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Chairman: Sir Douglas COPLAND (Australia).

AGENDA ITEM 25

Economic development of under-developed countries (A/2686, A/2702) (*continued*):

(b) Question of the establishment of an international finance corporation: report of the Economic and Social Council (A/C.2/L.249) (*continued*)

1. Mr. ARMENGAUD (France) pointed out that, in studying the proposal for an international finance corporation, consideration had to be given not only to the possibilities of existing sources of capital but also to the vote on the Special United Nations Fund for Economic Development. To avoid overlapping and the disappointing results that that would entail, it was essential to ensure the necessary co-ordination between existing financial agencies and those it was proposed to establish.

2. His delegation wished to make a number of observations on the effectiveness of the international finance corporation and on its relationship with beneficiary States.

3. If properly organized, the corporation should help to solve the problem of financing economic development since, by lessening investors' risks in under-developed countries, it would be able to satisfy some of the requests that were not covered at present because of the intensity of international competition on the capital market. Acceptance of that view by the managements of private, semi-public and public banking institutions in the various countries would be proof that there was felt to be a need for international measures to guarantee financial operations that had formerly been left entirely to private initiative. It would also prove that private investors had become interested primarily in a fair return on their capital and that the shareholder was tending to become a passive bondholder or at most an associate in a lending or investment undertaking in which he delegated his voice in management; in other words, the expression "free enterprise" had changed its meaning and was in danger of becoming a reference to the past. It was therefore

to be hoped that state capitalism would also develop so as to lose its inhuman rigidity.

4. Although the present state of the financial market made it difficult to forecast the behaviour of the contributors to the corporation and therefore to forecast how important a part the corporation would play in the economic and social development of the under-developed countries, there was no doubt that the proposed initial capital was small and that the International Bank for Reconstruction and Development would easily take precedence over the corporation in the issue of loans. The Bank had the benefit of government guarantees, but the corporation could only give its own guarantee, limited to the amount of its available capital, which would be relatively small at the outset and would be heavily committed to earlier operations. Its issues would therefore pay relatively high rates of interest so that the profit-earning capacity of the investment would often be low and in some cases a loss would be shown. Thus, unless precautions were taken, the number of sound and attractive possibilities for investment by the corporation would be somewhat limited.

5. It might be thought, of course, as the Canadian representative had suggested, that an increase in the amount of capital participation by private investors would add appreciably to the available funds. In that case, however, the nature of the relationship between government and private participants in the corporation would have to be clarified. In that connexion, he drew attention to the suggestions made by the French delegation in the course of the seventeenth session of the Economic and Social Council (E/AC.6/SR.146) concerning commercial and industrial companies deriving their capital from various domestic as well as foreign sources.

6. It was also necessary that the Governments of all capital-exporting countries adopt a favourable attitude towards investment savings, including savings to be used for the purchase of the shares or debentures of international undertakings and that the capital-importing countries should welcome suitable foreign investments. On those two points, as the United Kingdom representative had pointed out (331st meeting) the policies of the various Governments were very important. It was, accordingly, desirable that the study the Bank had been requested to make to determine the degree of co-operation that could be expected from participating Governments be specific and precise, and that the scope of the corporation's activities be examined and defined with the greatest care so as to ensure the most effective utilization of its capital, which would be small, at least initially. The international finance corporation's statutes should be drafted in the light both of those considerations and of the results of the studies to be undertaken.

7. With regard to the relationship between the corporation and capital-importing countries, he emphasized that the corporation should in no case participate in transactions harmful to a country's economy, nor should it be authorized to guarantee investment operations which the Government of a capital-importing country had refused to approve or which the Bank would not support on the grounds that they were devoid of economic or social benefit. The Corporation's statutes should be so drafted as to preclude any doubt in that respect.

8. The French delegation considered the joint draft resolution (A/C.2/L.249) satisfactory and would vote for it. He stressed the need for all countries to give the Bank their full support in its difficult task. The soundness of the corporation's statutes, the skill with which they were drafted, and the precision with which they defined the functions of the corporation and its relationship with the member States, the Bank and other existing financial institutions, would largely determine whether Governments and legislatures would approve appropriations for subscriptions to the corporation's capital and lend their support to any public offers of securities by the corporation.

