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*President:* Mr. S. Amjad ALI (Pakistan).

*Present:* The representatives of the following countries:

Argentina, Belgium, Canada, China, Cuba, Czechoslovakia, Egypt, France, Iran, Mexico, Pakistan, Philippines, Poland, Sweden, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay.

Observers from the following countries:

Chile, Netherlands, Yugoslavia.

The representatives of the following specialized agencies:

International Labour Organisation, Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development, International Monetary Fund.

**Point of order by the representative of Belgium concerning the distribution of French texts of Council documents**

1. Mr. SCHEYVEN (Belgium) said that the French text of the report of the International Bank for Reconstruction and Development on the proposal for an international finance corporation (E/2215) had been distributed on the preceding day only, notwithstanding the specific provisions of the rules of procedure. It had therefore been impossible to send the French copies of that important document to the competent departments of governments in time and they had therefore been unable to study it in the language they knew. Further, the French-speaking delegations, of whom there were many at the Council table, had not had time to study

the report properly before speaking on behalf of their governments. He was therefore obliged to urge the Secretariat to take the necessary steps to avoid a recurrence of that situation.

**Economic development of under-developed countries (*continued*): (a) Report of the International Bank for Reconstruction and Development on the question of creating an international finance corporation (Council resolution 368 (XIII), paragraph 13) (E/2215 and E/L.367) (*continued*); (b) Methods of financing economic development: report by the Secretary-General under Council resolution 368 C (XIII), paragraph 14 (b) (E/2182, E/2234, E/2242 and Add.1 and E/L.365) (*continued*)**

[Agenda items 5 (a) and (b)]

2. Mr. SCHEYVEN (Belgium), before undertaking a detailed analysis of the Bank's report on the question of creating an international finance corporation (E/2215), wished to say that Belgium remained faithful to its support of the Council resolution asking the Bank to explore the possibility of establishing an organ able to promote the financing of the development of under-developed countries, and hoped that the Bank would continue the study which it had begun. Any questions he might raise or critical remarks he might make should therefore not be regarded as indicating any change in his Government's clearly defined position.

3. The report before the Council concerned the proposal for an international finance corporation, affiliated with the International Bank for Reconstruction and Development, whose basic task would be to promote

economic development through the stimulation of private investments in the under-developed countries.

4. On page 12 of its report, the Bank gave the reasons why its own ability to contribute directly to the growth of private investment was limited; first, because the Bank's Charter required that all loans it made should be guaranteed by the government, the Central Bank or its equivalent, of the country in which the project financed by the Bank would be carried out, and, secondly, because the Bank did not engage in equity financing. The main duty of the proposed international finance corporation would be to stimulate private foreign investment; it would do that either by providing capital in the form of loans to productive private enterprises or by directly underwriting the capital of such enterprises by buying their shares. In general, it might be assumed that the former type of assistance would be appropriate primarily for existing enterprises, and the latter for new enterprises.

5. The Bank's report analysed the proposed international finance corporation's potentialities. Its immediate contribution would be the provision of funds to enable private investors to undertake projects which were now held back by lack of adequate capital.

6. The corporation might then fulfil a useful exploratory function by inducing investors who hitherto had not fully realized the opportunities for profitable investment abroad, to make such investments.

7. There was a particular importance in the double exploratory function which the proposed corporation might one day be called upon to discharge—that of informing financial circles in different countries of the investment possibilities in under-developed areas, on the one hand, and of investigating the capital market and channelling the available private capital towards the exploitation of under-developed countries on the other.

8. Lastly, and that would be its most important function, the corporation might itself participate in a certain number of undertakings, thereby encouraging investors to embark on projects from which they might be deterred not so much by lack of capital as by lack of confidence. He noted that, in the Bank's view, the corporation's direct participation would provide assurance against the possibility of arbitrary and unfriendly action; because of its international character and its affiliation with the Bank, the corporation should be in a position to overcome the hesitancy of investors and to create confidence both in investors and in recipient countries that the legitimate interests of each would be respected.

