May 18, 1955

The International Finance Corporation

(Statement of Russell H. Dorr, on behalf of the World Bank, before the Tokyo Congress of the International Chamber of Commerce)

The management of the International Bank has asked me to express, on its behalf, its appreciation of the opportunity which is being afforded us this morning to tell this important Congress about some of the recent developments concerning the International Finance Corporation.

The basic concept which underlies the International Finance Corporation has been under discussion in the Bank for about six years now. As you know, during that period the Bank prepared several reports about the project which were widely debated at many intergovernmental meetings and at many meetings of financial and business groups, including the Vienna Congress of your own organization. As you know, too, widely varying views have been expressed about the desirability and potential effectiveness of an organization such as the IFC.

From the very start, as was probably to have been expected, the representatives of underdeveloped countries have been in favor of the Finance Corporation idea. As might also have been expected, the more advanced, capital-exporting countries have been more cautious in expressing their support since it is they who will be called upon to put up most of the money. Last fall, however, after very careful consideration, the Secretary of the Treasury of the United States announced that the U.S. Administration supported the Finance Corporation proposal and was prepared to recommend to Congress that the United States accept membership in such a Corporation. Similar statements were made shortly thereafter by the U.K. Chancellor of the Exchequer and by representatives of several other capital-exporting countries. And last December, the General Assembly of the United Nations endorsed the IFC idea by a vote of 50 in favor and 0 against, with five abstentions.

Given this endorsement of the project, the Bank has since devoted considerable time and effort to the preparation of a definitive charter for the new organization. Just about a month ago, on April 14, acting with the approval of the Executive Directors, who represent the 56 governments which are members of the Bank, the President of the Bank formally transmitted a proposed IFC charter to those governments for their consideration. In his letter of transmittal, the President pointed out that, while the approval of the Executive Directors to submission of the charter did not commit governments to join the IFC, the various views expressed by governments had been carefully considered and fully discussed in the process of formulating the charter. The President added that, in his opinion, the proposed charter affords a most satisfactory framework for the establishment and functioning of the Finance Corporation.

Since that time, on May 2, 1955, the President of the United States has sent a message to the U.S. Congress requesting legislation authorizing him to sign the charter and subscribe to IFC capital on behalf of the United States. We are very hopeful that the Congress will act favorably on this recommendation at its present session and that other governments will move with equal promptness to take whatever action may be necessary to enable them to accept membership.

Now, what is the objective of this new Corporation that is in the process of being born, and how will it go about achieving that objective?

The objective is simply stated -- namely, to further economic development by encouraging the growth of productive private enterprise, particularly in the less developed areas of the world.

Of the desirability of this objective, we in the Bank are firmly convinced and I am sure that its desirability needs no demonstration before this audience. Yet the existing public investment institutions, national and international, while they can help to finance the public utilities and other basic facilities which constitute the necessary foundation for the growth of private enterprise, are restricted in their ability to finance private enterprise directly. In the case of the World Bank, for example, the requirement of a government guarantee, taken together with the fact that the Bank does not provide venture capital, has greatly limited the amount of financing we have been able to extend to private industry and other private enterprise. At the same time, experience has amply demonstrated that, in the conditions of the postwar world, some additional stimulus to the international flow of capital into private productive undertakings is necessary if concentration of the development effort in public hands is to be avoided and if the private sector of the economy is to enjoy a growth commensurate with the opportunities opened up by public investment in power, transport, and similar overhead facilities.

I think there are few, in the free world at least, who have doubted the desirability of a greater international flow of capital into private productive enterprise. But there are many who have questioned whether stimulation of such investment through the use of public funds, such as those of which the International Finance Corporation will dispose, can be accomplished without undue public interference in what are essentially matters of private concern and without creating unfair competition with enterprises financed solely with capital from private sources.

The management of the Bank, I can assure you, has been acutely aware of these considerations. I think an examination of the charter which has been prepared will demonstrate the sincerity of purpose of the Bank in trying to avoid these dangers and in having the International Finance Corporation operate as a supplement and support to private capital and not as a substitute for such capital.

