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FINANCING FOR THE OPERATION OF THE LATIN AMERICAN CAPITAL GOODS INDUSTRY*

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* The views expressed in the document are those of the authors and do not necessarily reflect the views of the Secretariat of UNIDO. Mention of the names of firms and commercial products does not imply endorsement by the United Nations Industrial Development Organization (UNIDO). This document has not been edited.

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I. Introduction

At present, one of the factors that are unquestionably necessary for the recovery and sustained development of the supply of capital goods in Latin America is financing both the production and the marketing of such goods.

The decision to purchase, in a region with scarce financial resources, especially long-term resources, tends to be decided on the basis of the best sales terms, often represented by soft loans tied to particular suppliers or other advantages offered by extra-regional enterprises or consortia.

In this context, it is highly relevant to propose financial alternatives that would enable regional manufacturers first of all to finance their operations, which is not always possible in view of the amounts and delivery periods involved, and, secondly, to offer more competitive sales conditions to local and foreign user enterprises and investors.

On two occasions so far from the time that its preparatory assistance began to the present, namely, in connection with the annual assemblies of ALABIC in 1990 and 1991, the joint ECLAC/UNDP/ALABIC project has called upon specialists in financial matters, representatives of international banking agencies and entrepreneurs to study and discuss proposals for finding a way out of the financing crisis facing the sector.

The present document is a compilation of some of the papers presented during those meetings. First of all, the document reproduces two articles prepared by Mr Hans Schulz, Associate Expert in the Joint ECLAC/UNIDO Industry and Technology Division. Those articles served as a basis for the two meetings. The first, presented in November 1990, refers to instruments for financing the capital goods sector in the Federal Republic of Germany, with a summary evaluation of their adaptability and relevance to the situation in the subsector of capital goods made to order in Latin America. The second, presented in November 1991, pinpoints various alternatives for access to international financial markets by enterprises that have invoiced sales abroad, examining in greater detail the operation of securitization as a form of improving their evaluation in gaining access to international financing.

Finally, this document presents an extract of the paper delivered by Mr Carlos Massad, Deputy Executive Secretary of ECLAC, entitled "The financing of industrial development in an impoverished continent". The part reproduced here presents the argument in favour of establishing a regional development bank constituted by capital from countries in the region.

We believe that the distribution of articles such as those reproduced here makes a substantial contribution to the development of the debate on modern financing alternatives for the subsector in the region, which are a sine qua non for improving its relative position and its overall level of competitiveness.

THE FINANCING OF THE CAPITAL GOODS SECTOR IN THE FEDERAL REPUBLIC OF GERMANY

I. Introduction

From the beginning of the post-war period, the financial infrastructure at the disposal of the capital goods sector in Germany has been closely linked to the financial promotion of exports. Therefore, the majority of the instruments and mechanisms described here are very closely oriented towards external trade.

It should be pointed out that the sustained growth of the capital goods sector is not based on the implementation of financial instruments that are specially intended for capital goods but that financial needs were appropriately served by means of a financial system that was strongly oriented towards the sector for the export not only of capital goods but also of consumer goods and services. This document examines the principal industrial financing mechanisms in the German system with special emphasis on export financing schemes, the aim being to highlight some key elements for the development of the capital goods sector.

On the basis of that analysis, an attempt is made to draw a number of conclusions concerning the adaptability and relevance to the situation in the capital goods sector in Latin America of certain of the solutions analysed.

II. The structure of the financial instruments relevant to the sector

A. Bank guarantees

In foreign trade with Germany, almost all medium- and large-scale transactions involve bank guarantees in one form or another. These generally take the form of a guarantee payable on first demand or independently of the result of a possible lawsuit. They therefore represent the immediate recovery of liquidity for the enterprise. The guarantees may be of a number of basic types.

1. Down payment guarantee

This guarantee is granted to the purchaser (foreign importer) to cover the risk of not recovering a down payment or an advance payment that was made before receipt of the goods purchased. The German bank grants this guarantee on the basis of its knowledge of and confidence in the German producer. The amount of the guarantee is adjusted in proportion to the part shipments made on the established dates.

2. Performance bonds

If the sales contract provides that the purchaser has to make the last payment before the expiration of the supplier's guarantee of the quality of the products purchased, the purchaser can demand an additional bank guarantee for some 10-15 per cent of the value of the purchase. It is a requirement in connection with this guarantee that there be strict regulations regarding evaluation of the financing and of quality, especially in the case of large and complex equipment.

3. Bid bonds

In major international tenders, the investor who issues the invitation to tender frequently demands a bank guarantee of the order of about 5 per cent of the total project value for a period of three to six months in order to ensure the seriousness of the bid and to avoid losses incurred through the evaluation of non-viable bids.

B. Short-term export financing (one to two years)

Financing for a maximum of two years is a typical procedure with durable consumer goods such as television sets, vehicles and various other industrial products. Especially in the case of loans at fixed interest rates, refinancing for periods coinciding with the amortization of the loans is a key factor for banks. Hence, there is strong competition in the interbank market with regard to such short-term resources. It is important to highlight the great importance of the European market for the refinancing of banks and to a growing extent also for large enterprises. There is little regulation of this market, interest rates are determined exclusively by demand and supply, and transactions are not subject to provisions regarding statutory reserves. Consequently, the money is cheaper than in national markets. [1] In the framework of unlimited access to these markets, the bank offers the following financial products to exporters among its customers:

1. Documents against payment

The purchaser undertakes in the contract to make payment immediately on receipt of certain documents (normally, packages that may include letters of credit, transport documents, certificates of origin, insurance certificates, etc.). This transaction is based on

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1 However, these possibilities are limited to transactions involving high amounts and periods up to five years. Other factors also influence refinancing by banks. For that reason, it is not always advisable to use the European markets.

the mutual confidence of the exporter and the importer, who already have a well-developed business relationship. The presentation of the documents, in which two correspondent banks act as intermediaries, can be made immediately after delivery or alternatively 30-60 days later, so as to permit evaluation of the quality of the goods received. This is an easy, rapid and low-cost form of payment, provided always that there are no legal or customs obstacles, etc. in the way of obtaining the agreed documents. German banks advise exporters regarding the documents required in various countries.