9. In its conclusion, the Bank emphasized in the report that the measure of the corporation's success would be the flow of capital it generated, directly and indirectly, from private investors and not simply the amount it provided from its own resources. That was an essential point, and the Belgian delegation was particularly glad to note that the Bank had taken the initiative in approaching representatives of business and finance in an effort to ascertain what chances of success they thought the proposed corporation had.

10. The Belgian delegation would like to thank the International Bank for Reconstruction and Develop-

ment for that initiative, and it hoped that the Bank would maintain and extend such contacts, which were essential to a clear idea of the difficulties to be overcome and of the best course to take.

11. The sampling of opinion made by the Bank had revealed two divergent currents of opinion. One group, which was probably preponderant, felt that there were valid reasons for believing that private investors would be interested in availing themselves of the facilities offered by the new corporation and that the corporation would prove an effective instrument in orienting private capital toward economically under-developed areas. According to that first group, the experiment was worth trying. The report quoted the following opinion summarizing the group's views ". . . if it (the corporation) failed to attract private investors, the worst that was likely to happen would be that most of its funds would remain uninvested". That conclusion was perhaps not very encouraging but it was at least very reassuring.

12. According to the second body of opinion, however, ample private funds would be forthcoming when the climate for investment was favourable; if the climate was unfavourable, neither public nor private moneys should be invested.

13. In the matter of contributions to the capital of the corporation, the Bank had concluded that the only possibility seemed to be to obtain funds from States. That method had certain advantages, particularly that of ensuring the international character of the corporation. That consideration was extremely important to the Belgian Government.

14. In that connexion, he noted that in several places the report stressed the fact that, whenever it was possible to do so under favourable conditions, the corporation should try to revolve its funds as rapidly as possible by selling securities from its portfolio. He wondered whether that policy would be consistent with one of the primary objectives of the proposed corporation, which was precisely to inspire confidence in private investors who hesitated to make investments abroad. He would like to have the opinion of the President of the Bank on the question.

15. In explaining the scope of the report, the Bank admitted on page 7 of the report that no attempt had been made to compare the results to be obtained by implementing the proposal submitted to the Council and the results of "other means of increasing private investment, such as tax incentives, government guarantees of convertibility, bilateral treaties and the like". He, for one, regretted that the comparison had not been made. The very remarkable report of the Bank was guided by a single purpose: to induce private capital to participate in financing the development of under-developed countries. To accomplish that, the confidence of private investors must be gained, and that immediately brought into play the objections expressed in certain business quarters, which, as has been seen, were of the opinion that the experiment should not be tried until a favourable climate prevailed. Accordingly, he wondered whether it would not be beneficial in any case to undertake the comparative study in question. He drew the attention of the President of the Bank to that point also.

16. Finally, his Government was pleased to note that the introduction to the Bank's report ended with a conclusion which it approved because of its practical nature. It was stated on page 8 that "Whether the existence of the corporation, and its participation in international investments, would actually induce private investors, local and foreign, to invest more in the under-developed areas is not a question that can be answered by factual demonstration; only experience can provide the answer with certainty".

17. The Belgian Government agreed that the Bank should continue the study it had undertaken. If, as a result of that study, it concluded that there was a reasonable chance of the experiment succeeding, the Belgian Government wished it every success.

18. Mr. BLACK (President of the International Bank for Reconstruction and Development) said, in reply to the Belgian representative, that the sale by the international finance corporation of a part of its equity investments, as envisaged in the report under discussion, would not have the consequences which he (Mr. Scheyven) seemed to fear. Under the Bank's proposal, the finance corporation would only sell seasoned securities from its portfolio, those issued by enterprises which had proved successful. If the shareholders of a given enterprise objected to such a sale, the corporation would normally abide by their wishes. The case mentioned in the report was the contrary case in which there would be demand from private capital; in that case the corporation would sell its shares in order to revolve its capital and thus encourage the establishment of new enterprises.

19. Lord SELKIRK (United Kingdom) wished first of all to make clear what, in the opinion of his Government, should be the position of the Council on the very interesting report before it. The preceding year, the Council had asked the International Bank to consider what contribution an international finance corporation could make to the financing of economic development. The Council now had before it a document which, if he correctly interpreted the covering note from Mr. Black, represented the view not of the Bank as an inter-governmental body, but rather the views of the Bank's staff. The Bank was continuing its examination of the proposal, discussing it, *inter alia*, with its member governments. The document before the Council was therefore in the nature of a progress report on an item of the Bank's unfinished business.

