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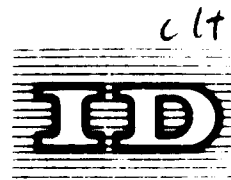
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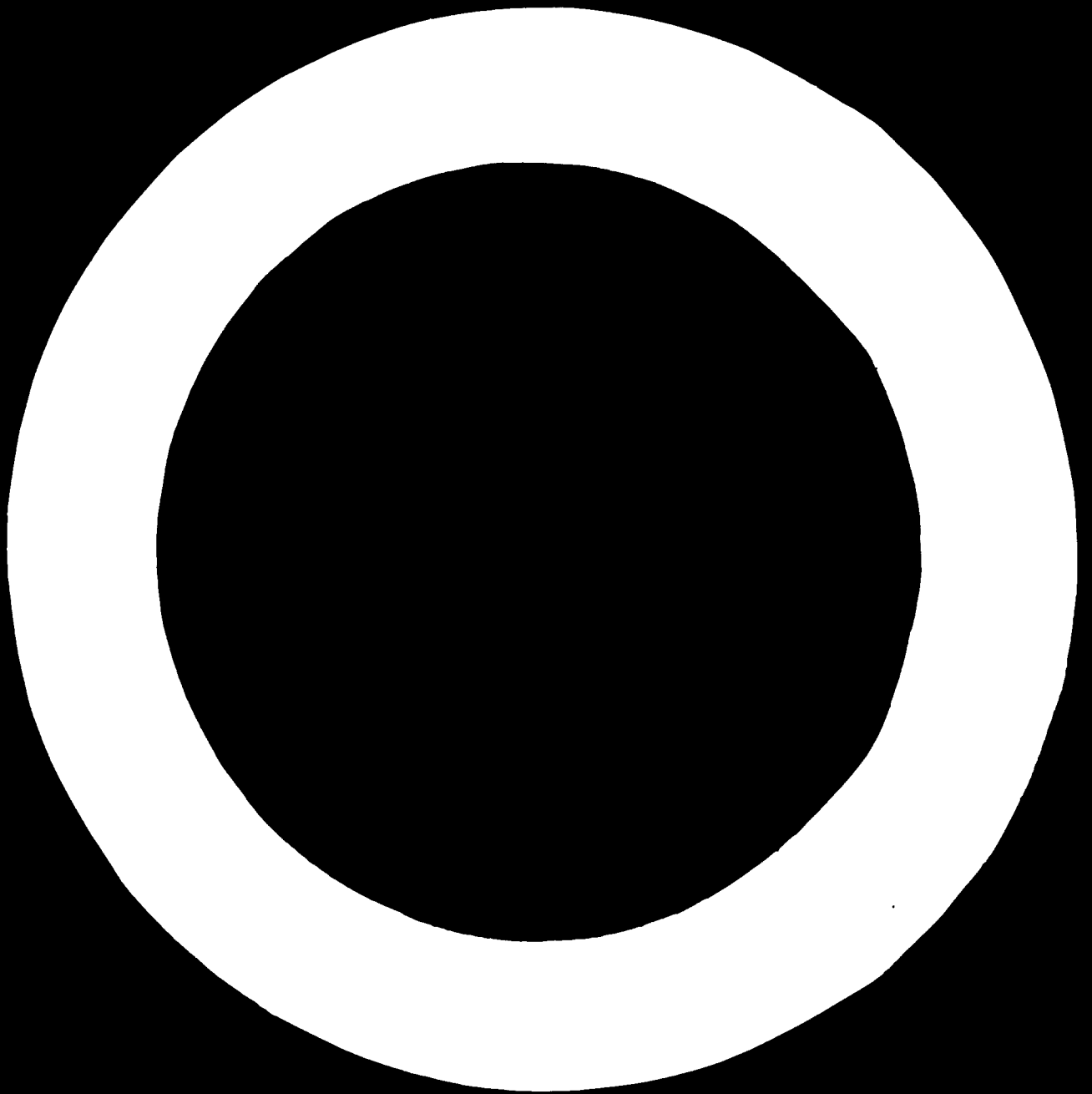
UNITED STATES PRIVATE INSTITUTIONS EXPORTING CAPITAL