2. Letters of credit

These documents, which are widely known and used throughout the world, have been classified both according to criteria of security (revocable/confirmed or not) and also according to payment modes (cash/fixed term/various instalments) or also according as to whether an intermediary is involved (back-to-back). Basically, letters of credit are orders to pay subject to the presentation of certain documents. The normal procedure is that the importer requests his bank to open a letter of credit in the exporter's name with the exporter's bank, authorizing payment on the basis of the presentation of specific delivery documents. The transaction does not require a highly developed commercial relationship or confidence between the exporter and the importer but rather that the two banks involved are correspondents.

3. Bills of exchange

Bills of exchange are the classic instrument for German trade. The instrument has its origin in the documents issued by the first money changers in the thirteenth century. Later, in the fifteenth century, money changers throughout Central Europe held large meetings for the clearance of balances, and the transaction produced an independent and abstract document. Today, the bill of exchange is a promise to pay issued by one enterprise in the name of another, and explicit legislation and specific terminology have existed for that purpose since the year 1603. The function of the instrument is the short-term financing of working capital. It is used as a means of deferred payment. The great advantage is its high degree of transferability: the bill of exchange can be passed through a chain of various enterprises which - by endorsing it - use it as a means of payment for their purchases; it can also be presented to a bank, which can discount it with the Central Bank (in certain cases).

In the context of exports, the exporter's bank buys the bill of exchange at discount before maturity (normally 90 days). In this case, the German bank bears the risk of payment by the foreign importer - an arrangement that obviously does not function with importers who are not well known or are untrustworthy. Therefore, as an alternative, an instrument known as an acceptance credit is used, in which case the importer's bank underwrites the payment risk. That procedure is more acceptable to the German bank when the importer is not well known.

4. Factoring

Factoring is the possibility of selling an account payable to a specialized enterprise or to the branch of a bank (the factor), which immediately pays 80-90 per cent of the total value and assumes the payment risk. This service is widely used in Germany in order to obtain immediate liquidity. The debtor can be informed of the sale of the account payable or not - according as to what is considered expedient in each case.

The use of this instrument in foreign trade is relatively new and requires a relationship of great confidence between the exporter and the importer on the one hand and between the exporter and the bank on the other hand. Furthermore, it is necessary that the importer's country should not have any restrictions on the transfer of foreign exchange and that the factor should have a correspondent in the importer's country for reasons of information regarding credit standing, which is evaluated in each case.

C. Medium- and long-term export financing (more than two years)

Practically no exports of capital goods are financed 100 per cent out of the exporter's or the importer's own resources, in view of the necessary payment periods and amounts involved. The complexity of the transactions, especially in the case of major projects, and the nature of the stages of development of the projects, often involving periods of more than two years, make it essential to provide financing for both the purchaser and the seller. Moreover, with the keen competition prevailing in world markets, sellers win contracts only if their bids include excellent financing arrangements for the purchasers. In this context, a brief summary will be made of the most important elements of medium- and long-term financing of external trade in Germany.

Generally, there are no State interest rate subsidies for refinancing exports in Germany. This fact is a competitive disadvantage, in view of the subsidies available in many other countries; it can be offset only by high technological quality, precise observance of delivery dates and the great efficiency of the financial system.

1. Credit financing

In 1952, a group of commercial banks formed the Ausfuhr-Kreditgesellschaft GmbH (AKA) as a second-tier loan institution for the practical administration of three lines of credit (ceilings A, B and C) especially created for the medium- and long-term financing of foreign trade. While the resources for loan ceilings A and C come from the banks, line B is refinanced out of State resources. Annex 1 highlights the principal conditions under the various lines. In order to guarantee better control of efficiency and the level of risk in using lines A and C, the requesting bank has to refinance a substantial portion (40 per cent) out of its own resources. In the case of exports to developing countries, there are possibilities for using lines A and B in parallel.

Apart from the AKA scheme, there are possibilities for long-term financing both for the exporter and for importers from developing countries through the Kreditanstalt für Wiederaufbau (KFW), a State institution which is refinanced out of resources from the European Recovery Program (ERP). The ERP was created out of contributions by the United States for the reconstruction of Europe in 1949. (The amount assigned to the Federal Republic of Germany was US$ 3.3 billion). A substantial part of those resources (US$ 2.2 billion) remained in the fund for purposes of recycling and formed the basis for a fund that now administers more than DM 13 billion and which - on a cumulative basis - has given rise to credit totalling more than DM 50 billion. Small and medium enterprises and the City of Berlin have been the principal beneficiaries of these relatively cheap resources. Thus, the KFW is of much less importance than the AKA system for the commercial financing of capital goods exports.

2. Credit insurance

The function performed in the United States or Japan by institutions of the EXIM Bank type has been discharged in Germany by the Hermes-Kreditversicherungs AG (Hermes) since 1917. Hermes is a corporation under private law (its principal shareholders are the Münchner Rück and Allianz insurance companies) which administers the Federal State funds that are intended for the promotion of exports (more than DM 200 billion) by means of State guarantees of various credit risks linked to the sale of miscellaneous goods.