20. A glance at the report immediately indicated the highly technical character of many of the issues raised by the proposal for an international finance corporation. Such questions included currency convertibility, the appropriate capital structure of different types of enterprises and the psychology of investors in the capital markets of the world. It therefore seemed obvious to the United Kingdom Government that the Council would be well advised to leave detailed examination of those technical questions to the Bank.

21. He was sure that the Bank would derive great benefit from the comments that had been made and would give consideration to the difficulties to which attention had been drawn in the course of the debate. The presence in the Council of so many of the Bank's directors and staff members testified to the importance

that institution attached to the views expressed in the Council. Nevertheless, the Council would be well advised not to attempt at that stage to reach conclusions either on the principle of setting up an international finance corporation or on the details of a possible scheme. It should be content to thank the Bank for the work it had already done, to request it to continue its examination of the proposal and to invite it in due course to communicate the outcome of that further examination to the Council.

22. That did not mean that the United Kingdom Government considered that the finance corporation, if established, should necessarily be composed of the same countries as were members of the International Bank; it merely considered that the Bank was the agency best equipped to work out a practicable scheme.

23. He wished to make some comments and raise certain questions that had occurred to him in studying the proposal for an international finance corporation. Before doing so, however, he considered that he should in all fairness state that his Government saw no prospect at the present time of being able to make any contribution toward the financial resources of a new institution such as the proposed international finance corporation.

24. The provision of finance for international investment could reasonably be required only of countries which had a favourable balance of international payments. The existence of a favourable balance of payments was in itself an indication of a surplus of domestic savings over domestic investment.

25. The United Kingdom had had such a surplus in the past. It might have such a surplus in the future, at least he hoped so; but, as was well known, it had no such surplus at the present time. Instead, it had had a heavy deficit in 1951, and while that deficit, as a result of the measures taken by the United Kingdom Government, was now being reduced, it had not yet been transformed into a surplus.

26. Moreover, as he had pointed out during the debate on the world economic situation (598th meeting), the United Kingdom had undertaken substantial responsibilities and commitments for the provision of capital to the dependent territories for which it was responsible, to the countries participating in the Colombo Plan and to the sterling area in general. The United Kingdom must be in a position to fulfil its obligations and reconstitute its diminished reserves before assuming any new commitments of that kind.

27. While any financial contribution by the United Kingdom was for the time being excluded, he thought it appropriate to make some observations on the scheme as it stood, based in part on the experience of his Government with similar organizations, particularly the Colonial Development Corporation, a body which exercised within the territories under British administration, functions not entirely dissimilar from those it was proposed to entrust on a world scale to the international finance corporation.

28. The authors of the plan before the Council proposed to promote an increased export of equity capital to the under-developed countries partly by calling on government money to supplement the flow of private

capital, but mainly by encouraging private capital itself to flow more freely.

29. He could agree with the arguments contained in the report on the advantages, in certain circumstances, of equity over fixed-interest obligations, from the standpoint of the receiving country, particularly because of the technical skill which accompanied investments of equity capital. He could also agree with the proposition, based on the experience acquired by the International Bank in the course of its ordinary operations, that there was, in principle, considerable scope for an expansion of international equity investment and unguaranteed lending of a kind which would be profitable to the providers of the capital and helpful to the recipients.

30. On that point he was bound to say that his country's experience suggested that the unexploited opportunities of profitable investment were somewhat less extensive than might appear at first sight and that a rather cautious approach was indicated. That cautious attitude, however, might be in part attributable to the fact that political and transfer difficulties of the sort which deterred private venture capital elsewhere were of less importance between the United Kingdom and the dependent territories under United Kingdom administration, so that there might be somewhat less scope there for a governmental body to play a mediating role.

31. Given, however, that in principle there was scope for increased equity investment, the next question was whether the mechanism suggested in the report was best calculated to evoke the increased flow of capital which was desired.