There are at least seven features of the charter which give expression to this purpose, and I would like to spend a few minutes discussing them with you.

In the first place, the charter expressly limits IFC financing to investment in productive private enterprises. While a government interest in the enterprise will not necessarily preclude an IFC investment if, despite that interest, the enterprise is nevertheless essentially private in character, the Corporation will not invest its funds in enterprises which are government owned and operated or which have an essentially public character.

In the second place, the charter provides that the Corporation may use its resources only in association with private investors. Thus, IFC will never finance the entire cost of any project and, indeed, the management of the Bank has made clear that IFC will not provide the major share of the resources required for an enterprise.

Thirdly, the Corporation is not to undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms. In other words, the Bank believes that IFC should be regarded as a financing agency of last resort; as a matter of fact, it will be a principal function of IFC to try to raise the money required for an enterprise entirely from private sources if that is possible. Even where that is not possible, the Corporation will not itself make an investment unless it is satisfied that its private partners are bearing a full share of the financing burden.

Clearing house?

A fourth provision of the charter to which I would call your attention is the specific injunction that the Corporation shall not assume responsibility for managing any enterprise in which it has invested. The whole concept of IFC is that management should be provided by private interests which IFC will support with its funds where necessary; IFC will expect to protect itself through a judicious choice of its partners, not through interfering with private operation of the concerns in which it invests.

The charter also makes clear that IFC's investments are not to be on bargain terms or at cut rates. On the contrary, in fixing the terms and conditions of its financing, the Corporation is specifically required to take into consideration the risks involved in the enterprise being financed and the terms and conditions normally obtained by private investors for assuming similar risks. Moreover, since the Corporation is intended to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms, it will have to make its investments on terms which will make them attractive to potential purchasers.

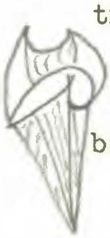
In connection with portfolio sales, I should point out that the charter contains no requirement that preference in making such sales be given to any particular class or classes of purchasers. However, in an explanatory memorandum which the Bank has transmitted to governments along with the charter, it is expressly recognized that IFC may often find it necessary or appropriate when making an investment to give to private investors with which it is associated in the enterprise a first refusal to buy the Corporation's interest in that enterprise.

A sixth point I want to stress is that an attempt has been made in the charter to assure that the operations of the International Finance Corporation will not create an unfair competitive situation which would deter other investors. The explanatory memorandum accompanying the charter makes plain -- although this is something that has not always been clearly understood -- that the enterprises financed by IFC will not enjoy any special status by reason of the Corporation's ownership of their securities. Moreover, the charter expressly provides that any funds received by the Corporation on its investments are not to be free, solely by reason of any provision of the charter, from generally applicable foreign exchange restrictions in force in the country of investment. While it is true that IFC will in other respects have certain privilges and immunities not available to private investors generally, the explanatory memorandum specifically declares that IFC will be expected to waive such privileges and immunities whenever their assertion would create an unfair competitive situation.

The final safeguard written into the charter to assure that IFC will promote and not compete with private capital is an absolute prohibition against the ownership of capital stock. This prohibition extends both to common and preferred stock. I want to point out, however, that this prohibition does not mean that IFC will make only conventional fixed-interest loans. To the contrary, IFC's investment authority, apart from the prohibition against ownership of capital stock, has intentionally been cast in the broadest possible terms in order to enable the Corporation to tailor each investment to the requirements of the particular case and to permit it to contract for financial returns appropriate to the risks undertaken. For example, in situations in which private investors would normally insist on an equity participation, IFC will normally be expected to require a participation in the profits of the enterprise financed and a right, exercisable by any purchaser of the investment, to subscribe to, or to convert the investment into, capital stock. Through investments of this type providing for participation in the profits and conversion into stock when sold, IFC will be able to satisfy the need for venture capital without at the same time assuming ownership or management responsibilities inconsistent with the private character of the enterprises which it seeks to assist.