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U.S. FOREIGN INVESTMENT AND FINANCIAL POLICY

A STUDY OF THE SOURCES OF U.S. FOREIGN INVESTMENT IN 1950 AND 1959 REVEALS THAT THE UNITED STATES ACCOUNTED FOR 72 PER CENT OF THE TOTAL. THE UNITED KINGDOM ACCOUNTED FOR ABOUT 10 PER CENT AND THE OTHER EUROPEAN ECONOMIC COMMUNITY (E.E.C.) COUNTRIES FOR ABOUT 10 PER CENT. THE FACT THAT THE U.S. CONTRIBUTES THE BULK OF FINANCING TO THE RECONSTRUCTION DEMANDS OF THE APPEARS APPROPRIATE TO DIRECT THE RESEARCH TOWARD THE INVESTMENT POLICY OF EDGE ACT CORPORATIONS. AS THE MAIN SOURCE OF FINANCING THE INVESTMENT OPPORTUNITIES FOR DIRECT INVESTMENT ABROAD.

TO THE END THAT A BETTER UNDERSTANDING OF THE ROLE OF THE EDGE ACT CORPORATIONS MAY PROVIDE INSIGHT INTO POSSIBLE SOURCES OF FINANCING. WE SHALL DISCUSS THE THREE BASIC TYPES OF CORPORATIONS EXISTING TODAY, AS WELL AS THEIR SCOPE OF INTERNATIONAL ACTIVITIES. AS WE SHALL SEE, EACH EDGE ACT CORPORATION HAS ITS OWN POLICIES GOVERNING ITS FINANCING ACTIVITIES. HOWEVER, WITHIN EACH TYPE OF EDGE ACT CORPORATION THERE ARE SIMILARITIES OF OBJECTIVES WHICH SHOULD INDICATE THE APPROPRIATE SOURCES EACH MAY REPRESENT AS A POTENTIAL SOURCE OF FINANCING.

BACKGROUND:

THE ESTABLISHMENT OF EDGE ACT CORPORATIONS WAS THE OUTGROWTH OF INCREASED U.S. PARTICIPATION IN THE FIELD OF INTERNATIONAL FINANCE. THE GROWTH OF U.S. INVOLVEMENT ABROAD TOOK PLACE QUITE NATURALLY WHEN THE COUNTRY BEGAN TO MOVE FROM A POSITION OF A DEBTOR NATION TO THAT OF A CREDITOR. ONE OF THE CONSEQUENCES OF THE AMERICAN TRANSITION FROM DEBTOR TO CREDITOR WAS THE FEDERAL RESERVE ACT OF 1914. WITHIN THE LEGISLATIVE ACT, DESIGNED TO BRING SOME SEMBLANCE OF ORDER TO U.S. BANKING, WAS THE PROVISION THAT ALLOWED THE BANKING SYSTEM TO ACCEPT FOREIGN DRAFTS AND TO ESTABLISH BRANCHES ABROAD. FURTHERMORE, AS THE CAPITAL RESOURCES OF THE UNITED STATES BEGAN TO BE TAPPED BY NATIONS INVOLVED IN WORLD WAR I, SPECIFIC AUTHORITY WAS GRANTED THE BANKING SYSTEM TO INVEST IN THE CAPITAL STOCK OF U.S. CORPORATIONS "...PRINCIPALLY ENGAGED IN INTERNATIONAL OR FOREIGN BANKING."

MOREOVER, IN 1919, NATIONAL BANKS WERE ALLOWED TO ASSIST IN THE FORMATION OF INSTITUTIONS TO PROVIDE INVESTMENT AS WELL AS COMMERCIAL CREDIT.