32. In that connexion two objections arose. One was the danger lest the money subscribed by governments to the corporation might be simply diverted from some other form of external financial assistance. For example, if governments in balance of payments difficulties were induced nevertheless to subscribe to the corporation, that might reduce the proportion of their subscription to the International Bank which they were willing to allow the Bank to use. Moreover, if some part of a general allocation for foreign aid was assigned to the support of the corporation, that might mean that some other form of financial assistance was correspondingly contracted. In so far as government subscription to the corporation represented not an addition to, but a diversion of, the volume of investment funds, the usefulness of the corporation to the underdeveloped countries would be reduced and possibly even nullified.

33. The answer to the question whether the corporation would succeed in stimulating an increased international flow of private equity capital would depend in part on whether private capital would feel more secure from political and transfer risks, etc., when venturing abroad in partnership with, or under the aegis of, an inter-governmental corporation affiliated to the International Bank than when venturing alone. The Bank had found that at least a section of the business and financial community considered that that factor might be of some importance. The question, however, arose whether the confidence of investors in the protecting power of the corporation and the Bank was likely to

be maintained unless the Bank adopted a policy of discriminating more severely than before the creation of the corporation against countries which treated foreign private investors badly.

34. Apart from those semi-political considerations, there were other reasons why the activities of the corporation might result in an increased flow of private risk capital. By reducing the amount of private capital which must be ventured initially in any given project, it was possible that more projects would be undertaken and that private capital might be found at a later stage to take over the holdings of the corporation once the project had proved that it was profitable.

35. It remained to be seen whether those possibilities would materialize. It seemed important that the increased flow of private capital should not be achieved by what would amount to the use of public funds to subsidize private capital export. The arrangement suggested in the Bank's report appeared to involve some danger of that. For example, the insistence that the participation of the corporation in any project must always be a minority participation, and that of private enterprise a majority participation, might tempt the corporation into offering unduly favourable terms to private enterprise in order to secure that degree of participation. Again, the insistence that the portfolio of the corporation should be a revolving one and that the seasoned securities should be sold might lead the corporation to dispose of its holdings at a time when it would be more profitable to hold on to them. In that connexion, he found it hard to understand the passage in the report which said that the corporation should sell its investments whenever it could get a fair price. Surely the corporation should always try to sell not at a "fair" price, whatever that might mean, but at the best price it could get. Otherwise, it might find that it did not make enough money on its successful ventures to offset the inevitable losses on the unsuccessful ones.

36. The Colonial Development Corporation was expected to earn, from its operations as a whole, a rate of profit sufficient to cover interest charges, at gilt-edge rates, on the money advanced to it by the United Kingdom Treasury. In the case of the international finance corporation it seemed desirable that some comparable target should be set up fixing the rate of profit to be earned over-all on the funds employed by the corporation.

37. In the Bank's report, the role assigned to the corporation *vis-a-vis* the private investors who joined with it in financing any particular project was a decidedly passive one. The corporation was to confine itself to a minority holding in any enterprise in which it participated. It was to leave control and management to private enterprise and the initiation of projects was normally to be a matter for private interests. As a general rule and long-term policy, that certainly seemed to be a wise principle. The experience of the Colonial Development Corporation had led to the adoption of a policy of working, whenever possible, in conjunction with private enterprise. Once the finance corporation had acquired interests in a variety of undertakings in various parts of the world, it would become impossible for it to keep a sufficiently watchful eye on all of them to ensure efficiency of operation, unless the main burden of that task was assumed by private enterprise.

38. Nevertheless, if that principle was applied too rigidly in the initial stages of the corporation's activities, it might prove difficult to launch its operations successfully. The corporation might be tempted, in order to make a start, to participate in schemes proposed to it by private interest which it would have done better to refuse. If the corporation were enabled to take a somewhat greater share of responsibility in the initial ventures, it might be able, with the assistance of the economic and technical experts of the International Bank, to score one or two successes which would enhance its reputation with private investors and enable it subsequently to expand its operations.

39. In any event, it seemed clear to the United Kingdom delegation that the corporation should have and exercise the normal powers of a shareholder to intervene in management, where necessary, to protect both its own interest and the interests of the foreign shareholders as a whole.