9. The French delegation believed that the General Assembly should give the Bank a free hand in the drafting of the statutes and should not interfere in technical details of that nature, lest its prestige suffer. The French Government would gladly participate in the drafting and when the time came would give its material support to the corporation if the observations he had just made were properly taken into account in the drafting of the statutes.

10. Mr. EL-TANAMLI (Egypt) said that he would like some clarification concerning various aspects of the joint draft resolution.

11. With regard to the first paragraph of the preamble, he pointed out that, in its report on the proposal for an international finance corporation (E/2215), submitted to the fourteenth session of the Economic and Social Council, the International Bank for Reconstruction and Development had stated that the purpose of the corporation would be to promote economic development through the stimulation of private investment in its member countries and that in order to perform that function it would endeavour to help finance private productive undertakings through equity investments and loans without government guarantee. It was therefore surprising that no reference was made to equity investments in the first preambular paragraph, and he asked whether the sponsors of the draft resolution had intended to exclude that possibility and prohibit the corporation from becoming a shareholder in private enterprises in the under-developed countries.

12. The first preambular paragraph referred to the setting up and expansion of "productive private enterprise", but as there were joint government and private undertakings in many countries, he wondered whether such undertakings would be entitled to benefit from the operations of the international finance corporation.

13. The first preambular paragraph also gave the impression that the activity of the corporation would be directed towards the expansion of productive private enterprise irrespective of its importance to the economic development of the country concerned. The fourth preambular paragraph did refer to the "eco-

nomie development of under-developed areas" and to the "general stability of the world economy", but he felt that the first paragraph could be more explicit.

14. He agreed with the French representative that the scope of the corporation's activities should be clearly defined, but that care should be taken not to give the Bank specific instructions in that respect. The Bank should undertake its task only after detailed studies had been made and after the views of Governments had been considered; it might, for example, consider whether the corporation would be authorized to borrow on international markets and in particular on the market of the country where the investment was to be made, whether it could issue its own bonds and whether it would also act as an investment broker, in other words, as an intermediary between lender and borrower. In his opinion, the corporation would be able to do valuable work as an investment broker.

15. With regard to methods of affiliation with the corporation, he felt that it would be difficult to apply to the corporation the system of weighted voting adopted with respect to the Executive Directors of the Bank and recommended by the Bank in its report on the question of the establishment of the international finance corporation (E/2616) to the eighteenth session of the Economic and Social Council. With weighted voting, the paradoxical situation might arise that the capital subscription of a particular country would be much smaller than the amount of foreign investment made by private investors in that country. An unweighted democratic vote might be the best solution.

16. Regarding sub-paragraph 3 (b) of the operative part, he felt that the expression "for discussion" should be amended to make it clear that member States of the Bank could not only discuss the statutes but also voice an opinion on them. As the difficulties relating to the establishment of the corporation were legal as well as economic, the statutes should be drawn up in the light of a review of the commercial legislation of the participating countries, whose opinions were therefore indispensable.

17. He also considered that the efforts made by the General Assembly should be recalled in a more explicit fashion by a specific reference to all the resolutions adopted by the Assembly with regard to the establishment of an international finance corporation.

18. Despite those criticisms, the Egyptian delegation would vote for the draft resolution, which in its opinion constituted a further step towards international co-operation. His delegation wished to thank those who had taken the initiative in submitting a concrete proposal, and hoped that they would take its observations into account.

19. Mr. ENCINAS (Peru) said that his delegation was glad to be a co-sponsor of the joint draft resolution because a draft resolution providing for the initiation of steps leading to the establishment of an international finance corporation was most welcome. The text took up the essential features of the earlier draft resolution A/C.2/L.229, but presented them in a different form so as to take current circumstances, the urgency of the situation and the United States Government's announcement into account. His delegation thanked all the delegations which had supported the idea of an international finance corporation and, in particular, the United States Government, which had shown a laudable spirit of international co-operation without which the early establishment of

such an international credit institution could not have been contemplated.

