ellas en muchas—puede considerarse como una demostración de confianza en la evaluación por parte de la Corporación de los riesgos de las inversiones en los países en desarrollo. La Kuwait Investment Company, el grupo de la Banca Commerciale Italiana y el Bank of America, con su afiliada la Bamerical International Financial Corporation, han realizado cada uno más de 10 inversiones conjuntamente con la CFI.

Durante los últimos 12 años, más de 80 instituciones financieras han invertido fondos en transacciones de la CFI en 203 ocasiones. En la mayor parte de esas inversiones conjuntas participaron bancos privados y sociedades de inversión bien conocidos de Norteamérica y Europa. Pero casi una quinta parte fueron realizadas por instituciones de otras regiones, incluso el Oriente Medio. ¿Por qué compran porciones de los compromisos de la CFI estos inversionistas? Una de las razones es que producen un buen rendimiento. La rentabilidad anual media de las 27 inversiones liquidadas hasta ahora por la Corporación ha sido de 11,42 por ciento.

No cabe duda de que el historial en materia de rendimiento influyó sobre las decisiones de muchos de esos inversionistas, pero otros han sido atraídos por los beneficios colaterales, tanto reales como posibles. Los bancos que desean entablar relaciones comerciales con empresas nuevas en el extranjero o introducirse en países donde no realizan operaciones constituyen un ejemplo de este último punto.



El problema más común de un país en desarrollo es la escasez de capital. Sin embargo, no es realmente la falta de capital en sí lo que impide el desarrollo, sino más bien la ausencia de capital disponible para el financiamiento de nuevas empresas comerciales. El elemento más necesario es un mercado de capital que permita encauzar el ahorro hacia la inversión. En consecuencia, el desarrollo de un mercado de capital, aunque sea en forma rudimentaria, es uno de los principales objetivos de las actividades de inversión de la CFI.

Su facultad para realizar inversiones en capital social y garantizar nuevas emisiones de acciones de capital, le permite a la CFI coadyuvar al fortalecimiento de los mercados de capital del mundo en desarrollo. De los $34,1 millones comprometidos por la Corporación en operaciones de garantía de compra y de garantía de emisiones públicas o privadas durante el ejercicio de 1968, alrededor de $25 millones fueron tomados por subgarantes, a través de sindicatos formados por la CFI o por otras instituciones e inversionistas individuales.

Como ejemplo cabe citar el respaldo proporcionado por la CFI a la mayor empresa productora de acero de México, la Cía. Fundidora de Fierro y Acero de Monterrey, S.A. (Fundidora). La empresa, que se estableció en 1900, fabrica una extensa variedad de calidades de acero para la industria, la construcción, la minería, los ferrocarriles y la agricultura. En marzo de 1968, la CFI realizó su mayor operación de esa índole, al garantizar la venta de la mitad de una nueva emisión de acciones de Fundidora por valor de $14 millones. Esa fue la cuarta oportunidad en que la CFI garantizó una proporción considerable de una nueva emisión de Fundidora. Desde 1962, la CFI ha contraído compromisos de garantía de emisión por valor de aproximadamente $22 millones, de un total de $44 millones. Un hecho importante para el desarrollo del mercado mexicano de capital fue que en las cuatro ocasiones una firma mexicana—Crédito Bursátil—garantizó la parte de la emisión no amparada por el compromiso de la CFI. Por consiguiente, la actuación de la Corporación fue significativa en los siguientes aspectos: (a) la prestación de ayuda a una empresa mexicana próspera, pero que tropezó con dificultades para obtener fondos para fines de expansión, en relación con el financiamiente de un aumento de su capacidad de producción de acero, de 300.000 toneladas de lingotes en 1962 a 800.000 en 1968; (b) la canalización hacia inversionistas nacionales de acciones mexicanas de alta calidad por valor de unos $44 millones, lo que constituyó un aumento significativo del número de acciones acreditadas que se cotizan en el país; y (c) la consolidación de una firma mexicana de inversiones como instrumento para encauzar el ahorro nacional hacia el mercado, para su inversión en empresas del país.

### La participación local

En muchas ocasiones, paralelamente con las inversiones de la CFI se hacen ofertas de acciones en el país en que está emplazado el proyecto. Por ejemplo, en Paquistán, la Crescent Jute Products Limited obtuvo financiamento adicional a través de una emisión de acciones ofrecida a inversionistas privados del país, garantizada por sus patrocinadores conjuntos, el grupo Amin-Bashir. Asimismo, la Indian Explosives Limited gestionó la garantía de una oferta de acciones al público de la India para atender el financiamiento de su planta de fertilizantes. En relación con varios proyectos financiados por la CFI en América Latina, también se han realizado ofertas de acciones en los respectivos países.

La labor de las sociedades de financiamiento del desarrollo, que igualmente procuran impulsar el desarrollo de los mercados nacionales de capital y una distribución más amplia de la propiedad de las empresas, constituye un complemento importante de las actividades de la CFI en el campo de las acciones de capital.

Desde 1962 ha correspondido a la CFI el tomar la iniciativa, dentro del Grupo del Banco Mundial, en relación con la consideración de propuestas encaminadas a la creación de sociedades de financiamiento del desarrollo o a la prestación de asistencia técnica y financiera a las ya existentes. Estas sociedades realizan en sus respectivos países la labor que la CFI desempeña a nivel internacional: coadyuvar al fortalecimiento del sector comercial de un país en desarrollo. Los instrumentos principales de que disponen para esta labor son capital, personal directivo con experiencia en problemas relativos al fomento industrial y el financiamiento, y contactos con instituciones radicadas en el extranjero que pueden proporcionar asistencia financiera y técnica adicional. La CFI aporta capital en acciones, elemento que escasea y que estas sociedades necesitan tanto como base para obtener fondos en préstamo como para hacer inversiones en capital social. La CFI también ayuda a estas sociedades a conseguir la participación de inversionistas privados extranjeros en su capital en acciones.

La Corporación ha colaborado en la creación de 18 sociedades de financiamiento del desarrollo. La última vez que realizó una operación de esa índole fue en febrero de 1968, en que ayudó a reunir un grupo de inversionistas de excepcional amplitud que aportó $22,5 millones a la Korea Development Finance Corporation, la primera institución privada creada en Corea para suministrar fondos a largo plazo para fines industriales. Nueve bancos privados radicados fuera del país participaron en la operación.

En el caso de la Private Development Corporation of the Philippines (PDCP) por primera vez tuvo lugar el ciclo completo en una inversión de la CFI en una sociedad de financiamiento del desarrollo. La Corporación aportó parte de los fondos necesarios para su creación a comienzos de 1963, después le proporcionó orientación durante su período inicial de operaciones y, cuando la sociedad llegó a la etapa en que su presencia ya no era necesaria, vendió su inversión en 1967, pudiendo entonces utilizar esos fondos para otros fines. Asimismo, la CFI ayudó a la PDCP a obtener más capital internacional. Aproximadamente el 30 por ciento de sus acciones fue adquirido por 18 bancos e instituciones financieras de Estados Unidos, Gran Bretaña, Alemania, Hong Kong y Japón.

La creación de la PDCP contribuyó a acelerar el ritmo del desarrollo industrial de Filipinas: ha efectuado inversiones en transportes, energía eléctrica, artículos alimenticios, tejidos, la industria maderera y del corcho, artes gráficas y empresas editoriales, productos químicos, productos de arcilla y piedra, productos básicos de metal, maquinaria, equipo eléctrico y minería. La PDCP ha participado también en cuatro compromisos de garantía de emisión, ayudando a promover el desarrollo del mercado de capital de Filipinas.

El suministro de financiamiento—en forma de capital en acciones y de préstamos a plazos mediano y largo—constituye la labor fundamental de las sociedades de financiamiento del desarrollo. Varias de ellas realizan operaciones de mayor alcance y contribuyen al desarrollo de los mercados de capital mediante operaciones de garantía de emisión, con el objeto de lograr la mayor movilización posible de capital, tanto en el país como en el extranjero. En Venezuela, por ejemplo, la C.A. Venezolana de Desarrollo (Cavendes) llevó a cabo una labor innovadora al



realizar operaciones de garantía de emisión en relación con valores industriales. En febrero de 1966, la CFI participó en un sindicato organizado por Cavendes para garantizar una oferta pública de acciones de una importante fábrica de envases metálicos para las industrias del petróleo, productos químicos y artículos alimenticios. Una proporción sustancial de dicha emisión fue adquirida por inversionistas venezolanos durante el período de suscripción. En muchos países en desarrollo se está formando una clase media, dispuesta a invertir sus ahorros en empresas nacionales. No cabe duda de que en los años venideros será mayor el número de sociedades de financiamiento del desarrollo que tratarán de obtener la participación del público en la propiedad de las industrias.

Las sociedades de financiamiento del desarrollo constituyen una creciente red mundial de instituciones, que se comunican entre sí y con la CFI, identifican los campos de inversión prometedores, pueden obtener apoyo financiero y técnico a nivel internacional para empresas locales demasiado pequeñas para atraer por sí mismas capital y tecnología extranjeros, y estimulan el desarrollo de los mercados nacionales de capital.

Es probable que en los próximos años se acelere el ritmo de las actividades de la CFI. Gracias a que dispone de los fondos de la línea de crédito del Banco Mundial, la Corporación está en condiciones de distribuir su capital y reservas actuales, en forma flexible, entre operaciones crediticias e inversiones en capital social, y puede invertir en un número mayor de proyectos y contraer compromisos individuales de mayor cuantía. En casos adecuados, la CFI podrá financiar empresas mediante préstamos a interés fijo, que no conlleven una participación en el capital social u otras disposiciones especiales. Los fondos de la citada línea de crédito le permitirán contar con un campo de acción más grande para sus operaciones, al disponer de monedas distintas del dólar. En conjunto, este incremento de sus recursos y esa más amplia flexibilidad permitirán a la Corporación considerar el financiamiento de una mayor variedad de proyectos y realizar inversiones de fomento en más ramas del sector privado y en un número creciente de países.

### Oportunidades en materia de agricomercio

Un sector en que hay buenas perspectivas futuras para inversiones organizadas por la CFI es el del "agricomercio". Debido al rápido ritmo de crecimiento demográfico de los países en desarrollo, que continúa amenazando con dejar a la zaga al suministro de alimentos, y a que la importancia de una base agrícola eficiente para el fomento industrial se está reflejando cada vez en mayor medida en los planes de desarrollo, va en aumento la demanda de más y mejores insumos agrícolas. Por esta razón, reviste gran importancia incrementar la disponibilidad de abonos en los países en desarrollo. En el Brasil, la Corporación se asoció con inversionistas estadounidenses y brasileños para financiar la construcción de instalaciones para la fabricación y distribución de abonos nitrogenados, que serán unas de las mayores de América Latina. En la India, se ha iniciado la construcción de una fábrica de abonos patrocinada por la Imperial Chemical Industries Limited, cuyo costo ascenderá al equivalente de $82,5 millones. Inversionistas de la India, el Japón y el Reino Unido participaron en esta empresa conjuntamente con la CFI. En Senegal, inversionistas europeos y senegaleses, en colaboración con la CFI, han financiado la primera fábrica de abonos de Africa Occidental. A comienzos de julio de 1968, la Corporación realizó su primera inversión en un proyecto de abonos en Paquistán al proporcionar financiamiento, conjuntamente con el Banco Mundial, para el establecimiento, cerca de Lahore, de una fábrica de fertilizantes a base de urea, con capacidad para 345.000 toneladas de producción.

Con miras al futuro, la CFI realizó hace poco tiempo un estudio de las necesidades de abonos de la India, primordialmente para determinar las necesidades de divisas del país para atender la importación de abonos, en relación con un programa de mejoramiento agrícola. El informe de la Corporación, preparado por el recientemente designado Asistente Especial del Vicepresidente Ejecutivo de la CFI en materia de producción de abonos, fue presentado ante una reunión del Consorcio de gobiernos e instituciones interesados en coadyuvar al desarrollo de la India, que se celebró en mayo de 1968 bajo la presidencia del Banco Mundial.

En la agricultura, para lograr un nivel óptimo de producción es preciso que haya equilibrio entre todos los insumos. Además de una mayor aplicación de abonos deben mejorarse el equipo de cultivo y recolección, las instalaciones de almacenamiento, el control de insectos y enfermedades de las plantas, la calidad de las semillas y las variedades de cultivos. Es razonable prever que en los años venideros la CFI participará en proyectos de "agricomercio" encaminados a proporcionar al sector agrícola de los países en desarrollo no sólo abonos, sino también mejores semillas, insecticidas, medicamentos de uso veterinario y equipo agrícola. La CFI ya ha proporcionado financiamiento para proyectos de elaboración y almacenamiento de productos alimenticios, y probablemente participará en más proyectos de esta índole en el futuro.

La Corporación continuará haciendo hincapié en cuestiones relacionadas con el crecimiento industrial, pero también prestará atención creciente a los servicios que más contribuyan a promover el desarrollo.

La decisión de la CFI de intervenir más activamente en la promoción de nuevas empresas se ha adoptado tomando en cuenta el hecho de que la falta de financiamiento es solamente uno de los obstáculos importantes que se oponen a la industrialización de los países en desarrollo. Entre otros, cabe citar la disparidad tecnológica existente entre estos países y los más industrializados, la inexperiencia de los empresarios locales en relación con los métodos administrativos modernos, y la forma vacilante en que con frecuencia actúan los inversionistas locales con respecto a las nuevas oportunidades de inversión que se les presentan.

La promoción constituye una actividad importante, y en los países en desarrollo son muy pocos los empresarios privados que pueden desempeñarla de manera adecuada. Su decisión de intensificar su actuación en esa esfera, le proporcionará a la CFI más oportunidades de asociarse con otros inversionistas interesados en promover un mayor desarrollo.

Todo parece indicar que el proceso del desarrollo ha llegado a una etapa en que la inversión privada no solamente es conveniente, sino también necesaria. La CFI está preparada para desempeñar el papel que le corresponde.



## Información sobre la CFI
## 31 de enero de 1969

**PAISES MIEMBROS**

Afganistán
Alemania
Arabia Saudita
Argentina
Australia
Austria
Bélgica
Birmania
Bolivia
Brasil
Canadá
Ceilán
Colombia
Corea
Costa de Marfil
Costa Rica
Chile
China
Chipre
Dinamarca
Ecuador
El Salvador
España
Estados Unidos
Etiopía
Filipinas
Finlandia
Francia
Ghana
Grecia
Guatemala
Guyana
Haití
Honduras
India
Indonesia
Irak
Irán
Irlanda
Islandia
Israel
Italia
Jamaica
Japón
Jordania
Kenia
Kuwait
Líbano
Liberia
Libia
Luxemburgo
Malasia
Malawi
Marruecos
Mauricio
Mauritania
México
Nepal
Nicaragua
Nigeria
Noruega
Nueva Zelandia
Países Bajos
Panamá
Paquistán
Paraguay
Perú
Portugal
Reino Unido
República Arabe Siria
República Arabe Unida
República Dominicana
República Malgache
Senegal
Sierra Leona
Singapur
Somalia
Sudáfrica
Sudán
Suecia
Tailandia
Tanzania
Togo
Túnez
Turquía
Uganda
Uruguay
Venezuela
Viet-Nam
Yugoslavia
Zambia

S P A N I S H

IFC RECRUITS CAPITAL FOR DEVELOPMENT reprinted from Columbia Journal of World Business

## Información sobre la CFI—31 de enero de 1969

### DIRECTORES Y SUPLENTES DE LA CFI

| Director | Suplente | Paises que representan |
|---|---|---|
| **NOMBRADOS** | | |
| Covey T. Oliver | Emmett J. Rice | Estados Unidos |
| E. W. Maude | M. P. Lynch | Reino Unido |
| Georges Plescoff | Jean P. Carrière | Francia |
| S. Jagannathan | M. R. Shroff | India |
| Ernst vom Hofe | Jörg Jaeckel | Alemania |
| **ELEGIDOS** | | |
| Reignson C. Chen *(China)* | C. L. Chow *(China)* | Corea, China, Viet-Nam |
| Patrick M. Reid *(Canadá)* | A. Roy MacMillan *(Canadá)* | Canadá, Guyana, Irlanda, Jamaica |
| S. Osman Ali *(Paquistán)* | Abdol Ali Jahanshahi *(Irán)* | Arabia Saudita, Irak, Irán, Jordania, Kuwait, Líbano, Paquistán, República Arabe Siria, República Arabe Unida |
| John O. Stone *(Australia)* | A. M. Young *(Nueva Zelandia)* | Australia, Nueva Zelandia, Sudáfrica |
| Hideo Suzuki *(Japón)* | H. Jinadasa Samarakkody *(Ceilán)* | Birmania, Ceilán, Japón, Nepal, Singapur, Tailandia |
| Giorgio Rota *(Italia)* | Juan Moro *(España)* | España, Grecia, Italia, Portugal |
| Pieter Lieftinck *(Países Bajos)* | Vladimir Ceric *(Yugoslavia)* | Chipre, Israel, Países Bajos, Yugoslavia |
| André van Campenhout *(Bélgica)* | Friedrich T. Krieger *(Austria)* | Austria, Bélgica, Luxemburgo, Turquía |
| Christopher Kahangi *(Tanzania)* | Donatien Bihute *(Burundi)* | Etiopía, Kenia, Liberia, Malawi, Nigeria, Sierra Leona, Sudán, Tanzania, Uganda, Zambia |
| Erik L. Karlsson *(Suecia)* | Erik Hauge *(Dinamarca)* | Dinamarca, Finlandia, Islandia, Noruega, Suecia |
| Abderrahman Tazi *(Marruecos)* | Mohammed Younos Rafik *(Afganistán)* | Afganistán, Ghana, Indonesia, Libia, Malasia, Marruecos |
| Luis Machado *(Cuba)* | Arnoldo Ramírez-Eva *(Nicaragua)* | Costa Rica, El Salvador, Guatemala, Haití, Honduras, México, Nicaragua, Panamá, Perú, Venezuela |
| Angel R. Caram *(Argentina)* | Abelardo Brugada Saldívar *(Paraguay)* | Argentina, Bolivia, Chile, Paraguay, Uruguay |
| Virgilio Barco *(Colombia)* | José Camacho *(Colombia)* | Brasil, Colombia, Ecuador, Filipinas, República Dominicana |
| Mohamed Nassim Kochman *(Mauritania)* | Michel Bako *(Chad)* | Costa de Marfil, Mauricio, Mauritania, República Malgache, Senegal, Somalia, Togo |

### FUNCIONARIOS PRINCIPALES

| | |
|---|---|
| Robert S. McNamara | Presidente |
| Martin M. Rosen | Vicepresidente Ejecutivo |
| James S. Raj | Vicepresidente |
| R. B. J. Richards | Consejero Jurídico General |
| Eugene H. Rotberg | Tesorero |
| M. M. Mendels | Secretario |

INTERNATIONAL FINANCE
CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-2510

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1, England
Telephone: 930-3886

Cable Address: CORINTFIN

filed M. Rosen's speech bk.

# IFC recruits capital for development



by

**Martin M. Rosen**

*Executive Vice President*

**International Finance Corporation**

Reprinted from the November-December, 1968, issue of the *Columbia Journal of World Business*

## MEMBER COUNTRIES

Afghanistan
Argentina
Australia
Austria
Belgium
Bolivia
Brazil
Burma
Canada
Ceylon
Chile
China
Colombia
Costa Rica
Cyprus
Denmark
Dominican Republic
Ecuador
El Salvador
Ethiopia
Finland
France
Germany
Ghana
Greece
Guatemala
Guyana
Haiti
Honduras
Iceland
India
Indonesia
Iran
Iraq
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Jordan
Kenya
Korea
Kuwait
Lebanon
Liberia
Libya
Luxembourg
Malagasy Republic
Malawi
Malaysia
Mauritania
Mauritius
Mexico
Morocco
Nepal
Netherlands
New Zealand
Nicaragua
Nigeria
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Portugal
Saudi Arabia
Senegal
Sierra Leone
Singapore
Somalia
South Africa
Spain
Sudan
Sweden
Syrian Arab Republic
Tanzania
Thailand
Togo
Tunisia
Turkey
Uganda
United Arab Republic
United Kingdom
United States
Uruguay
Venezuela
Viet-Nam
Yugoslavia
Zambia

*The enclosed article, "IFC Recruits Capital for Development," is reprinted in its entirety from the November-December, 1968, issue of the bi-monthly publication of the Graduate School of Business, Columbia University, the* ***Columbia Journal of World Business.***

*Reprinted from Columbia Journal of World Business, Vol. III, No. 6*
*NOVEMBER–DECEMBER 1968*

*To provide risk capital for private enterprise;*
*To encourage local capital markets;*
*To stimulate the international flow of equity capital—*
*That is the mission of the IFC*

# IFC Recruits Capital for Development

MARTIN M. ROSEN

AT A TIME when the world's development leaders are rethinking and reformulating techniques to speed the process of economic growth in the less developed countries, there are increasing reasons for a rise in the flow of skills and capital from the private sector of the highly industrialized countries to the less industrialized nations. This is the basic ingredient in a new development strategy.

It is also an extension of what has been going on for some time. The economic expansion achieved in recent years by a number of developing countries, particularly in their industrial sectors, is due in substantial measure to direct investment of foreign private capital. Precise measurement of cause and effect is not possible, but private investment has been a major factor—along with the key role given to industrialization in most national development plans—in the 7% average annual increase in manufacturing output achieved by the developing countries in the past decade.

While private flows have been volatile, they have constituted an important part of the total flow of resources to the developing world. In 1967, direct and portfolio investment of foreign private capital in these countries amounted to over $2,600 million. This was 23% of the $11.4 billion net total of financial and technical resources—both public aid and private capital—provided to the developing countries by members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, the United States, and the Commission of the European Communities). From 1960 through 1967, net private capital flow to the developing countries (private investment and lending, together with private export credits) increased from $3,182 million to $4,390 million a year, while publicly provided assistance rose from $4,930 million to almost $7,000 million.

In many countries the stage has been set for a larger future role by private enterprise in economic development. Improved and expanded infrastructure, built up over the past two decades with public funds, now provides increased electric power, extended irrigation systems, modernized communications, large transportation networks, improved harbors. These facilities, together with improvements in education and health, provide the increased energy and better communications, transportation and upgraded labor forces that must underlie expansion of the production of goods and services.

Thus, the current call for more involvement of private enterprise in the development task is not simply a *cri d'alarme* intended to rush private investors in where public investment is falling to low levels—as it is in so many places. It stems also from reasons that the private investor may find more germane to his considerations. The call for increased private investment in the developing countries is a sign of the times, signalling the fact that development has entered a stage in which (a) there is increased opportunity for private investment to take place in the developing countries due to the presence of enlarged and improved underlying facilities in many places, but (b) these underlying, infrastructural facilities can for the most part be put to productive use only through private investment in the production of goods and services.

This is not to say that the infrastructural work is finished or even that it is anywhere near completion. Far from it—such work is never done. Even the most highly developed industrial countries, such as Japan, the United States and the countries of Western Europe, are still busy adding to, renewing and improving their basic facilities, so as to make possible even higher development. Infrastructure development rarely brings us to a point in a country where no further infrastructure is needed; rather, infrastructure work brings us to the point where further development and real changes in living standards (which is the reason for development work) become both necessary and viable through private investment.

*Vigorous exponent of private enterprise participation in the development process,* MARTIN M. ROSEN *has been Executive Vice President of the International Finance Corporation since 1961. He joined the staff of the World Bank shortly after World War II, and was the Bank's Director of the Department of Operation—Far East prior to his appointment in IFC. During 1948, he took leave from the Bank to serve as consultant in the European office of the United States Economic Cooperation Administration.*

## Private Sector in Development

There are other economic forces favoring expanded participation of the private sector in the development process. For one, in many developing nations the need to provide a rapidly growing population with essential services and facilities has drawn heavily upon public funds and personnel. The governments concerned can ill afford to use limited resources for activities that private investment can finance.

For another, where once the United States could produce for itself and for the developing nations over the whole range of their needs, many nations can now do so. Consequently, more and more businessmen from many countries can now offer capital, machines and know-how to Africa, Asia and Latin America. Untapped raw materials and abundant labor eager to acquire modern skills offer additional incentives to such investment. Further, private investment in productive enterprises in the developing countries corresponds to the desire of many of those countries to save foreign exchange by producing at home what they have been buying abroad.