40. With regard to the question of management, his delegation felt that any corporation which was set up should be associated with the International Bank, which had won a well-deserved reputation for the prudent and successful administration of its resources. That association should be such as to enable the corporation to utilize the technical services of the Bank and to co-ordinate its policy with that of the Bank. It should probably include overlapping, but not necessarily identical, directorates, since the type of experience required for the two institutions might not be entirely identical.

41. In conclusion, he reminded the Council that his Government was unable, at that juncture, to contribute to the financial resources of the corporation. Other countries might be in a similar position. It might therefore be desirable that the corporation, if it was set up, should be set up on the basis of a limited membership, leaving it open to non-member countries to join at a later date, as and when their circumstances permitted them to do so.

42. Mr. LUBIN (United States of America) said no United Nations body was more alive than the Economic and Social Council to the need for increased participation by private capital, both domestic and foreign, in the economic development of under-developed countries. The Council had previously recommended action designed to stimulate the investment of private capital, and the report by the International Bank on the proposal for an international finance corporation was the most recent addition to the literature on the subject published under United Nations auspices. The United States delegation joined in commending the Bank for contributing, by its report, towards the search for ways and means to induce private capital to play its full role in promoting economic development.

43. He briefly sketched the background of the question of financing the economic development of under-developed countries over the past twenty years. Before 1930, foreign investment, both in equities and in the bonds of governments and business enterprises, had come almost entirely from private sources. For various well-known reasons, that source had almost completely dried up as far as bonds were concerned. The International Bank, and such national institutions as the United States Export-Import Bank, had filled the gap

to some extent by financing certain basic development projects—transportation, power, water and sanitation works. Since the financing of such basic facilities generally had to precede private investment in industrial and commercial enterprises, the International Bank and the Export-Import Bank could be said to have contributed indirectly to the encouragement of private investment in productive industry. In addition, they had also to some extent directly financed the establishment in under-developed countries of such industrial enterprises as cement plants, steel mills and fertilizer plants. Private equity capital had nevertheless continued to seek employment abroad and had at the same time carried with it the technical knowledge necessary to the establishment of modern industrial enterprise. Private investment, particularly of American funds, had been limited, however, to certain geographic areas and mainly to certain industries, like the petroleum industry.

44. The creation of conditions which would stimulate an expanded and diversified flow of capital into under-developed countries remained one of the important problems in the matter of financing of economic development. However, the problem was not merely how to stimulate the international flow of private capital, but also how to increase the movement of domestic private savings in the under-developed countries into local business enterprises. The volume of domestic savings in those countries was admittedly relatively small in comparison with capital requirements, and besides there was a tendency in those countries to hoard private capital or to invest it in real estate or even in more developed countries. Those were the conditions which had prompted the Council, at its thirteenth session, to give serious thought to the establishment of an international finance corporation (resolution 368 (XIII)).

45. In an international finance corporation—a novel idea—public and private capital would share both in the risks and in the gains. Governments would naturally wish to give careful study to the various aspects and implications of the proposal and to communicate their views to the Bank.

46. Accordingly, it must be useful if he reported his own delegation's views on the proposal. The first point was that an international finance corporation would presumably be faced with the same problems as confronted other enterprises or investors. Specifically, the corporation might be subject to restrictions on the transferability of funds or be affected by the policies of governments of under-developed countries towards private enterprises with foreign participation. That was a matter involving many thorny problems and it would have to be thoroughly explored. If, for instance, the corporation were to apply all its hard currency subscriptions to investments in soft currency areas, and were unable to transfer its earnings or its capital, its flexibility would be impaired. There would be little point in selling securities held by the corporation if the proceeds of the sale could not be converted into a currency usable for fresh operations; and were the corporation to receive privileged treatment, private investment would thereby be discouraged.

47. Secondly, although there might be private capital willing to venture into under-developed countries, there was no information as to the amount of such capital



that would be available. As yet, the Bank had only consulted financial and business circles in highly developed countries; its inquiries should be continued in those circles and further extended to under-developed countries.