THE PURPOSE OF THE ACT OF 1919 (THE EDGE ACT) WAS TO ENCOURAGE THE FLOW OF U.S. CAPITAL ABROAD, AND TO ENERGIZE THE EXPORT TRADE SO AS TO FURTHER ASSIST WITH THE RECONSTRUCTION EFFORTS ASSOCIATED WITH WORLD WAR I. LASTLY, IT WAS ENACTED SO THAT THE U.S. INVESTOR COULD SUBSTITUTE DOMESTIC FOR FOREIGN SECURITIES.

MANY OF THE EARLY EDGE ACT CORPORATIONS FAILED TO SURVIVE THE ECONOMIC CRISES OF 1920 AND 1921. IN FACT, THE WHOLE FIELD OF INTERNATIONAL FINANCING EXPERIENCED A SEVERE SLOWDOWN BETWEEN THE 1930'S AND LATE 50'S.

ONLY WITHIN THE LAST TEN YEARS HAS THE REAL VALUE OF THE EDGE ACT CORPORATION BEEN REALIZED. GENERAL STABILIZATION OF WORLD CURRENCIES, SIGNIFICANT INCREASE IN OVERSEAS INVESTMENT BY U.S. PRIVATE INSTITUTIONS, AND THE RELAXATION OF A FEW OF THE RULES GOVERNING THE ACTIVITY ALLOWABLE UNDER THE EDGE ACT HAS CAUSED, IN PART, THE GREAT EXPANSION IN THE NUMBERS OF EDGE ACT CORPORATIONS. TEN YEARS AGO, THERE WERE SEVEN CORPORATIONS BELONGING TO TEN BANKS; AS OF JUNE, 1966, THERE WERE SOME FORTY-SIX EDGE ACT SUBSIDIARIES OWNED BY THIRTY-TWO MAJOR U.S. BANKS.

TYPES:

UNTIL 1963 IT WAS NECESSARY TO DISTINGUISH BETWEEN TWO TYPES OF EDGE ACT CORPORATIONS: THE BANKING CORPORATION AND THE FINANCING CORPORATION. NOW THERE IS A THIRD TYPE WHICH ESSENTIALLY COMBINES BOTH FUNCTIONS OF THE FORMER TWO TYPES.

BANKING CORPORATIONS

THIS TYPE OF CORPORATION MAY FUNCTION ESSENTIALLY IN THE SAME MANNER AS AN INTERNATIONAL DEPARTMENT OF A BANK. THAT IS, IT MAY PURCHASE, SELL OR DISCOUNT NOTES, BUY AND SELL FOREIGN EXCHANGE, ISSUE LETTERS OF CREDIT, BORROW AND LEND MONEY, ETC. THIS TYPE HAS THE ADDITIONAL ADVANTAGE, HOWEVER, OF BEING ALLOWED TO INVEST IN THE STOCK OF OTHER CORPORATIONS ENGAGED IN FOREIGN BANKING ACTIVITIES WITH THE PRIOR APPROVAL OF THE FEDERAL RESERVE. CONSEQUENTLY, MOST CORPORATIONS OF THIS TYPE ACT AS HOLDING COMPANIES FOR OWNERSHIP OF FOREIGN BANK SHARES. AS AN EXAMPLE, THE CHASE MANHATTAN OVERSEAS BANKING CORPORATION OPERATES AS A HOLDING COMPANY FOR THE CHASE AFFILIATES ABROAD. OTHER EXAMPLES WOULD INCLUDE THE CONTINENTAL BANK INTERNATIONAL, THE BANKING SUBSIDIARY OF CONTINENTAL ILLINOIS NATIONAL BANK & TRUST COMPANY, CHICAGO, CHEMICAL INTERNATIONAL BANKING CORPORATION, THE BANKING SUBSIDIARY OF CHEMICAL BANK NEW YORK TRUST COMPANY.