These factors have brought into sharper focus the strategic position of the International Finance Corporation (IFC) as an investor on its own and as a recruiter of the capital of others for investment in the developing countries. Established in 1956 as an affiliate of the International Bank for Reconstruction and Development (World Bank), IFC is without parallel or precedent among intergovernmental organizations in that it operates for the sole purpose of assisting the international spread of private enterprise. The investment activities of IFC complement the lending activities of the World Bank; unlike the Bank, however, the Corporation makes loans to private borrowers without government guarantee, and it can provide capital in any form, including equity capital. The World Bank and its other affiliate, the International Development Association, are limited to lending.



IFC's authorized share capital is $110 million, of which $102,386,000 has been subscribed by 90 member countries. The resources available to IFC for use in its operations have been augmented by earnings; revolvement of funds through repayments; sales to others of IFC investments; and the availability to it of a line of credit from the World Bank of $100 million (out of approximately $400 million which IFC is authorized to borrow) for relending to private enterprises. These resources amounted to $340 million at the end of Fiscal 1968, on a cumulative basis.

## The Mission

IFC's charter gives it three main assignments: to provide risk capital for productive private enterprises, in association with private investors and management; to encourage the development of local capital markets; and to stimulate the international flow of capital.

The Corporation invests in developing member countries where sufficient private capital is not available on reasonable terms. All of its investments are made in association with private business, and it does not provide more than a portion of the total finance required. IFC initial commitments range from $500,000 to $20,000,000, except for commitments for promotional costs where the upper limit is $50,000.

IFC finances specific projects, including the provision of working capital, and the IFC commitment may cover local expenditures as well as foreign exchange costs. The Corporation does not engage in direct financing of imports or exports.

*Malayawata Steel is an IFC-assisted project and Malaysia's first integrated steel facility.*

By June 30, 1968, the end of its last fiscal year,[1] IFC had committed nearly $272 million of its own funds in 113 private sector enterprises in 39 countries. However, this does not provide a full measure of the Corporation's impact. In many cases IFC's presence has closed the gap in the financing of a project, making possible what might otherwise have been impossible. Thus, in its first commitment to the tourism industry, made in December 1966 to Kenya Hotel Properties Limited, the Corporation supplied the missing link—loan capital—and reinforced this with an equity investment. In the financing of a $94 million expansion plan by the Manila Electric Company, the leading investor-owned power company in the Philippines, IFC's commitment (an $8 million loan and a $4 million subscription to shares) was a key supplement to borrowed capital, mainly suppliers' credits, from other sources. Sometimes, as in the Corporation's investment in a Chilean paper company, Cia. Manufacturera de Papeles y Cartones, IFC facilitates a company's borrowing from other sources by subordinating its own loan. Where a company has no problem in obtaining loan capital, as was the case of Enka de Colombia, S.A., the largest synthetic fiber manufacturer in Colombia, the Corporation's equity investment filled the gap in the financial program.

In almost every instance, IFC assists in the determination of the financial requirements of a project and helps the sponsors to arrive at a plan tailored to their needs and to the future prospects of the business. Since IFC financing is not tied to the purchase of specific equipment or to purchases in a particular country, the Corporation is in a position to take an objective view of the engineering features of the project, and it can therefore advise upon the soundness of the technical concept of a project as the basis for a realistic financial plan.

It is worth emphasizing that the use of IFC funds is a far more complex matter than in the case of a private investment house or a merchant banker. IFC has developmental as well as investment responsibilities. In considering an investment proposal, the Corporation has to decide whether the project will yield adequate public as well as private profits. Each IFC investment must promise a reasonable dollar-and-cents return to the capital put into it by the Corporation and by the private investors engaged in it. Each must also hold out the prospect of profits to the host country, in terms of higher national and per capita income.

## Criteria

Finding investments that satisfy both requirements at the same time can be difficult. In addition, there are the operational problems brought about by doing business in many different countries, with varying customs, languages, laws and conditions, and the complications involved in applying IFC's investment criteria to widely different situations.

At the outset, in the mid-1950's, IFC engaged primarily in the financing of private mining and manufacturing enterprises and in support of development finance companies. But the Corporation has been diversifying.



Reflecting the view of the World Bank Group that increasing food production and improving agricultural productivity generally is critical to the success of over-all development, including continued industrial growth, IFC has been given the lead by the Bank Group in helping to build up fertilizer industries in the less developed countries. Over the past two and a half years the Corporation has helped finance fertilizer plants in Brazil, India, Pakistan and Senegal. In Fiscal 1967, more than half of its commitments were for the increase of fertilizer output.

A recent and significant new effort has been made by IFC to gain flexibility in its response to the developmental potentials of its member countries. A policy change now permits the Corporation to commit funds for promotional purposes, that is, for the purposes of helping to bring an enterprise into being. The projects which IFC seeks to promote are those which have a reasonable prospect of eventually being suitable for financing by the Corporation in accordance with established criteria. The Corporation has set a maximum of $50,000 in promotional costs for a single project.

## More Diversification

As a step toward diversifying geographically, during the last fiscal year IFC made initial investments in three countries—Korea, Mauritania and Nicaragua. During the past five years IFC has made first investments in 14 other countries: Costa Rica, Ethiopia, Honduras, Ivory Coast, Kenya, Malaysia, Morocco, Nigeria, the Philippines, Senegal, Sudan, Tunisia, Turkey and Uganda.

Major investments in the last fiscal year circled the globe: two were in Africa, two in Asia and three in Latin America. Over half of the funds committed in Fiscal 1968 went to Africa, including the largest investment in IFC history—a $20 million commitment to Société Minière de Mauritanie (Somima), for the development of copper deposits in the Sahara Desert. This continued the geographic diversification of the previous year, when over half of the funds committed by IFC went to Asia and the Middle East. At the




*Workers bag fertilizer at the Société Industrielle d'Engrais au Sénégal (SIES) plant. IFC provided the largest share of the financing.*

end of Fiscal 1968, for the entire 12-year history of IFC, commitments in Asia and the Middle East totaled $65.4 million, or 24% of IFC's total cumulative investments, commitments in Africa totaled $59.2 million, or 22%, and commitments in Latin America came to $129.2 million, or 48%. The remaining 6% represented investments in Europe and Australia.

The IFC has been raising the average size of its principal commitments (any investment of more than $500,000 in one company is a "principal" commitment). In Fiscal 1967, it was $5.4 million, up from $2.3 million the previous year. In Fiscal 1968, the average principal commitment rose to $7.1 million.

No other element of an investment is so critical to its ultimate success as good management. Consequently, the joint venture is a staple character of the IFC investment. The intent is to bring together local capital and management and, from the developed countries, technical sponsors who are also willing to provide financial support to the projects.

Where new or advanced technology is involved, a large part of the success of the venture is likely to depend on the role of the technical partners. In Malaysia, IFC helped to complete financing for a steel mill scaled in quantity and type of production to the needs of a relatively small market, with a technology geared to the availability within the country of basic raw materials, including overage rubber trees to be used for making charcoal. The principal technical partner in the project is Yawata Iron and Steel Limited, Japan's largest steel producer.

There was a new type of "partnership mix" in March 1968: for the first time, an IFC-supported project in Central America had a technical sponsor from Latin America. The Nicaraguan Textiles Fabricato de Nicaragua S.A. (Fabritex) secured as its technical sponsor the Colombian Fábrica de Hilados y Tejido del Hato S.A. (Fabricato).

The joint venture mix of local and foreign, the experienced and the neophyte, the financial and the industrial, governmental, intergovernmental and national and international investors takes many forms.

The government of a developing country might itself initially co-sponsor a project. This was the case in Ethiopian Pulp and Paper Share Company, the first major paper mill in Ethiopia, which was jointly sponsored by the Ethiopian Government and Parsons and Whittemore, Inc., of New York. The technique of underwriting a public share offering provided the only hope of obtaining some local participation in the ownership of the company. Consequently, in November 1965, IFC agreed to co-underwrite a public offering of shares to be made to private investors in Ethiopia.

In Brazil, Papel e Celulose Catarinense, S.A., a producer of kraft pulp and paper, is sponsored by the Klabin Group, a leading Brazilian industrial group. In India, Jayshree Chemicals Limited, a producer of caustic soda, is sponsored by the Bangur Group, a leading Indian industrial organization.

An interesting "mix" is found in the sponsorship of Arewa Textiles Limited, in Nigeria. The sponsors are the Overseas Spinning Investment Company Limited, representing a consortium of nine leading Japanese textile firms, and two Nigerian development institutions, Northern Nigeria Development Corporation (NNDC) and Northern Nigeria Investments Limited (NNIL).

## A Catalyst

One of the most important functions of IFC is that of serving as a catalyst in helping to bring additional financing into the enterprises it has supported. While it has participated to the extent of approximately $272 million in these projects, other investors have brought more than $1,000 million to these same projects. A substantial part of this flow of capital across the boundaries from the richer to the poorer countries would not have taken place without IFC.

In the past fiscal year IFC participated in investment groups of exceptional breadth, which financed a copper mining venture in Mauritania, a development bank in Korea, and a textile producer in Nicaragua. IFC's commitment of $20 million to Société Minière de Mauritanie, a $60 million project for development of copper deposits in the Sahara Desert, is the Corporation's largest investment. The project involves participation in the venture of the largest investment group ever to associate in an IFC transaction. This group includes sponsors from the United Kingdom and France; the European Investment Bank, which is the investment organ of the European Economic Community; European private banks; and the Government of Mauritania. It welds together governmental (the Government of Mauritania and a French Government agency, Bureau de Recherches Géologiques et Minière) and intergovernmental (IFC and the European Investment Bank—EIB) investors; the private (Charter Consolidated and three French private companies) and the public (Government of Mauritania and the publicly financed French company) sectors; and financial and industrial interests (IFC, EIB, Charter and its subsidiary, and investment institutions in Europe, the Middle East and the United States).

## Selling Shares

In addition to its role as a mobilizer of capital, IFC acts in effect as a trustee for private capital. It sells off its investments to private buyers whenever opportune. In countries where the habit of industrial investment has not yet taken root, IFC sets aside some of its shareholdings for domestic purchasers who may appear once a new enterprise has begun to produce tangible results. IFC sells portions of its investments to institutions whose business it is to invest internationally. Of the Corporation's gross commitments of $271.8 million, approximately $53.7 million have been sold to other investors.

A participant may take over a vertical strip in the entire IFC commitment, involving the same percentage of the equity and of each of the maturities of the loan portion. Alternatively, the participant may prefer to acquire only the shorter maturities of the loan portion of IFC's commitment. Where a participant joins in the investment at the outset, the Corporation is prepared to offer the same terms that it has itself obtained. When an investor wishes to buy more seasoned securities from portfolio, a premium may be indicated.

The fact that some 40 financial institutions have bought portions of IFC's commitments more than once—some of them many times—can be taken as a demonstration of confidence in the Corporation's appraisal of investment risks in the less developed countries. The Kuwait Investment Company, the Banca Commerciale Italiana Group and the Bank of America, together with its affiliate the Bamerical International Financial Corporation, have each invested more than 10 times with IFC.

In the past 12 years, more than 80 financing concerns have invested in IFC transactions on 203 occasions. Most of the co-investments were by well-known European and North American private banks and investment companies. But nearly a fifth of these participations were made by institutions based elsewhere including the Middle East. Why do these investors take up portions of IFC commitments? One reason is that the yield is good. The 27 investments so far closed out by the Corporation have yielded an average annual return of 11.42%.

The profit record no doubt influenced the investment decisions of a large number of participants, but other participants have been attracted by actual or potential collateral benefits. This is the case particularly with banks looking for business with new companies abroad, or seeking to get into business in a country where they have not yet become established.

The most typical characteristic of a less developed country is a lack of capital. But it is not altogether an absence of capital that holds down development; it is, rather, a lack of capital ready and waiting to be used to finance business ventures. What is lacking most of all is a capital market, where savings can be mustered for investment. Consequently, the development of a capital market, even if only in rudimentary form, is one of the most important objectives of IFC's investment activities.

IFC is able to assist in strengthening the capital markets of the developing world through its ability to make equity investments and to underwrite new issues of capital shares. Of the Corporation's commitments of $34.1 million for standby or underwriting of public or private securities offerings through Fiscal 1968, nearly $25 million were taken over by sub-underwriters, in syndicates formed by IFC or by other institutions and individual investors.

An outstanding example is IFC's support of Mexico's biggest steel maker, Cia. Fundidora de Fierro y Acero de Monterrey, S.A. (Fundidora). Founded in 1900, Fundidora manufactures a wide variety of steel for use in industry, construction, mining, railroads and agriculture. In March 1968, IFC undertook its biggest underwriting when it guaranteed the sale of half of a $14 million issue of new Fundidora stock. It was the fourth occasion that IFC had underwritten a large portion of a new Fundidora issue. Since its first underwriting of the company's shares in 1962, IFC has underwritten almost $22 out of a total of $44 million. Significantly for the development of the Mexican capital market, on all four occasions, a Mexican firm—Crédito Bursatil—underwrote the part of the issue not guaranteed by IFC. Thus, IFC has been instrumental in (a) helping a sound Mexican business which faced difficulty in raising new capital for expansion, to finance an increase in its steel making capacity—from 300,000 ingot tons in 1962 to 800,000 ingot tons in 1968; (b) getting some $44 million worth of high-grade Mexican stock into the hands of Mexican investors, as a significant addition to the inventory of desirable equity available for trading in Mexico; and (c) building up a Mexican investment house as an institution through which Mexican savings can be brought to market for investment in Mexican businesses.

## Local Participation

IFC investments are often accompanied by local share offerings within the country where the project is located. In Pakistan, for example, Crescent Jute Products Limited obtained additional financing from an issue of shares offered to private investors in Pakistan and underwritten by its joint sponsors, the Amin-Bashir Group. Similarly, in financing its fertilizer plant, Indian Explosives Limited made arrangements for underwriting an offering of shares

*The IFC helped to finance two programs of modernization and expansion in different parts of the world. The machinery in the textile mill (left) is in Ecuador; the board and paper mill (right) is in Pakistan.*

to the Indian public. Local share offerings have also been made in a number of IFC-supported projects in Latin America.

An important supplement to IFC's work in the equity field is being made by development finance companies, which also seek to develop domestic capital markets and to broaden the distribution of ownership of enterprise.

Since 1962, IFC has taken the lead for the World Bank Group in considering proposals for the establishment of development finance companies, or for financial and technical assistance to such companies. These companies do in their own countries what IFC does on an international scale: they assist the build-up of the business community of a developing country. Their principal instruments are capital, management experienced in problems of industrial development and financing, and contacts with overseas institutions able to provide additional financial and technical assistance. IFC supplies scarce share capital, which these companies need both as a basis for their borrowings and to permit them to make equity investments. IFC also helps them to obtain participation in their share capital by private foreign investors.

The Corporation has assisted in the establishment of 18 development finance companies. The latest instance of such aid was in February 1968, when IFC helped bring together an exceptionally broad investment group to provide $22.5 million to the Korea Development Finance Corporation, the first private institution in Korea for the supply of long-term industrial funds. Nine private banks from outside Korea participated in this financing.

In the Private Development Corporation of the Philippines (PDCP), IFC for the first time went full cycle in an investment in a development finance company. It initially supplied some of the money needed to bring it into being in early 1963, helped it through its formative business stages, saw it develop to the point where IFC was no longer needed, and ultimately sold its investment in 1967, thereby allowing re-use of these funds elsewhere. IFC helped to bring additional international capital into PDCP. Some 30 per cent of PDCP shares was purchased by 18 foreign shareholder banks and financial institutions based in the United States, Britain, Germany, Hong Kong and Japan.



The establishment of PDCP has helped accelerate the pace of Philippine industrial development: PDCP investments have gone into transportation, power, food, textiles, wood and cork, printing and publishing, chemicals, clay and stone products, basic metal products, machinery, electrical machinery and mining. PDCP has also participated in four underwritings, aiding development of the capital market in the Philippines.

The provision of finance—of share capital and medium- and long-term loans—is the hard core of the work of development finance companies. A number of them have gone further and fostered capital markets by engaging in underwriting operations—seeking to mobilize capital from the widest possible public, both at home and abroad. In Venezuela, for example, C.A. Venezolana de Desarrollo (Cavendes) has played a pioneering role in underwriting the sale of industrial securities. In February 1966, IFC joined a syndicate organized by Cavendes to underwrite a public offering of shares of a leading manufacturer of cans for the oil, chemical and food industries. A substantial portion of the share issue was taken up by Venezuelan investors during the subscription period. In many developing countries, a middle-class public is emerging, prepared to invest its savings in local industrial enterprise. In the years to come, more development finance companies will undoubtedly seek the participation of this public in industrial ownership.

The development finance companies constitute a growing, worldwide network of institutions, in communication with each other and IFC, identifying promising fields of investment, able to obtain international financial and technical support for local enterprises too small to attract by themselves foreign capital and technology, and able to stimulate the growth of domestic capital markets.

The next few years are likely to see a step-up in the level of IFC operations. The availability of funds from the World Bank's line of credit free the Corporation's present capital and reserves for flexible use between lending and equity investment, and allow IFC to invest in a larger number of projects as well as to make larger individual commitments. In appropriate cases, IFC will be able to finance enterprises with fixed-interest loans not carrying equity or other special features. These funds will also add to operational flexibility by making available to IFC currencies other than dollars. Altogether, this expansion in resources and increase in flexibility will make it possible for the Corporation to consider a greater variety of projects and to spread its developmental investments over a wider band of the private sector in an increasing number of countries.

### Agribusiness Opportunities

One area that offers future opportunities for IFC-organized investments is the "agribusiness" sector. As rapid population growth in the developing countries continues its threat to outrace available food supplies, and as the importance of an efficient agricultural base to industrial development becomes more widely reflected in development plans, the demand for more and better agricultural inputs grows. This has given great emphasis to increasing the availability of fertilizer in the developing countries. In Brazil, the Corporation joined with United States and Brazilian investors to finance what will be one of the largest nitrogenous fertilizer plants and distribution facilities in Latin America. In India, an $82.5 million fertilizer plant was initiated under the sponsorship of Imperial Chemical Industries Limited. IFC joined investors in India, Japan and the United Kingdom in this venture. In Senegal, European and Senegalese investors, together with IFC, financed West Africa's first fertilizer plant. In early July 1968, the Corporation made its first investment in a fertilizer project in Pakistan when it joined the World Bank in providing finance for the establishment of a 345,000-ton urea fertilizer plant near Lahore.

Looking to the future, IFC recently conducted a study of the fertilizer needs of India, primarily to ascertain India's foreign exchange requirements for the importation of fertilizers as part of a program for agricultural improvement. The Corporation's report, made by the recently appointed Special Assistant to the Executive Vice President of IFC on fertilizer production, was presented at a meeting in May 1968, under World Bank chairmanship, of the Consortium of governments and institutions interested in development assistance to India.

In agriculture, all inputs must be in balance, to approach an optimum level of production. To increased fertilizer application there must be added better cultivating and harvesting and storage equipment, insect and plant disease control, better seeds and improved crop varieties. It is reasonable to believe that the next few years will witness involvement of IFC in "agribusiness" projects aimed at supplying not only fertilizer but also better seeds, insecticides, veterinary pharmaceuticals and farm equipment to the agricultural sector in the developing countries. IFC is already involved in food processing and storing and will probably be in more projects in these fields in the future.

IFC will continue its emphasis on industrial growth but will also continue to give increasing attention to services that have a high developmental payoff.

IFC's decision to take a more active role in promoting new enterprises recognizes the fact that lack of finance is only one of the major handicaps holding back industrialization in the developing countries. Other handicaps of equal importance include the technological gap existing between these countries and the advanced industrial economies, the unfamiliarity and inexperience of local entrepreneurs with modern managerial methods, and the hesitation often shown by local investors in grasping new investment opportunities opening up to them.

The promotional function is an important one and in the developing countries there are too few private entrepreneurs to discharge it adequately. The Corporation's decision to take a more active role in this area will have the effect of expanding the range of opportunities for partnership between IFC and development investors.

All the signs indicate that the development business has reached a stage in which private investment is both appropriate and needed. IFC has geared up to do its part.

*NOTE*

*1* Data used in this article are as of the end of IFC's 1968 fiscal year.

## Directors and Alternates of IFC

| Director | Alternate | Casting votes of |
|---|---|---|
| **APPOINTED** | | |
| Covey T. Oliver | Emmett J. Rice | United States |
| E. W. Maude | M. P. J. Lynch | United Kingdom |
| Georges Plescoff | Jean P. Carrière | France |
| S. Jagannathan | M. R. Shroff | India |
| Ernst vom Hofe | Jörg Jaeckel | Germany |
| **ELECTED** | | |
| Reignson C. Chen (China) | C. L. Chow (China) | China, Korea, Viet-Nam |
| Patrick M. Reid (Canada) | A. Roy MacMillan (Canada) | Canada, Guyana, Ireland, Jamaica |
| S. Osman Ali (Pakistan) | Abdol Ali Jahanshahi (Iran) | Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, Saudi Arabia, Syrian Arab Republic, United Arab Republic |
| John O. Stone (Australia) | A. W. Young (New Zealand) | Australia, New Zealand, South Africa |
| Hideo Suzuki (Japan) | H. Jinadasa Samarakkody (Ceylon) | Burma, Ceylon, Japan, Nepal, Singapore, Thailand |
| Giorgio Rota (Italy) | Juan Moro (Spain) | Greece, Italy, Portugal, Spain |
| Pieter Lieftinck (Netherlands) | Vladimir Cerić (Yugoslavia) | Cyprus, Israel, Netherlands, Yugoslavia |
| André van Campenhout (Belgium) | Friedrich T. Krieger (Austria) | Austria, Belgium, Luxembourg, Turkey |
| Christopher Kahangi (Tanzania) | Donatien Bihute (Burundi) | Ethiopia, Kenya, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Tanzania, Uganda, Zambia |
| Erik L. Karlsson (Sweden) | Erik Hauge (Denmark) | Denmark, Finland, Iceland, Norway, Sweden |
| Abderrahman Tazi (Morocco) | Mohammed Younos Rafik (Afghanistan) | Afghanistan, Ghana, Indonesia, Libya, Malaysia, Morocco |
| Luis Machado (Cuba) | Arnoldo Ramirez-Eva (Nicaragua) | Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, Venezuela |
| Angel R. Caram (Argentina) | Abelardo Brugada Saldívar (Paraguay) | Argentina, Bolivia, Chile, Paraguay, Uruguay |
| Virgilio Barco (Colombia) | José Camacho (Colombia) | Brazil, Colombia, Dominican Republic, Ecuador, Philippines |
| Mohamed Nassim Kochman (Mauritania) | Michel Bako (Chad) | Ivory Coast, Malagasy Republic, Mauritania, Mauritius, Senegal, Somalia, Togo |

## OFFICERS

| | |
|---|---|
| Robert S. McNamara | President |
| Martin M. Rosen | Executive Vice President |
| James S. Raj | Vice President |
| R. B. J. Richards | General Counsel |
| Eugene H. Rotberg | Treasurer |
| M. M. Mendels | Secretary |

INTERNATIONAL FINANCE CORPORATION

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-2510

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1, England
Telephone: 930-3886

Cable Address: CORINTFIN

# ECONOMIC DEVELOPMENT, PRIVATE FINANCE and THE INTERNATIONAL FINANCE CORPORATION

An Address
by
MR. MARTIN M. ROSEN
Executive Vice President
INTERNATIONAL FINANCE CORPORATION

Before the
INTERNATIONAL COUNCIL
of the
INTERNATIONAL CHAMBER OF COMMERCE

IFC
INTERNATIONAL FINANCE CORPORATION

Paris, France
December 4, 1968

I am pleased to be here with you because I know the work which the ICC and particularly your Commission on International Investments and Economic Development have been doing on the subject of the climate for private investment in the developing countries, and how it might be improved.

I hope you feel that your work in the field of economic development is making progress, for it is important in many ways. It is a sign of the times that a group, such as yours, representing many of the world's multinational corporations, investing across both national and regional frontiers, is consciously gearing up for a larger role in the future of the less developed countries.

*For I think—and this is the principal theme I want to discuss with you here today—that we have arrived at a stage of the development effort where a considerably increased private investment input will be the* sine qua non *of much of the future economic growth so much wanted and needed in the less developed world.*

There are two concepts which, before this audience, I can merely state without the need for complex argumentation. The first is the value of private investment in the economic development process.

The second is the worth of economic development itself. As investors we know that a development program *is* an investment program. We also know that little is to be gained from doing business with a poorhouse, so that any poorhouse —or poor nation—anywhere, makes all of us poorer, everywhere.