In the case of capital goods, the guarantee can cover up to 90 per cent of political risks and up to 85 per cent of economic risks. The total cost of the guarantees varies from case to case, but the capital goods industry, for example, has tables that make it possible to calculate the costs for a quotation rapidly by means of indicative figures. The scheme offers guarantees for particular cases (major transactions) and for overall allocations. The latter operate as guarantee lines to be used on a cumulative and revolving basis for various small transactions. The costs of the overall allocations are much less but access is restricted to maximum periods of two years and destinations outside the OECD countries. The scheme is used for about 9 per cent of total German exports and concentrates on exports to developing countries, where it is more necessary to have an additional guarantee. In practice, Hermes has departments for the analysis of such risks, and in recent years some Latin American countries have been classified as non-insurable owing to problems of external debt. [2]

3. <u>Leasing</u>

The industrial leasing system emerged in Germany in the 1950s and has been used so intensively that in 1980 about 10 per cent of gross fixed capital formation in the private sector was based on leasing contracts. Annex 2 contains a detailed description of this instrument. The leasing sector is in practice divided into two subsectors: on the one hand, the commercial banks concentrate on major items of capital goods, basically offering long-term financial lease type contracts with an option to purchase at the residual value. (See annex 2). On the other hand, manufacturing/marketing enterprises offer operating leases for periods of two to three years with or without the option to purchase, as an instrument for sales support; this facility is very frequently used in leasing vehicles and office equipment. Financial leases for exports have developed in the past 10 years. Since then, leasing contracts have been eligible for financing under the AKA scheme and for State guarantees (Hermes). The strong growth of the sector in recent years is partially due to the development of European financial markets, which make possible almost unlimited combinations of a

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2 Apart from the Hermes system, a number of insurance companies operate in this segment of the market.

financial engineering nature, substantially expanding the utilization of tax and other benefits.

4. Forfaiting

This instrument is based on a document that is unconnected with the commercial transaction and that constitutes a payment obligation (frequently a bill of exchange). A specialized institution, normally affiliated to a bank, buys the document, paying a discounted price (80-90 per cent) in cash to the exporter. Once the document has been paid for, the bank has no possibility of reclaiming from the exporter in the event of difficulties with the debtor. This segment of the market differs from the various mechanisms described earlier as to the maturities (three to six years) and amounts involved (transactions of more than DM 10 million are frequent). The requirements for forfaiting are an excellent credit rating of the importer, conclusion of the export deal and complete documentation.

In the case of maturity periods over one year, semi-annual amortization is agreed. To calculate costs, the exporter can request an indicative quotation before closing the export deal. There is a well-developed forfaiting market today, with an annual volume of some US$ 10 billion and with centres in Switzerland, Germany and the United Kingdom. The currencies used are almost exclusively the United States dollar, the Deutsche Mark and the Swiss franc. The principal advantages of forfaiting for the exporter are the immediate removal of a charge on the balance sheet and access to liquidity without any future obligation.

5. Project financing

Optimization of the financing of major investment projects requires special attention. In response to the complexity of the operations involved, almost all commercial banks have teams of specialists who develop complete financing packages for each particular case. They structure projects on the basis of an analysis of cash flow. The range of elements that can be comprised in these packages includes instruments such as swaps and leasing. Consideration is also given to tax and accountancy aspects in the analysis and to a systematic search for the cheapest and most appropriate resources throughout the national and international financial system.

6. Interbank credit lines

In recent years the German commercial banks have established substantial lines of credit with their financing correspondents abroad. These lines of credit are oriented chiefly towards financing purchasers. The instrument originated in trade with the countries of Eastern Europe. Recently, it has been expanded to include countries as diverse as Cameroon and Thailand and some Latin American countries.

III. Some preliminary conclusions

Obviously, not all the instruments commented on can be transplanted to the economic context of Latin America. For example, there would be little point in proposing the use of a document such as a bill of exchange, whose development was based on the growth of confidence over many centuries. Nevertheless, the description of the operation of the financial infrastructure in Germany is a useful exercise for evaluating the adaptability of certain instruments or mechanisms to the Latin American economies. A prominent feature of the German financial system is its strict orientation towards the systematic promotion of exports (e.g. long-term credit for the purchaser). This approach seems to be highly compatible with the new macroeconomic policies that are directed towards commercial openness and strengthening the exports of the region.

A striking fact with regard to the institutional framework is that State intervention is minimal and is limited to certain refinancing facilities (ceiling B, AKA) and to support for the credit insurance system (Hermes). The key element in the system is the active and innovative role of the commercial bank, which functions as the principal financing agent and completely eliminates the need for a State development bank. That is the result, on the one hand, of the extremely keen competition that exists in the German financial market, which generates permanent incentives for the improvement of services. On the other hand, the development of the European capital markets and the globalization of the German banks strengthen and reinforce their possibilities for operating as intermediaries. In most Latin American countries, the commercial banks are not yet in a position to assume that role. However, it is obvious that the costs of operating as a financial intermediary in Latin America should be systematically reduced through the reduction of inefficiency and the increased competitiveness of the financial sector.

Therefore, Governments and production enterprises in the countries of the region should jointly evaluate the future profile of their financial systems. In that context, it is essential to consider the current situation of the commercial banks and of the State development banks, in order to define the role that is appropriate to the situation in each country.

So far as better attention to the financial problems of the capital goods sector is concerned, it is a secondary consideration whether it is the commercial bank, the State development bank or another institution that assumes the role of the active promoter, always provided that access is gained to:

- Bank guarantee schemes (especially regarding compliance with quality and delivery date requirements in the case of new exporters or products);
- Better circulation of commercial documents;
- International lines of interbank credit;
- New instruments in the European capital markets (making indirect use of the greater possibilities that the commercial banks will have in the process of globalization of their activities).

The German system seems to be attractive because the new macroeconomic policies in Latin America are oriented towards better functioning of markets and towards reducing the role of the State.

Nevertheless, it is for the State to provide an appropriate legal framework that would encourage diversification in banking and competition in the sector; the State should also make available facilities for the refinancing of particular operations.