20. The corporation should operate within the framework of the International Bank for Reconstruction and Development, but should retain its autonomy. It was also important that as many countries as possible should share in its management because the creation of an atmosphere favourable to the flow of foreign capital was necessary and that was the responsibility of both the industrialized and the under-developed countries. The corporation could and should perform an important function, because it would meet the needs not only of countries where the level of saving was inadequate but also of countries which had a high level of savings and were looking for investment opportunities. The corporation's activities should, for the sake of efficiency, be co-ordinated with those of similar national bodies, and in that respect the establishment of regional organizations would be of considerable value.

21. The Saudi Arabian delegation had raised two questions (331st meeting) on which the Peruvian delegation would like to comment. First, the Saudi Arabian representative had pointed out that the international finance corporation was not being dealt with in the same way as SUNFED had been. The Peruvian delegation had always attached equal importance to both of the proposed bodies. However, the proposal to establish the corporation had made progress because it had been favoured by the course of events. Thus, whereas the industrialized countries had said that they would be unable to give their financial support to SUNFED, the United States Government had recently announced that it would subscribe a substantial share of the corporation's capital. Other Governments had also taken a favourable attitude towards the corporation.

22. The Saudi Arabian delegation had also asked whether the corporation's statutes should be drafted by the Bank or by a group of experts. In that connexion, it was important to remember that the proposal had been studied by the Bank and that the Bank had prepared reports on the subject. It was natural that that should be the case because, under the plans being considered, the corporation's operations would be closely linked with those of the Bank, and the experience acquired and the research undertaken by the Bank in that field would be invaluable to the corporation. The project would merely have been delayed through the appointment of a new group of experts, who would, in any case, probably have been selected by the Bank and would have drafted the statutes under the Bank's supervision. In any case, final approval of the statutes would rest with the Economic and Social Council and the General Assembly. The important point was to expedite the matter by starting work on the basis of the available studies so that the corporation could begin its operations within the near future, if possible in 1956.

23. Mr. BUENO DO PRADO (Brazil) stated why the Brazilian delegation had joined the eight other Powers in sponsoring the draft resolution.

24. The Brazilian delegation had always supported and would continue to support any action to broaden the scope of international credit agencies. Although the establishment of SUNFED was actually a more urgent matter than the establishment of an international finance corporation, the corporation could also play an

important part in a comprehensive system of financing that would ensure a continuous flow of foreign capital to assist the under-developed countries in their efforts to develop their natural wealth and correct their balance of payments position.

25. The nine-Power draft resolution provided for specific measures for the establishment of the corporation as soon as it appeared practicable. One of those measures was the drafting of the statutes. That extremely important task, which had been entrusted to the Bank, should be carried out with the greatest care. In none of its reports had the Bank indicated precisely how the statutes might be drafted. To avoid future complications, the Economic and Social Council and the General Assembly should set forth the general principles for organizing the corporation.

26. His delegation attached particular importance to the relationship that would exist between the corporation and the Bank. The validity of the argument that the corporation should be affiliated with the Bank was beyond dispute, but it was important to remember that certain functions of the proposed corporation would have nothing in common with banking operations. Thus, while his delegation did not underestimate the valuable assistance which the Bank could furnish, particularly at the inception of the new agency, it felt that the corporation should be more or less autonomous, although working in close co-operation with the Bank.

27. As the corporation was essentially international in character, its management should be shared not only by the members of the Bank but also by all countries which would benefit from the corporation's services. It seemed reasonable to provide for the broadest possible participation in an institution which was to contribute not only to the economic development of under-developed areas but also to the general stability of the world economy.

28. The corporation would undoubtedly introduce a measure of flexibility into methods of international financing and would thereby be able to perform an important function, because at the present time the application of certain financial principles was restricting the scope and efficiency of international financing. As the corporation might also constitute a valuable guide for private investment, consideration might very well be given to the possibility of setting up a special department within the corporation for collecting and disseminating information on investment opportunities so as to stimulate the interest of private investors.