FINANCING CORPORATIONS

THIS TYPE OF EDGE ACT CORPORATION MAY INDULGE IN INTERNATIONAL INVESTMENT BANKING. THIS ADVANTAGE REPRESENTS, IN PART, AN ATTEMPT TO GAIN AN EQUAL FOOTING WITH EUROPEAN BANKS WHICH, GENERALLY SPEAKING, HAVE BEEN FREE TO MAKE DIRECT INVESTMENTS FOR MANY YEARS. THIS TYPE OF EDGE ACT CORPORATION WOULD INCLUDE, FOR EXAMPLE, THE CHASE INTERNATIONAL INVESTMENT CORPORATION, MORGAN GUARANTY INTERNATIONAL FINANCING CORPORATION, BOSTON OVERSEAS FINANCIAL CORPORATION, AND THE CONTINENTAL INTERNATIONAL FINANCE CORPORATION. IN GENERAL, THESE SUBSIDIARIES ARE INTERESTED PRIMARILY IN THE FINANCING OF PRIVATE PRODUCTIVE ENTERPRISES WHICH CLEARLY MAKE A CONTRIBUTION TO THE HOST COUNTRY.

COMBINATION BANKING/FINANCING CORPORATIONS

SINCE 1963 THE DISTINCTION BETWEEN THE TWO PREVIOUSLY DISCUSSED TYPES DISAPPEARED TO THE EXTENT THAT NEWER EDGE ACT SUBSIDIARIES ENGAGE IN BOTH TYPES OF ACTIVITIES. (NOTE: HOWEVER, IN ORDER FOR THIS TYPE EDGE ACT TO ENJOY BOTH ACTIVITIES IT MUST BE CAREFUL THAT THE COMBINED DEMAND DEPOSITS AND ACCEPTANCES DO NOT EXCEED THE TOTAL OF CAPITAL AND SURPLUS. SHOULD THESE LIABILITIES EXCEED THE CAPITAL AND SURPLUS, U.S. FEDERAL BANKING AUTHORITIES COULD RESTRICT IT ONLY TO INTERNATIONAL BANKING ACTIVITY). EXAMPLES OF THIS TYPE OF CORPORATION WOULD INCLUDE BANKERS INTERNATIONAL CORPORATION, A SUBSIDIARY OF BANKERS TRUST COMPANY, NEW YORK. MELLON BANK INTERNATIONAL, THE COMPANY FOR INVESTING ABROAD, A SUBSIDIARY OF THE FIDELITY-PHILADELPHIA TRUST COMPANY. A FEW OF THESE ARE RESULTS OF THE AMALGAMATION OF FORMER SUBSIDIARIES INTO A COMBINATION OF BANKING AND FINANCING CORPORATIONS.

ADVANTAGES

IT MAY BE OF INTEREST TO UNDERSTAND THE ADVANTAGES GAINED BY THE ESTABLISHMENT OF EDGE ACT CORPORATIONS. FIRST, IT HAS AUTHORITY TO DO BUSINESS ABROAD-IN MANY CASES IDENTICAL TO THE NORMAL OPERATIONS OF INTERNATIONAL BANKS BUT GENERALLY BEYOND THE SCOPE OF THE POWER OF U.S. COMMERCIAL BANKS. IT HAS THE ADDITIONAL FLEXIBILITY OF PURCHASING INTERESTS OF OTHER FINANCIAL INSTITUTIONS. ESPECIALLY WHERE BRANCHING ABROAD IS PROHIBITED. MOREOVER, IT HAS THE ABILITY TO PURCHASE EQUITIES OR COMBINE EQUITIES WITH MEDIUM OR LONG TERM FINANCING.

CREDIT PRINCIPLES

BEFORE DESCRIBING SOME OF THE POLICIES GOVERNING THE VARIOUS CORPORATIONS AND IDENTIFYING A FEW OF THE PROJECTS TO WHICH FUNDS HAVE BEEN COMMITTED, LET US REVIEW SOME OF THE BASIC ISSUES OF CREDIT, REGARDED AS ESSENTIAL TO THE EDGE ACT CORPORATIONS WHEN REVIEWING INVESTMENT OPPORTUNITIES. 1) THE FINANCIAL STRENGTH OF THE COMPANY IN WHICH THE INVESTMENT IS TO BE MADE. 2) THE ABILITY OF THE LOCAL MANAGEMENT IN THE FOREIGN COUNTRY. 3) THE POLITICAL RISK OF THE HOST COUNTRY. 4) INVESTMENT GUIDELINES REFLECTING CURRENT BALANCE OF PAYMENTS. 5) THE CHARACTER AND REPUTATION OF THE HOST COUNTRY.