Finally, the enterprises in the capital goods sector should actively promote the necessary reforms. Furthermore, it is worth while to evaluate the feasibility of setting up appropriate and joint leasing enterprises in particular circumstances. It seems to be especially attractive to exploit the potential offered by joint ventures and coproduction schemes for the indirect expansion of access to the financial infrastructure of foreign associates. This can happen because costs and profits are shared in a joint venture and because the better financial infrastructure of one associate reduces financing costs, producing a shared benefit. This option, strengthened and promoted by the conversion of external debt, is valid both for the enterprises in the sector and also for the commercial banks in the region.

ANNEX 1

Medium- and long-term lines of financing for exports

	Ceiling A	Ceiling B	Ceiling C
Objective:	Refinancing accounts payable with the importer	Refinancing export costs	Refinancing import costs
Beneficiary:	Exporter	Exporter	Importer
Total amount: (billion)	DM 12	DM 5	DM 10
Origin of resources:	Commercial banks	State	Commercial banks (Ceiling A) and mortgage banks (maximum 50%)
Maturity:	Variable (minimum 1 year)	12-40 months	Variable (minimum 1 year)
Maximum amount:	85-90% of the invoice value (down payment)	70% of the invoice value	95% of the invoice value (5% covered by the bank)
Commission:	0.5% per annum	0.1% per annum	
Amortization:	80-85% of export income	100% of export income	Variable
Guarantees:	Transfer of claims for payment under sales contracts; Transfer of other guarantees (Hermes, Federal State)		State guarantee (Hermes)

ANNEX 2

Leasing

I. Basic types of contract

a) Operating leases

Features:

- The initial contract covers a period less than the average useful life of the product and complies with the following equation:

$$CM \quad PC + CF + OC$$

where:
CM = monthly payments
PC = purchase price
CF = cost of financing
OC = other administrative costs (based on present values)

- The contract assigns responsibility for maintenance and technical servicing to the leasing enterprise.

Reasons for selection:

- The lessee needs the product for a period less than its average useful life and/or does not know exactly for how long.
- The lessee requires the product immediately.

(b) Financial leases

Features:

- The initial contract covers all the costs of the operation, i.e. it complies with the following equation:

$$CM \quad PC + CF + OC$$

(abbreviations, see above)

- The lessee selects the supplier and the product and requests the leasing enterprise to purchase the latter;
- The contract can offer the option of purchase at the end of the period at a pre-established residual value;
- The contract can provide for the participation of the lessee in the residual value of the product that arises in

the case of sale to a third party at the end of the initial period.

Reasons for selection:

- The lessee envisages using the product for the whole of its average useful life, but leasing is cheaper to him for various reasons (indebtedness, depreciation, taxes, etc.).

(c) <u>Purchase-lease-back</u>

Characteristics:

- This operation consists of three elements:

  (1) The leasing enterprise purchases a used asset (X) from a production enterprise;
  (2) The leasing enterprise leases the asset X to the production enterprise;
  (3) The production enterprise buys a more modern asset in the market with the proceeds of the sale of X.

Element 2 can take the form of an operating lease or a financial lease.

- In comparison with a simple leasing operation, purchase-lease-back results in a greater disbursement (the difference between the residual value of X and the purchase price of the new asset) and in the replacement of X by the new asset in the lessee's balance sheet.

Reasons for selection:

- To exploit differential rules regarding tax treatment or depreciation of leasing enterprises and production enterprises and/or the differential position of two enterprises with regard to future tax obligations;
- Cash-flow considerations related to future tax obligations.

II. <u>Advantages of the instrument</u>

(a) <u>Advantages to the lessee enterprise (micro)</u>

(1) The high flexibility of the terms of the contract makes it possible to adapt conditions individually to the needs of each enterprise.
(2) Access to a new technology that increases productivity is obtained through monthly payments.

(3) The product leased does not appear on the balance sheet as an asset but on the profit and loss account. The payments made (operating costs) are deductible from tax obligations.

(4) As there is not a major disbursement, the capacity for indebtedness is not utilized. Liquidity is maintained for working capital.

(5) Financing of 100 per cent of the price of the asset is achieved, while maintaining the advantage of paying cash.

(6) The payments cover the costs of taxes, insurance and direct import (import leasing). There are no additional formalities.

(b) <u>Advantages of leasing for the economy (macro)</u>

(1) Explicit strengthening of the development of capital goods and the transfer of technology.

(2) The multiplier effect of operating leases:
The leasing enterprises lease a product several times for two to three years, thus ensuring wider dissemination of technology and strengthening progress in productivity.

(3) The leasing enterprises develop permanent contacts with foreign suppliers, obtain better discounts, and loans from suppliers or other leasing enterprises (leveraged cross-border leasing).

(4) A higher level of development of the financial market, enhancing efficiency in the use of domestic and external resources.

NON-TRADITIONAL INSTRUMENTS FOR ACCESS TO THE INTERNATIONAL CAPITAL MARKET

Without claiming to solve the financial problem of the subsector for the manufacture of capital goods to order, it seems advisable to analyse briefly what type of financial instruments and action could be used by Latin American enterprises at the present time in order to gain access to international resources by means of market solutions at the operational level, based on relations between enterprises.

In the context of a prolonged shortage of national resources, especially long-term resources (with perhaps one or two exceptions in Latin America), it is extremely important that enterprises needing to finance their foreign sales and operations should analyse the possibilities in this direction offered by the international market.