29. In conclusion, he congratulated those States whose support for the proposal to set up an international finance corporation had made it possible to envisage its early establishment.

30. Mr. RENOUF (Australia) had been pleased to hear that the United States and United Kingdom Governments were contemplating making a contribution to the international finance corporation. The Australian delegation was in general agreement with the establishment of the corporation but could not make any specific undertaking beyond the fact that it would give the question special attention once the General Assembly had approved the statutes. The Australian delegation agreed with the United States delegation that the corporation, which would be affiliated to the Bank, should not be established unless it was sure of adequate financial support, in the form of the parti-

cipation of thirty countries and a capital of about \$75 million.

31. The Australian delegation would support the joint draft resolution and hoped that it would be adopted unanimously.

32. Mr. UMARI (Iraq) found the draft resolution satisfactory on the whole, although there were some ambiguities in the text and certain omissions, some of which had been pointed out by previous speakers.

33. He did not altogether like the way the first paragraph of the preamble was drafted. Although the corporation had been visualized primarily as an institution to deal with private investment, it had also been thought that it would take over some functions that the Bank could not carry out owing to its inability to run certain risks. It was true that the Bank at present granted large loans to some Governments but it was to be hoped that there would be nothing to prevent the corporation from granting loans to public enterprises should the occasion arise.

34. It had likewise been thought that the corporation would not merely grant loans to the under-developed countries but would also act as an agency to facilitate investment in those countries: in other words, that it would establish contact with investors, encourage the flow of capital and carry out a certain amount of research. The fundamental importance of that last function had already been stressed by the Iraqi delegation (326th meeting) during the discussion on the Haitian draft resolution on the international flow of private capital to under-developed countries (A/C.2/L.225), when it had pointed out that the corporation might undertake some of the contemplated studies.

35. He hoped that when the Bank drew up the corporation's statutes it would bear in mind the comments put forward by the different delegations. He would vote in favour of the joint draft resolution, which seemed to him to be couched in sufficiently flexible terms to allow a very broad interpretation.

36. In conclusion, he thanked the United States delegation and the delegations which had sponsored the joint draft resolution for the initiative they had taken.

37. Mr. BENGTSON (Sweden) said that the Swedish delegation would vote in favour of the joint draft resolution. Sweden had always endeavoured, within the limits of its resources, to support any measure calculated to facilitate the economic development of under-developed countries, for it thought that every country should be able to exploit its own national resources and thus to raise the standard of living of its people. As far as possible, the necessary capital should be provided from domestic sources but it was obvious that international capital could play an important part. That was a sphere in which the action of the International Bank for Reconstruction and Development could with advantage be supplemented by that of the international finance corporation, whose function it would be to channel the flow of international capital towards private enterprise. The corporation should be motivated and justified not only by the actual loans made, but predominantly by its demonstration of existing possibilities for private investments. Nevertheless, the countries concerned should not forget that it was, at the same time, their own responsibility to create a favourable investment climate.

38. With regard to the structure and functions of the corporation, the Swedish delegation agreed with the

United States and United Kingdom delegations that the corporation should not make equity investments in private enterprises, for that would entail too many risks and responsibilities for an international organization.

39. The joint draft resolution provided that the Bank should present the draft statutes to the Governments for discussion and invite them to indicate the degree of support that might be expected from them in providing the capital for the establishment of the corporation. This part of the resolution was a determining factor for the positive vote of the Swedish delegation at this stage, as his Government had not, as yet, taken a position with respect to either the general method of financing the corporation or to an eventual Swedish contribution.

40. The Swedish delegation congratulated the United States Government, which had once again made a praiseworthy effort to facilitate the establishment of a new international agency to assist the under-developed countries.