48. The third point Mr. Lubin wished to mention was the relationship of the International finance corporation with existing national institutions already promoting investments without government guarantees, such as the Export-Import Bank, the Industrial Development Bank of Turkey and the Mexican Bank Consortium. The setting up of the finance corporation might possibly, in effect, lead to financing by the new institution of ventures that might otherwise be financed by the existing institutions, without adding to the total being invested.

49. He then proceeded to discuss some of the technical problems relating to the organization and operations of the proposed corporation. First, there was the question of contributions to such a body. The Bank's report endorsed the suggestion of the International Development Advisory Board that members' subscriptions should be in proportion to their subscriptions to the International Bank. However, if the corporation was to be regarded as a body designed to channel as much local savings as possible into the economic development of the under-developed countries, it would be desirable to explore alternative methods.

50. Then there was the question of currencies. The Bank's report proposed that local currency should be usable without restriction for expenditures within the subscribing country. Obviously, subscribing governments would not impose any restrictions on the investment at home of their local currency contribution. It was not certain, however, that they would be prepared, in view of their balance of payments difficulties, to have their contributions used for investment abroad. Apart from that, the entire question of the convertibility of currencies needed full exploration.

51. Some further points had to be settled. It was suggested in the Bank's report that the corporation might sell securities from its portfolio whenever it was possible to do so at a fair price, though the report recognized at the same time that the execution of that policy would be difficult and that buyers would be found only for the more successful investments. That might mean, in the long run, that the corporation would be left holding solely the less successful investments. Another problem in connexion with the sale of securities was whether the consent of the investors would have to be secured. That difficulty might conceivably be overcome by a stipulation whereby the corporation undertook not to sell out its securities for a specified period. All those questions had to be studied, although not one of them presented an insuperable obstacle.

52. Accordingly, the United States delegation had joined the delegations of Canada and Pakistan in submitting the joint draft resolution contained in document E/L.367. The joint draft resolution was consistent with the statement made by the President of the International Bank that the Bank's first study of the possible establishment of an international finance corporation was strictly preliminary.

53. He added that, if an international finance corporation were set up, close affiliation of the institution with the International Bank would offer real advantages. In that way it would have the benefit of the experience gained by the Bank's staff, and share in the universal confidence attaching to the Bank. He thanked Mr. Black for the Bank's co-operation in the studies relating to the proposed finance corporation; he was confident that the Bank would thoroughly investigate the proposal from every angle.

54. Mr. BLACK (President of the International Bank for Reconstruction and Development) said that the policy questions asked by the United Kingdom and United States representatives amounted, in effect, to asking whether the corporation would encourage a greater flow of private investment into the under-developed countries. Although that could be determined with certainty only in the light of experience, he believed that the corporation would have that result. He was not in a position to answer all the technical questions raised. Some of them could be solved during the contemplated further study of the corporation, while others could be solved only on an *ad hoc* basis after the corporation had begun to function.

55. Mr. HASAN (Pakistan) said the proposal to set up an international finance corporation was still in its initial stage and that the Bank's report was strictly preliminary. Hence it would be premature to make precise proposals after a perusal of the report.

56. The report recommended that, to begin with, the corporation should play a small part, and Mr. Black had said that its operations should be on a modest scale for a time. Mr. Hasan was sceptical of the success of the venture. The needs of the under-developed countries were vast and even if the corporation operated efficiently, its influence on the economic development of those countries would be slight for a long time to come.

57. His delegation approved the idea of setting up such a corporation to be regarded as a supplement to, but not as a substitute for, assistance from other sources.

58. The Pakistani delegation had some doubts about the possibilities of private equity investment in Southern Asia. It was not a question of prejudice against the peoples of that region, but that capital found better opportunities for investment nearer home. For private investors the incentive was certainly profit, not philanthropy.

59. In Pakistan, foreign industries enjoyed advantages similar to and even greater than those enjoyed by local enterprise, and yet there was very little foreign private investment in that country. If it were possible, by means of a premium, to insure private capital not against possible loss but at least against political risks, funds would be attracted to the under-developed countries.

60. The Pakistani delegation had associated itself with the Canadian and United States delegations in submitting the joint draft resolution (E/L.367), for it felt that governments needed some time to reflect before communicating their views to the Bank.