POLICIES

IT SHOULD BE CLEARLY UNDERSTOOD THAT EACH CORPORATION HAS ITS OWN OPERATING GUIDELINES ESTABLISHED TO ASSIST IN EVALUATING INVESTMENT OPPORTUNITIES. ALTHOUGH IT HAS BEEN VIRTUALLY

IMPOSSIBLE TO ISOLATE THE DIFFERENT INVESTMENT POLICIES OF EACH OF THE EXISTING EDGE ACT CORPORATIONS. IT MAY BE HELPFUL TO OUTLINE A FEW OF THE CONSIDERATIONS PROBABLY IN EXISTENCE AT THIS TIME. 1) A CONCENTRATION ON PRODUCTIVE INDUSTRIAL AND MINING ENTERPRISES HAS BEEN ASSERTED AS ONE GUIDELINE. ANOTHER CORPORATION CONFINES ITSELF STRICTLY TO THE TRADITIONAL OUTLETS, NAMELY, BRANCHES AND REPRESENTATIVE OFFICES ABROAD. MANY OF THE CORPORATIONS APPARENTLY ARE FAVORABLY INCLINED TO INVESTMENTS WHICH ARE DESIGNED TO SAVE OR CREATE FOREIGN EXCHANGE FOR THE HOST COUNTRY. ANOTHER LIMITS ITS ACTIVITY TO TERM LENDING, EXPORT FINANCING AND DIRECT INVESTMENT.

THERE IS A GENERAL AVERSION TO INVESTMENTS IN REAL ESTATE AND LENDING TO LUXURY OR SERVICE ORIENTED PROJECTS. IT ALSO APPEARS THAT MOST DISCOURAGE FUNDS BEING MADE AVAILABLE FOR WORKING CAPITAL OR DEBT REFUNDING.

OF PARAMOUNT IMPORTANCE TO MANY OF THE FINANCING TYPE EDGE ACT CORPORATIONS IS AN INSISTENCE ON A LOCAL TECHNICAL PARTNER WITH CONSIDERABLE MANAGERIAL TALENT. MOREOVER, IT APPEARS THAT MOST FINANCING CORPORATIONS DO NOT WISH TO REMAIN A PERMANENT PARTNER IN THE PROJECTS UNDERTAKEN. AS SUCH, A SECONDARY MARKET IS NORMALLY REQUIRED IN ORDER THAT THE EQUITY POSITION TAKEN BY THE EDGE ACT CORPORATION MAY BE LIQUIDATED AT SOME TIME IN THE NEAR FUTURE. IN TURN, PORTFOLIO TURNOVER WITHIN A FIVE YEAR PERIOD IS NOT AN UNCOMMON POLICY OF MANY OF THE FINANCING CORPORATIONS.

COST:

THE COST TO THE "INVESTEES" IS TYPICALLY A COMBINATION OF STRAIGHT INTEREST FOR MEDIUM OR LONG TERM LOANS, AND AN EQUITY "SWEETENER". THE LATTER MAY TAKE VARIOUS FORMS. IT CAN RANGE FROM STRAIGHT SHARES TO BONUS SHARES, INCLUDING SUBSCRIPTION RIGHTS OR WARRANTS AND EVEN AN ACTUAL PERCENTAGE OF PROFITS CAN BE INVOLVED. THE STOCK TAKEN IN THIS MANNER IS GENERALLY ACCEPTED WITH A REPURCHASE AGREEMENT OR A GUARANTEED RESALE PRICE AND RATE OF EXCHANGE.