41. Mr. HSIA (China) said that the Chinese delegation had repeatedly declared, specifically at the 267th meeting of the Second Committee at the eighth session of the General Assembly and at the 812th meeting of the Economic and Social Council, that it was favourably inclined towards the establishment of an international finance corporation. It had even proposed, at the 292nd meeting of the Committee, that the idea be put into effect, on a provisional basis and on a more limited footing than the report of the International Bank for Reconstruction and Development had contemplated. It had therefore been particularly pleased to hear the announcement of the United States Government, which made the establishment of the corporation a possibility, and it would vote in favour of the nine-Power draft resolution.

42. The international finance corporation would undoubtedly play a valuable part in the economic development of the under-developed countries, although the funds at its disposal would not be nearly adequate to cover the vast needs of those countries. Its operations would help to reduce poverty throughout the world and would thus strengthen the political stability of the free world. The Chinese delegation hoped that auspicious step would soon be followed by the establishment of the Special United Nations Fund for Economic Development.

43. Turning to the text of the joint draft resolution, he expressed his full support of the principle, outlined in the first paragraph of the preamble, that the main object of the new corporation should be to facilitate the setting up and expansion of private enterprise. He felt that he should point out, however, that either for lack of capital or because of exceptional circumstances, such as the last war, which had resulted in the taking over by the Governments concerned of former enemy property, the Governments of under-developed countries were often obliged to finance and administer enterprises that would normally be private undertakings. It was quite admissible, therefore, that the corporation might sometimes be asked to give assistance to public or semi-public enterprises. He hoped that that possibility would be borne in mind when the statutes of the new body were drafted.

44. Mr. STANOVNIK (Yugoslavia) wished first of all to congratulate the United States Government,

whose recent statement made it possible to look forward to the establishment of the international finance corporation in the near future.

45. As far as the substance of the question was concerned, he shared to a very considerable extent the ideas expressed by the Brazilian representative, one of the sponsors of the draft resolution, who had just given a very broad interpretation of the functions of the future corporation.

46. The Yugoslav delegation was prepared to vote in favour of the draft resolution but hoped that the sponsors would bear in mind the different comments to which it had given rise, so that their text might receive the greatest possible measure of support.

47. He endorsed the remarks of the Egyptian, Iraqi and Chinese representatives on the first paragraph of the preamble. He thought their objections might be met by the deletion of the word "private". In the under-developed countries it was not necessarily private interests that had the most productive enterprises. His suggestion would have the further advantage of protecting the new organ from certain criticism: it could not then be claimed that the planning of the corporation had been one-sided and that it did not take into account the existence of different economic systems.

48. He also shared the Egyptian representative's views on sub-paragraph 3 (b) of the operative part. He added that the draft resolution did not assign its proper and usual function to the Economic and Social Council which, under the Charter, was the principal United Nations body in the economic sphere. In his opinion, the Council should not only be asked to examine the report of the Bank but also to make a detailed examination of the draft statutes which the Bank would draw up. In that respect operative paragraph 5 of the original sixteen-Power draft resolution (A/C.2/L.229) had been much more satisfactory and he wondered whether the sponsors of the new draft resolution would agree to amend their text accordingly. Finally, he proposed that it be made clear that it was at its twentieth session that the Economic and Social Council was to examine the Bank's report and the draft statutes of the corporation; it seemed to him that it was essential to state that specifically, since, according to the decision which was at present in effect, the Council did not normally consider such questions at its summer session.

49. Mr. OFER (Israel) was glad to know that the United States of America had decided to take part in the financing of the new international finance corporation, whose establishment would mark a new and important step in the efforts the United Nations was making to promote the economic development of the under-developed countries.

50. With regard to the joint draft resolution, the Israel delegation would like to say, first and foremost, that it did not think that, with the limited means at its disposal, the new corporation would really be able to meet the needs of the under-developed countries simply by financing enterprise; it could, however, play a very useful part if it also assumed certain advisory functions on the subject of private investment. By that means it would contribute to the flow of private capital towards the under-developed countries. Such services would not be a great burden and would prove extremely valuable.

51. Secondly, as the corporation was to be set up within the framework of the United Nations itself, the Secretary-General should be asked to give his views on the future organ and those views should be duly taken into account.