61. He reiterated his view that the proposed corporation should supplement other methods of technical as-

sistance for solving the world-wide problem of economic development.

62. Mr. DEUTSCH (Canada) said that previous speakers had spoken at length on the part played by private investment and private undertakings in economic development. They had analysed the reasons for the reluctance of private capital to participate in financing economic development after the Second World War. Canada was an exception to the rule. Private investment had played an important part in Canada's economic development since the Second World War, and the Canadian Government was interested in any proposal likely to help in overcoming the difficulties besetting other countries.

63. The proposal to set up an international finance corporation was a happy one. Without replacing financing by existing organs, or private investment, such an organization would probably supplement appreciably the financing of the economic activity of under-developed countries. There were serious gaps in the existing system, and he did not think there was any reason to fear that a new organization would displace existing bodies. Canada had found it useful to supplement private institutions for financing economic development by means of an Industrial Development Bank which had filled a gap in the system for private financing of economic development. At the moment, finance was being supplied both by private investors and to a small extent by the Industrial Development Bank and the Canadian Government had every reason to be pleased with the results. Some time would, of course, have to elapse before the proposed international finance corporation could become a reality. The wisest course would be to recommend the Bank to continue its studies and to make inquiries among interested governments. In the light of the information gathered it could then make specific proposals.

64. Those were the motives which had prompted his delegation to join the delegations of the United States and Pakistan in submitting the draft resolution circulated under document E/L.367.

65. Mr. ABELIN (France) said that it could be concluded, at least in theory, from a study of the report of the International Bank that great advantages might accrue from the proposed new organization. Firstly, with the machinery as planned, an international body would share in some of the risks of a private undertaking. That type of partnership was doubtless the best basis for the financing of economic development. Secondly, the corporation would be able to require the countries in whose territories it assisted in financing undertakings to guarantee equality of treatment for foreign investments. In that way, both economically and, to a large extent, legally, its success should be assured.

66. The various examples quoted in the Bank's report sufficed to show that the proposed corporation might act as a sort of catalyst with respect to private capital reluctant to venture into the under-developed countries. Conceivably the corporation might even be of greater use if it limited its purely financial activity—the size of its loans—and acted essentially as a guide.

67. The various objections to the proposal would presumably be considered carefully by the Bank in its more detailed study of the question.

68. If the corporation spread its investments in small amounts over a very large number of private undertakings, the problem of transferring part of the corporation's share portfolio or of supervising the operations of the undertakings would be much less difficult to solve. Conceivably, however, the corporation would find itself, at any rate at the outset of its activities, forced to restrict the number of its participations but to make each of them larger. In those circumstances, the Bank would be well advised to make a closer study of the experience acquired in the past, and even quite recently, by institutions performing, domestically, a function similar to that planned for the proposed corporation internationally. He mentioned the *Caisse centrale de la France d'outremer*, which had, since 30 April 1946, assisted in very varied ways, in financing private undertakings or in encouraging capital investments to assist the development of Overseas France.

69. That body's experience showed that in matters involving the use of public funds such institutions had to be surrounded by certain guarantees. That possibility naturally gave rise to certain problems, in particular the question of the representation of the international finance corporation on the boards of directors of undertakings which it helped to finance. It had been said that such representation was unnecessary as the corporation should have only a minority interest in the undertakings financed; but that struck him as contrary to the rules of prudence which were mandatory when the use of public funds was involved. In the case of the *Caisse centrale de la France d'outremer* France had solved the question by the Decree of 24 October 1946 under which the *Caisse* was invariably represented by at least one director, and was granted seats in proportion to the size of its share in the capital of the undertakings which it assisted. That solution had the advantage of enabling the *Caisse* to express its opinion even though it was not really responsible for the business in which its funds were invested.

70. Unless such methods were adopted, the corporation would be impelled to ask the undertakings to be financed for such guarantees that its terms would closely resemble those imposed by the International Bank itself.

