

United Nations
**GENERAL
ASSEMBLY**

TENTH SESSION

Official Records



SECOND COMMITTEE, 362nd

MEETING

Thursday, 27 October 1955,
at 10.55 a.m.

New York

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Chairman: Mr. Ernest G. CHAUVET (Haiti).

AGENDA ITEM 24

Economic development of under-developed countries (A/2955) (*continued*):

(b) Question of the establishment of an International Finance Corporation: report of the Economic and Social Council (A/2943, chapter III A, A/C.2/L.267)

1. The CHAIRMAN said that the International Finance Corporation (IFC), which was now in the process of becoming a reality, would supplement the activities of the International Bank for Reconstruction and Development by providing capital for productive private enterprises in accordance with clearly defined principles, and would thus give impetus to the flow of private capital to the under-developed countries. Indeed, the fact that the Corporation was shortly to begin operations had already encouraged various firms and organizations to expand their overseas investments. With the present easing of international tensions and the improved prospects of disarmament, the under-developed countries could hope to receive additional capital for their development provided they spared no effort to ensure that it was used effectively.

2. Mr. DARDEN (United States of America) said that the United States believed that economic development, financed largely through investment by private enterprise, once the conditions for such investment were present, was the soundest basis for sustained economic progress and, therefore, the United States had consistently supported the moves made both in the Economic and Social Council and in the General Assembly to stimulate private investment in the under-developed areas.

3. Since the ninth session, rapid progress had been made towards the establishment of the IFC and it was hoped that it would be a going concern early in 1956. The United States for its part had now completed all the legislative steps necessary to enable it to join the Corporation and to subscribe over \$35 million.

4. His delegation sincerely hoped that the IFC would prove a successful experiment and that it would encourage private capital to assume a larger role in world economic development by inspiring potential foreign

investors with greater confidence. The proposed clearing house function of the IFC might well prove to be one of the most important aspects of its work. The Corporation would also be concerned with the equally important problem of encouraging local investment.

5. The Corporation would not provide the answer to all the problems facing the private investor abroad or lessen the need for countries to continue applying the recommendations in General Assembly resolution 824 (IX), but it was a laudable contribution to the joint task of helping people everywhere to improve their material well-being.

6. The Assembly was currently considering¹ the draft International Covenants on Human Rights and the recommendations of the Commission on Human Rights relating to permanent sovereignty over natural wealth and resources. Because of their legislative history, the provisions in question had aroused deep apprehension among private investors, and their adoption by the Assembly would tend to nullify many of the Committee's efforts to encourage larger amounts of capital to move into deficit areas. His delegation hoped that what was accomplished by the United Nations in one Committee to assist economic development would not be offset by contrary actions in another.

7. He believed that the joint draft resolution (A/C.2/L.267) of which his delegation was a co-sponsor would reflect the feelings of the majority of the Committee.

8. Sir Alec RANDALL (United Kingdom) said that his delegation whole-heartedly supported measures which by stimulating the flow of private capital encouraged the growth of productive private enterprise, particularly in the less-developed areas. It was in that spirit that it co-sponsored the joint draft resolution.

9. The IFC should begin operations early in 1956, as there was every reason to believe that its Articles of Agreement (E/2770), on which he congratulated the Bank, would be ratified by thirty countries and that 75 per cent of its capital would be subscribed by the end of 1955. The United Kingdom, for its part, would, he had no doubt, complete the necessary legislative formalities and accede to the Articles of Agreement before the end of the year.

10. He would like to underline several of the points made by the Vice-President of the Bank at the informal discussion on the IFC at the recent annual meeting of the Bank. First, the principal function of the IFC would be to attract potential private investors into business interests seeking capital. It would not, therefore, invest in enterprises for which sufficient private capital could be obtained elsewhere on reasonable terms or make an investment unless it was satisfied that private capital was bearing a full share of the burden.

¹ See item 28 on the agenda of the General Assembly.

Secondly, the investments of the IFC should not be made on uneconomical terms. That was essential if the Corporation was to be successful in revolving its funds. Thirdly, his Government attached importance to the provision which precluded ownership of capital stock by the IFC. The provision did not, of course, mean that such investments could not be converted, in appropriate circumstances and by agreement with the enterprises concerned, into capital stock when ultimately sold to private investors.

11. The benefits that the IFC would bring to the under-developed countries should be far greater than was suggested by the relatively meagre amount of its authorized capital. That would be due to the process of revolving its funds and to any success it might have in securing the association of private capital or even attracting capital to the country concerned. Moreover, if it came to be regarded as an agency whose views on private investment problems were worth seeking, it might be able to contribute to a constructive change of attitude to the whole problem of private capital movements.

12. The IFC would be able to make use of the Bank's long experience and many of its services and its success would in large measure be due to its association with the Bank. Its personality would not, however, be identical with that of the Bank; it would have its own President and staff and would deal with private businessmen and investors instead of with Governments.