What I do want to emphasize is the fact that it would be senseless to expect private investment to be made in the less developed countries on conditions that could not be justified in the eyes of a shareholder. Investment has got to proceed in the less developed world as it does in other places, on the basis of reasonable expectations of profit and business growth.

This is a matter of interest not only to businesses, but also to countries that need increased private investment for their continued development, because the fruitful use of capital produces, in addition to new income, a many sided process of expansion that has its own dynamic, creating calls for new injections of capital and know-how.

A successful cement operation, for instance, makes possible a boost in building capacity. This, in turn, creates needs for increased electric power, for wiring, plumbing, equipment, appliances and furnishings of a wide variety, and for transport services to move these things to where they are needed, for storage capacity, and on outwards, in a widening circle of demand that requires continuous new investment of capital in the means of production of both goods and services. Thus, where development has come to the stage at which increasing amounts of private capital are needed, the need is present also for intelligent care and feeding of the private goose that lays the golden eggs. The golden egg that is fried hatches no more geese.



And, one of the important facts about the future of economic development is, as I have indicated, that in many places much of the hope for further progress must now be based on increased private investment. Major providers of publicly financed assistance are restraining, some of them reducing, their aid to the developing countries. If we go back a decade, in the five years 1958 through 1962 assistance provided by the governments that are members of the Development Assistance Committee rose by nearly 36 per cent.

In the next five years the increase was less than half as much—approximately 15 per cent. In Europe and North America, fast expanding expectations of domestic improvements are competing with foreign assistance for the tax dollar. Further, in many countries, there are international payments problems that inhibit flows of governmental funds abroad.

These factors create a tendency for greater reliance to be placed on private enterprise in keeping up the flow of capital to the developing countries. But even without such impediments, there would currently be a call for substantially increased participation by the business community in the development effort.

This arises from the fact that during the past two decades, funds supplied by governments and intergovernmental agencies have been used to make many fundamental improvements in the infrastructure of the developing lands. In many areas of the less developed countries electric power dams have been built, roads and other communications improved, education broadened, the health of the labor force strengthened, and irrigation and other basic improvements have been made to agriculture. In such places economic growth must in the future stagnate unless upon this new infrastructure there is now built a superstructure of facilities for the production of useful and needed goods and services.

*That is, we are now, in a great many places —many of them very promising places—in Phase Two of the development effort. Phase One was the stage at which essential infrastructure was lacking and had to be built. By its nature, this was done, is being done, and will for the foreseeable future continue to be done, chiefly through publicly provided funds. Nor is there any end in sight to the infrastructure work that remains.*

But infrastructure without the superstructure of factories, service enterprises, and financial and other institutions able to produce goods and services that are both wanted and needed represents only the *potential* for a higher standard of living. An actual, as distinguished from a potential, rise in the standard of living depends upon two things not provided by infrastructure: increased supplies and higher real income with which to make demand for these supplies effective. And, both an increase in supplies and a rise in real income depend upon the productive investment of capital.

*Phase Two of the development process is the building of productive enterprise upon the underlying infrastructure grid. I have observed that by its nature, Phase One of development work is financed, as, indeed, infrastructure building has almost always been financed, out of the public purse. Just as surely, Phase Two is typically—and best, all here would agree—financed and managed by the private sector.*

It is in this context that we in IFC look forward to substantially expanded opportunity for sound investment of private capital over the entire



range of useful private enterprise in the less developed countries.

I am operating here on a simple logical syllogism: Economic development is badly needed by most developing countries; private investment, both foreign and domestic, can make an important contribution to economic development; ergo, private investment will be welcomed in most developing countries. Not, necessarily, in all, for logic does not always prevail. But wherever this simple syllogism does not in fact work out, the answer is equally simple: private investment will not go into countries where the problems and solutions are not those that I am talking about today.

### The International Finance Corporation

*We in IFC are in the process of perfecting and making credible—both to private investors and to the governments of developing countries—the development investment as a double edged instrument.*

The development investment is one that serves both private and public profit, an investment that meets the criteria alike of the board room and the planning chamber.

The developing world is not a world of oneness—it is instead a world of diversity—of widely differing economic conditions, human skills and natural resources. Thus, although experience has led us to some criteria for the development investment that we regard as being important, we are not weighed down in our operations by a supercargo of rigid concepts.

On the contrary, we believe that our criteria are only as good as our ability to apply them flexibly to meet the specific needs of each country, and of each investment.

Chief among the criteria for our investments, are the following basic rules: we invest in the less developed of our member countries, where sufficient private capital is not available on reasonable terms; we invest in projects of economic priority to the host country, where there is a reasonable prospect of profitability appropriate to the risks being taken, and we invest where IFC is needed and can make a constructive contribution.

Our experience has led us to a further basic rule, in operational terms. This is, in financing enterprise in the developing countries, the most effective structure is one in which local finance and management is combined with foreign finance and management.

Because I am stressing here the importance we assign to flexibility in applying basic criteria, let me make it entirely clear that we believe there is no room for flexibility in the matter of competent management.

*Without satisfactory management—be it local or foreign—there can, in my opinion, be no expectation of success. The need for sound management will not be overcome by any amount of finance. Nor is the need for good management lessened by a rich market, abundant and cheap materials, good labor supply, good location, and so forth: bad managers can easily overcome any one of these advantages and some are versatile enough to overcome them all.*

On the other hand, *good* management can surmount considerable difficulties, when the basic situation is viable. As an example, let me cite an investment we made in 1966, in a company called Enka de Colombia.



This is a project that might be called the classic IFC investment, for it brings into play all our investment criteria. The sponsor of Enka de Colombia is AKU, of The Netherlands.

The Colombian project involved establishment of a new \$15 million plant to manufacture some 4,200 tons a year of various types of synthetic fibers. The Colombian sponsorship of Enka, like the foreign sponsorship, is distinguished: it consists of a group of Colombian textile companies, and two important and successful Colombian development banks.

Both the Dutch and the Colombian sponsors took substantial equity positions. Nevertheless, IFC financing was sought, because not enough funds could be provided privately on reasonable terms. The financial plan was sound. The market forecast for the project was good and was strengthened by the fact that the Colombian shareholders would absorb part of the plant output.

The presence of AKU in the sponsoring group, together with experienced Colombian textile makers, assured good management.

This was fortunate, for despite all the favorable indicators that I have just sketched, a high order of management has been needed. As is often the case, the test of management's ability came in the form of difficulties in areas outside management's control. First, the marketing outlook was altered, due basically to restraint of demand imposed by a tight money policy, following upon the fact that the Colombian economy ran into difficulties requiring restrictive policy. Second, Enka had to adjust, during the construction period, to a devaluation of the Colombian peso, compounded by the fact that tight money made it difficult to borrow locally.

Nevertheless, Enka's management did in fact climb over these difficulties, so much so that Enka is operating successfully, is marketing all its output, and is now ready to undertake an expansion.

We have had failures—cases in which projects have not been able to overcome difficulties. In these instances, the basic cause of failure has been the inability of management to cope with problems. An example can be found among our very early investments, in a company that had been successfully producing and marketing building materials and that wanted to undertake a sizable expansion. We felt that the management was doing a good job with its present operations and so made a commitment. But our judgment of the management was wrong: although competent in its original operations it did not have the capacity to grow to the substantial extent needed by its expansion.

Many proposals come to us in which a foreign know-how partner is willing to undertake management responsibilities, but is not also willing to take an equity stake in the venture. Our attitude to such a proposal is negative. I strongly believe it is highly important for the management to be a shareholder subject to the risks of the company. Nothing complicated is involved here; it is simply our experience that you get better management performance when those responsible for it get the rewards for success and suffer the losses of failure.

I know there is difference of opinion in this matter. Consequently, we would not absolutely rule out the consideration of a proposition not involving equity participation by the foreign management sponsor, and we have made some commitments on this basis. But we are very reluctant to proceed where the know-how partner does not make an equity investment, and our experience in the cases where we have broken the rule confirms that it is a pretty good rule.

We prefer also that there be a local private partner in the venture who, like the foreign entrepreneur, should have an equity stake in the joint venture. However, there are cases in the developing countries where this simply is not possible. One such involved our largest investment to date. This was the $60 million copper mining project in Mauritania, signed last May, to which IFC committed $20 million.

The private sector in Mauritania does not yet have the capital, or the management capacity, to enter into such a venture. Consequently, we departed from the rule here, rather than to let the project, which is important to Mauritania, fall through. The Mauritanian Government became a shareholder, representing the local interest, in a financial plan in which the largest shareholder, and the management sponsor, was Charter Consolidated of London. Other share capital was provided by IFC and four French companies. We hope in time to be able to sell some of the IFC shares to private Mauritanian investors.

Where necessary or desirable we will accept the Government directly or through governmental agencies as a shareholder, but we do not want it to be the largest shareholder and we insist that the company be predominantly private. By that, I mean that the governmental interest should be no more than 25 per cent.

We believe that there can be flexibility in the *way* foreign participants put their money into a project. For instance, in the case of the Mauritanian investment just mentioned, the shareholders provided a substantial part of the capital through a subordinated shareholders' loan. This is a technique appropriate in a situation where the primary emphasis should be placed upon the payback period, rather than on the discounted rate of return.

I should add that so far as the financial structure of a company is concerned, there is a wide range of possibilities—depending upon the degree of risk involved—in the relationship between the amount of loan capital and the amount of equity money required. We do not believe in formula banking. So we have no uniform rule with respect to the debt-equity structure of a company we are financing.

Most IFC investments are in manufacturing industries. But we are not only an industrial investor. In the last few years, we have committed funds to services—including utilities, tourism, storage and warehousing facilities—and to agriculture. We are diversifying, and we stand ready to consider investment in virtually any type of productive private enterprise that is of economic priority in the developing countries and which has good prospects of profitability.

We regard development of capital markets in the developing countries as one of our chief objectives, for it is generally the case that it is not capital, *per se,* that is lacking, but capital mobilized and ready for investment at a reasonable cost of money.

This works hand in glove with the fact that the best way of raising a substantial block of capital may be through a public offering of the securities of an existing company to both domestic and foreign investors.

In Mexico, IFC has four times supported expansion of the country's biggest private steel



maker, known as Fundidora de Monterrey. From 1962 through this year we have underwritten $44 million of new Fundidora issues. In all of these underwritings we have had a syndicate composed of Mexican, North American and European underwriters join us.

By these stock issues Fundidora has been able to increase its steel making capacity from 300,000 ingot tons in 1962 to 800,000 ingot tons in 1968. And, some $44 million worth of high-grade Mexican stock has been put into the hands of Mexican investors, as a significant addition to the inventory of desirable equity available for trading in the market.

However, these approaches, varied and flexible as they are, are not enough. In the conditions surrounding investment in the developing countries potentially sound investments may not get out of the planning stages for many reasons other than lack of capital. Consequently, the promotion of prospective investments from planning into reality has always been part of our job, and we have given this help in the form of a wide range of advice and technical help.

*Last July, we decided to take on a more directly promotional role. In those cases in which we feel that good projects suitable for IFC financing in accordance with our regular criteria could be developed, but where they are not moving forward because of the absence of an industrial sponsor committed to the project, IFC would act as a* banque d'affaires. *We would provide some amounts of money for the costs of putting a deal together, including some of the costs of feasibility studies. If the project goes forward, IFC's expenses on behalf of promotion would be capitalized as part of our investment in the new venture.*

*We have also decided that as part of this promotional activity we could join in the equity of pilot companies, together with other members of an investment group interested in backing the prospective full-scale company. The embryo company would then carry out the necessary detailed studies and negotiations needed to implement the project. If the project proceeds, the equity investors in the pilot company would be reimbursed, usually by having an investment in the full-scale company.*

We have already started activity in this area, and we have joined pilot companies in Honduras and in Colombia, and we are engaged in the *banque d'affaires* role in Indonesia.

We expect this addition to our means of approaching development investment possibilities to be of considerable assistance in completing difficult, but worthy deals in many places.

### A Look Toward the Future

*Let me preface my closing remarks by saying that the future of economic development seems marked not only with the general need for increased participation by private capital that I have already mentioned. Some of the more promising possibilities would appear to hinge altogether on production and management know-how, on access to scattered resources and on marketing abilities, that reside only in the private sector.*

Over the past few years, we have been sharpening the skills IFC will need to give assistance to development investments that combine the high technology and the multinational management capabilities with the financial resources and the intergovernmental knowledge that modern investment requires. As an investment institution standing midway between the developed and the less developed worlds, and midway between the private and the public sectors, we have been gearing up to meet these tests, by increasing the size of our investments, by helping to bring together increasingly complex investment groups and, perhaps of the most general importance, by development of a growing range of flexible responses to widely varying development investment situations.



Our aim, as I have indicated, is to possess the techniques, together with the flexibility of attitude, needed to fit criteria for sound investments to the specific requirements of individual investments, as well as to the particular environment in which the investment is to be made.

*We regard additions to our investment techniques—and steady progress in the flexibility with which we use these techniques—as a matter of first importance, because, in my opinion, economic development, and international investment, will in the future embrace an even wider range of types and patterns of projects—to say nothing of size—becoming even more diverse than has been the case in the past.*

*There is, fortunately, a companion trend. This is the growth of an entirely new kind of private enterprise. Let me refer you to something at the very beginning of my remarks, where I noted that the ICC is representative of the modern multinational corporation, investing across both national and regional frontiers. It is the growth of the multinational—as distinguished from the* *merely international—corporation that seems to me to be one of the current trends with the strongest implications for the future of economic development and for the future of the international—or, more precisely, multinational—investment.*

The multinational company operates not merely as marketer in one place of goods produced elsewhere. On the contrary, it operates on a truly integrated basis, with responsibilities to shareholders both where it produces and where it markets.

Investment carried on in this way gets away from the disadvantages of the developed-less developed, the agricultural-industrial, the great and the small, dichotomies, so burdened with the past. It becomes a viable business procedure, standing squarely upon the best assurance that the entrepreneur has ever had: the profit motive. Such a business is multinational, in the sense that it is not merely present in more than one country, but that it is part and parcel of more than one country.

It is in the creation and promotion of this sort of multinational joint venture that I see an important future for the work both of the ICC and the IFC. As for the IFC, it is a multinational investor, perhaps par excellence. ICC is an international organization that would be highly important for the future if it did nothing more than to bring together the international corporations that make up its membership. However, one need only mention some of the task forces that you have at work to indicate that you are engaged in the serious business of working out the legal and institutional bases for the operations of the multinational corporation.



I have in mind your commissions on the Expansion of International Trade, on Formalities and Regulations in International Trade, on International Monetary Relations, on Taxation, on International Investments and Economic Development, and a number of others, including the ICC Commission on International Protection of Industrial Property.

IFC, meanwhile, is practicing the art of putting together, out of the materials of existing multinational and international corporations, in combination with national enterprises in the developing countries, new enterprises that we hope will *start* life as multinational companies.

At a time when the work of economic development depends for much of its future effectiveness on the success of private investment across national boundaries, work such as that being done by ICC and by IFC is of particular importance. It is important because the future holds greatly increased scope for the work of the multinational private enterprise such as we are helping to evolve. And it is important because the work these companies can do to build up viable economies in many places in the world enriches the scope of development that we can reasonably imagine for the future.

Mr Dehejia

HOLD FOR RELEASE

INTERNATIONAL FINANCE CORPORATION

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

For release after 6 a.m. EDT
Wednesday, December 4, 1968

# ECONOMIC DEVELOPMENT, PRIVATE FINANCE

# AND

# THE INTERNATIONAL FINANCE CORPORATION

An Address

by

Mr. Martin M. Rosen

Executive Vice President

International Finance Corporation

before the

Commission on International Investments

and Economic Development

International Chamber of Commerce

Paris, France

December 4, 1968

It is a sign of the times that ICC's Commission on International Investments and Economic Development has been doing a good deal of work bearing on the subject of the climate for private investment in the developing countries, and how it might be improved. It is important, and significant, that a group, such as yours, representing many of the world's multinational corporations, investing across both national and regional frontiers, is consciously gearing up -- perhaps girding up is the word -- for a larger role in the future of the less developed countries. For I think -- and this is the principal theme I want to discuss with you here today -- that we have arrived at a stage of the development effort where a considerably increased private investment input will be the sine qua non of much of the future economic growth so much wanted and needed in the less developed world.

The Changing Environment

Before this audience there is no need to argue the worth of private investment in economic development. We all know its worth, and we know as well that after sufficient time has passed the theorists will demonstrate that what we practice is, indeed, possible.

Nor do I feel a need to argue, here, the worth of economic development. As investors we know that a development program is an investment program. We also know that little is to be gained from doing business with a poorhouse, so that any poorhouse -- or poor nation -- anywhere, makes all of us poorer, everywhere.

What I do want to emphasize is the fact that it would be senseless to expect private investment to be made in the less developed countries on conditions that could not be justified in the eyes of a shareholder. Investment has got to proceed in the less developed world as it does in other places, on the basis of reasonable expectations of profit and business growth.

> That is a matter of interest not only to businesses, but also to countries that need increased private investment for their continued development, because the fruitful use of capital produces, in addition to new income, a many sided process of expansion that has its own dynamic, creating calls for new injections of capital and know-how.

A successful cement operation, for instance, makes possible a boost in building capacity. This, in turn, creates needs for increased electric power, for wiring, plumbing, equipment, appliances and furnishings of a wide variety, and for transport services to move these things to where they are needed, for storage capacity, and on outwards, in a widening circle of demand that requires continuous new investment of capital in the means of production of both goods and services. Thus, where development has come to the stage at which increasing amounts of private capital are needed, the need is present also for intelligent care and feeding of the goose that lays the golden eggs. The golden egg that is fried hatches no chicks.

And, one of the important facts about the future of economic development is, as I have indicated, that in many places much of the hope for further progress must now be based on increased private investment. The major providers of publicly financed assistance are restraining, some of them reducing, their aid to the developing countries. If we go back a decade, in the five years 1958 through 1962 assistance provided by the governments that are members of the Development Assistance Committee rose by just over 36 per cent. In the most recent five years the increase was less than half as much -- 15 per cent. In Europe and North America, fast expanding expectations of domestic improvements are competing with foreign assistance for the tax dollar. Further, in most countries, there are international payments problems that inhibit flows of governmental funds abroad.

These factors create a tendency for greater reliance to be placed on private enterprise in keeping up the flow of capital to the developing countries. But even without such impediments, there would currently be a call for substantially increased participation by the business community in the development effort.

> This arises from the fact that during the past two decades, funds supplied by governments and intergovernmental agencies have been used to make many fundamental improvements in the infrastructure of the developing lands. In many areas of the less developed countries electric power dams have been built, roads and other communications improved, education broadened, the health of the labor force strengthened, and irrigation and other basic improvements have been made to agriculture. In such places economic growth must in the future stagnate unless upon this new infrastructure there is now built a superstructure of facilities for the production of useful and needed goods and services.

That is, we are now, in a great many places -- many of them very promising places -- in Phase Two of the development effort. Phase One was the stage at which essential infrastructure was lacking and had to be built. By its nature, this was done, is being done, and will for the foreseeable future continue to be done, chiefly through publicly provided funds. Nor is there any end in sight to the infrastructure work that remains.

But infrastructure without the superstructure of factories, service enterprises, and financial and other institutions able to produce goods and services that are both wanted and needed represents only the potential for a higher standard of living. An actual, as distinguished from a potential, rise in the standard of living depends upon two things not provided by infrastructure: increased supplies and higher real income with which to make demand for these supplies effective. And, both an increase in supplies and a rise in real income depend upon the productive investment of capital.

> I have observed that by its nature, Phase One of development work is financed, as, indeed, infrastructure building has almost always been financed -- even when it was called public works and not a fancy name like infrastructure -- out of the public purse. Just as surely, Phase Two, which is the building of productive enterprise upon the underlying infrastructure grid, is typically -- and best, all here would agree -- financed and managed by the private sector.

It is in this context that we in IFC look forward to substantially expanded opportunity for sound investment of private capital over the entire range of useful private enterprise in the less developed countries.

I am operating here on a simple logical syllogism: Economic development is badly needed by most developing countries; private investment, both foreign and domestic, can make an important contribution to economic development; private investment will therefore be welcomed in most developing countries which are serious about their development plans. Not, necessarily, in all, for logic does not always prevail. But wherever this simple syllogism does not in fact work out, the answer is quite simple: private investment will not go into countries where the problems and solutions are not those that I am today talking about.

## The International Finance Corporation

We in IFC are in the process of perfecting and making credible -- both to the private investor and to the developing country -- the fact that the development investment is double edged. The development investment is one that serves both private and public profit, an investment that meets the criteria alike of the board room and the planning chamber.

> The developing world is not a world of oneness -- it is instead a world of diversity -- of widely differing economic conditions, human skills and natural resources. Thus, although experience has led us to some criteria for the development investment that we regard as being important, we are not weighed down in our operations by a supercargo of rigid concepts. On the contrary, we believe that our criteria are only as good as our ability to apply them flexibly to meet the specific needs of each country, and of each investment.

Chief among the criteria for our investments, are the following basic rules: we invest in the less developed of our member countries, where sufficient private capital is not available on reasonable terms; we invest in projects of economic priority to the host country, where there is a reasonable prospect of profitability appropriate to the risks being taken, and we invest where IFC is needed and can make a constructive contribution.

Our experience has led us to a further basic rule, in operational terms. This is, in financing enterprises in the developing countries, the most effective structure is one in which local finance and management is combined with foreign finance and management.

Because I am stressing here the importance we assign to flexibility in applying basic criteria, so as to meet the varying conditions of particular investments and individual countries, let me make it entirely clear that we believe there is no room for flexibility in the matter of competent management.

> Without satisfactory management -- be it local or foreign -- there can, in my opinion, be no expectation of success. The need for sound management will not be overcome by any amount of finance. Nor is the need for good management lessened by a rich market abundant and cheap materials, good labor supply, good location, and so forth: bad managers can easily overcome any of these advantages, and some are versatile enough to overcome them all.

On the other hand, good management can surmount considerable difficulties, when the basic situation is viable. As an example, let me cite an investment we made in 1966, in Enka de Colombia.

This is a project that might be called the classic IFC investment, for it brings into play all our investment criteria. The sponsor of Enka de Colombia is AKU, of the Netherlands, familiar to all of you, I am sure, as one of the world's leading producers of synthetic fibers. I have picked a project with a Dutch sponsor in deference to our Chairman, but the story to be told could be duplicated in many of our other development investments, with sponsors from many other countries.

The Colombian project involved establishment of a new \$15 million plant to manufacture some 4,200 tons a year of various types of synthetic fibers. The Colombian sponsorship of Enka, like the foreign sponsorship, is distinguished: it consists of a group of Colombian textile companies, and two important and successful Colombian development banks.

Both the Dutch and the Colombian sponsors took substantial equity positions. Nevertheless, IFC financing was sought, because not enough funds could be provided privately on reasonable terms. IFC filled the gap by investing about \$1 million in shares of Enka. The financial plan was sound. The market forecast for the project was good and was strengthened by the fact that the Colombian shareholders will absorb part of the plant output, a factor particularly important for Enka's first years of operations.

The presence of AKU in the sponsoring group, together with experienced Colombian textile makers, assured good management.

This was fortunate, for despite all the favoring indicators that I have just sketched, a high order of management has been needed to get this project going. As is often the case, the test of management's ability came in the form of difficulties in areas outside management's control. First, the marketing outlook was altered, due basically to restraint of demand imposed by a tight money policy, following upon the fact that the Colombian economy ran into difficulties requiring restriction. Second, Enka had to adjust, during the construction period, to a devaluation of the Colombian peso, compounded by the fact that tight money made it difficult to borrow locally.

Nevertheless, Enka's management did in fact climb over these difficulties, so much so that Enka is operating successfully, is marketing all its output, and is now giving serious consideration to expansion.

We have had failures -- cases in which projects have not been able to overcome difficulties. In these instances, the basic cause of failure has been the inability of management to cope with problems. An example can be found among our very early investments, in a company that had been successfully producing and marketing building materials and that wanted to undertake a sizable expansion. We felt that the management was doing a good job with its present operations and so made a commitment. But, although competent in its original operations, management did not turn out to have the capacity to grow to the substantial extent needed by its expansion.

Many proposals come to us in which a foreign know-how partner is willing to undertake management responsibilities, but is not also willing to take an equity stake in the venture. Our attitude to such a proposal is negative. I strongly believe it is highly important for the management to be a shareholder subject to the risks of the company. Nothing complicated is involved here; it is simply our experience that you get better management performance when those responsible for it get the rewards for success and suffer the losses of failure.