This brief document consists basically of three parts. First, a succinct indication will be given of the existing types of instruments and of the operations that are carried out in order to gain access to the international financial market. Secondly, an analysis will be made of some characteristics of the investors who purchase this type of instrument and the type of considerations that prompt them to decide whether it is worth while to invest in a Latin American enterprise or not. Any enterprise that is considering adopting one of these solutions for the first time should undoubtedly be aware of those considerations in order to adjust its profile vis-à-vis the foreign investor. Finally, in the third part, a somewhat detailed analysis will be made of a non-traditional instrument that may prove to be appropriate for first access to international financing by enterprises that have some export-generated income and that is capable of eliminating the country risk elements so that the enterprise can finally have a better "rating" than the country in which it is operating.

Alternatives for financing in international markets

Basically, there are three sets of instruments, depending on the classification criterion used: debt, capital and "securitization", i.e. an operation supported by financial assets.

Figure 1

INTERNATIONAL FINANCING ALTERNATIVES

DEBT

EUROBONDS
BONDS/PRIVATE PLACEMENT
MEDIUM-TERM US$ NOTES
COMMERCIAL PAPER
CONVERTIBLE BONDS
SUPPLIERS' CREDIT
CROSS-BORDER LEASING (PURCHASE OF EQUIPMENT)
PROJECT FINANCING

CAPITAL

ADR/IDR
- PUBLIC OFFERING
- PRIVATE PLACEMENT (RULE 144A)
- COMMON/PREFERENCE STOCK
- WARRANTS/CONVERTIBLE INSTRUMENTS

SHARES ON LOCAL STOCK EXCHANGES PURCHASED BY FOREIGN INVESTORS (IED; RETURN OF RUNAWAY CAPITAL; INVESTMENT FUNDS)

DEBT-CAPITAL CONVERSION

SECURITIZATION

FUTURE EXPORT RECEIVABLES
EXISTING EXPORT RECEIVABLES
COMMODITIES
PREFERENCE SHARES

In the first set (debt certificates) the range of instruments is fairly wide. Bonds in general and Eurobonds in particular have for some 15 years been placed by Latin American issuers. United States dollar notes and commercial paper have gained in importance in more recent years but are also part of a range of almost traditional instruments. Suppliers' credit has always been available in one form or another, above all backed up by the major export-import banks of the industrialized countries. Cross-border leasing and the international financing of major investment projects are sources that, after an interruption caused by the macroeconomic crises of the 1980s, are resurfacing with great dynamism on the basis of successful stabilization policies. Signs of this can already be observed in countries such as Mexico and Chile.

The ADRs/IDRs (American/International Depositary Receipts) emerged as from 1989. They consist of quasi-stock issues, quoted in New York and on other stock exchanges of industrialized countries and backed up by shares of the issuing enterprises that are listed on the local stock exchange. They can be based on an increased share issue or on a programme in which the ADRs increasingly absorb shares on the national stock exchange.

Merely to give a figure, in the present market the placements that have been made in ADRs in a context of immobility of prices have amounted to approximately US$ 3 billion in the last two and a half years. There is a strong concentration in a small number of enterprises, for instance Teléfonos Mexicanos, but there are nevertheless many medium-sized issues in the US$ 20-50 million range. Macroeconomic stabilization policies have made it possible to regain the confidence of institutional investors, attracting foreign financial investments in the form of the return of runaway capital, foreign investment funds (country funds) and direct investment. This tends to benefit enterprises that are quoted on the stock exchanges of the region and makes "emerging markets" highly attractive. The debt-conversion programmes have been of little importance in the majority of countries owing to their limited scope and have become less and less important in the "post-Brady" era.

"Securitization" is of great importance because it enables an enterprise to gain better access to international financial resources than the country in which it operates. This type of operation will be analysed in detail in the last part of this article.

The types of investors in question are agents or institutions prepared to invest in financial instruments issued by Latin American enterprises, almost always without State guarantees. They are generally the well-known institutional investors throughout the world, such as pension funds, mutual funds, insurance companies - especially life-insurance companies - international mutual funds, which can also originate from the European markets, and the above-mentioned investment funds (country funds) that exist both at the regional and country levels. There are also international private investors who have net assets or resources available. The second part of figure 2 indicates the dimensions of the main world-wide investors and the low relative size of the Latin American securities markets by comparison with the capitalization of the North American stock exchanges, showing that there is no shortage of resources at world level.

For a world institutional investor, any Latin American issue generally represents less than 1 per cent of its portfolio of risk assets. Furthermore, owing to the low presence of Latin America on the United States stock exchanges, there is no danger that, after 10 or 15 issues of Latin American enterprises, the supply of such issues would dry up and that with it the possibility of continuing to launch them would be exhausted. On the contrary, as and when this type of operation is carried out, investors will become accustomed to names of Latin American origin.

Figure 2

DESCRIPTION OF THE PRINCIPAL INVESTORS

INSTITUTIONAL INVESTORS IN THE UNITED STATES, EUROPE AND JAPAN

PENSION FUNDS
MUTUAL FUNDS
INSURANCE COMPANIES
INTERNATIONAL MUTUAL FUNDS
REGIONAL AND COUNTRY INVESTMENT FUNDS

INTERNATIONAL PRIVATE INVESTORS

DIMENSIONS

- THE 20 LARGEST INSTITUTIONAL INVESTORS IN THE WORLD HAVE AT THEIR DISPOSAL TOTAL ASSETS OF US$ 2,625 BILLION
- THE STOCK EXCHANGES OF LATIN AMERICA, TAKEN TOGETHER, REPRESENT LESS THAN 2 PER CENT OF THE CAPITALIZATION OF THE UNITED STATES STOCK EXCHANGES.

What are the considerations that would induce one of these institutional investors to decide to invest in one of these instruments? Basically, the institutional investor evaluates three factors: (a) the country risk; (b) the sectoral risk; (c) the enterprise risk. These three evaluations are not ranked in order of importance. All are of equal consequence. The relative significance of these evaluations varies according to the operation or the instrument package in question.