Let me now turn briefly to some of the financial and organizational aspects of the Finance Corporation. As I believe most of you know, the initial authorized capital of the Corporation will be $100 million, to be subscribed by member governments; the Corporation will come into existence when 30 members, whose subscriptions aggregate at least $75 million, have joined. The amount to be subscribed by each government is based on its subscription to the capital stock of the International Bank itself. The largest subscription is that of the United States, which is slightly over $35 million; the next largest is that of the United Kingdom, which is roughly $14½ million; and the other subscriptions range all the way from there down to as little as $2,000 for Panama. But in each case, the member country making the subscription will be providing IFC with <u>effective</u> capital, for the subscriptions will all be paid in gold or United States dollars. Thus, the Corporation's entire capital will be fully convertible, with the contribution of each member roughly proportionate to the strength of its economy.

IFC will have authority to borrow funds and in that connection to issue its own securities, but it is not expected that it will have occasion to do so in the early years of its operations. Until it proves itself, at least, the Corporation will have to operate solely with the funds subscribed by member governments. Through revolving those funds by portfolio sales, however, and through securing the association of private capital, the effective contribution of IFC will, we hope, be many times the size of its own capital.



In framing the organizational sections of the charter, the Bank has been careful to avoid the creation of a large new international bureaucracy.

Instead, it has attempted to set up IFC in such a manner that it can take full advantage of the services and facilities of the International Bank. I want to stress, however, that there will be no financial relationship whatever between IFC and the Bank. The two institutions will be closely affiliated in their operations; but their assets will be kept entirely separate and IFC is expressly prohibited from borrowing from the Bank.

IFC's affiliation with the Bank will be secured in several ways. In the first place, membership in IFC will be open only to members in the Bank. Secondly, the Board of Directors of IFC will consist of those Executive Directors of the Bank who represent at least one country that joins the IFC. And thirdly, the President of the Bank, who is at the same time Chairman of the Bank's Executive Directors, will also serve as Chairman of IFC's Board of Directors. Through the existence of a common Chairman and common Directors, assurance will be provided that the activities of IFC will always be consistent with the general approach and policies of the Bank.

For the conduct of its ordinary business, IFC will have a separate President and a small staff of its own. Wherever possible, however, it will look to the Bank to provide it with services for which, of course, it will reimburse the Bank.

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The management of the Bank has high hopes for IFC -- not simply as a financing agency but as a developmental agency that may be in a position to do much -- beyond just the provision of money -- to promote the growth of private enterprise throughout the underdeveloped areas. Initially, the test will be whether private undertakings in capital-exporting countries, which have heretofore been fearful to embark on the unfamiliar and therefore somewhat frightening seas of foreign operations, can be induced by IFC to venture abroad. It is our hope that the new Corporation will succeed in doing this through providing such investors with the confidence that comes from association with a reputable and experienced partner. We hope, too, that it will be in a position to bring to the attention of such investors promising opportunities for overseas operations of which they might otherwise be unaware. After all, the Corporation will have not inconsiderable resources both of money and of information; these resources, imaginatively employed, should enable IFC to serve effectively as a clearing house, bringing together investment opportunities, private capital and experienced management.

In the longer run, IFC may play an even broader role through improving the over-all atmosphere and climate for international investment generally. Thus far, the attack on this problem of investment climate has been largely through legislative or administrative statements of policy or through the negotiation of contracts and treaties. All of these have a useful role to play, but their terms tend either to be too general to provide adequate safeguards or too restrictive. IFC, on the other hand, will be dealing with the problems of private investment in the concrete, not in the abstract. It will be seeking to reconcile differences of approach as applied to specific situations; and as both governments and the investing community gain confidence in its objectivity in dealing with those situations, its influence may well broaden to such an extent that, over a period, it can effectively contribute to a constructive change of attitude to the whole problem of private capital movements.

In any event, so far as the Bank is concerned, we will measure the success of this new affiliate, once it is established, not primarily by the amount of its own investments or by the profitability of those investments, but by the additional amount of international investment from other sources which it succeeds in generating.

We regard the Finance Corporation as a challenging venture which will doubtless absorb a great deal of time and attention. But if the Corporation is a success, the reward -- a vigorous expansion of the private enterprise system throughout the underdeveloped areas -- will amply justify all the efforts which the undertaking will demand.