I know there is difference of opinion in this matter. Consequently, we would not absolutely rule out the consideration of a proposition not involving equity participation by the foreign management sponsor, and we have made such commitments on this basis. But we are very reluctant to proceed where the know-how partner does not take a permanent stake, and our experience in the cases where we have broken the rule confirms that it is a pretty good rule.

We prefer also that there be a local private partner in the venture who, like the foreign entrepreneur, should have an equity stake in the joint venture. However, there are cases in the developing countries where this simply is not possible. One such involved our largest investment to date. This was the $60 million copper mining project in Mauritania, signed last May, to which IFC committed $20 million. The private sector in Mauritania does not yet have the capital, or the management capacity, to enter into such a venture. Consequently, we departed from the rule here, rather than to let the project, which is important to the Mauritanian nation, fall through. The Mauritanian Government became a shareholder, representing the local interest, in a financial plan in which the largest shareholder, and the management sponsor, was Charter Consolidated of London. Other share capital was provided by IFC and four French companies

Where necessary or desirable we will accept the Government directly or through governmental agencies as a shareholder, but we do not want it to be the largest shareholder and we insist that the company be predominantly private. By that, I mean that the governmental interest should be no more than 25 per cent.

We believe that there can be flexibility in the way foreign participants put their money into a project. For instance, in the case of the Mauritanian investment just mentioned, the shareholders provided a substantial part of the capital through a subordinated shareholders' loan. This is a technique appropriate in a situation where the primary emphasis is on the pay-back period, rather than on the discounted rate of return.

I should add that so far as the financial structure of a company is concerned there is a wide range of possibilities -- depending upon the degree of risk involved -- in the amount of loan capital and in the amount of equity capital that should be considered. We do not believe in formula banking. We have no uniform rule with respect to the debt-equity structure of a company we are financing.

Most IFC investments are in manufacturing industries. But we are not only an industrial investor. In the last few years, we have committed funds to services -- including utilities, tourism, storage and warehousing facilities -- and to agriculture. We are diversifying, and we stand ready to consider investment in virtually any type of productive private enterprise that is of economic priority in the developing countries and which has good prospects of profitability.

We regard development of capital markets in the developing countries as one of our chief objectives, for it is generally the case that it is not capital, per se, that is lacking, but capital mobilized and ready for investment at a reasonable cost of money.

This works hand in glove with the fact that the best way of raising a substantial block of capital may be through a public offering of the securities of an existing company to both domestic and foreign investors.

In Mexico, IFC has four times supported expansion of the country's biggest steel maker, known as Fundidora de Monterrey. From 1962 through this year we have underwritten $44 million of new Fundidora issues. In all of these underwritings we have had a syndicate composed of Mexican, North American and European underwriters join us. By these stock issues Fundidora has been able to increase its steel making capacity from 300,000 ingot tons in 1962 to 800,000 ingot tons in 1968. And, some $44 million worth of high-grade Mexican stock has been put into the hands of Mexican investors, as a significant addition to the inventory of desirable equity available for trading in Mexico.

However, these approaches, varied and flexible as they are, are not enough. In the conditions surrounding investment in the developing countries potentially sound investments may not get out of the planning stages for many reasons other than lack of finance. Consequently, promotion of prospective investments into reality has always been part of our job, and we have given this help in the form of a wide range of advice and technical help.

> Last July, we decided to take on a more promotional role. In those cases in which we feel that good projects suitable for IFC financing in accordance with our regular criteria could be developed, but where they are not moving forward because of the absence of an industrial sponsor committed to the project, IFC would act as a banque d'affaires. We would provide limited amounts of money for the costs of putting a deal together, including some of the costs of feasibility studies.

If the project goes forward, IFC's expenses on behalf of its promotion would be capitalized as part of our investment in the new venture. If the project does not get into being, IFC will charge the promotional expenses to its administrative budget, as costs of technical assistance to its members.

> Further, we have also decided that as part of this promotional activity we could even join in the equity of pilot companies, together with other members of an investment group interested in backing the prospective fullscale company.

This embryo company would then carry out the necessary detailed studies and negotiations needed to implement the project. If the project proceeds, the equity investors in the pilot company would be reimbursed, usually by having an investment in the fullscale company.

We have already started activity in this area, and we have agreed to join pilot companies in the Honduras and in Colombia, and we are engaged in the banque d'affaires role in Indonesia.

We expect this addition to our means of approaching development investment possibilities to be of major assistance in completing difficult, but worthy deals in many places.

A Look Toward the Future

I thought you might be interested in a look at what seems, from the IFC vantage point, to be some of the main outlines of the future for private investment and economic development.

> Let me just preface these closing remarks by saying that the future of development seems marked not only with the general need for increased participation by private capital that I have already mentioned, but that some of the more promising possibilities would appear to hinge altogether on production and management know-how, on access to scattered resources and on the marketing abilities, that reside only in the private sector.

Over the past few years, we have been sharpening the skills IFC will need to give assistance to development investments that combine the high technology and the multinational management skills with the financial resources and the intergovernmental knowledge that the modern investment requires. As an investment institution standing midway between the developed and the less developed worlds, and midway between the private and the public sectors, we have been gearing -- or girding -- up to meet these tests, by increasing the size of our investments, by helping to bring together increasingly complex investment groups and, perhaps of the most general importance, by development of a growing range of flexible responses to widely varying development investment situations. Our aim, as I have indicated, is to possess the techniques, together with the flexibility of attitude, needed to fit criteria for sound investments to the specific requirements of individual investments, as well as to the specific environment in which the investment is to be made.

We regard additions to our investment techniques -- and steady progress in the flexibility with which we use these techniques -- as a matter of first importance, because, in my opinion, economic development, and international investment, will in the future embrace an even wider range of types and patterns of projects -- to say nothing of size -- becoming even more diverse than has been the case in the past.

There is, fortunately, a companion trend. This is the growth of an entirely new kind of private enterprise. Let me refer you to something at the very beginning of my remarks, where I noted that ICC's Investment Commission is representative of the modern multinational corporation, investing across both national and regional frontiers.

> It is the growth of the multinational -- as distinguished from the merely international -- corporation that seems to me to be one of the current trends with the strongest implications for the future of economic development and international -- or, more precisely, multinational -- investment.

This new type of company operates not merely as marketer in one place of goods produced elsewhere. On the contrary, it operates on a truly integrated basis, with responsibilities to shareholders both where it produces and where it markets.

Investment carried on in this way gets away from the disadvantages of the developed-less developed, the agricultural-industrial, the great and the small, dichotomies, so burdened with the past. It becomes a viable business procedure standing squarely upon the best assurance that the entrepreneur has ever had: the profit motive. Such a business is multinational, in the sense that it is not merely present in more than one country, but that it is part and parcel of more than one country.

It is in the creation and promotion of this sort of multinational joint venture that I see an important future for the work both of the ICC and the IFC. As for the IFC, it is the multinational investor, par excellence. ICC is an international organization that would be highly important for the future if it did nothing more than to bring together the international corporations that makes up its membership. However, one need only mention some of the task forces that you have at work to indicate that you are engaged in the serious business of working out the legal and institutional bases for the operations of the multinational corporation.

I have in mind your commissions on the Expansion of International Trade and upon Formalities and Regulations in International Trade; your Commission on

International Monetary Relations -- which I hope is hard at work; your Commission on Taxation; our host, ICC's Commission on International Investments and Economic Development, and commissions on International Arbitration, International Protection of Industrial Property, International Commercial Practice, and so forth.

IFC, meanwhile, is practicing the art of putting together, out of the materials of existing multinational and international corporations, in combination with national enterprises in the developing countries, new enterprises that <u>start</u> life as multinational companies.

At a time when the work of economic development depends for much of its future effectiveness on the success of private investment across national boundaries, work such as that being done by IFC and by ICC is of particular importance. It is important because the future holds greatly increased scope for the work of the multinational private enterprise such as we are helping to evolve. And it is important because the work these companies can do to build up viable economies in many places in the world enriches the scope of development that we can reasonably imagine for the future.

# # #

filed Rosen's speech

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXecutive 3-6360

For Use in Morning Newspapers of
Thursday, January 16, 1969



# BUILDING UP PRIVATE ENTERPRISE IN PAKISTAN

An Address

by

Mr. Martin M. Rosen

Executive Vice President

International Finance Corporation

As Prepared for Delivery

at the

Signing of the Investment Agreement

for

Karnaphuli Paper Mills

Dacca, East Pakistan

January 15, 1969

In the all-too-brief period that I have been in East Pakistan, I have come to agree fully with the description of a traveler of many years ago who described your land, with its great forests, its mighty rivers and its tropical riches as a rhapsody in green.

And, inadequate as my time here has been, I have nevertheless been reminded by the remarkable monuments left by your forerunners that there is here in East Pakistan an ancient tradition of excellence in the arts and crafts, renowned for over 2,000 years. Here, as in the rest of the world, there is a close relation of skills in the old arts and crafts, and the development of their modern counterparts, which are technical, scientific and business accomplishments. The dynamic private business community that flourishes here of which Karnaphuli Paper Mills, and its sponsor, Dawood Industries, are outstanding examples, owe much to your ancient traditions in the arts and crafts.

Karnaphuli Paper Mills is IFC's first investment in East Pakistan but we are looking forward to more investments in this area. I have spent the last few days, in the company of Pakistani industrial and financial leaders, looking at many interesting possibilities, some of which, I am sure, our combined efforts will bring to flower.

One of the reasons I am so confident that we shall be doing more business in this area is to be found in the tremendous interest that private investors from a large part of the world have shown in Karnaphuli Paper Mills. I am pleased -- and I am also very proud -- to be able to bring it to your attention that we have been able to attract to this investment no less than seven financial institutions of worldwide reputation. They are the First National City Bank and its affiliate, First National City Overseas Investment Corporation, and Bamerical International Financial Corporation, an investment affiliate of the Bank of America, both of the United States; the Kuwait Foreign Trading Contracting and Investment Company; Commerzbank A.G., of Germany; National and Grindlays Bank Limited of Great Britain; Banca Nazionale del Lavoro of Italy, through a subsidiary; and Banque Francaise du Commerce Exterieur, of France.

Representatives of most of these institutions are here today to sign for a portion of the investment by the International Finance Corporation in Karnaphuli Paper Mills. Together, their participation in the financing of this new project in Pakistan's paper industry amounts to nearly $3 million, or approximately a sixth of the total cost of the project as it now stands.

These financial institutions that have joined the Karnaphuli investment group come from six countries, spanning North America, the Middle East and Europe.

It would be hard to find a more impressive vote of confidence in this project than the fact that investors such as these have decided to put large amounts of their own money into it.

But their participation in the Karnaphuli project has implications ranging far beyond the project itself. For they -- like IFC, and like the other sponsors of Karnaphuli -- are investing not only in a paper mill, they are also making an investment in Pakistan, in the credit of the Pakistan economy, in the country itself. For, let me draw it to your attention, in this investment -- as in all IFC investments -- there is no governmental guarantee. This investment stands upon its own worth, and upon the viability, the productivity and the stability of the Pakistan economy.

So it is my happy privilege to say to you that the investment we are making final here today is one in which you can and should take special pride, because, in the participation of the international banking community whose representatives came here today to pledge private funds to Karnaphuli, you have before you an indication of confidence in you, in the economy of which you are members, and in the nation that economy supports.

The widespread, and large-scale, support this investment has attracted from so many of the world's major private international financial institutions is, to me, perhaps the most significant aspect of it, for the long term.

But there are many other important facets of the international agreement which we came to Dacca to sign, and I would like to touch at least briefly on a few of them.

Several of Pakistan's principal long-term development objectives are involved in the expansion of Pakistan's paper industry that we are initiating today.

A major goal of the industrial program incorporated in Pakistan's current Five-Year Plan is more intensive use of existing industries. The expansion and modernization of the Karnaphuli paper plant will increase Karnaphuli's paper making capacity by some 50 per cent -- an additional 11,000 tons of kraft paper and paperboard and 6,000 tons of printing and writing papers annually. This will not only be a major step towards meeting consumer demand for paper products in Pakistan, which is increasing year by year. It is also significant that some of the consumers that will benefit from the additional paper production are Pakistan's export industries.

This expansion of the Pakistan paper industry will also result in a saving of foreign exchange, estimated at over $2 million a year.

The Karnaphuli Paper Mills expansion will accelerate the tempo of development in East Pakistan. It will make use of one of the most valuable resources of East Pakistan, its forest products. At the same time, these forest reserves will be further developed as a result of this project, through a program to perpetuate the supplies found here of the bamboo and hardwoods to be utilized by Karnaphuli.

There are many other important local effects: much of the construction called for by the project will be carried out by local construction firms; the project will mean new jobs and additional income for those who will bring raw materials to the mill site, and the movement of the finished products will increase activity at the port of Chittagong.

But, in the end, perhaps the most basic contribution of this project to the Pakistan economy will be the addition it will make to East Pakistan's reservoir of skilled workers, for continued industrial progress depends upon the development of a skilled work force and expansion of the number of experienced and able managers.

The Karnaphuli project is IFC's ninth in Pakistan. Our interest in Pakistan, as evidenced by our investments, goes back almost to our earliest days, for in 1958 we helped to finance Steel Corporation of Pakistan, at Karachi. That same year, IFC provided part of the funds for the Adamjee Industries, a cotton textile mill in Karachi. In 1961, IFC put one of its largest early investments -- $4 million -- into Ismail Cement Industries, at Garibwal, and since then we have made a second commitment to this company, raising our total investment in it to over $5-1/2 million. In June 1963, IFC joined in the financing of Pakistan's very important development bank, Pakistan Industrial Credit and Investment Corporation. It is a source of pride to us that PICIC is today a fellow investor with IFC in the financing of Karnaphuli's expansion.

In 1965 we made two further investments in the Pakistan private sector, in Crescent Jute Products at Jaranwalla and in Packages, Limited, of Lahore. In 1967 IFC put more than $5 million into another Pakistan paper company, Pakistan Paper Corporation, of Charsadda.

The investment we came to Dacca to conclude is our second in Pakistan in half a year, for in July 1968 we joined with Dawood Hercules Chemicals, Limited, in the financing of a fertilizer plant near Lahore.

Our involvement in Pakistan's economic future is thus considerable, and ranges over a wide area: steel, textiles, development banking, cement, paper and fertilizer. However, despite the diversity of IFC investment in Pakistan, we have tried by concentration of a large part of our efforts to help get up momentum in the development of two basic industries -- textiles and paper. Today's is our third investment in the building of a paper industry in Pakistan, and we have made two textiles investments.

Let me also emphasize, and with satisfaction, that today, for the second time we join hands in Pakistan with Dawood Industries, the first occasion being as I have noted, last summer's fertilizer venture.

Karnaphuli is the fifth investment to be made in Pakistan by IFC in association with PICIC. These joint investments by PICIC and the IFC now include paper, jute products manufacture, and cement production. PICIC's vigorous entrepreneurship and the development value of its investments in Pakistan industry are a source of pride to the World Bank and IFC, which have played leading roles in PICIC's establishment and growth.

Let me also note, finally, that the Karnaphuli Paper Mill was one of the first projects undertaken by the Government-sponsored Pakistan Industrial Development Corporation (PIDC), in order to promote the paper making industry in Pakistan. In 1954, with the growth of the capital market, and in line with the Government's policy of transferring industrial enterprises to private hands as rapidly as practicable, PIDC sold most of its shares to private investors in Pakistan. This "privatization" of Karnaphuli was completed five years later, when management of the mill was transferred to the Dawood Group which now has about half of Karnaphuli's outstanding shares, with the rest held by other private investors.

In closing, I want to bring out another fact about the Karnaphuli investment that I have been saving: with its commitment to Karnaphuli, IFC has invested more in Pakistan than it has in any other country of the Eastern Hemisphere.

There have been few months in our 12-year history when we in IFC have not been occupied with one, and sometimes more than one, Pakistan development investment. We have come so often to Pakistan because it is our business to help build up the private sector of developing countries, and in Pakistan we found conditions conducive to that work. The wide-ranging, and large-scale, participation by private investors in our share of the Karnaphuli financing is, to me, additional confirmation that we have been on the right track all along. It is a track that we hope and expect to continue to follow, in East Pakistan as well as in the West Wing.

# # #

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

For Use in Morning Newspapers of
Thursday, January 16, 1969

# BUILDING UP PRIVATE ENTERPRISE IN PAKISTAN

An Address

by

Mr. Martin M. Rosen

Executive Vice President

International Finance Corporation

As Prepared for Delivery

at the

Signing of the Investment Agreement

for

Karnaphuli Paper Mills

Dacca, East Pakistan

January 15, 1969

In the all-too-brief period that I have been in East Pakistan, I have come to agree fully with the description of a traveler of many years ago who described your land, with its great forests, its mighty rivers and its tropical riches as a rhapsody in green.

And, inadequate as my time here has been, I have nevertheless been reminded by the remarkable monuments left by your forerunners that there is here in East Pakistan an ancient tradition of excellence in the arts and crafts, renowned for over 2,000 years. Here, as in the rest of the world, there is a close relation of skills in the old arts and crafts, and the development of their modern counterparts, which are technical, scientific and business accomplishments. The dynamic private business community that flourishes here of which Karnaphuli Paper Mills, and its sponsor, Dawood Industries, are outstanding examples, owe much to your ancient traditions in the arts and crafts.

Karnaphuli Paper Mills is IFC's first investment in East Pakistan but we are looking forward to more investments in this area. I have spent the last few days, in the company of Pakistani industrial and financial leaders, looking at many interesting possibilities, some of which, I am sure, our combined efforts will bring to flower.

One of the reasons I am so confident that we shall be doing more business in this area is to be found in the tremendous interest that private investors from a large part of the world have shown in Karnaphuli Paper Mills. I am pleased -- and I am also very proud -- to be able to bring it to your attention that we have been able to attract to this investment no less than seven financial institutions of worldwide reputation. They are the First National City Bank and its affiliate, First National City Overseas Investment Corporation, and Bamerical International Financial Corporation, an investment affiliate of the Bank of America, both of the United States; the Kuwait Foreign Trading Contracting and Investment Company; Commerzbank A.G., of Germany; National and Grindlays Bank Limited of Great Britain; Banca Nazionale del Lavoro of Italy, through a subsidiary; and Banque Francaise du Commerce Exterieur, of France.

Representatives of most of these institutions are here today to sign for a portion of the investment by the International Finance Corporation in Karnaphuli Paper Mills. Together, their participation in the financing of this new project in Pakistan's paper industry amounts to nearly $3 million, or approximately a sixth of the total cost of the project as it now stands.

These financial institutions that have joined the Karnaphuli investment group come from six countries, spanning North America, the Middle East and Europe.

It would be hard to find a more impressive vote of confidence in this project than the fact that investors such as these have decided to put large amounts of their own money into it.

But their participation in the Karnaphuli project has implications ranging far beyond the project itself. For they -- like IFC, and like the other sponsors of Karnaphuli -- are investing not only in a paper mill, they are also making an investment in Pakistan, in the credit of the Pakistan economy, in the country itself. For, let me draw it to your attention, in this investment -- as in all IFC investments -- there is no governmental guarantee. This investment stands upon its own worth, and upon the viability, the productivity and the stability of the Pakistan economy.

So it is my happy privilege to say to you that the investment we are making final here today is one in which you can and should take special pride, because, in the participation of the international banking community whose representatives came here today to pledge private funds to Karnaphuli, you have before you an indication of confidence in you, in the economy of which you are members, and in the nation that economy supports.

The widespread, and large-scale, support this investment has attracted from so many of the world's major private international financial institutions is, to me, perhaps the most significant aspect of it, for the long term.

But there are many other important facets of the international agreement which we came to Dacca to sign, and I would like to touch at least briefly on a few of them.

Several of Pakistan's principal long-term development objectives are involved in the expansion of Pakistan's paper industry that we are initiating today.

A major goal of the industrial program incorporated in Pakistan's current Five-Year Plan is more intensive use of existing industries. The expansion and modernization of the Karnaphuli paper plant will increase Karnaphuli's paper making capacity by some 50 per cent -- an additional 11,000 tons of kraft paper and paperboard and 6,000 tons of printing and writing papers annually. This will not only be a major step towards meeting consumer demand for paper products in Pakistan, which is increasing year by year. It is also significant that some of the consumers that will benefit from the additional paper production are Pakistan's export industries.

This expansion of the Pakistan paper industry will also result in a saving of foreign exchange, estimated at over $2 million a year.

The Karnaphuli Paper Mills expansion will accelerate the tempo of development in East Pakistan. It will make use of one of the most valuable resources of East Pakistan, its forest products. At the same time, these forest reserves will be further developed as a result of this project, through a program to perpetuate the supplies found here of the bamboo and hardwoods to be utilized by Karnaphuli.

There are many other important local effects: much of the construction called for by the project will be carried out by local construction firms; the project will mean new jobs and additional income for those who will bring raw materials to the mill site, and the movement of the finished products will increase activity at the port of Chittagong.

But, in the end, perhaps the most basic contribution of this project to the Pakistan economy will be the addition it will make to East Pakistan's reservoir of skilled workers, for continued industrial progress depends upon the development of a skilled work force and expansion of the number of experienced and able managers.

The Karnaphuli project is IFC's ninth in Pakistan. Our interest in Pakistan, as evidenced by our investments, goes back almost to our earliest days, for in 1958 we helped to finance Steel Corporation of Pakistan, at Karachi. That same year, IFC provided part of the funds for the Adamjee Industries, a cotton textile mill in Karachi. In 1961, IFC put one of its largest early investments -- $4 million -- into Ismail Cement Industries, at Garibwal, and since then we have made a second commitment to this company, raising our total investment in it to over $5-1/2 million. In June 1963, IFC joined in the financing of Pakistan's very important development bank, Pakistan Industrial Credit and Investment Corporation. It is a source of pride to us that PICIC is today a fellow investor with IFC in the financing of Karnaphuli's expansion.

In 1965 we made two further investments in the Pakistan private sector, in Crescent Jute Products at Jaranwalla and in Packages, Limited, of Lahore. In 1967 IFC put more than $5 million into another Pakistan paper company, Pakistan Paper Corporation, of Charsadda.

The investment we came to Dacca to conclude is our second in Pakistan in half a year, for in July 1968 we joined with Dawood Hercules Chemicals, Limited, in the financing of a fertilizer plant near Lahore.

Our involvement in Pakistan's economic future is thus considerable, and ranges over a wide area: steel, textiles, development banking, cement, paper and fertilizer. However, despite the diversity of IFC investment in Pakistan, we have tried by concentration of a large part of our efforts to help get up momentum in the development of two basic industries -- textiles and paper. Today's is our third investment in the building of a paper industry in Pakistan, and we have made two textiles investments.

Let me also emphasize, and with satisfaction, that today, for the second time we join hands in Pakistan with Dawood Industries, the first occasion being as I have noted, last summer's fertilizer venture.

Karnaphuli is the fifth investment to be made in Pakistan by IFC in association with PICIC. These joint investments by PICIC and the IFC now include paper, jute products manufacture, and cement production. PICIC's vigorous entrepreneurship and the development value of its investments in Pakistan industry are a source of pride to the World Bank and IFC, which have played leading roles in PICIC's establishment and growth.

Let me also note, finally, that the Karnaphuli Paper Mill was one of the first projects undertaken by the Government-sponsored Pakistan Industrial Development Corporation (PIDC), in order to promote the paper making industry in Pakistan. In 1954, with the growth of the capital market, and in line with the Government's policy of transferring industrial enterprises to private hands as rapidly as practicable, PIDC sold most of its shares to private investors in Pakistan. This "privatization" of Karnaphuli was completed five years later, when management of the mill was transferred to the Dawood Group which now has about half of Karnaphuli's outstanding shares, with the rest held by other private investors.

In closing, I want to bring out another fact about the Karnaphuli investment that I have been saving: with its commitment to Karnaphuli, IFC has invested more in Pakistan than it has in any other country of the Eastern Hemisphere.

There have been few months in our 12-year history when we in IFC have not been occupied with one, and sometimes more than one, Pakistan development investment. We have come so often to Pakistan because it is our business to help build up the private sector of developing countries, and in Pakistan we found conditions conducive to that work. The wide-ranging, and large-scale, participation by private investors in our share of the Karnaphuli financing is, to me, additional confirmation that we have been on the right track all along. It is a track that we hope and expect to continue to follow, in East Pakistan as well as in the West Wing.