Figure 3

EVALUATIONS BY INVESTORS

COUNTRY RISK

POLITICAL STABILITY
INFLATION
VOLATILITY OF INTEREST RATES AND EXCHANGE RATES
ECONOMIC REFORMS AND FINANCIAL LIBERALIZATION
THE EXTERNAL DEBT SITUATION
FISCAL AND MONETARY DISCIPLINE
ECONOMIC GROWTH PROSPECTS
MARKET LIQUIDITY
CONTROLS ON INVESTMENT AND THE REPATRIATION OF CAPITAL
TRANSFER OF FOREIGN EXCHANGE
LOCAL ACCOUNTANCY STANDARDS

SECTORAL RISK

STRATEGIC IMPORTANCE OF THE SECTOR
GROWTH PROSPECTS
THE INTERNATIONAL SITUATION OF THE SECTOR
THE COMPETITIVENESS OF THE LOCAL ENVIRONMENT
THE LEVEL OF STATE INTERVENTION AND DEPENDENCE ON THE STATE

ENTERPRISE RISK

STRATEGIC POSITION IN THE MARKET
CASH FLOW, HISTORICAL RECORD OF SALES AND PROFITS
PROVEN RECORD OF MANAGERIAL CAPACITY
LONG-TERM INVESTMENT PLANS
EXPORTS AS A PERCENTAGE OF SALES
INTENDED USE OF RESOURCES
DIVIDEND POLICY

Securitization of operations

Figure 4 shows some of the most important recent operations of Latin American enterprises in the area of securitized issues. There is nothing to prevent securitization of the sale of capital goods to a North American or European purchaser. The relevant data in figure 4 indicate that the market for these operations is growing substantially, at a rate greater than that for bonds or Eurobonds.

Therefore, ALABIC enterprises might have the possibility of access to resources in this market.

Figure 4

SECURITIZED ISSUES
SELECTED RECENT OPERATIONS OF LATIN AMERICAN ENTERPRISES

DATE	NAME	COUNTRY	TYPE OF ASSET	AMOUNT (US$ MILLION)	MATURITY (YEARS)
12/87	TELMEX	MEXICO	TELEPHONE	420.00	5
12/88	TELMEX	MEXICO	TELEPHONE	287.00	5
12/89	TELMEX	MEXICO	TELEPHONE	324.00	5
3/90	CFE	MEXICO	ELECTRICITY	235.00	5
3/90	TELMEX	MEXICO	TELEPHONE	364.00	5
4/90	MEXCOBRE	MEXICO	COPPER	210.00	
4/90	BAN.INT.	MEXICO	CREDIT CARD	34.00	
5/90	BANAMEX	MEXICO	CREDIT CARD	130.20	3
6/90	BANCOMER	MEXICO	CREDIT CARD	228.73	5
12/90	TELMEXD	MEXICO	TELEPHONE	567.50	5
12/90	SIVENSA	VENEZUELA	STEEL	60.00	5½
/90	EMBRATEL	BRAZIL	TELEPHONE	50.00	5

- BONDS ISSUED BY LATIN AMERICAN ENTERPRISES AND ENTITIES IN THE PAST 12 MONTHS: US$ 4.430 BILLION
- APPROXIMATELY 30 PER CENT OF THIS VOLUME IS REPRESENTED BY SECURITIZED OPERATIONS
- THE GLOBAL VOLUME OF THE STRUCTURED FINANCING MARKET: US$ 250 BILLION; ANNUAL GROWTH RATE: 14 PER CENT

Sources: Citibank, Euromoney and Latinfinance

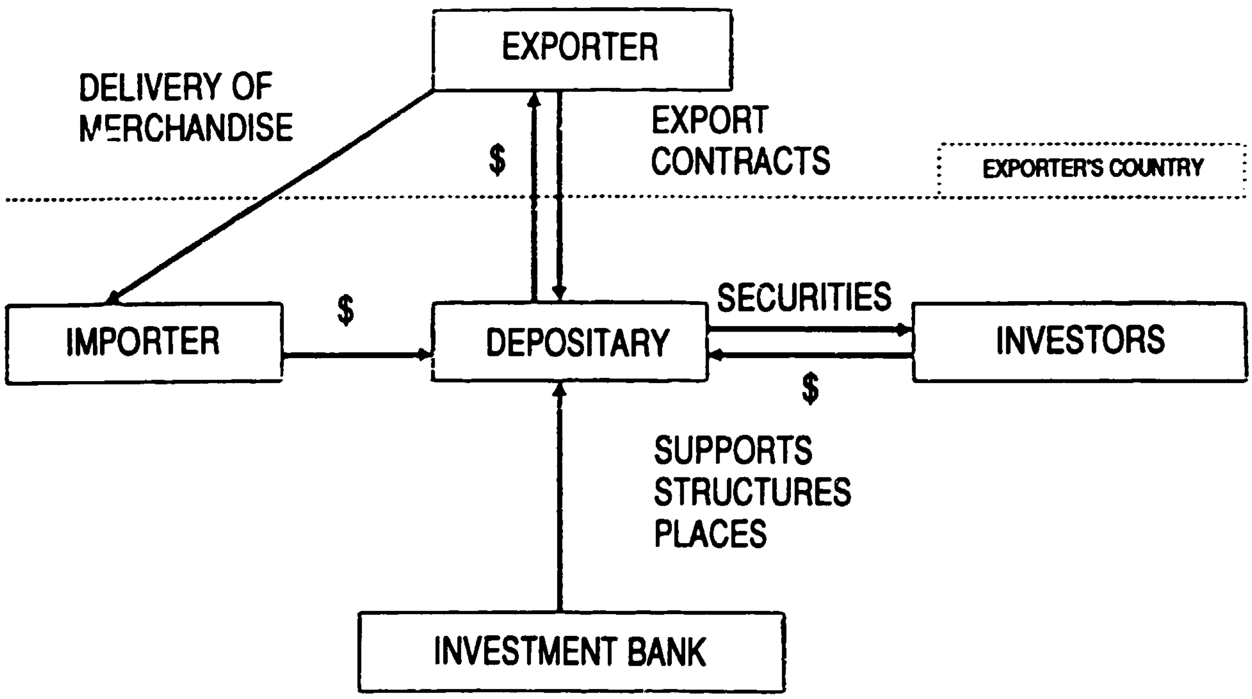
How is this type of operation structured? Figure 5 explains this point. Let us assume that the area above the dotted line is in the exporter's country and that the area below that line is off-shore, i.e. outside the country. A Latin American exporter receives a contract for exporting his merchandise (which could perfectly well be capital goods) to an importer who is at the time, let us assume, in an OECD country and is a "triple-A" customer, i.e. one of the major purchasers of capital goods in the international markets.