OTHER SOURCES:

IT WOULD BE UNFAIR TO LEAVE THE IMPRESSION THAT OTHER SOURCES OF CAPITAL DO NOT EXIST OUTSIDE THE UNITED STATES. AS HAS BEEN POINTED OUT PREVIOUSLY, THE EUROPEAN AND BRITISH BANKING SYSTEMS HAVE A LONG HERITAGE OF INTERNATIONAL TRADE FINANCING, AS WELL AS INVOLVEMENT IN DIRECT OVERSEAS INVESTMENT.

THE MERCHANT BANKS, FOR EXAMPLE, LOCATED IN ENGLAND AND THROUGHOUT MUCH OF EUROPE (EXCEPT SCANDINAVIA) HAVE PARTICIPATED IN INVESTMENT FINANCING FOR MANY YEARS.

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THE GENERAL ABSENCE OF LEGAL RESTRICTIONS RELATIVE TO DIRECT INVESTMENT ABROAD HAS NOT REQUIRED A SPECIAL CHANNEL OF EXPORTATION OF CAPITAL TO BE ESTABLISHED, AS HAS BEEN THE CASE IN THE UNITED STATES EXEMPLIFIED BY TODAY'S U.S. EDGE ACT CORPORATIONS.

TRENDS:

FIGURES FROM A STAFF PAPER OF THE INTERNATIONAL MONETARY FUND TAKEN FROM STATISTICS OF 74 REPORTING MEMBER COUNTRIES MAY BE OF INTEREST. EXHIBIT III INDICATES THE RECIPIENTS OF U.S. DIRECT INVESTMENTS, PORTFOLIO INVESTMENT IN NEW ISSUES, AND COMMERCIAL BANK LONG TERM CAPITAL 1957-1961.

EXHIBIT I

EXAMPLES OF EDGE ACT CORPORATIONS

HOLDING TYPES

1. CHASE MANHATTAN OVERSEAS BANKING CORPORATION, SUBSIDIARY OF CHASE MANHATTAN BANK, N.A.
2. CONTINENTAL BANK INTERNATIONAL, SUBSIDIARY OF CONTINENTAL ILLINOIS NATIONAL BANK & TRUST COMPANY OF CHICAGO.
3. CHEMICAL INTERNATIONAL BANKING CORPORATION, SUBSIDIARY OF CHEMICAL BANK NEW YORK TRUST COMPANY.
4. BANK OF AMERICA, NEW YORK, SUBSIDIARY OF BANK OF AMERICA.

FINANCING CORPORATIONS

1. CHASE INTERNATIONAL INVESTMENT CORPORATION, SUBSIDIARY OF CHASE MANHATTAN BANK, N.A.
2. MORGAN GUARANTY INTERNATIONAL FINANCING CORPORATION, SUBSIDIARY OF MORGAN GUARANTY TRUST COMPANY.
3. CONTINENTAL INTERNATIONAL FINANCE CORPORATION, SUBSIDIARY OF CONTINENTAL ILLINOIS NATIONAL BANK & TRUST COMPANY OF CHICAGO.
4. BOSTON OVERSEAS FINANCIAL CORPORATION, A SUBSIDIARY OF THE FIRST NATIONAL BANK OF BOSTON.
5. FIRST NATIONAL CITY OVERSEAS CORPORATION, SUBSIDIARY OF FIRST NATIONAL CITY BANK, NEW YORK.

COMBINATION

COMPANY FOR INVESTING ABROAD, SUBSIDIARY OF FIDELITY PHILADELPHIA TRUST COMPANY.