52. Finally, the Technical Assistance Board, which was thoroughly familiar with the problems of the under-developed countries, should participate in the work of the executive board of the proposed corporation as an observer.

53. Mr. BORGES (Norway) recalled that the Norwegian delegation had favoured the idea of establishing an international finance corporation from the very outset. It had consequently welcomed the statements of the United States and United Kingdom representatives, which had made it possible for the Committee to reach the stage of taking definite decisions. Although the Norwegian delegation had not so far taken a very active part in the discussion, it had nevertheless voted in favour of all the resolutions that the General Assembly had adopted on the subject and it intended to vote in favour of the joint draft resolution.

54. The Norwegian delegation was obliged, however, to reserve its Government's position with regard to contributing to the capital of the corporation: Norway, which had taken on heavy commitments, especially as far as technical assistance was concerned, had not yet come to any decision on that matter.

55. Mr. JONKER (Netherlands) said that the Netherlands delegation would vote in favour of the draft resolution.

56. He wished to point out, however, that paragraph 2 of the operative part was out of place in a draft resolution of that kind. It was not customary to make any specific reference to the attitude of a particular Government towards a proposal, however positive that attitude might be. That would create a precedent that might have unfortunate consequences. His statement did not in any way detract from his delegation's admiration for the generosity that the Government named in operative paragraph 2 showed towards the other nations of the world.

57. Generally speaking, he shared the views of the Egyptian representative. Nevertheless, since the question was to go back to the Economic and Social Council and then to the General Assembly, it looked as though the Committee would have further opportunity to examine the various comments its members had made, among them those of his own delegation, and would be able to formulate its ideas more clearly.

58. Mr. HALIQ (Saudi Arabia) regretted that the draft resolution before the Committee departed from the previous conception of the functions of the international finance corporation. Originally, as was confirmed by the reports of the International Bank for Reconstruction and Development, the statements of its President and the discussions of the Economic and Social Council, it had been thought that the corporation's operations would be complementary to those of the Bank, which was unable, under the terms of its Articles of Agreement, to make loans to private undertakings without a governmental guarantee or to make equity investments in such undertakings.

59. The new proposal would in fact amount to the establishment of what might be called an international mutual fund. At least that seemed to be the gist of the statements by the United States and United King-

dom representatives. The latter had even said (331st meeting) that the United States Government had not been inclined to support the corporation as originally conceived. In addition, the idea of constituting a kind of mutual fund seemed to have come originally from a study on means to increase private investment in foreign countries¹, prepared for the United States Government in 1952, from which he cited some extracts. He wished the United States representative to indicate whether the proposal was or was not an entirely new one. His delegation had no objection, *a priori*, to the formula enunciated in the joint draft resolution, but considered it essential that the situation should be clarified before the Committee proceeded to the vote.

60. Recalling the conclusions reached by the Bank, particularly in the report presented to the eighteenth session of the Council (E/2616), he pointed out that the Bank had taken into account the element of risk involved in purchasing equity shares issued by private

¹ See August Maffry, *Program for Increasing Private Investment in Foreign Countries, Report prepared for Technical Cooperation Administration*, United States Departments of State and Commerce and Mutual Security Agency, Washington, D.C. 1952.

enterprises, as it had provided that the corporation would charge a higher rate of interest than the Bank. The possibility of direct investment in private enterprises had been considered by the Bank on several occasions and, at its eighth annual meeting, the Pakistan and Cuban representatives had stressed the importance of that method of financing to the under-developed countries. According to Mr. Black, the President of the International Bank, investment by the corporation might amount, in some cases, to 25 per cent of the capital subscribed, the main purpose being to encourage private investors, by setting an example, to invest their money in the under-developed countries.

61. The members of the Committee would decide whether they preferred the much more limited formula proposed by the nine sponsors of the joint draft resolution. They therefore had to know whether it was a new formula so that they could vote in full knowledge of all the facts.

62. He shared the concern of other speakers about the wording of the first paragraph of the preamble which should be clarified so that the Bank would have very specific directives when it prepared the statutes of the new organ.

The meeting rose at 1 p.m.