What is done is to structure a separate operation, case by case, i.e. adjusted to the specific needs of each transaction by means of counselling on execution between the investment bank and the exporter. The operation also includes a depositary to whom the right to the income from the exports is transferred. These rights are linked to the issue of bonds or securities which automatically confer the first right to such income.

The importer makes direct payment to the depositary, who is located outside the exporter's country. Therefore the country risk

Figure 5

SECURITIZED ASSETS
BASIC STRUCTURE



does not affect this type of operation from the point of view of securities (investor).

The investment bank is very important because this type of operation cannot be performed without it. It takes the technical decision, helps the enterprise to launch into this type of market, supports, underwrites and structures the entire operation, helps the enterprise to approach the investors and finally places the securities. In the example of figure 5, the investment bank does not perform an underwriting function, since a private placement is involved, which has been the commonest case in operations with Latin American issues so far.

The merchandise is delivered direct from the exporter to the importer and at this stage trading support is a fundamental necessity.

From the point of view of the international investor, the delivery risk is the only risk that is directly linked to the exporter. Before becoming involved with any exporter, the importer should evaluate the former's delivery capacity very carefully; as in this case the importer is an enterprise with a "triple-A" rating in the OECD market, his evaluation has high credibility. Therefore, the delivery risk is a risk that the investors take, knowing that the importer has already evaluated it and has considered it to be acceptable. A case may, however, arise that is relatively frequent in the framework of regional integration, namely, that Latin American enterprises sell capital goods to other Latin American enterprises. Obviously, in this case the importer's risk has another function; it is much more substantial and can even prevent the structuring of this type of operation, which is not of the off-shore type but is one in which the importer also belongs to a country in which the risk is great. In this case, it is necessary to consider another type of credit support that helps to improve the credit standing of the importer. What is shown in figure 6 is a structure that, it seems, has not yet been put into practice, though it would be possible. It has been included so as to show that every operation is distinct and separate and can therefore admit of different financing solutions. These patterns are not rigid, that is to say that they can vary substantially.

From the figure we see other possibilities for supporting the dependability of these operations, that is to say that some elements of credit support can be combined so that investments can be more reliable.

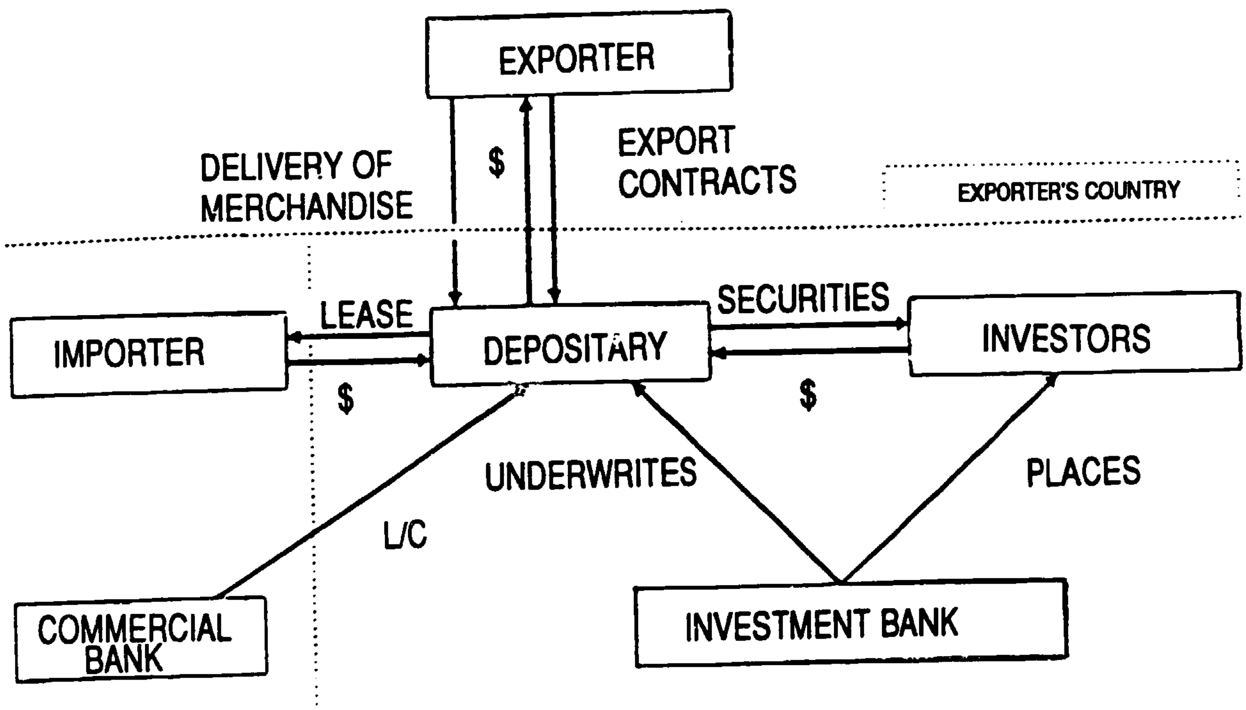
The difference between this case and the earlier example is that the importer can assume the existence of a very good enterprise that is operating in one of those Latin American countries that already have access to international credit markets. Let us assume that it is an enterprise such as PDVSA or a large-scale purchaser of capital goods located in Mexico, Chile, possibly Venezuela and perhaps Colombia or Argentina, which are the countries in which the country-risk is acceptable and is tending to improve and in which local enterprises have already carried out international operations. An additional factor that could reduce the importer's risk is that the merchandise be delivered direct to the depositary. The depositary purchases the goods and leases them to the importer. The effect of this additional financing element is that the right of ownership of the goods sold remains in the off-shore area, that is to say in the field of the depositary, and does not remain either in the field of the importer or in the Latin American region. A further element is a letter of credit issued by a commercial bank that has good credit standing, possibly an international North American, European, Japanese or even Latin American bank that has a good international reputation. This provides the credit support that makes it possible that the importer need not always be a "triple-A" OECD enterprise. And thus, successively, as conditions in Latin America improve, consideration can be given to adding other credit support elements that will help to ensure that more and more Latin American purchasers can operate as importers under this type of system.