71. Several delegations had referred to the practical difficulties which the new international finance corporation would encounter. The French delegation thought, although not committing itself until it had studied the question further, that it would be in the interests of the new corporation to be closely linked with the International Bank. It could then use the staff of that body and profit by its experience and prestige. Moreover, the United Kingdom representative had referred to the existence of a sort of pool of resources which countries could draw on in order to assist other countries. The fact that the two establishments—the Bank and the corporation—would be linked, would better emphasize the unity of that pool and that might later obviate disappointments; countries that wished to subscribe to the new corporation might for that reason limit their participation in the Bank. He added that the difficulties mentioned by the United Kingdom delegation in connexion with his Government's participation in the international finance corporation also applied to France.

72. The report under study was conclusive evidence of the fruitful co-operation between the Council and

certain specialized agencies, in the particular case, the Bank. That co-operation should continue. The Council should settle policy and express opinions and recommendations, but the Bank, and especially its Board, should have the responsibility of carrying on the study which had been begun and of taking the final decision concerning the establishment of an international finance corporation.

73. Mr. GARCIA (Philippines) said the Council was dealing with weighty matters. It was considering the Bank's report on the question of forming an international finance corporation to assist private enterprise to take part in the development of the under-developed countries; it would shortly be considering the Secretariat's report, prepared on the instructions of the General Assembly, on the question of a special fund to be the source of grants-in-aid or long-term loans to under-developed countries. The Council had vast scope and splendid opportunities such as the League of Nations had never had. It was true that the fundamental question of the economic development of under-developed countries had not found universal expression until the Charter of the United Nations was signed at San Francisco, when the United Nations had pledged itself to promote social progress and better standards of life in larger freedom. That new development in world public opinion was no doubt the most important in modern times and the Philippine delegation thought that it should be mentioned at a time when the Council was beginning a very important phase of its work.

74. He briefly reviewed the history of item 5 of the agenda and referred to the studies and reports which had led the United Nations to study the creation of an international finance corporation to facilitate the financing of private productive undertakings in under-developed areas by means of loans and equity investments. The idea of forming an international finance corporation had been thought of two years previously by an official body of a highly developed country—the United States International Development Advisory Board. The time had come for the council to decide what steps should be taken to follow up the study which had been prepared.

75. He realized that the Bank's report had been prepared by the Bank staff after consultation with business circles. The Philippine Government, a member of the Bank, would like the report to be communicated to the Board of the Bank with the comments voiced by Council members in debate. As the Bank was continuing to

study the question and had transmitted the report to its members, it would be interesting to know the latter's reaction. Accordingly he proposed that the Council should proceed in stages; it should first accept the principle of establishing an international finance corporation and then give governments and the Bank time to study the question in greater detail. Such a procedure would in no way imply that the Council would waive its jurisdiction; on the contrary, the Council should request the Bank to submit a report to its following session.

76. The discussion in the Council had in fact confirmed that the report on the study had many technical aspects which called for greater reflection. But so far as substance was concerned, his delegation was convinced that the formation of the proposed international finance corporation would encourage foreign capital investments in the under-developed countries.

77. He could not yet commit his Government as to the final nature and functions of the future corporation or as to the financial implications of the proposal. However, his Government had always endeavoured to encourage private investment in the Philippines and had enacted legislation to exempt from taxation, for a period of four years, any newly established firm carrying on business in the Philippines whose activities contributed to the country's economic development. That policy had encouraged more than a hundred new undertakings, mostly in the manufacturing trades and light industries, to set up business.

78. Although it considered that the creation of the international finance corporation was one of the principal means of attaining the desired objective, his delegation thought that the highly developed countries could do a great deal, each in its own sphere, by such means as guaranteeing private investments against non-convertibility and against other risks encountered by capital invested abroad. The Mutual Security Act was an illustration of the type of guarantee he had in mind; it guaranteed American investments abroad in all the areas—for the moment, in Europe—where they were authorized under the Act. Similar guarantees should be extended to other countries which were not necessarily highly developed. The draft resolution submitted by the Cuban delegation (E/L.365) was on the same lines in that it recommended an increase in the flow of capital from the economically developed countries. If adopted, it would greatly help to increase the flow of private capital towards the under-developed countries.

The meeting rose at 1 p.m.