EXHIBIT II

PROJECT TYPES AND LOCATIONS:

REPORTS OF A RECENT SURVEY OF SOME 219 PROJECTS REVEALED THE FOLLOWING:

1. LOCATIONS

- A. 24% LOCATED IN EUROPE
- B. 23% LOCATED IN ASIA
- C. 30% LOCATED IN LATIN AMERICA
- D. 16% LOCATED IN AFRICA

2. RECIPIENTS

- A. FINANCE COMPANIES - 8%
- B. DEVELOPMENT BANKS - 42%
- C. INDUSTRIAL PROJECTS - 17%
- D. COMMERCIAL BANKS - 18%

3. COMMENTS

- A. 37% OF INVESTMENTS IN INDUSTRIAL PROJECTS AND DEVELOPMENT BANKS ENJOYED THE SUPPORT OF THE INTERNATIONAL FINANCE CORPORATION, THE WORLD BANK SUBSIDIARY.
- B. 86% OF ASIAN PROJECTS WERE IN DEVELOPMENT BANKS AND FINANCE COMPANIES (58% HAD THE SUPPORT OF THE I.F.C.)
- C. 43% OF INVESTMENTS IN LATIN AMERICA WERE DEVELOPMENT BANKS AND 34% WERE IN INDUSTRIAL PROJECTS. (I.F.C. WAS INVOLVED IN 30% OF THE PROJECTS).

4. PROJECT EXAMPLES

- A. NIGERIAN TEXTILE MILL
- B. DEVELOPMENT FINANCE CORPORATION IN THE IVORY COAST
- C. STEEL MILL IN TURKEY
- D. PRIVATE INVESTMENT, IN DEVELOPMENT BANK IN BRAZIL
- E. A JAMAICAN BANK
- F. APPLIANCE AND AUTOMOBILE INSTALLMENT COMPANY IN THE PHILIPPINES

EXHIBIT III

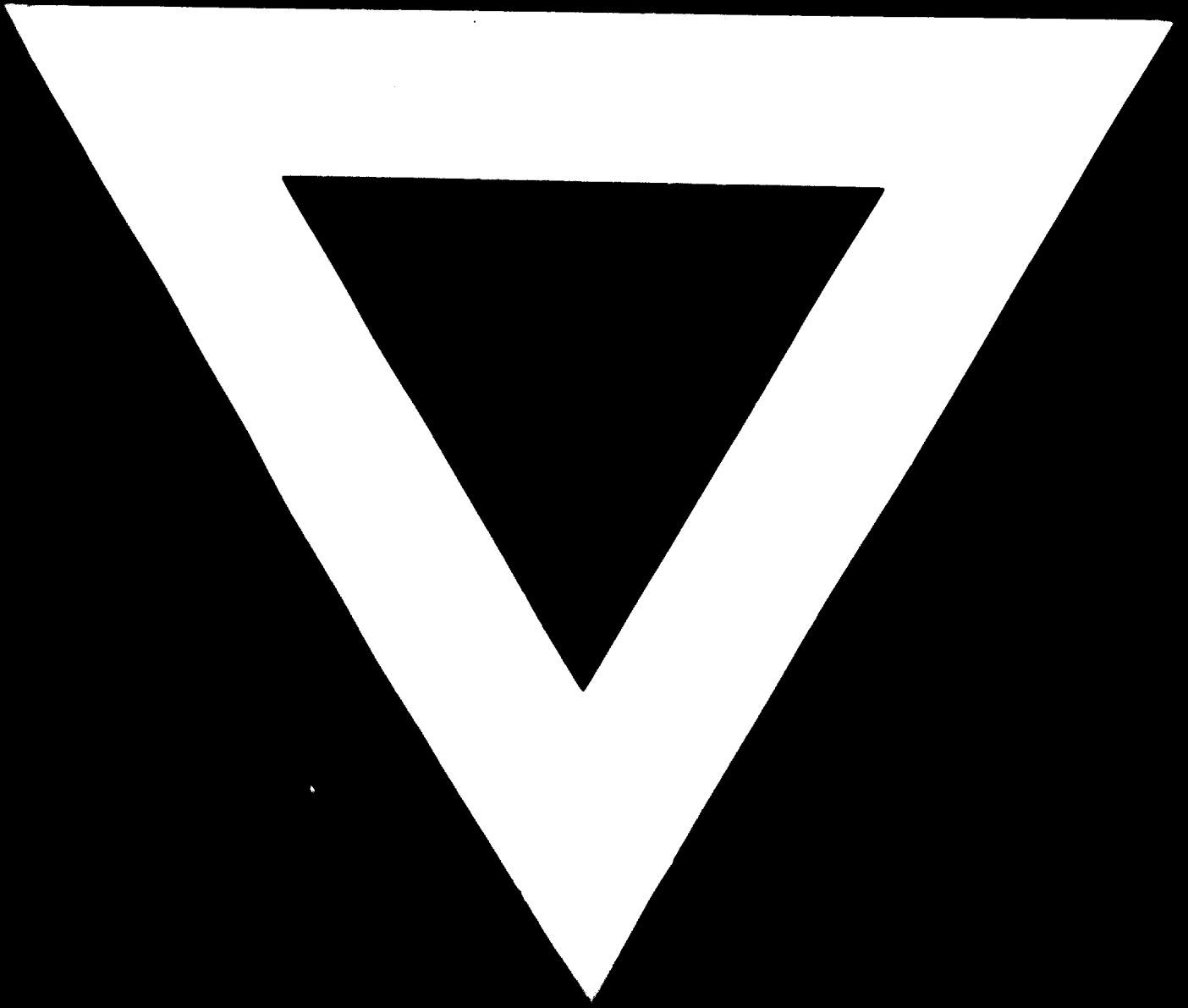
RECIPIENTS OF U.S. DIRECT INVESTMENT, PORTFOLIO INVESTMENT IN NEW ISSUES,
AND COMMERCIAL BANK LONG-TERM CAPITAL, 1957-65