# # #

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

Speech File (notes)

3/11/69

Mrs. Eliason

Doris

I thought you might like to have this updated quick reference on IFC (done recently for MMR's use)

Frank

Frank O'Brien, Jr.

Notes for talk to

Conference to Corporation Executives
School of Advanced International Studies
Johns Hopkins University
Washington -- February 28, 1969 -- 2 p.m.



NOTES

1. IFC background, origins and purposes.

2. The record through end of calendar 1968.

<u>Membership</u> -- 90 countries, total subscriptions $102.4 million (since then China joined, raising members to 91)

<u>Subscribed capital</u> -- $102.4 million (since end 1968, China joined making subscriptions $106.5 million)

IFC's capital -- $106 million subscriptions
$400 million Bank loan

Replenishment of capital: Sales of commitments -- $88 million (Includes acquisition by others of securities covered by standby and underwriting commitments, in the amount of $26.1 million and loans and equity sold or agreed to be sold of $61.7 million)

Repayments to IFC: $23.3 million

Total replenishment: $111 million

Profits and earnings -- (put in reserve against losses): $45 million

Investments

Through calendar 1968 IFC made 162 commitments (including supplementals) in operational investments totaling $253 million and standby and underwriting commitments of $36 million, for a total of $289 million, and disbursed just under $190 million.

| | | | |
|---|---|---|---|
| Commitments include: | Manufacturing....... | $241 | million |
| | Electricity supply.. | 12 | " |
| | Tourism ........... | 6 | " |
| | Agriculture ........ | 2 | " |
| | Storage & ware-housing .......... | 1 | " |
| | DFCs .............. | 27 | " |
| | | $289 | million |

Financial Record

We have closed out 30 investments, two (Durisol de Peru and Rubbertex, Australia) of them loss situations, for an average annual return on closed out investments of 11.1 per cent (including both loan and equity).

Return on portfolio was 7.6 per cent through fiscal 1968.

Diversity of IFC Experience

IFC has helped finance 122 companies, in 39 countries.

This includes assistance to 13 firms, in 10 less developed countries in 16 underwritings (or standbys) where we committed $36 million.

In the course of this work:

IFC has become associated with some 300 firms, as partners in joint ventures,

and

with 25 partners in underwriting or standby agreements.

Investments cover most of the industrial spectrum:

heavy electrical equipment manufacture, electric utilities, aircraft maintenance, copper mining, lumber milling, pulp and paper manufacture, manufacturing of steel, cement, fertilizer, building materials, refractory materials, sugar, rubber products, cans, furniture, pumps, automotive components, ball bearings, machinery, textiles, pharmaceuticals, paperboard and boxes, synthetic fibers, and caustic soda, and jute milling and food processing.

In addition, we have gone into the services, including hotels and, in Kenya, game lodges, to assist the growth of tourism, as well as warehousing and, in agriculture, livestock production.

The underwriting or standby commitments IFC has entered into have helped firms in steelmaking and seamless tube manufacturing in Mexico; steel forging in Colombia; concrete products in Costa Rica; pulp and paper, and sugar in Ethiopia; metal cans and animal feed in Venezuela; and development finance companies in Finland, Liberia, Malaysia, Nigeria and the Philippines.

The investment groups that finance the ventures in which we are associated are often large and complex, because they package together the whole range of skills and resources required to get a modern business going.

Examples: A $60 million copper mining venture for which we committed $20 million last year, in Mauritania.

Here the investment group was headed by Charters Consolidated of London, an Anglo-American subsidiary, and it also included, in addition to IFC, as shareholders, theGovernment of Mauritania and four French firms, Societe Miniere et Metallurgique de Penarroya, Bureau de Recherches Geologique et Minieres, Banque de Paris et des Pays-Bas, and Compagnie Financiere pour l'Outre-Mer, and three lenders other than IFC, European Investment Bank Credit Lyonnais and Banque Internationale pour l'Afrique Occidentale.

Second -- A $22 million development bank in Korea -- the first thing of its kind in that country. IFC put up only a relatively small amount of money -- less than $1 million -- and our chief contribution was the help we give in assembling the investment group.

The shareholders in the Korea Development Finance Corporation included the Federation of Korean Industries, most of Korea's commercial banks and most of Korea's insurance companies, and the Bank of America, First National City Overseas Investment Corporation, Irving International Financing Corporation, United California Bank International, Banca Commerciale Italiana, The Chartered Bank (U.K.), Deutsche Bank A.G., Industrial Bank of Japan, Bank of Tokyo Ltd. and IFC, plus the Korean Government, the World Bank and U.S. AID as lenders.

The IFC joint venture often has a long "reach"

Examples:

Arewa Textiles in Nigeria, in which Japanese textile firms are sponsors, or, four German firms in Pakistan Paper Corporation, or, Pan American's Intercontinental Hotels Corporation in Kenya Hotel Properties, the hotel and game lodge tourism venture that I mentioned previously.

-- Doing business of many kinds in many places has required us to develop a wide range of information about the sources of finance, their individual interests and requirements, how to work with them and the different bases upon which funds can be delivered to projects. We have also, by necessity, had to develop a legal staff capable of drawing up viable agreements under the whole range of legal systems and many different specific laws.

IFC's Criteria and their flexible application:

The diversity of IFC operations has led us to a modest and flexible view of the use of our criteria.

Flexibility is imposed also by the fact that the developing world is not one.

Thus, we avoid rigid concepts.

Nevertheless, we have criteria, and chief among them are:

we invest only in less developed member countries,

where sufficient private capital is not available on reasonable terms,

in projects of economic priority to the developing country,

where there is a reasonable prospect of profits commensurate with the risk, and

where IFC is needed and can make a constructive contribution.

A further basic operational rule is:

in financing a project in a developing country, the most effective structure is one in which local finance and management is combined with foreign finance and management.

We are very firm, if not rigid, about at least one thing -- the importance of satisfactory management.

Example:

The Cotton Company of Ethiopia was Ethiopia's first cotton textile producer and was a pioneer in introducing locally made textile goods in the face of strong competition from imported products, principally from India and Japan.

In 1961, local competition developed to an extent unforeseen by existing management, and the company deteriorated rapidly. Declining sales, rising costs and shrinking profits resulted, in the eight months ended May 1963, in a loss.

The company decided that the cure would be found in modernization of its plant and upgrading of management. With Fuji Spinning Company Limited and Marubeni-Iida Company Limited of Japan as sponsors, the company undertook to modernize, to expand its finishing facilities, and to construct a new plant equipped with 12,000 spindles and 400 looms adjacent to the existing plant. The total cost of the project, including provision for permanent working capital, was estimated at approximately $5.4 million.

IFC came into the project to fill a financing gap. The project was not viable unless reorganized on a large scale, and funds to finance it on that scale could not be found without our presence.

The two Japanese companies acquired 30 per cent of the company's share capital, for an investment of $1.65 million. IFC made a loan of $1.5 million and subscribed to 20 per cent of the shares. The IFC equity investment amounted to slightly over $1 million. Ethiopian private investors and a holding company in which the Ethiopian Government had a substantial interest held the remainder of the company's shares.

The two Japanese companies provided vigorous management and technical assistance, and they also undertook to provide training for Ethiopian staff, both in Ethiopia and in Japan.

The modernization and expansion program was completed in 1966. The Japanese management has been successful in controling costs and achieving new operating efficiencies. Since the completion of the program, the company's production has doubled and its profits have increased from $102,000 to $1.7 million per annum. High earnings, and very satisfactory dividends are now expected to continue.

Strong belief that the foreign partner should take an equity stake in the venture, so that it will get the rewards of success and suffer the losses of failure. We are reluctant, at least, to proceed where this is not the case, and where we have done so, experience has indicated that it is a good rule to require the foreign partner to be a substantial owner of the business.

We want a private local partner also.

But this is not always possible.

Example: Somima, in Mauritania.

We will accept the Government where necessary, but we insist that the venture be predominantly privately owned, with the Government interest not exceeding 25 per cent.

We believe in flexibility in the way foreign partners put their money into a project -- example -- the subordinated shareholders loan, in Somima.

We do not believe in formula banking.

Diversification of IFC investments into utilities, tourism, storage and warehousing, and agriculture.

Tourism investments:

Kenya Hotel Properties
Kingston Pegasus
Camino Real, in El Salvador
Hoturismo in Colombia.

IFC's new promotional policy.

Hoturismo.

Olancho (Copina) (Compania Pino Celulosa de Centro America, S.A., signed February 4.

Indonesia.

The underwriting approach to the problems of developing the private sector in the less developed countries.

Example: Fundidora

Four times, for a total of $44 million commitments
IFC equity now $1.4 million

Those associated with IFC in underwritings include:

Bamerical International Financial Corporation, subsidiary of Bank of America N.T. & S.A.; Banca Commerciale Italiana, Rome; Credito Bursatil, Mexico City; Kuhn, Loeb & Company Incorporated, New York; Lehman Brothers, New York and Morgan Guaranty International Finance Corporation.

IFC is not in the business of trying to persuade private investors that they have a moral duty to go forth and invest in the less developed countries.

On the contrary, IFC works in that area of transactions that satisfy both the criteria of the boardroom and of the planning chamber.

By that, I mean-- where the private investor is concerned -- investments that have a reasonable promise of yielding profits to the private investor commensurate with the risks involved and with the cost of capital and the costs of executive talent and the costs of developing technology.

The project must also be one that yields public profits satisfactory to the planner looking for profits in terms of net growth of his economy. These profits are just as real as the money profits looked for by the private investor, and, what is very important, public profits are entirely commensurate with private profits. The public profits show up in such terms as increased real national income of the country involved, higher employment, increased production of useful and wanted goods and services, increased savings, and savings or earnings of foreign exchange.

These, precisely, are what a sound, profit making investment will do anywhere.

# # #

filed Mr. ROSEN's speech bk.

Development Digest
Vol. VII No. 2 April 1969



# ECONOMIC DEVELOPMENT, PRIVATE FINANCE AND THE INTERNATIONAL FINANCE CORPORATION

Martin M. Rosen

[ The International Finance Corporation stimulates the flow of investment funds to developing member countries by joining in the financing of appropriate ventures. Increasingly it is evolving more complex deals, and looks toward the development of truly multi-national corporations. ]

One of the important facts about the future of economic development is that in many places much of the hope for further progress must now be based on increased private investment. The major providers of publicly financed assistance are restraining, some of them reducing, their aid to the developing countries. If we go back a decade, in the five years 1958 through 1962, assistance provided by the governments that are members of the Development Assistance Committee [ most of West Europe, United States, Canada, Japan] rose by just over 36 percent. In the most recent five years the increase was less than half as much—15 percent. In many countries, there are international payments problems that inhibit flows of governmental funds abroad.

These factors create a tendency for greater reliance to be placed on private enterprise in keeping up the flow of capital to the developing countries. But even without such impediments, there would currently be a call for substantially increased participation by the business community in the development effort. During the past two decades, funds supplied by governments and intergovernmental agencies have been used

Mr. Rosen is Executive Vice President of the International Finance Corporation, World Bank Group, Washington, D. C.

1. Establishment of and firm adherence to a national development program.
2. Favorable terms for the transfer of profits and repatriation of capital.
3. Non-discrimination against foreign ownership and control.
4. Equality of treatment with domestic enterprises.
5. Freedom from detailed or burdensome regulations or organization ownership and management.

It is significant to discover that only two of these items were included by most of the twenty governments in their evaluation of the five most important incentives they offer to the foreign investor:

1. Tax relief offered to new enterprises.
2. Equality of treatment with domestic enterprises.
3. Progressive domestic climate.
4. Transfer of profits and repatriation of capital.
5. Government-sponsored credit institutions.

[Excerpted from The Foreign Investment Decision Process. Boston (Mass.): Division of Research, Graduate School of Business Administration, Harvard University, 1966. Chapter 9, pp. 221-231 and 234-238. Reprinted with Permission.]

to make many fundamental improvements in the infrastructure of the developing lands. In many areas, electric power dams have been built, roads and other communications improved, education broadened, the health of the labor force strengthened, and irrigation and other basic improvements have been made to agriculture. Economic growth must in the future stagnate in such places unless upon this new infrastructure there is now built a superstructure of facilities for the production of useful and needed goods and services. By its nature, Phase One of development work is financed, as, indeed, infrastructure building has almost always been financed, out of the public purse. Just as surely, Phase Two, which is the building of productive enterprise upon the underlying infrastructure grid, is typically, and best, financed and managed by the private sector. It is in this context that we in the International Finance Corporation (IFC) look forward to substantially expanded opportunity for sound investment of private capital over the entire range of useful private enterprise in the less-developed countries.

Chief among the criteria for our investments are the following basic rules: we invest in the less developed of our member countries, where sufficient private capital is not available on reasonable terms; we invest in projects of economic priority to the host country, and where there is a reasonably prospect of profitability appropriate to the risks being taken; and we invest where IFC is needed and can make a constructive contribution. Experience has led us to a further basic rule: in financing enterprises in the developing countries, the most effective structure is one in which local finance and management is combined with foreign finance and management.

I am stressing here the importance we assign to flexibility in applying basic criteria. But we believe there is no room for flexibility in the matter of competent management. The need for sound management will not be overcome by any amount of finance, nor by a rich market, abundant and cheap materials, good labor supply, good location, and so forth: bad managers can easily overcome any of these advantages, and some are versatile enough to overcome them all. On the other hand, good management can surmount considerable difficulties, when the basic situation is viable.

Many proposals come to us in which a foreign know-how partner is willing to undertake management responsibilities, but is not also willing to take an equity stake in the venture. Our attitude to such a proposal is negative. It is simply our experience that you get better management performance when those responsible for it get the rewards for success and suffer the losses of failure. I know there is difference of opinion in this matter. We would not absolutely rule out the consideration of a proposition not involving equity participation by the foreign management sponsor, and we have made such commitments on this basis. But we are very reluctant to proceed where the know-how partner does not make an equity investment.

We prefer also that there be a local private partner in the venture who, like the foreign entrepreneur, should have an equity stake in the joint venture. However, there are cases in the developing countries where this simply is not possible. One case was the $60 million copper mining project in Mauritania, to which IFC committed $20 million last May. The private sector in Mauritania does not yet have the capital, or the management capacity, to enter into such a venture, so we departed from the rule here rather than let the project fall through. The Mauritanian Government became a shareholder, representing the local interest, in a financial plan in which the largest shareholder, and the management sponsor, was Charter Consolidated of London; other share capital was provided by IFC and four French companies. Where necessary or desirable we will accept a government directly or through governmental agencies as a shareholder, but we do not want to be the largest shareholder and we insist that the company be predominantly private. The governmental interest should be no more than 25 percent.

Most IFC investments are in manufacturing industries. But in the last few years, we have also committed funds to services—including utilities, tourism, storage and warehousing facilities—and to agriculture. We are diversifying, and we stand ready to consider investment in virtually any type of productive private enterprise that is of economic priority in the developing countries and which has good prospects of profitability. We are steadily diversifying geographically, investing in new countries; at the end of fiscal 1968, commitments in Asia totaled 24 percent of IFC's cumulative investments, those in Africa 22 percent, Latin America 48 percent, Europe and Oceania 6 percent. Last year, over half our new commitments went to Africa.

## New Role

In the conditions surrounding investment in the developing countries, potentially sound investments may not get out of the planning stages for many reasons other than lack of finance. Consequently, promotion of prospective investments into reality has always been part of our job, and we have given this help in the form of a wide range of advice and technical help. Last July, we decided to take on a more promotional role. In those cases in which we feel that good projects suitable for IFC financing could be developed, but where they are not moving forward because of the absence of an industrial sponsor committed to the project, IFC would act as a banque d'affaires. We would provide limited amounts of money for the costs of putting a deal together, including some of the costs of feasibility studies. If the project goes forward, IFC's expenses on behalf of its promotion would be capitalized as part of our investment in the new venture.

We have also decided that as part of this promotional activity we could join in the equity of pilot companies, together with other members of an investment group interested in backing one prospective full scale company. This embryo company would then carry out the necessary detailed studies and negotiations needed to implement the project. If the project proceeds, the equity investors in the pilot company would be reimbursed, usually by having an investment in the full scale company. We have already started activity in this area, and we have agreed to join pilot companies in Honduras and in Colombia, and we are engaged in the banque d'affaires role in Indonesia.

## A Look Toward the Future

The future of development seems marked not only with the general need for increased participation by private capital that I have already mentioned, but some of the more promising possibilities would appear to hinge altogether on production and management know-how, on access to scattered resources, and on the marketing abilities, that reside only in the private sector. Over the past few years, we have been sharpening the skills IFC will need to give assistance to development investments that combine the high technology and the multinational management skills with the financial resources and the intergovernmental knowledge that the modern investment requires. We have been gearing up to meet these tests by increasing the size of our investments, by helping to bring together increasingly complex investment groups and, perhaps most important, by development of a growing range of flexible responses to widely varying development investment situations.

Another important element is the growth of the multinational—as distinguished from the merely international—corporation, that seems to me to be one of the current trends with the strongest implications for the future of economic development. This new type of company operates not merely as marketer in one place of goods produced elsewhere. On the contrary, it operates on a truly integrated basis, with responsibilities to shareholders both where it produces and where it markets. Investment carried on in this way gets away from the disadvantages of the dichotomies of developed-less developed, the agricultural-industrial, the great and the small, so burdened with the past. It becomes a viable business procedure standing squarely upon the best assurance that the entrepreneur has ever had: the profit motive. Such a business is multinational, in the sense that it is not merely present in more than one country, but that it is part and parcel of more than one country.

It is in the creation and promotion of this sort of multinational joint venture that I see an important future for the work both of the International Chamber of Commerce (ICC) and the IFC. IFC is a multinational investor par excellence. ICC is an international organization that would be highly important for the future if it did nothing more than to bring together the international corporations that make up its membership. The task forces that you in the ICC have at work indicate that you are engaged in the serious business of working out the legal and institutional bases for the operations of the multinational corporation. IFC, meanwhile, is practicing the art of putting together, out of the materials of existing multinational and international corporations, in combination with national enterprises in the developing countries, new enterprises that start life as multinational companies.

[Excerpted from a speech presented to the International Council of the International Chamber of Commerce, Paris, 4 December 1968, pp. 3-15.]

EDITOR'S NOTE: Facts about the International Finance Corporation

As of December 31, 1968, the IFC had committed $289 million of its own funds to 123 private enterprises in 39 countries, of which $196 million had been disbursed. Other investors had put well over $1 billion into these projects; in many cases IFC's contribution had closed a gap in the available financing of a project, making possible what might otherwise have been unattainable. IFC initial commitments range from $500, 000 to $20 million, except for its commitments for promotional costs where the upper limit is $50, 000. All its investments are made in association with private business. IFC finances specific projects, but does not engage in direct financing of imports or exports. In addition to mobilizing capital for new ventures, IFC also sells off its investments to private buyers when opportune. Of the Corporation's gross commitments of $289 million, about $120 million have been sold to other investors; the 30 investments so far closed out by IFC have yielded an annual average return of 11. 1 percent.

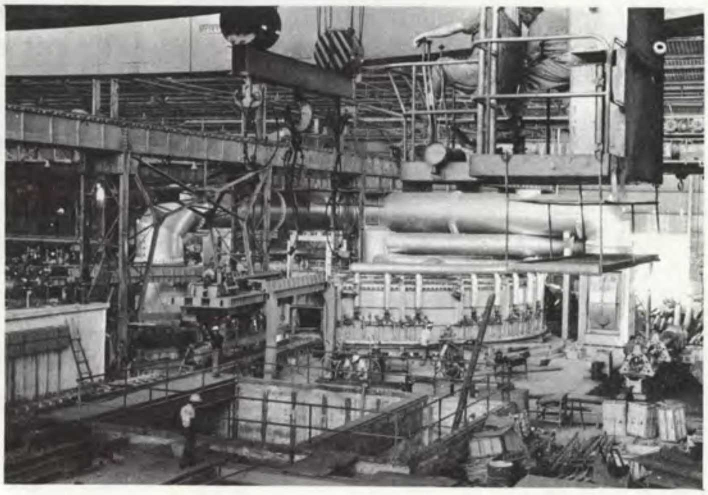
Three plants financed by the International Finance Corporation:

Top: Fertilizer factory in Senegal;

Left: Chemical pulp plant in Chile;

Bottom: Steel Mill in Brazil.

(Photos: World Bank)



NEW APPROACHES TO PRIVATE OVERSEAS INVESTMENT FOR DEVELOPMENT

Paul Streeten

[Changed conditions since the 19th century call for flexible approaches to foreign private investment. Joint ventures, mixtures of loans and equity, and other aspects may help avoid difficulties.]

## The Need for Rethinking

Much of our present thinking and many of our institutions are still dominated by the experience and the doctrines of the 19th century, and are therefore ill-adapted to the altogether different circumstances and needs of the second half of the 20th. There are a number of features which distinguish modern private foreign investment from that in the last century, some of which have been elaborated by Professor Rosenstein-Rodan.

First, whereas in the 19th century 70 percent of world foreign investment took the form of bonds and only 30 percent that of equity, today bond investment is very small and disregarding trade credits the majority is in equity. This implies that the rates of return and the services rendered have changed. Whereas equity investment carries a yield of 15-25 percent before tax, and 10-15 percent after tax, fixed interest investment in spite of current high levels of interest rates yields only 7 percent. [Note: If long term amortization is included along with interest, the current payments by borrowers are about the same level as 10-15 percent annual equity earnings.] The

Mr. Streeten is Warden of Queen Elizabeth House and Director of the Institute of Commonwealth Studies, Oxford University, England.

Remarks of Mr. Martin M. Rosen,
Executive Vice President
International Finance Corporation
at
Taipei.
April 30, 1969



# TAIWAN'S ECONOMIC DEVELOPMENT

# AND

# THE INTERNATIONAL FINANCE CORPORATION

(Salutations)

It is good to be back in the Republic of China after an all-too-long absence of eight years. It is good because, here in this room, and in the many heartwarming welcomes that have so graciously been extended to me since my arrival yesterday, I have been fortunate to have encountered many old friends, and I have been honored to find so many new friends among the Chinese.

To meet old friends again, to make new ones, to see again sights long remembered, those are good and sufficient reasons for my visit. But there is another, and very important, reason for my being here, and another, and very important, reason for taking special satisfaction in this occasion. This is, that the Republic of China has now become a member of the International Finance Corporation, and the fundamental purpose of my visit is the pleasant one of welcoming you, as the 91st member of IFC's family of nations.

And so permit me -- even as a guest -- to say to you:

Please accept our warm and hearty welcome. Please know that we are proud for you to be a member of our family.

I am sure that you would understand if I went no further than to convey to you in this very simple and sincere manner the fact that we are both proud and pleased to have the Republic of China as one of our worldwide family of nations, to add the historic talent and industry of the Chinese to the capabilities available to us in the task of helping to achieve sound and lasting economic growth in all our member countries.

But there is more to be said, for the fact that the Republic of China has seen fit to join IFC has a special significance in terms of the Republic's economic growth and development.

This significance lies in the fact that, in proposing that the Republic of China should become an IFC member state, your Government was making a determination that China should strengthen its ties with the private sector of the world economy.

I want to return to the subject of the links between your economic development and private investment, but I would like to emphasize, as part of my very warm welcome to the Republic of China into the IFC, my feeling that your Government has acted with a good sense of timing, and has made a wise assessment of the future, in extending at this time the country's membership in the World Bank Group to the International Finance Corporation. It is an action that signals to the world China's desire for increased emphasis upon private investment, both domestic and foreign. At the same time it gives useful encouragement to China's industrialists and financial community to look increasingly to the private sector, at home and abroad, for the financial, technical and managerial partners they need for many new and expanded productive enterprises in Taiwan's private sector.

Let me also stress before my remarks have proceeded any further, another point on which I want to extend my congratulations to your Government. This is the fact -- a fact that is very important to me, as one whose job it is to encourage private investors from abroad to put their resources into the Republic of China -- that the Republic makes domestic, foreign and private investment welcome, in the form of a "Statute for Encouragement of Investment." The protection this law gives to the integrity of capital, and the assurance it gives that investors in your economy from abroad can realize the return their investments earn, are consistent with the fact that your new plan for economic growth, announced February 26, places stress on further improvement in the investment climate on Taiwan, to attract capital and encourage savings on the island. Your Government is indeed to be congratulated on the forward looking, and practical, legislation of the Republic of China in this respect, and on the correct plans for further strengthening of the investment climate. This promises that the legal climate for the growth of private investment -- domestic and from abroad -- will be consistent with China's aspirations for economic growth and improvement.