13. Some Governments had expressed reservations with respect to certain provisions of the Articles of Agreement and, while it would be inappropriate to discuss amendments at the present time, such matters could usefully be studied at a later date by the IFC itself. At this stage he would mention only one or two, among which was the question of investment by the Corporation in enterprises in which there was already a certain amount of public capital. He noticed that the Bank's experts envisaged that the IFC might invest in enterprises in association with government development corporations. But such problems would become clearer in operation.

14. In the meantime, many other problems would have to be faced by the Corporation, in particular the selection of enterprises to be financed. Another problem would be how to reconcile the need to revolve the funds of the IFC as rapidly as possible with the need to make a reasonable profit from its investments.

15. Whatever the difficulties, he was confident that the basic purposes of the IFC would be attained, provided the under-developed countries continued to adopt appropriate internal policies, offering equitable conditions to investors, and conducing to economic stability. The IFC could be no substitute for governmental action in those fields. It was his conviction that the countries which had pressed most vigorously for the establishment of the IFC would co-operate in carrying out its objectives.

16. Mr. ABOU-GABAL (Egypt) stated that his Government, recognizing the important part which the IFC would be called upon to play in promoting private capital investment and in financing private projects without guarantees from the Governments concerned, had agreed to participate and would very soon sign the Articles of Agreement. Egypt's subscription to the capital stock would be \$590,000. He trusted that the IFC would concentrate on helping the under-developed countries where assistance was really needed.

17. The United States had become the main supplier of private capital for international investment in economic development. About 38 per cent of that capital had been invested directly in Latin America, 28 per cent in Canada and 17 per cent in Western Europe, while only a small percentage had found its way to Africa and the Middle East. Moreover, most United States capital in the under-developed countries was mainly invested in industries such as the oil industry, rather than in activities whose development might be of great importance to the recipient countries.

18. Referring to article III, section 3 (i), of the Articles of Agreement, he expressed the hope that the wishes of participating States regarding the financing of productive private enterprises important to them would be taken into consideration by the IFC.

19. The Egyptian representative at the meeting of the Bank and the International Monetary Fund (IMF) at Istanbul in September 1955 had asked in what currency repayments to the IFC would be made and Mr. Sommers, the General Counsel of the Bank, had replied that the matter was much too complicated to dispose of in a general statement. It was to be hoped that the IFC would not insist on repayment in dollars or other hard currency as that might hamper the development of the country concerned.

20. Finally, he hoped that the Special United Nations Fund for Economic Development (SUNFED) would receive the same welcome as the IFC. Infrastructure projects, which SUNFED was expected to help finance, were not only essential to economic development, but would create a favourable climate for private investment. The establishment of SUNFED was thus of vital importance and the link between it and the IFC was obvious.

21. Mr. DE GAAY FORTMAN (Netherlands) said that the Netherlands welcomed the IFC as an institution which could be expected to make a substantial contribution to the economic development of the under-developed countries, and had taken steps to obtain parliamentary approval for membership in it. The proposed Articles of Agreement (E/2770) the annexed explanatory memorandum and the statement by Mr. Garner, Vice-President of the Bank, at Istanbul on 15 September 1955 had completed the picture of the nature and scope of the IFC.

22. It was stated in paragraph 185 of the Economic and Social Council's report (A/2943), that some representatives had expressed the view that the Articles of Agreement should have been previously discussed in the Council. The meaning of the procedure outlined in General Assembly resolution 823 (IX) was that the Council and the Assembly could discuss the draft statutes and that final responsibility for establishing the IFC lay with the Assembly. Instead, the Bank had acted rapidly to bring about agreement among its members on the draft statutes and to arrange for a decision on the establishment of the IFC by a large number of its members. The effect of that speedy action, to which the Assembly should not take exception, unfortunately, was that the Council and the Assembly were unable to suggest alterations or additions to the Articles of Agreement.

23. He was of the opinion that the term "productive private enterprises", in articles I and III of the Articles of Agreement should be interpreted liberally. Even in countries whose economic life was generally based on a system of private enterprise it was agreed that

some economic activities could be better managed under public ownership. In countries at the initial stage of economic development, the establishment of basic industries had to be done by, or with the assistance of, the Government. Again, even in the more developed countries there were mixed public and private enterprises, as private investors were often unable to put up the necessary capital.

24. Some countries could not, at their present stage of development, benefit from the activities of the IFC. The Articles of Agreement themselves stressed the

urgent need to create possibilities of obtaining capital from other sources.

25. In conclusion, he paid a tribute to the management and staff of the Bank for their excellent work in furthering the establishment of the IFC.

26. Mr. WALKER (Australia) announced that early in the week his Government had introduced legislation in Parliament for Australia's participation in the IFC.

The meeting rose at 11.55 a.m.