(In millions of U.S. dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
U.S. Direct investment abroad									
Western Europe	580	420	750	1,320	1,060	1,110	1,440	1,780	1,810
United Kingdom	330	170	330	750	320	250	340	380	570
France	50	80	80	100	100	140	200	190	160
Germany	110	80	140	210	170	290	280	290	310
Canada	1,030	700	810	760	570	680	1,000	760	1,440
Japan	20	-	20	20	50	70	100	110	70
Total Industrial	1,630	1,130	1,590	2,110	1,680	1,860	2,540	2,650	3,320
Australia	40	70	90	110	100	140	170	190	210
Latin America	1,550	520	490	430	500	360	420	540	600
Brazil	90	50	70	120	50	80	50	10	80
Mexico	80	10	10	50	170	130	40	130	130
Venezuela	910	190	30	- 90	40	- 160	-	- 20	- 60
All other	590	410	290	290	370	490	350	450	770
Total Industrial	2,180	1,000	870	830	970	990	940	1,180	1,580
Total	3,810	2,130	2,460	2,940	2,650	2,850	3,480	3,830	4,900
U.S. portfolio investment in new foreign issues									
Western Europe	25	45	80	25	55	195	270	35	95
Canada	325	365	435	220	235	455	695	700	710
Japan	-	-	20	15	60	100	165	-	50
Total Industrial	350	410	535	260	350	750	1,130	735	895
Latin America	-	110	10	105	20	100	35	210	35
Other	245	435	80	190	155	225	55	120	15
Total Industrial	245	545	90	295	175	325	100	330	35
Total	595	955	625	555	525	1,075	1,250	1,065	1,250

	1957	1958	1959	1960	1961	1962	1963	1964	1965
U.S. commercial bank long-term claims									
United Kingdom	64	-44	-40	-35	-4	15	13	39	-1
Other Western Europe	66	75	12	35	131	69	475	550	-108
Canada	32	27	-1	-28	-2	30	-14	-17	19
Japan	6	4	3	3	4	51	155	136	15
Total Industrial	168	62	-26	-25	129	165	629	708	-75
Nonindustrial countries	181	90	207	180	7	-38	125	233	306
Total	349	152	181	155	136	127	754	941	231

Source: INTERNATIONAL MONETARY FUND, STAFF PAPERS, Vol. XIV, No. 1, March, 1967 - pgs. 36, 37



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