I was last in the Republic of China almost exactly eight years ago. One need only look about to see the evidences of really extraordinary progress in that time. Indeed, the visitor to your country comes prepared to see signs of progress, for in the past few years the Republic of China has become known to the rest of the world as a nation that is making a success of economic growth. When that great part of the world that is relatively less developed economically is discussed, and when examples are sought to show that efforts from outside to help nations advance economically <u>can</u> be successful, it has become a habit to cite China.

Nevertheless, it is heartening to see, first hand as I am now doing, unmistakeable signs of the gains you have made in the past decade: the vastly changed face of Taipei, your improved transportation, new power plants, and new factories using the new energy resources to make the building materials, consumer goods and the agricultural inputs by which the lives of your people are bettered; ships in your ports picking up your products to sell around the world, and delivering foreign made products -- bought with the proceeds of your exports -- that you need to continue your progress, and -- something that comes in through the skin of the traveller -- a sense of pride and achievement on the part of the people, that is perhaps the best augury of all for the future.

When I was last here, yours was still an essentially agricultural economy, and one still heavily dependent for its continued progress on outside help.

Now, although the Republic continues to receive substantial outside assistance from other sources, the Republic has moved up to an economic condition in which U.S. economic assistance has been phased out. Further, today, China earns more from the production of an encouragingly wide range of manufactures, such as fabrics and clothing, processed foods, electrical appliances, cement, chemicals, plywood, electronic items and machinery than it does from the proceeds of Taiwan's traditional basic products, rice, sugar, bananas and timber.

Your Fifth Four Year Plan calls for a steady rise along this path of simultaneous expansion and improvement of your economy. Confidence that you will achieve the goals set in the Fifth Plan is reinforced by the fact that you have been exceeding your targets during the Fourth Plan years. I am informed that Gross National Product, per capita income, agricultural product, and -- most of all -- industrial production, have been rising well above the substantial goals that were set for them.

There are, to be sure, some bottlenecks and difficulties to be negotiated. The need for more railroad and road transport is still considerable. Better harbor facilities are needed. There is a continuing need for more power, despite large gains in this area. And there is a need for more skilled labor to man further industrial progress. Further, Taiwan's shortage of arable land makes it difficult to continue improving the agricultural base of the economy. But allocation of resources to correct these imbalances has already been going on. And the forthcoming Fifth Plan places primary emphasis upon manufacturing, power and transportation. It also aims to get around the land shortage by, in effect, "finding" land through the process of increasing the productivity of land already in use.

Many interesting implications can be drawn from this progress and the plans for continuing it. I want only to make two points.

The first of these is that the Republic of China is a pacesetter even among the small group of developing countries that have become known as "sprinters", because they have GNP growth rates of more than 5 per cent a year. The Republic of China has been averaging about twice that growth.

The second point grows out of the first. This is that the amount, and the kind, of progress you have been making means that in the future your continued progress is going to depend increasingly upon qualitative improvements in your economy.

By and large, that means changes in the direction of higher productivity. Wage rates in the Republic of China indicate that you still have abundant labor, and labor intensive investments are therefore still appropriate. But it is the history of industrial development that employment rises most in industries where productivity rises most, because rising productivity makes for lower costs, competitive prices, and growing sales. Consequently, even though for the short run, here on Taiwan, you continue to use labor intensive investmants, for the long run you require a shift toward more capital intensive investments, that result in a higher rate of productivity for both capital and labor. Without such a shift, you would be building and economy that would have definite, and relatively low, limits to per capita output, in the face of the fact that high per capita consumption can proceed only from high per capita production.

Further, without the development of an ever widening high productivity sector, your economy could not for long compete in a world that is straining its capital resources to invent and install ever higher productivity tools of production, manned by a workforce that must constantly rise to new levels of education and training, and managed by men using management systems that must change, improve and become more precise in step with the growing sophistication of the productive equipment, the workforce and the marketing systems that they direct.

It is therefore good news that the Republic's Fifth Four Year Plan will underwrite continued productivity gains by renewed emphasis upon essential infrastructure, and that it will give special attention to broadening your country's industrial base while moving to circumvent the island's natural agricultural limitations through increased agricultural productivity.

I am glad to be informed that the Republic of China will emphasize both simple and complex industries in the new Plan period of development, and that you are seeking new industrial technology in such fields as electronics, petrochemicals, and precision instrument manufacturing.

Plans for further development of the Kaohsiung free trade and processing zone and its harbor will give a further stimulus to foreign

am looking forward
capital inflow, as the existence of this zone -- which I had the pleasure
to
today of visiting -- has already been doing. The encouragement the Government of the Republic of China has been giving to private investment will continue, and I am sure that it will continue to have the same beneficial effect as it has over the past five years, when private investment in the Republic has moved forward both in amount and in the range of projects, so that the share of private investment in total investment moved up from 50 per cent to 70 per cent.

Not only has the industrial sector in the Republic risen above the agricultural sector in net domestic product, in recent years growth has been more pronounced in new industries manufacturing intermediate and capital goods and consumer durables -- such as electrical machinery and appliances, transport equipment, machinery and the like.

The picture of Taiwan's economy that we have just assembled suggests that the joining of hands between the Republic of China and the International Finance Corporation can be of substantial significance to your economic future.

First, IFC's objectives mesh with yours.

Second, it is the business of IFC to give assistance in overcoming what appears to me to be one of the outstanding problems of the Republic of China as it moves into an era of more extensive, and more intensive, industrialization, this problem being, rather low flows of private foreign capital into the Republic.

Let me describe very briefly the meshing of your objectives and ours. IFC was established in 1956 as the affiliate of the World Bank that would promote the growth of member countries by investing in private businesses in developing member countries, without government guarantees of its investments. Consequently, every IFC investment must meet twin tests: it must meet the requirements of the private investor responsible for the preservation and growth of his stockholders' investment in the business he heads, and it must also meet the requirements of the economic policy member responsible to his nation for its economic growth and improvement.

This is to say that the IFC assisted investment must make a private profit, in the ordinary meaning of that term. We believe that private investors cannot be asked to bring their money, their talent and their technology into a developing country without the same reasonable expectation of profits that would motivate them in making any investment anywhere. Consequently, we invest only in projects that give adequate promise of yielding an appropriate return in a business sense.

Second, because the IFC assisted project is expected to make a contribution to the economic betterment of the developing member country, our investments must also make a public profit. This is to say, the kind of profits that are looked for in the planning chamber: higher real income, higher employment, more tax revenues, growth of strong institutional connecting tissues such as a capital market, and so forth. These are profits just as real as the money profits the private investors look for, and just as meaningful. Consequently, we invest only in those projects that have an economic priority to our member country, and that promise it these public profits.

Additions to the economy that meet both these tests are, of course, what the Republic of China is looking for: new businesses that will not become charges on the public purse because they collapse and fail, but, on the contrary, new businesses that help raise the level of skills in the labor force, that produce wanted and needed products at competitive prices, that help earn or save foreign exchange, that raise real incomes generally, together with institutions of banking and finance that help connect up the units of the nation's business community by links through which savings can be brought to market for useful investment, and through which the useful investments can be located and financed.

Such businesses earn their way. That is, they can be permitted to repatriate their capital and move their earnings abroad because, after doing so, they leave behind them the public profits they create, out of which continued economic growth takes place. The fact is, of course, that in the environment of a sound and growing economy, much imported capital and profits tend to remain.

Now, as for the availability of foreign capital:

In 1967 foreign investment approvals in the Republic of China amounted to $63 million, almost twice the amount approved in 1966. The actual inflow of foreign private capital in the form of direct investments also increased substantially, from $8.4 million in 1966 to $26.6 million in 1967.

In 1968 approved foreign investments amounted to $104 million, 65 per cent more than in 1967, of which $39 million came from overseas Chinese and $65 million from others.

These inflows of foreign investment have gone far to take the place of the U.S. economic assistance that has been phased out. Thanks to this inflow, to World Bank, to Japanese and to other credits, and -- very important -- to growing exports, your reserves have continued to grow and to make a credit-worthy base for continued foreign investment.

Everyone concerned is to be congratulated upon these achievements. But, to the extent those amounts can be increased in the coming years, the Republic will tend to move farther and faster into the higher productivity lines of endeavor that will give the country its maximum economic boost and will tend to raise standards of living fastest.

The need for increased inflow of foreign investment in your economic growth is implicit in the Fifth Plan. IFC is a medium through which this need can be met, in ways that might otherwise not open up.

For one thing, the investments that IFC assists are those investments that in many cases might not be made without IFC's presence. They are investments for which all the financing cannot be found, and where IFC closes the gap. They are investments that cannot come into being without the type of promotional help that IFC is able to provide, by helping to finance pilot companies, or by searching out both viable investment projects and the partners and the financing for them. They are investments that might not be made because they are special situations that investors less experienced than IFC -- which in the past 13 years has made 162 investment commitments over nearly the entire range of industry, and in the services -- hesitate to get into without experienced help.

They are investments that companies in the industrialized countries want to make, and may have the money to make, but simply do not know how to go about without help such as we have given over the years to the formation or expansion of 122 companies, in 39 countries, in association with 300 firms as partners in joint ventures and 25 others in underwritings. They are investments that other financial institutions would like to participate in, but may not know how to get into other than through the doorway of IFC.

Thus, vigorous use of your new IFC connection can and should result for the Republic of China in opening up a new range of foreign private investment that is now just outside the possible or the practical.

Let me add also that the Republic of China's new connection with IFC may be of use in the field of industrialization in other ways, as, for instance, in helping in the rationalization of existing industrial units, through expansion or consolidation, where it is determined that this is required.

Improved business management is in itself an inducement to the potential domestic and foreign investor. In this connection, Mr. Waldo Mauritz, our Accounting Adviser, recently visited the Republic and met with your business leaders, to look into means of improving financial reporting for the benefit of the investing public. This depends upon a high level of professional competence within the accounting profession, adequately supported by private industry and by the authority of government. Consultations such as Mr. Mauritz carried out, and the accounting procedures essential to an IFC assisted project, will hasten the progress you have indicated that you desire in this field. I can assure you that the use of standard means of professional financial reporting will be of substantial practical benefit to the Republic's economy, in many important ways.

Let me note a very important fact: the amount that IFC itself puts into projects is the lesser part of the capital inflow that results. It is our role to act as a catalytic agent, in the ways that I have mentioned just now, to help create an inflow of private capital to our developing member countries that is many times greater than what we put in. Thus while we made investments in calendar 1968 that amounted to approximately $50 million, these commitments were in projects that helped mobilize over a quarter of a billion dollars of new investment in the countries where the commitments were made.

It is my hope and expectation that the Republic of China will benefit fully from its new IFC association. It will be my purpose, and the purpose of my colleagues in IFC, to make available to you every possible opportunity to increase your economic growth, and build a strong economy, through investments in your private sector.

# # #

(Mr. Wong, of the Chinese Embassy, suggests a passage dealing with the following material, excerpted from his letter of comment on the first draft.)

4. The main objection that the Chinese Government has regarding portfolio investment by foreigners is the fear that it could be of speculative nature and thus undermine the stability of the economy. Interest rates in Taiwan are 50% higher than the outside rates and profit margins, 100% higher, so the opening up of the securities market to foreigners could, it is feared, drain our foreign exchange reserves (the profit margin could be offset somewhat by taxes which, at present, are low as compared to industrialized countries).

I would not be surprised if the Chinese Government sought IFC assistance to see how best our laws and regulations should be revised to create the right climate for foreign portfolio investment without incurring too much risk of undesirable "manipulations" by foreign investors (the term, I believe, used by Mr. Rosen was "financial" investment as distinct from "industrial" investment).

**INTERNATIONAL FINANCE CORPORATION**

HEADQUARTERS

1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: EXecutive 3-6360

NEW YORK OFFICE

20 Exchange Place
New York, N.Y. 10005, U.S.A.
Telephone: WHitehall 3-5400

EUROPEAN OFFICE

4 Ave. d'Iéna
Paris 16e, France
Telephone: 553-2510

LONDON OFFICE

New Zealand House
Haymarket
London S.W.1, England
Telephone: 930-3886

Cable Address: CORINTFIN

# DEVELOPMENT ENTERPRISE

An Address
by
**MARTIN M. ROSEN**
Executive Vice President
**INTERNATIONAL FINANCE CORPORATION**
at the
**FOURTH INTER-AMERICAN CONFERENCE**
of the
**PARTNERS OF THE ALLIANCE**

Salt Lake City
May 11, 1969

I am greatly pleased, as well as honored, that you have asked me to speak to this keynote session of the Fourth Inter-American Conference of the Partners of the Alliance. All of you at this distinguished gathering, representing so many countries, states, cities and businesses and professions, are concerned with the important subject of increasing the flow of resources, human and material, among the nations of the Americas. It is a very keen pleasure indeed to be privileged to share with you, if only for a day, the splendors of your brilliant mountain setting. As one who travels throughout the world, I can assure you that the sights surrounding us here have few, if any, rivals anywhere.

I take pleasure also in being here to participate in this meeting because of the special interest that I share with you in the economic development of Latin America.

*The very fact of dealing, as we do in the World Bank Group, in the problems and possibilities of development on a world basis drives home the extraordinary importance of helping Latin America to achieve its potential for contributing to a world of peace and plenty. A very major portion of the investment of the International Finance Corporation has always gone to Latin America, and will continue to do so, because a better developed Latin America has so much to contribute to the future progress of the rest of the world.*

I know that in the course of this annual meeting you will hear reports on the activities and results of the Partners, and that speakers here will discuss with you the economic progress of the Latin American countries, so I will not attempt to do either. However, let me say that I have noted with interest, in the report of the National Association of the Partners on your first five years of activity, that the work you are doing, involving several hundreds of projects in fields such as education, agriculture, medicine, public health, public works, housing and community development, is work that contributes to the improvement of institutions and conditions essential to the growth of strong private sectors.

I feel justified, therefore, in assuming that you are as deeply interested as we are, in the International Finance Corporation, in looking into the conditions currently surrounding the development task, for clues to how we should be shaping our activities for the future.

What I have to say applies broadly to the world of the economically less developed countries. It is therefore entirely revelant to the development of Latin America, for the Latin American countries run the gamut, from nations standing on the threshold of self-sustaining economic growth, to countries or areas almost at the beginning of the process of transforming their methods of agricultural and industrial production, their economic institutions and their labor and managerial skills to levels of high productivity that will permit high levels of consumption.

*What I wish to emphasize, the principal note that I would strike as we look from this point to the future, is that there have been changes in the conditions in which development must now go forward tending to place increased responsibility for continued economic growth and improvement in the developing countries upon the effective use of private enterprise in the development process.*

*The principal cause for change that I see affecting the development task is the fact that a great deal of development work has already been done, and that most of it has been infrastructural.*

A great many power dams have been built, and stand ready to supply electricity to new industries. A great many harbors have been prepared to handle a much enlarged flow of materials and products to and from new or expanded industries.

The health and education of labor forces have been improved, making more people employable at higher levels of productivity.

Communications have been improved, power lines extended, and water supplies enlarged, all of them necessary preparations for industrial production and enlarged commerce.

Further, the building of many billions of dollars of basic economic facilities in the developing countries has employed large numbers of people over the years, and it has taught basic industrial skills to many of these workers.

Some of the improvements counted as infrastructure can directly improve living standards. For instance, the water for irrigation supplied by a power dam makes it possible to raise more food. However—and this is my main point—all of the infrastructure building prepares the way for a second phase of economic development. In this Phase Two of development it becomes possible to build a more complex and sophisticated superstructure of business and industry, making use of the work skills and the basic economic facilities provided by earlier work on the infrastructure. This superstructure, which I call development enterprise, is highly productive because it turns out goods and services that are the ingredients of rising living standards.

*Unless development enterprises in the form of many more of such things as textile plants, cement plants, petrochemical industries, machine shops, financial and trade institutions, paper mills, furniture factories, and on down the list of the myriad enterprises that supply our needs and wants, are now built where the way has been made ready, the rise of living standards started in the infrastructure building stage will not expand as it should.*

*This is to say that in many places—not necessarily whole countries, but usually cities or provinces with the highest potential for contributing to further development—the building of development enterprises now assumes a critical importance to continued national economic growth.*

And enterprise building is done chiefly—and best, I think most of us would agree—by the private sector.

## Phase Two

The importance of private investment in Phase Two of development, however, goes beyond the employment of people and their skills, and the employment of otherwise idle sources of energy and basic service facilities. I do not want to belabor the point, so let me just list some other reasons for believing that the future pace and continuity of development now depend in many places upon the skill with which the incentives that activate private investment are employed.

—*First:* A rising standard of living means higher per capita consumption, and higher per capita consumption can proceed only from higher per capita production. This usually calls for the use of new technology and of production and management methods ordinarily best known and used by producers in the private sector.



—*Second:* The less developed countries also need to be equipped with the technology and management the private sector uses so that they can become competitive internationally in a world that daily lays increasing stress upon the use of high productivity technology for production of the goods and services that are sent into the world's trade streams.

—*Third:* The developing nation emerges into Phase Two, typically, carrying a burden of debt for much of the infrastructure that has been built within its borders. The emergent economy therefore has a stringent need for projects that directly and rapidly pay for themselves out of income that their own production creates. The private investment is such a self financing project, since it is made only when the private investors involved consider that the investment will be profitable. Their expectations may not always be achieved but, in that case, the loss is a private one and the nation is not burdened with a debt it must service.

—*Finally,* there is the fact that capital is short world wide.

Everywhere, in the better developed as well as in the less developed countries, there is a general effort to raise consumption and improve the quality of life, and that effort requires large amounts of new capital. To mention just one among almost countless examples—the need of a North American city to improve its education system competes for capital with the need of a Latin American country to finance the industrial modernization that would create new income by which the Latin American country could improve its educational system, among other things. In this situation the cost of money, which is evidenced by interest rates, goes up.

Thus, the question is being asked more and more insistently, with respect to every use of capital anywhere—including the use of capital in development projects in the developing countries: will the intended use of the capital repay its scarcity value? In the simplest terms the question is: will the intended use of the capital be profitable?

*The worldwide demand for capital, and its consequent high cost, mean, I believe, that continued success in development will to an increasing degree in many places turn upon locating and bringing into operation development projects that satisfy both public and private profit motives.*

By satisfactory private profit I have in mind money profits in the usual sense of the word—returns that an investor responsible to stockholders for the integrity and the increase of capital entrusted to him can regard as commensurate with the investment risks involved and commensurate with the value of the executive talent and the technology that typically accompany private investment. To be valid, these profits should be realizable, that is, the investor must be free to receive them in convertible currency, and the capital involved in a development project must, like capital in any other investment, be recoverable out of the earnings of the business. But I would also remind you that where a business prospers, and where the integrity of the capital invested in the business is not in question, there is a tendency for profits and capital to remain in the venture. Freedom for profits and capital to move does not necessarily mean they will move.

*Public profits arise from the fact that the public economic policy maker has been entrusted with the use of the scarce capital available to his country, and that he is responsible to his nation for the integrity and the increase of that capital just as the private investor is responsible to his shareholders.*



The public policy maker seeks national profits from the capital invested in development projects. These public profits are realized in the form of increased real national income, higher real personal incomes, higher employment, increased agricultural and industrial production, increased productivity of both labor and capital, expanded and improved labor and management skills, as well as strong growth of the economic blood vessels and connecting tissues in the shape of financial institutions and the institutions of trade and commerce.

*I believe that it is one of the outstanding weaknesses of the present outlook for economic growth in the developing countries that the essential alikeness of private and public profit motives is not more generally recognized and acted upon.*

I am convinced that a growing understanding of the relationship of the aims of the board room and of the planning chamber in the current phase of the development task can be very useful in the development process, because such understanding will lead to fuller employment for development purposes of the incentives that are as necessary to activate investment in the developing countries as they are in all other places.

But, does private investment take a form suitable to the national goals of economic development? And, is there a vehicle for carrying out development investment that is well designed to yield both the benefits sought by the private investor and the public investor?

The answer, I think, is yes on both counts.

## Development and the Multinational Company

In the joint venture, bringing together local and foreign capital and know-how, private investment takes a form adaptable to the needs of the development project because the development project requires local finance as well as foreign exchange, and it requires the marriage of local manpower, material resources and knowledge to advanced management methods and production and marketing techniques.

The vehicle for the use of private enterprise in development is found in the multinational company that results from joint ventures bringing together foreign and local ownership. Such a company is distinguished from the merely international corporation which produces in one country and sells in another, or even produces in several countries and sells in several countries by having its ownership shared to a significant degree by shareholders located both in developing and in industrialized countries.

*In the form of the multinational company, therefore, private investment becomes a vehicle for carrying out development projects not only efficiently, but also with a cautious eye on the desires of the developing as well as the capital exporting country, since its shareholders are property-owning and income-earning citizens of each.*

*The International Finance Corporation is very much involved in the trend toward multinational corporations, because many of our development investments are joint ventures and result in the creation of new companies that are — from their birth — true multinational enterprises.*



We have participated in 132 development enterprises in 39 countries during our 13 years' history, and—to take a few random examples—we are now in multinational development enterprises in such fields as fertilizer manufacture in Brazil; steel in Mexico and Argentina; tourism in Jamaica and El Salvador; textiles in Nicaragua and Colombia; development banking in Venezuela, Colombia and Ecuador; petrochemicals in Brazil; paper making in Argentina, and so forth. These examples are from the Western Hemisphere but similar examples could be cited for our activities elsewhere in the world.

Let me describe one or two of these investments.

Near Santos, Brazil's principal seaport, a $70 million fertilizer manufacturer called Ultrafertil is being built to be one of Latin America's largest sources of chemical fertilizers. This company was formed late in 1966 with the sponsorship of one of the United States' major oil and petrochemical companies, Phillips Petroleum, and a Brazilian partner, known as the Ultra Group, a leading distributor of bottled gas, home appliances and other products in Brazil. The private sponsors provided 90 per cent of the new company's equity, and IFC provided the rest. United States insurance companies provided loan capital of $21.5 million. IFC provided long-term loans of approximately $8 million.

We regard Ultrafertil as a prime example of how private sector resources can be brought to bear, financially, technically and managerially, upon a pressing economic development problem, to yield satisfactory private profits and important public profits. Ultrafertil is a double-edged development enterprise since, as a fertilizer factory, it adds a large modern chemicals plant to Brazil's industry, while its product will serve to improve Brazilian agriculture by supplying some 500,000 short tons a year of soil nutrients. Further, we believe that the capital which was brought together for this new agribusiness venture in Brazil is a use of capital that will certainly repay its scarcity value because, like every sound business enterprise, it supplies a real and continuing market need.

My next example is one in which the development process is seen at work feeding its benefits back to itself. This is the Fabritex textile mill now being built in Nicaragua to make fabrics, for all of Central America, that are currently imported. Usually the technical sponsor in a development enterprise is located in a European or North American industrial nation or in Japan. In this case, however, the sponsoring company is Fabricato of Colombia, a company which is one of the outstanding examples of Colombia's economic progress.

Like Ultrafertil, Fabritex is beginning life as a multinational company, with its industrial sponsor in Colombia, its ownership divided equally among the Colombian sponsor, the official and private Nicaraguan development banks—Instituto de Fomento Nacional and Corporacion Nicaraguense de Inversiones—and the International Finance Corporation, with a Bank of America subsidiary, Bamerical International Financial Corporation, participating in IFC's share of the equity.

Subsequently, an additional multinational feature was added to this transaction when the Bank of London and Montreal Limited, as well as another United States institution, Philadelphia International Investment Corporation, became participants in the IFC investment. Further, the Central American Bank for Economic Integration supplied most of the Fabritex loan capital, to which IFC also contributed substantially.

Fabritex is not only multinational in its makeup, but will also have multinational development benefits, for its output is meant to be sold throughout the Central American Common Market, and to save foreign exchange for all five of the Central American Republics.



The Fabritex textile mill will add to Nicaragua's —and Central America's—industrial capacity a fully integrated mill with more than 20 thousand spindles and nearly 400 looms, capable of making over 10 million yards of fabrics annually, making use of large amounts of Nicaraguan cotton, under the management of one of Latin America's most experienced textile makers. We feel certain, therefore, that it will turn out to be a use of scarce capital that is profitable both privately and in terms of Nicaraguan and Central American Common Market public objectives.

### Scarcity of Capital

*I have stressed the fact, and the consequences for development investment, of the worldwide excess demand for capital. I want now to focus a little more sharply on this development factor, specifically on the fact that in the developing countries one is often faced not so much with a shortage of capital, as with a scarcity of* mobilized *capital.*

It is for this reason that we regard the development of institutions for the mobilization of the savings of people and businesses for investment as a major IFC responsibility.

We try to meet this situation in part by supplying capital, together with local investors, to development banks, as we have in 17 countries. But more directly, we try to help local capital markets as well as useful businesses by underwriting operations. In this way we have helped companies in Argentina, Colombia, Costa Rica, Ethiopia, Finland, Liberia, Malaysia, Mexico, Nigeria, Philippines and Venezuela to finance, in their own markets, expansions that have contributed materially to their countries' economic growth.

*In my opinion, one of the most beneficial steps favoring a substantial increase in private investment in the developing countries would be a very significant increase in efforts to create local capital markets able to bring local private savings to market for investment.*

## Some Suggestions

*Let me, in closing, make two further suggestions, both on the premise that the development enterprise, financed and operated chiefly out of the resources of the private sector, must assume larger and often critical scope in the development picture.*

*The first would seem almost too obvious to mention, except that the need for action is so widespread and great. This is the adoption of measures by the developing countries which will make foreign investment in them attractive by eliminating the negative factors that now hamper investment.*

Controls in effect during the first phase of the development effort, when activity is chiefly in infrastructure building, and is chiefly financed through official channels, may be obsolete when the continuity of economic advance comes to depend more upon the building of privately financed enterprises. Countries desiring to harness private enterprise for their development purposes should be looking closely at the conditions in which they ask private enterprise to operate.



*Secondly—and here I address myself to businesses, banks, governments, and private and official international investment organizations—the entire complex of those in the capital exporting areas—as well as to the developing countries: I think that a great deal more effort needs to be devoted to an activity which, for lack of a better name, I call "promotional work": the work of finding good projects, finding local and foreign partners for joint ventures, and organizing the finance needed, in brief, putting an investment together.*

It is not only that more people should be engaged in finding and working out development enterprise opportunities. There should be more people equipped with a large variety of financial, engineering, marketing and other skills, including specializations, as, for instance, special knowledge of the conditions for investment in fertilizer-making capacity. It is not only that more money needs to be applied to promotional effort—locally as well as from the outside. Money for promotion should be available in the right ways: as capital for pilot companies, as administrative expenditures where basic studies are needed that may or may not lead to investment; as capital for permanent development companies in specialized fields, such as the tourism holding companies, set up to finance the whole range of tourism plant and services, that we are considering in IFC; and, as capital for the establishment of merchant banks—a new departure that we are now considering—to be national or regional institutions oriented to the finding and development of sound and useful investment opportunities.

*I am optimistic about the outlook for economic development. I believe that, with a substantial part of the basic infrastructural* *work in place, we now have before us in the second phase of the development effort, an opportunity to engage the nearly limitless financial resources of the private sector of the world economy, if we perceive the opportunity clearly enough, and exploit it fully. In my opinion, this should lead to increased total resources for development assistance in the future.*



Additional copies may be obtained by writing to the Publications Section, Room D900, International Finance Corporation, 1818 H Street, N.W., Washington, D.C. 20433.

file M-Rosen speech RK

CORPORACION FINANCIERA INTERNACIONAL
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELÉFONO: EXECUTIVE 3-6360



# L A  E M P R E S A  P A R A  E L  D E S A R R O L L O

Discurso
del
Sr. Martin M. Rosen
Vicepresidente Ejecutivo
de la
Corporación Financiera Internacional
preparado para ser pronunciado
ante la
Cuarta Conferencia Interamericana
de los
Compañeros de la Alianza para el Progreso
en
Salt Lake City, Estado de Utah
11 de mayo de 1969

Es para mí un gran placer, y un honor, el haber sido invitado para hacer uso de la palabra en esta sesión principal de la Cuarta Conferencia Interamericana de los Compañeros de la Alianza para el Progreso. Todos ustedes, que representan tantos países, estados, ciudades y ramas de actividades y profesiones, están interesados en la importante cuestión de incrementar la corriente de recursos, tanto humanos como materiales, entre los países de las Américas. Y constituye un gran placer el poder compartir con ustedes, aunque sólo sea por un día, este esplendoroso paisaje del desierto. Yo, que viajo por todo el mundo, puedo asegurarles que tal vez no exista un paisaje semejante en ninguna otra región de la tierra.

Me complace también participar en esta reunión porque, al igual que ustedes, tengo un interés especial en el desarrollo económico de América Latina.

El hecho mismo de ocuparnos de los problemas y las perspectivas del desarrollo en escala global, como lo hacemos en el Grupo del Banco Mundial, hace que estemos plenamente conscientes de la enorme importancia de ayudar a la América Latina a hacer realidad su potencial para contribuir a que reinen la paz y la abundancia en el mundo. La Corporación Financiera Internacional siempre ha realizado una parte considerable de sus inversiones en los países latinoamericanos, y continuará haciéndolo, porque una América Latina más desarrollada tiene mucho que aportar al progreso futuro del resto del mundo.

Sé que en el curso de esta reunión escucharán informes sobre la labor realizada y los resultados obtenidos por los Compañeros de la Alianza, y que otros oradores se referirán al progreso económico de los países latinoamericanos, razón por la cual no tocaré esos temas. Quisiera, no obstante, señalar que he observado con interés en el informe sobre los primeros cinco años de actividades de la Asociación Nacional de los Compañeros de la Alianza, que ustedes están llevando a cabo centenares de proyectos en materia de educación, agricultura, medicina, salud pública, obras públicas, vivienda y desarrollo de la comunidad, que contribuyen al mejoramiento de las instituciones y condiciones que son esenciales para el desarrollo de un sólido sector privado en los diversos países.

Por lo tanto, creo que tengo justificación para suponer que ustedes están tan profundamente interesados como lo está la Corporación Financiera Internacional en analizar las actuales condiciones por que atraviesa el proceso de desarrollo, con el fin de tratar de determinar qué actividades deberíamos realizar en el futuro.

Mis palabras son aplicables, en general, a todos los países menos desarrollados. En consecuencia, son totalmente pertinentes para el desarrollo de la América Latina, ya que las naciones de la región están en diversas etapas del proceso de desarrollo, desde algunas que ya se encuentran a punto de lograr un crecimiento económico autosostenido, hasta otras, o ciertas regiones, que apenas están iniciando la transformación de sus métodos de producción agrícola e industrial, de sus instituciones económicas y del grado de formación de su mano de obra y personal administrativo, con miras a alcanzar un nivel de productividad que permita incrementar el consumo.

Lo que deseo subrayar aquí, el punto principal que quisiera poner de relieve al considerar el futuro desde esta perspectiva, es que se han registrado cambios en las condiciones en que ha de producirse el desarrollo, cambios que tienden a hacer recaer un mayor grado de responsabilidad respecto del crecimiento económico y el mejoramiento de los países en desarrollo sobre la actuación eficaz de la empresa privada en pro del desarrollo. A mi juicio, la causa principal de esos cambios en el proceso de desarrollo estriba en el hecho de que la mayor parte de la considerable labor ya realizada en esa esfera ha correspondido a instalaciones de infraestructura.

Se han construido numerosas represas que están disponibles para suministrar energía eléctrica a nuevas industrias. Y se cuenta con muchas instalaciones portuarias capaces de atender una corriente mucho mayor de materiales y productos destinados a industrias nuevas o ampliadas, o provenientes de éstas.

Asimismo, se ha mejorado el nivel educativo y de salud de la fuerza laboral, lo que permite que un mayor número de personas obtengan empleo y alcancen una productividad más elevada.

Se han implantado mejoras en los sistemas de comunicaciones, se han ampliado las instalaciones de transmisión de energía eléctrica, y se ha aumentado el abastecimiento de agua, elementos todos que son necesarios para la industrialización y el incremento del intercambio.

Además, la construcción de instalaciones económicas básicas por valor de muchos miles de millones de dólares en los países en desarrollo ha proporcionado empleo a un gran número de personas a través de los años, y ha ofrecido a muchas de ellas la oportunidad de aprender técnicas industriales básicas.

Algunas de las mejoras que se consideran como infraestructura pueden contribuir directamente a elevar el nivel de vida. Por ejemplo, el agua para fines de regadío suministrada por una represa para la generación de energía eléctrica permite cultivar más alimentos. Ahora bien, y éste es el punto que deseo recalcar especialmente, todas las instalaciones de infraestructura constituyen una preparación para una Segunda Fase del proceso de desarrollo. En esa Segunda Fase, es posible establecer una superestructura más compleja y avanzada de actividades comerciales e industriales, aprovechando la capacitación y las instalaciones económicas básicas con que se cuenta gracias a la infraestructura construida anteriormente. Considero que esa superestructura, a la que denomino la empresa para el desarrollo, es altamente productiva, puesto que produce los bienes y servicios necesarios para elevar el nivel de vida.

A menos que ahora, aprovechando que existe la preparación requerida, se proceda a establecer empresas para el desarrollo en forma de un número mucho mayor de fábricas de tejidos, de cemento, de productos químicos, industrias mecánicas, instituciones financieras y comerciales, papeleras, fábricas de muebles y toda la variedad de empresas que sirven nuestras necesidades, el incremento en el nivel de vida que se inició en la fase de establecimiento de esa infraestructura, no continuará al ritmo que debería.

Esto quiere decir que en muchos lugares -- no necesariamente en todo un país, sino por lo general en las ciudades o provincias que tienen un mayor potencial para impulsar el proceso de desarrollo -- el establecimiento de empresas para el desarrollo reviste en estos momentos importancia vital para lograr un crecimiento económico sostenido.

El sector privado es el que se ocupa principalmente -- y creo que casi todos convenimos que lo hace en la forma más satisfactoria -- del establecimiento de esas empresas.

Pero la importancia de la inversión privada en la Segunda Fase del proceso de desarrollo no se limita al empleo de las personas y de la capacitación por ellas adquirida, ni a la utilización de fuentes de energía, que de lo contrario quedarían inexplotadas, y de instalaciones básicas. No deseo insistir demasiado sobre este punto, de modo que procederé a citar algunas otras razones para creer que el ritmo futuro y la continuación del proceso de desarrollo dependen ahora, en muchos lugares, de la eficacia con que se empleen los incentivos que contribuyen a activar la inversión privada.

-- En primer lugar, un mayor nivel de vida supone un consumo per capita más elevado, y éste solamente se puede obtener mediante una producción per capita mayor. Para ello suele ser preciso emplear procedimientos tecnológicos y métodos de producción y administración nuevos, y son los productores del sector privado los que, por lo general, conocen mejor y utilizan esos procedimientos y métodos.

-- En segundo lugar, los países menos desarrollados también necesitan contar con los procedimientos tecnológicos y administrativos que utiliza el sector privado para poder competir en el plano internacional, en un mundo en que cada vez se hace mayor hincapié en el empleo de una tecnología altamente productiva para producir los bienes y servicios que han de participar en el intercambio mundial.

-- En tercer lugar, por lo general los países en desarrollo entran en esa Segunda Fase con la carga que supone la deuda contraída por concepto de gran parte de la infraestructura construida en su territorio. Por esa razón, sus economías tienen una apremiante necesidad de proyectos que se autofinancien con los ingresos provenientes de su propia producción. Las inversiones privadas suelen constituir proyectos de esa índole, puesto que solamente se llevan a cabo cuando el inversionista considera que serán lucrativas. Si bien no siempre se logran los resultados previstos, en esos casos la pérdida recae sobre el sector privado, y la nación no tiene que soportar la carga de una deuda cuyo servicio ha de atender.

-- Por último, cabe considerar el hecho de que hay escasez de capital en todo el mundo. Tanto en los países avanzados como en los menos desarrollados, se están realizando esfuerzos encaminados a incrementar el consumo y a mejorar las condiciones de vida, y esos esfuerzos requieren importantes cantidades de nuevo capital. Desearía mencionar solamente uno de los innumerables ejemplos existentes: la necesidad de una ciudad de Norteamérica de implantar mejoras en su sistema educativo compite, en lo que se refiere al capital disponible, con la necesidad de un país latinoamericano de atender el financiamiento de actividades de modernización industrial, que le permitirían obtener nuevos ingresos para, a su vez, mejorar su sistema educativo, entre otras cosas. Ante esa situación, tiende a subir el costo del dinero, reflejado en los tipos de interés.

Por esa razón, respecto a la utilización del capital en todos los lugares -- incluidos los proyectos de fomento en países en desarrollo -- se plantea cada vez con mayor insistencia el interrogante de si la finalidad a la cual se proyecta destinarlo compensará el valor que tiene debido a su escasez. En otras palabras, se trata de determinar si el empleo proyectado del capital será lucrativo.

Considero que en vista de la demanda mundial de capital, y el consiguiente elevado costo de éste, el éxito del proceso de desarrollo dependerá en muchos lugares, cada vez en mayor medida, en la determinación y puesta en funcionamiento de proyectos de desarrollo que produzcan beneficios públicos y privados satisfactorios.

Al hablar de beneficios privados satisfactorios, me refiero a utilidades monetarias en el sentido usual de la palabra -- un rendimiento que el inversionista responsable ante los accionistas de la integridad y el incremento del capital a él encomendado considere adecuado en función de los riesgos que conlleva la inversión y del valor del personal directivo y los métodos tecnológicos que ésta suele requerir. Para que realmente sean válidas, esas utilidades han de estar libres de restricciones, es decir, el inversionista ha de tener libertad para recibirlas en una moneda convertible, y el capital empleado en un proyecto de desarrollo ha de poder recuperarse mediante los ingresos de la propia empresa, al igual que en el caso de cualquier otra inversión. Pero también desearía recordarles que en los casos en que una empresa prospera, y en que no hay dudas respecto a la integridad del capital en ella invertido, suele haber una tendencia a mantener las utilidades y el capital en dicha empresa. La libertad para retirar las utilidades y el capital no significa que efectivamente se procederá a hacerlo.

Los beneficios públicos se relacionan con el hecho de que a los encargados de formular la política económica pública se les ha encomendado la utilización del escaso capital de que dispone la nación, y son responsables ante ésta de la integridad y el incremento de ese capital, en la misma forma que los inversionistas privados son responsables ante sus accionistas. Los primeros tratan de obtener beneficios nacionales del capital invertido en proyectos de desarrollo. Esos beneficios consisten en una mayor renta nacional real, mayores ingresos personales reales, un mayor nivel de empleo, una mayor producción agrícola e industrial, una mayor productividad tanto de la mano de obra como del capital, una mayor capacitación de la fuerza laboral y del personal directivo, y un crecimiento vigoroso del organismo económico a través de instituciones financieras y comerciales sólidas.

A mi entender, uno de los principales problemas que actualmente encara el crecimiento económico de los países en desarrollo es que no se reconoce ampliamente la semejanza básica que existe entre los beneficios privados y los públicos, y no se toman medidas sobre esa base.

Estoy convencido de que para el proceso de desarrollo puede ser de suma utilidad que se comprenda mejor la relación que existe entre los objetivos de los directores de empresa y de los planificadores, ya que ello permitiría lograr un aprovechamiento mejor de los incentivos que son tan necesarios para movilizar la inversión en los países en desarrollo, al igual que en todos los demás sitios.

Pero cabe preguntarse si la inversión privada se realiza en una forma que promueva los objetivos nacionales en materia de desarrollo, y si existe un mecanismo para la realización de inversiones de fomento que sea adecuado para producir tanto los beneficios que desea obtener el inversionista privado como el inversionista público.

La respuesta, a mi juicio, es afirmativa en ambos casos.

Las empresas conjuntas, que utilizan capital y técnicas tanto locales como extranjeros, constituyen una modalidad de inversión privada adecuada para los proyectos de desarrollo, ya que éstos requieren fondos en moneda local y en divisas, así como una combinación de personal, recursos materiales y conocimientos locales con métodos administrativos, de producción y de comercialización avanzados.

El instrumento adecuado es la empresa multinacional, que es el resultado de operaciones conjuntas en que la propiedad está en manos de intereses locales y extranjeros. Esas empresas se distinguen de las corporaciones internacionales que producen en un país y venden en otro, o aun que producen en varios países y venden en varios países, debido a que su propiedad está ampliamente distribuida entre accionistas tanto de los países en desarrollo como de los industrializados.

Por consiguiente, cuando se realiza en forma de una empresa multinacional, la inversión privada constituye un instrumento para llevar a cabo proyectos de desarrollo no sólo en forma eficiente, sino también teniendo en cuenta los deseos de los países en desarrollo y de los exportadores de capital, puesto que sus accionistas son ciudadanos que poseen propiedades y obtienen ingresos en países de ambos grupos.

La Corporación Financiera Internacional participa activamente en esta tendencia hacia las empresas multinacionales, debido a que muchas de nuestras inversiones de fomento se han realizado en forma de operaciones conjuntas y han dado lugar al establecimiento de nuevas empresas que, desde su creación, han sido verdaderas empresas multinacionales.

Hemos participado en 132 empresas para el desarrollo en 39 países durante nuestros 13 años de existencia y -- para citar unos cuantos ejemplos al azar -- actualmente participamos en empresas multinacionales en campos tan diversos como la fabricación de fertilizantes en Brasil; la industria siderúrgica en México y Argentina; la industria turística en Jamaica y El Salvador; la producción de tejidos en Nicaragua y Colombia; bancos de fomento en Venezuela, Colombia y Ecuador; la industria petroquímica en Brasil; la fabricación de papel en Argentina, etc. Si bien me he limitado a referirme a casos del Hemisferio Occidental, podría citar ejemplos semejantes de nuestras actividades en otras partes del mundo.

Permítanme que describa una o dos de estas inversiones.

Cerca de Santos, el principal puerto marítimo del Brasil, se está construyendo una fábrica de fertilizantes llamada Ultrafertil, cuyo costo ascenderá a US$70 millones y que será una de las mayores fuentes de abonos químicos de América Latina. La empresa se constituyó a finales de 1966, y está patrocinada por una de las principales compañías petroleras y químicas de los Estados Unidos, Phillips Petroleum, y por un socio brasileño conocido como el Grupo Ultra, importante distribuidor de gas embotellado, aparatos eléctricos y otros productos en el Brasil. Los patrocinadores privados aportaron el 90 por ciento del capital social de la nueva empresa, y la CFI proporcionó el resto. Compañías de seguros de los Estados Unidos aportaron capital en préstamo por valor de US$21,5 millones, y la CFI concedió préstamos a largo plazo por valor de unos US$8 millones.

Consideramos que Ultrafertil es un ejemplo notable de la forma en que pueden utilizarse los recursos del sector privado -- financieros, técnicos y administrativos -- para hacer frente a un serio problema de desarrollo económico, y obtener beneficios públicos y privados satisfactorios. Ultrafertil es una empresa para el desarrollo de doble finalidad, ya que en su calidad de fábrica de abonos incorpora importantes y modernas instalaciones químicas al sector industrial del país, al mismo tiempo que contribuirá al mejoramiento del sector agrícola al producir unas 500.000 toneladas cortas al año de fertilizantes. Además, estimamos que la utilización del capital allegado para esta nueva agroindustria del Brasil ciertamente compensará el valor que tiene dicho capital debido a su escasez, ya que, como toda empresa comercial sólida, se destina a satisfacer una necesidad real y constante del mercado.

Desearía ahora citar un caso en que el proceso de desarrollo aprovecha sus propios beneficios. Se trata de la fábrica de tejidos Fabritex, actualmente en construcción en Nicaragua, que producirá telas, que ahora se importan, para todos los países de Centroamérica. El patrocinador técnico de una empresa para el desarrollo suele ser una entidad de algún país industrial de Europa o Norteamérica, o del Japón. En este caso lo ha sido la firma Fabricato de Colombia, compañía que constituye un ejemplo notable del progreso económico de ese país.

Al igual que Ultrafertil, Fabritex inicia sus actividades como una empresa multinacional, ya que su patrocinador industrial es de Colombia y su propiedad está dividida por igual entre el patrocinador colombiano, los bancos de fomento de Nicaragua, uno oficial y otro privado (el Instituto de Fomento Nacional y la Corporación Nicaragüense de Inversiones), y la Corporación Financiera Internacional, participando una subsidiaria del Bank of America, la Bamerical International Financial Corporation, en la inversión en capital social de la CFI. Además, el Banco Centroamericano de Integración Económica aportó la mayor parte del capital en préstamo de Fabritex, al que también hizo una aportación importante la CFI.

Fabritex no sólo es multinacional en su organización, sino que también producirá beneficios multinacionales en materia de desarrollo, ya que su producción se venderá en el Mercado Común Centroamericano, lo que permitirá que las cinco repúblicas de la región ahorren divisas.

A través de Fabritex, se añadirá a la capacidad industrial de Nicaragua -- y de Centroamérica -- una fábrica de tejidos totalmente integrada, con más de 20.000 husos y casi 400 telares, que podrá fabricar más de 10 millones de yardas de telas al año, utilizará cantidades importantes de algodón nicaragüense, y estará administrada por uno de los fabricantes de tejidos más experimentados de América Latina. Confiamos, por lo tanto, que constituirá una aplicación del escaso capital disponible que producirá beneficios privados y contribuirá al logro de los objetivos públicos de Nicaragua y del Mercado Común Centroamericano.

He recalcado el hecho de que en todo el mundo existe una demanda excesiva de capital, así como sus consecuencias para las inversiones de fomento. Desearía ahora refinar algo más mis comentarios respecto a este factor del desarrollo, y señalar que con frecuencia el problema que encaran los países en desarrollo no estriba tanto en una escasez de capital, sino en una escasez de capital <u>movilizado</u>.

Por esta razón, consideramos que el desarrollo de instituciones que contribuyan a movilizar el ahorro de los individuos y las empresas comerciales para fines de inversión constituye una importante función de la CFI.

Tratamos de cumplir este cometido, en parte, proporcionando capital a bancos de fomento, conjuntamente con inversionistas locales, como lo hemos hecho en Colombia, Venezuela y Ecuador. En forma más directa, tratamos de promover el desarrollo de los mercados locales de capital -- al mismo tiempo que coadyuvamos a la expansión de empresas comerciales provechosas -- mediante la realización de operaciones de garantía de emisión. De esta manera, hemos ayudado a empresas siderúrgicas de México y Argentina, y a un fabricante venezolano de aditivos para forrajes, a financiar, en sus propios mercados, actividades de ampliación que han contribuido sustancialmente al crecimiento económico de sus respectivos países.

En mi opinión, una de las medidas que más ayudaría a incrementar en grado considerable la inversión privada en los países en desarrollo, sería una gran intensificación de los esfuerzos encaminados a crear mercados locales de capital que puedan atraer el ahorro privado para fines de inversión.

Antes de concluir, permítanme hacer otras dos sugerencias, ambas basadas en la premisa de que las empresas para el desarrollo, financiadas y administradas principalmente con recursos del sector privado, han de desempeñar un papel más activo, y con frecuencia de importancia crítica, en el proceso del desarrollo.

La primera sugerencia tal vez parezca tan evidente, que casi no valdría la pena mencionarla, si no fuera que la necesidad de acción es tan grande y general. Se trata de la adopción por los países en desarrollo de medidas que contribuyan a atraer la inversión privada, eliminando los factores negativos que ahora la obstaculizan.

Es posible que los controles establecidos durante la primera fase del proceso del desarrollo, en que las actividades se concentran en la construcción de instalaciones de infraestructura y en que el financiamiento se realiza principalmente a través de los canales oficiales, resulten obsoletas en la fase en que la continuidad del progreso económico dependa en mayor medida del establecimiento de empresas financiadas por el sector privado. Los países que deseen aprovechar la iniciativa privada para promover su desarrollo, deberían examinar cuidadosamente las condiciones en que exigen a la empresa privada que desarrolle sus actividades.

En segundo lugar, y a este respecto me refiero a todos los elementos de las zonas exportadoras de capital -- las empresas comerciales, los bancos, los gobiernoes y las organizaciones internacionales de inversión, tanto privadas como oficiales -- así como a los países en desarrollo, considero que es preciso intensificar los esfuerzos en una esfera que, a falta de una mejor designación, llamaré las "actividades promocionales": la labor de encontrar buenos proyectos, de buscar socios locales y extranjeros para participar en empresas conjuntas, de organizar el financiamiento necesario, en suma, la preparación de una inversión.

En América Latina, la CFI está realizando actividades de esa índole en relación con el posible establecimiento de una empresa maderera y papelera en Honduras y de una entidad turística en Colombia. También estamos llevando a cabo actividades semejantes en otras regiones.

No se trata solamente de que un número mayor de personas se dediquen a buscar y aprovechar oportunidades para el establecimiento de empresas para el desarrollo. Debería haber también un número mayor de personas capacitadas en una gama más amplia de cuestiones financieras, de ingeniería, de comercialización y de otra índole, por ejemplo, especializadas en inversiones destinadas a la producción de abonos. Tampoco se trata sólo de utilizar más recursos para fines de promoción, tanto locales como externos. Esos fondos han de estar disponibles en la forma adecuada: como capital para empresas piloto, para financiar gastos administrativos en casos en que sea necesario realizar estudios básicos que puedan o no conducir a una inversión; como capital para empresas permanentes para el desarrollo en campos especializados, tales como corporaciones formadas por varias empresas para financiar todo tipo de actividades turísticas, que estamos estudiando actualmente en la CFI; y como capital para el establecimiento de bancos de inversión -- una nueva actividad que estamos considerando -- que serían instituciones nacionales o regionales orientadas hacia la búsqueda y puesta en práctica de oportunidades de inversión satisfactorias y provechosas.

Me siento optimista acerca de las perspectivas para el desarrollo económico. Considero que ahora que ya se ha construido una proporción importante de las instalaciones básicas de infraestructura, tenemos ante nosotros, en la Segunda Fase del proceso del desarrollo, la oportunidad de aprovechar los recursos financieros, casi ilimitados, del sector privado de la economía mundial, si estamos plenamente conscientes de esa oportunidad y la aprovechamos cabalmente. A mi juicio, de esta forma se podría incrementar la cuantía total de la ayuda para el desarrollo en el futuro.

No hay ninguna región del mundo cuyas perspectivas de crecimiento me ofrezcan más confianza que la América Latina. Hago esta afirmación no sólo pensando en los enormes recursos materiales de la región, sus grandes extensiones y sus variados climas, ni tampoco considerando exclusivamente la capacidad evidente de sus talentosos pueblos, cuyo origen se remonta a algunas de las civilizaciones más notables del viejo y del nuevo mundo, tanto en el plano cultural como en el técnico. A esas importantes consideraciones es preciso añadir el hecho de que en las naciones latinoamericanas, la empresa privada tiene una larga y vigorosa tradición, que ha atraído una considerable corriente de fondos privados del extranjero. Estoy seguro, por lo tanto, de que los latinoamericanos -- los gobiernos, las empresas comerciales, los individuos -- estarán entre los que mejor aprovechen los incentivos que pueden contribuir a incrementar la corriente de inversiones privadas, nacionales y extranjeras, hacia empresas para el desarrollo productivas en esa región.

Los Compañeros de la Alianza, bajo la dirección del señor Hickman Price, quien tiene un conocimiento profundo y personal de las necesidades y posibilidades de las inversiones multinacionales, proporcionan ayuda práctica a los círculos comerciales y los gobiernos de las naciones americanas -- tanto del norte como del sur -- para que, utilizando el potencial de la empresa privada, puedan hacer realidad las enormes posibilidades en materia de desarrollo.

Abrigo la esperanza de que esa ayuda se aproveche eficazmente.

INTERNATIONAL FINANCE CORPORATION

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

# DEVELOPMENT ENTERPRISE



Address
of
Martin M. Rosen
Executive Vice President
International Finance Corporation
prepared for delivery
to the
Fourth Inter-American Conference
of the
Partners of the Alliance for Progress
at
Salt Lake City
May 11, 1969

I am greatly pleased, as well as honored, that you have asked me to speak to this keynote session of the Fourth Inter-American Conference of the Partners of the Alliance. All of you at this distinguished gathering, representing so many countries, states, cities and business and professions, are concerned with the important subject of increasing the flow of resources, human and material, among the nations of the Americas. It is a very keen pleasure indeed to be privileged to share with you, if only for a day, the splendors of your brilliant desert setting. As one who travels throughout the world, I can assure you that the sights surrounding us here have few, if any, rivals anywhere.

I take pleasure also in being here to participate in this meeting because of the special interest that I share with you in the economic development of Latin America.

The very fact of dealing, as we do in the World Bank Group, in the problems and possibilities of development on a world basis drives home the extraordinary importance of helping Latin America to achieve its potential for contributing to a world of peace and plenty. A very major portion of the investment of the International Finance Corporation has always gone to Latin America, and will continue to do so, because a better developed Latin America has so much to contribute to the future progress of the rest of the world.

I know that in the course of this annual meeting you will hear reports on the activities and results of the Partners, and that speakers here will discuss with you the economic progress of the Latin American countries, so I will not attempt to do either. However, let me say that I have noted with interest, in the report of the National Association of the Partners on your first five years of activity, that the work you are doing, involving several hundreds of projects in fields such as education, agriculture, medicine, public health, public works, housing and community development, is work that contributes to the improvement of institutions and conditions essential to the growth of strong private sectors.

I feel justified, therefore, in assuming that you are as deeply interested as we are, in the International Finance Corporation, in looking into the conditions currently surrounding the development task, for clues to how we should be shaping our activities for the future.

What I have to say applies broadly to the world of the economically less developed countries. It is therefore entirely relevant to the development of Latin America, for the Latin American countries run the gamut, from nations standing on the threshold of self-sustaining economic growth, to countries or areas almost at the beginning of the process of transforming their methods of agricultural and industrial production, their economic institutions and their labor and managerial skills to levels of high productivity that will permit high levels of consumption.

What I wish to emphasize, the principal note that I would strike as we look from this point to the future, is that there have been changes in the conditions in which development must now go forward tending to place increased responsibility for continued economic growth and improvement in the developing countries upon the effective use of private enterprise in the development process.

The principal cause for change that I see affecting the development task is the fact that a great deal of development work has already been done, and that most of it has been infrastructural.

A great many power dams have been built, and stand ready to supply electricity to new industries. A great many harbors have been prepared to handle a much enlarged flow of materials and products to and from new or expanded industries.

The health and education of labor forces have been improved, making more people employable at higher levels of productivity.

Communications have been improved, power lines extended, and water supplies enlarged, all of them necessary preparations for industrial production and enlarged commerce.

Further, the building of many billions of dollars of basic economic facilities in the developing countries has employed large numbers of people over the years, and it has taught basic industrial skills to many of these workers.

Some of the improvements counted as infrastructure can directly improve living standards. For instance, the water for irrigation supplied by a power dam makes it possible to raise more food. However -- and this is my main point -- all of the infrastructure building prepares the way for a second phase of economic development.

In this Phase Two of development it becomes possible to build a more complex and sophisticated superstructure of business and industry, making use of the work skills and the basic economic facilities provided by earlier work on the infrastructure. This superstructure, which I call development enterprise, is highly productive because it turns out goods and services that are the ingredients of rising living standards.

Unless development enterprises in the form of many more of such things as textile plants, cement plants, petrochemical industries, machine shops, financial and trade institutions, paper mills, furniture factories, and on down the list of the myriad enterprises that supply our needs and wants, are now built where the way has been made ready, the rise of living standards started in the infrastructure building stage will not expand as it should.

This is to say that in many places -- not, necessarily whole countries, but usually cities or provinces with the highest potential for contributing to further development -- the building of development enterprises now assumes a critical importance to continued national economic growth.

And enterprise building is done chiefly -- and best, I think most of us would agree -- by the private sector.

The importance of private investment in Phase Two of development, however, goes beyond the employment of people and their skills, and the employment of otherwise idle sources of energy and basic service facilities. I do not want to belabor the point, so let me just list some other reasons for believing that the future pace and continuity of development now depend in many places upon the skill with which the incentives that activate private investment are employed.

-- First: A rising standard of living means higher per capita consumption, and higher per capita consumption can proceed only from higher per capita production. This usually calls for the use of new technology and of production and management methods ordinarily best known and used by producers in the private sector.

-- Second: The less developed countries also need to be equipped with the technology and management the private sector uses so that they can become competitive internationally in a world that daily lays increasing stress upon the use of high productivity technology for production of the goods and services that are sent into the world's trade streams.

-- Third: The developing nation emerges into Phase Two, typically, carrying a burden of debt for much of the infrastructure that has been built within its borders. The emergent economy therefore has a stringent need for projects that directly and rapidly pay for themselves out of income that their own production creates. The private investment is such a self financing project, since it is made only when the private investors involved consider that the investment will be profitable. Their expectations may not always be achieved but, in that case, the loss is a private one and the nation is not burdened with a debt it must service.

-- Finally, there is the fact that capital is short world wide. Everywhere, in the better developed as well as in the less developed countries, there is a general effort to raise consumption and improve the quality of life, and that effort requires large amounts of new capital. To mention just one among almost countless examples -- the need of a North American city to improve its education system competes for capital with the need of a Latin American country to finance the industrial modernization that would create new income by which the Latin American country could improve its educational system, among other things. In this situation the cost of money, which is evidenced by interest rates, goes up.

Thus, the question is being asked more and more insistently, with respect to every use of capital anywhere -- including the use of capital in development projects in the developing countries: will the intended use of the capital repay its scarcity value? In the simplest terms the question is: will the intended use of the capital be profitable?

The worldwide demand for capital, and its consequent high cost, means, I believe, that continued success in development will to an increasing degree in many places turn upon locating and bringing into operation development projects that satisfy both public and private profit motives.

By satisfactory private profit I have in mind money profits in the usual sense of the word -- returns that an investor responsible to stockholders for the integrity and the increase of capital entrusted to him can regard as commensurate with the investment risks involved and commensurate with the value of the executive talent and the technology that typically accompany private investment. To be valid, these profits should be realizable, that is, the investor must be free to receive them in convertible currency, and the capital involved in a development project must, like capital in any other investment, be recoverable out of the earnings of the business. But I would also remind you that where a business prospers, and where the integrity of the capital invested in the business is not in question, there is a tendency for profits and capital to remain in the venture. Freedom for profits and capital to move does not necessarily mean they will move.

Public profits arise from the fact that the public economic policy maker has been entrusted with the use of the scarce capital available to his country, and that he is responsible to his nation for the integrity and the increase of that capital just as the private investor is responsible to his shareholders. The public policy maker seeks national profits from the capital invested in development projects. These public profits are realized in the form of increased real national income, higher real personal incomes, higher employment, increased agricultural and industrial production, increased productivity of both labor and capital, expanded and improved labor and management skills, as well as strong growth of the economic blood vessels and connecting tissues in the shape of financial institutions and the institutions of trade and commerce.

I believe that it is one of the outstanding weaknesses of the present outlook for economic growth in the developing countries that the essential alikeness of private and public profit motives is not more generally recognized and acted upon.

I am convinced that a growing understanding of the relationship of the aims of the board room and of the planning chamber in the current phase of the development task can be very useful in the development process, because such understanding will lead to fuller employment for development purposes of the incentives that are as necessary to activate investment in the developing countries as they are in all other places.

But, does private investment take a form suitable to the national goals of economic development? And, is there a vehicle for carrying out development investment that is well designed to yield both the benefits sought by the private investor and the public investor?

The answer, I think, is yes on both counts.

In the joint venture, bringing together local and foreign capital and know-how, private investment takes a form adaptable to the needs of the development project because the development project requires local finance as well as foreign exchange, and it requires the marriage of local manpower, material resources and knowledge to advanced management methods and production and marketing techniques.

The vehicle is found in the multinational company that results from joint ventures bringing together foreign and local ownership. Such a company is distinguished from the merely international corporation which produces in one country and sells in another, or even produces in several countries and sells in several countries by having its ownership shared to a significant degree by shareholders located both in developing and in industrialized countries.

In the form of the multinational company, therefore, private investment becomes a vehicle for carrying out development projects not only efficiently, but also with a cautious eye on the desires of the developing as well as the capital exporting country, since its shareholders are property-owning and income-earning citizens of each.

The International Finance Corporation is very much involved in the trend toward multinational corporations, because many of our development investments are joint ventures and result in the creation of new companies that are -- from their birth -- true multinational enterprises.

We have participated in 132 development enterprises in 39 countries during our 13 years history, and -- to take a few random examples -- we are now in multinational development enterprises in such fields as fertilizer manufacture in Brazil; steel in Mexico and Argentina; tourism in Jamaica and El Salvador; textiles in Nicaragua and Colombia; development banking in Venezuela, Colombia and Ecuador; petrochemicals in Brazil; paper making in Argentina, and so forth. I have picked examples from the Western Hemisphere but similar examples could be cited for our activities elsewhere in the world.

Let me describe one or two of these investments.

Near Santos, Brazil's principal seaport, a $70 million fertilizer manufacturer called Ultrafertil is being built to be one of Latin America's largest sources of chemical fertilizers. This company was formed late in 1966 with the sponsorship of one of the United States' major oil and petrochemical companies, Phillips Petroleum, and a Brazilian partner, known as the Ultra Group, a leading distributor of bottled gas, home appliances and other products in Brazil. The private sponsors provided 90 per cent of the new company's equity, and IFC provided the rest. United States insurance companies provided loan capital of $21.5 million. IFC provided long-term loans of approximately $8 million.

We regard Ultrafertil as a prime example of how private sector resources can be brought to bear, financially, technically and managerially, upon a pressing economic development problem, to yield satisfactory private profits and important public profits. Ultrafertil is a double-edged development enterprise, since, as a fertilizer factory it adds a large modern chemicals plant to Brazil's industry, while its product will serve to improve Brazilian agriculture by supplying some 500,000 short tons a year of soil nutrients. Further, we believe that the capital which was brought together for this new agribusiness venture in Brazil is a use of capital that will certainly repay its scarcity value, because, like every sound business enterprise, it supplies a real and continuing market need.

My next example is one in which the development process is seen at work feeding its benefits back to itself. This is the Fabritex textile mill now being built in Nicaragua to make fabrics, for all of Central America, that are currently imported. Usually the technical sponsor in a development enterprise is located in a European or North American industrial nation or in Japan. In this case, however, the sponsoring company is Fabricato of Colombia, a company which is one of the outstanding examples of Colombia's economic progress.

Like Ultrafertil, Fabritex is beginning life as a multinational company, with its industrial sponsor in Colombia, its ownership divided equally among the Colombian sponsor, the official and private Nicaraguan development banks -- Instituto de Fomento Nacional and Corporacion Nicaraguense de Inversiones -- and the International Finance Corporation, with a Bank of America subsidiary, Bamerical International Financial Corporation, participating in IFC's share of the equity. Further, the Central American Bank for Economic Integration supplied most of Fabritex' loan capital, to which IFC also contributed substantially.

Fabritex is not only multinational in its makeup, but will also have multinational development benefits, for its output is meant to be sold throughout the Central American Common Market, and to save foreign exchange for all five of the Central American Republics.

The Fabritex textile mill will add to Nicaragua's -- and Central America's -- industrial capacity a fully integrated mill with more than 20 thousand spindles and nearly 400 looms, capable of making over 10 million yards of fabrics annually, making use of large amounts of Nicaraguan cotton, under the management of one of Latin America's most experienced textile makers. We feel certain, therefore, that it will turn out to be a use of scarce capital that is profitable both privately and in terms of Nicaraguan and Central American Common Market public objectives.

I have stressed the fact, and the consequences for development investment, of the worldwide excess demand for capital. I want now to focus a little more sharply on this development factor, specifically on the fact that in the developing countries one is often faced not so much with a shortage of capital, as with a scarcity of <u>mobilized</u> capital.

It is for this reason that we regard the development of institutions for the mobilization of the savings of people and businesses for investment as a major IFC responsibility.

We try to meet this situation in part by supplying capital, together with local investors, to development banks, as we have in Colombia, Venezuela and Ecuador. But more directly, we try to help local capital markets to develop -- while helping useful businesses to expand -- by underwriting operations. In this way we have helped steel companies in Mexico and Argentina, and a Venezuelan maker of animal feed additives to finance, in their own markets, expansions that have contributed materially to their countries' economic growth.

In my opinion, one of the most beneficial steps favoring a substantial increase in private investment in the developing countries, would be a very significant increase in efforts to create local capital markets able to bring local private savings to market for investment.

Let me, in closing, make two further suggestions, both on the premise that the development enterprise, financed and operated chiefly out of the resources of the private sector, must assume larger and often critical scope in the development picture.

The first would seem almost too obvious to mention, except that the need for action is so widespread and great. This is the adoption of measures by the developing countries which will make foreign investment in them attractive by eliminating the negative factors that now hamper investment.

Controls in effect during the first phase of the development effort, when activity is chiefly in infrastructure building, and is chiefly financed through official channels, may be obsolete when the continuity of economic advance comes to depend more upon the building of privately financed enterprises. Countries desiring to harness private enterprise for their development purposes should be looking closely at the conditions in which they ask private enterprise to operate.

Secondly -- and here I address myself to businesses, banks, governments, and private and official international investment organizations -- the entire complex of those in the capital exporting areas -- as well as to the developing countries: I think that a great deal more effort needs to be devoted to an activity which, for lack of a better name, I call "promotional work": the work of finding good projects, finding local and foreign partners for joint ventures, and organizing the finance needed, in brief, putting an investment together.

In the Latin American area, IFC is seeking to do this job for a prospective pulp and paper and lumber company in the Honduras and for tourism in Colombia. We are doing similar things in other parts of the world.

It is not only that more people should be engaged in finding and working out development enterprise opportunities. There should be more people equipped with a larger variety of financial, engineering, marketing and other skills, including specializations, as, for instance, special knowledge of the conditions for investment in fertilizer-making capacity. It is not only that more money needs to be applied to promotional effort -- locally as well as from the outside. Money for promotion should be available in the right ways: as capital for pilot companies, as administrative expenditures where basic studies are needed that may or may not lead to investment; as capital for permanent development companies in specialized fields, such as the tourism holding companies, set up to finance the whole range of tourism plant and services, that we are considering in IFC; and, as capital for the establishment of merchant banks -- a new departure that we are now considering -- to be national or regional institutions oriented to the finding and development of sound and useful investment opportunities.

I am optimistic about the outlook for economic development. I believe that, with a substantial part of the basic infrastructural work in place, we now have before us in the second phase of the development effort, an opportunity to engage the nearly limitless financial resources of the private sector of the world economy, if we perceive the opportunity clearly enough, and exploit it fully. In my opinion, this should lead to increased total resources for development assistance in the future.

There is no area whose future growth I view with greater confidence than that of Latin America. I say so not only because of the Latin American continent's tremendous material resources, great spaces and variegated climates, and not only because of the obvious talents of the gifted Latin American peoples, whose roots go back to some of the richest cultural and technical sources of both the Old and the New Worlds. To these important considerations must be added the fact that the Latin American nations have a long tradition of vigorous private enterprise that has attracted a deep stream of private investment from abroad. I am certain, therefore, that the Latin Americans, as governments, as business enterprises and as individuals, will be among those who know best how to make use of the incentives that can bring an increased flow of private investment, both domestic and foreign, into productive partnership in Latin American development enterprises.

In the Partners of the Alliance, under the leadership of Hickman Price, whose knowledge of the needs and potentials of multinational investment is both personal and extensive, the business communities and the governments of the Americas -- North and South -- have a practical helping hand in bringing the potentials of private enterprise to bear upon the infinite possibilities of development. I hope the best use will be made of them.

Thank you.

- o -

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

# A NEW KIND OF DEVELOPMENT ENTERPRISE

Remarks of

Martin M. Rosen

Executive Vice President

International Finance Corporation

Upon the Occasion

of the

Signing of the Investment Agreement

for the

Compagnie Financiere et Touristique

Tunis

June 25, 1969

Your Excellency, Your Highness, Mr. Mathari, ladies and gentlemen:

I am particularly pleased to be here because the establishment in Tunisia of Compagnie Financiere et Touristique is not only a singularly auspicious occasion. It is also a natural one, and a memorable one.

It is natural that this new type of organization for large scale, integrated promotion and financing of tourism should have been located in Tunisia because few places in the world have been more richly blessed by nature -- and embellished by the hands of its inhabitants -- as a place of interest for the traveller, whatever that traveller's interests may be -- a place of warm sun and clear air, a place to swim, to fish, to sail or just to relax somewhere on Tunisia's hundreds of miles of pleasant beaches, or a place that is -- as Tunisia is par excellence -- a storehouse of archeological treasures, or a place offering a distinctive and colorful way of life. Tunisia combines all these tourism factors in an unsurpassed way.

The occasion is also a memorable one, for several reasons. It marks the first time a specialized institution of the size and composition of Cofitour has been organized to assist tourism as a whole, and on a national scale. Compagnie Financiere et Touristique will promote as well as finance tourism in Tunisia. It will view the development of tourism in Tunisia as a national asset, in the interests of overall Tunisian development and growth. Cofitour will be a bridge between the private and the public sectors, building on the excellent work done by the Commissariat General au Tourisme et au Thermalisme, Tunisia's well known and effective official tourism agency. This is an approach to tourism development, to the organization of a sound business enterprise, and to national or even regional economic growth, that I am sure will have application in other countries, and possibly in other industries that, like tourism in Tunisia, have a high potential if taken in hand by a broad based, specialized financing and promotional institution.

This occasion is memorable as well because it demonstrates the attitude of President Bourguiba, and of his Government, toward the potential of tourism as a Tunisian national asset, and the determination of President Bourguiba to make the most of this national asset for Tunisia's general benefit. I can assure you that we have been on a direct path toward the achievement of Cofitour since the outlines of such a new type of enterprise was broached in a discussion that it was my honor and pleasure to have with President Bourguiba only last September. From September to June is a very short time for the organization of an institution of Cofitour's range of responsibilities, requiring 20 million dinars financing, requiring strong backing by both official and private Tunisian sources of money and expertise as well as substantial foreign participation. It could not have been done without the personal and consistent support of President Bourguiba and of the Minister for Planning and National Economy, His Excellency Ahmed Ben Salah and of his associates.

This is a memorable occasion because the financing of Compagnie Financiere et Touristique has required the mobilization of Tunisian private savings on perhaps an unprecedented scale. It is one of Cofitour's principal strengths that it is financed in the majority by Tunisians. The Tunisian Government is supplying Cofitour with most of its loan capital. A consortium including all major Tunisian banking institutions will underwrite a stock offering to be subscribed by the Tunisian public. Tunisian banks and insurance companies will themselves subscribe to a substantial part of Cofitour's share capital and, Societe Nationale d'Investissement -- which, I am glad to say, IFC and the World Bank have helped to finance -- will supply a further important part of Cofitour's share capital.

Another, and critical, Tunisian element in this new kind of development enterprise, is the fact that Mr. Abdelaziz Mathari, who has wide experience in both the Tunisian public and private sectors, is Cofitour's Board Chairman and chief executive.

The International Finance Corporation is supplying both loan and equity capital to Cofitour, in all, approximately a quarter of Cofitour's total capital. But it gives me great pride to say that it has also been our privilege to be instrumental in bringing together a highly unusual and distinguished group of foreign investors in Cofitour. These foreign shareholders who are supplying more than a quarter of Cofitour's share capital, are together a group of world leaders in tourism and finance such as has never before, to my knowledge, been assembled in a single enterprise.

This group includes His Highness the Aga Khan, who, through International Promotions Services has had so much to do with the development of tourism especially in the Mediterranean area; Howard Clarke, Chairman of American Express, a company with worldwide experience, extending over many decades, in the travel business and travel services; Monsieur Andre Postel-Vinay, of Caisse Centrale de Cooperation Economique, the well known French agency of economic development that includes among its interests, tourism in West Africa; Dr. Manfred Lohmann, of Deutsche Entwicklungsgesellschaft, a partner with IFC in our first tourism venture, in Kenya, which, through a subsidiary, Deutsche Hotel Gesellschaft, is engaged in the financing and development of hotels on an international scale; Mr. Claes Nyman, representing Mr. Marc. Wallenberg of the Stockholms Enskilda Bank, the leader of a group of Swedish companies investing in tourism, and -- very important for the regional strength they add -- two companies from the Arab world, Arab African

Bank, represented by Mr. Sulaiman Ahmed El Haddad and Kuwait Foreign Trading, Contracting and Investment Company, represented by Mr. Abdel Aziz El Bahar.

The fact that men from this group will not only indicate their confidence in Cofitour's future -- and the future of tourism in Tunisia -- by investing in the company, but will also serve Cofitour in an advisory capacity will make their experience and judgment in the complex field of tourism development available to Cofitour, and, through Cofitour, to the Tunisian nation.

Much more could be said, but I will not take time for it, because what I have said already, I think, suggests the main fact that I want to convey to you on this happy, this important and most memorable occasion: the International Finance Corporation is pleased, and, more than that, we are proud, to be associated with Compagnie Financière et Touristique, and, through Compagnie Financiere et Touristique, with the future of tourism in Tunisia.

o0o