Other types of credit support are shown in transparency 9. All the elements mentioned here have been used at least on one occasion, but normally they are not all combined in one and the same operation. The idea of credit support is that of security cushions that increase the reliability of the financial instrument issued.

One way of facilitating the provision of the credit support mentioned is by raising the ratio of goods with regard to the issue of bonds. For example, it is possible to transfer the right to US$ 100 million out of the general revenue generated by three years of imports and to issue bonds for US$ 80 million on that basis. Then there is a reserve of US$ 20 million. This reserve increases the reliability of the instrument since a temporary delay in the receipt of revenue generated by exports does not cause immediate problems with regard to timely interest and redemption payments on the nominal value.

Figure 6

SECURITIZED ASSETS
BK PLACED WITH LEASING
(PRIVATE PLACEMENT)



In securitized operations related to credit card assets, a positive differential is established between the rate of interest and the return on assets. If the return on assets falls, an automatic mechanism comes into operation to accelerate the redemption of the bonds or to assign additional amounts of assets. Partial or total bank guarantees, insurance policies or bonds (coupon use) can also be provided in order to increase the reliability of the instruments even more. It seems to be clear that these operations are logically difficult to structure and thus involve high costs. The principal cost elements are indicated in figure 7. The commissions of the investment bank correspond to the latter's fundamental function above all for enterprises that have never had access to international markets, that are approaching them for the first time and thus need counselling for several months in order to be able to adjust their accountancy to their strategy. Every credit support also has its cost, though it makes it possible to obtain a better rating and in the long run to reduce the level of the other commissions.

The total cost of each operation can approximate to 5 per cent of its amount. Other cost elements are related to printing and further processing, the adaptation of accountancy practice to the Generally Accepted Accounting Principles (GAAP) standards, and to legal fees. To commit future revenue obviously also entails the opportunity cost of reducing the financial flexibility of the enterprise.

Taking into account these costs, it is possible to sum up the principal benefits of "securitized" operations.

Figure 7

COSTS AND BENEFITS OF SECURITIZATION

COSTS

- COMMISSIONS FOR
  - INVESTMENT BANK (COUNSELLING, STRUCTURING, MARKETING)
  - SUBSCRIPTION (PUBLIC TENDER)
  - PLACEMENT
  - REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) (EXCEPT IN THE CASE OF CERTAIN PRIVATE PLACEMENTS)
  - RISK CLASSIFICATION AGENCY
  - DEPOSITARY
- CREDIT SUPPORT
- PRINTING AND FURTHER PROCESSING
- ACCOUNTANCY (GAAP STANDARDS)
- LEGAL
- REDUCES FINANCIAL FLEXIBILITY

BENEFITS

- THE COUNTRY RISK IS ELIMINATED (ONLY DELIVERY RISK)
- CREDIT SUPPORT MAKES IT POSSIBLE TO OBTAIN A BETTER RATING AND TO REDUCE COSTS
- A NEW SOURCE OF REVENUE UNDER COMPETITIVE CONDITIONS (DIRECT ACCESS TO SOPHISTICATED INVESTORS)
- IT BECOMES POSSIBLE TO REDUCE THE "NEW NAME" PREMIUM IN DIRECT INTERNATIONAL ACCESS
- PROTECTION AGAINST FLUCTUATIONS IN INTEREST RATES
- DIVERSIFICATION OF INVESTMENTS BY INVESTORS

Ruling out the country risk as far as possible is still essential in many parts of the continent. The elements of credit support also make it possible to improve the rating up to international standards at an access cost which has been partially compensated for by reductions in the premium of the spread. Then a new reservoir of resources is opened up on very competitive conditions, which makes possible systematic reduction of financial obstacles because a name becomes increasingly familiar internationally. A certain level of protection of interest rates results from the fact that the financing obtained and the purchaser's payments, which appropriately reflect these fluctuations, automatically cancel each other out. Finally, it can be stressed that the flow of resources is transferred completely to agents who are specialized in the provision of resources as intermediaries, raising their operational efficiency and making possible higher levels of diversification for institutional investors.

If and as these operations are repeated, the next issues can be made at a lower cost and with a name that is already established, so that the cost of access to such operations is progressively reduced.

It is clear that there is a cost to be paid for each of these operations and that there is no way to avoid such costs. However, there may be complementarity with regard to counselling needs and there may possibly be some support from the multinational bank along these lines.

THE FINANCING OF INDUSTRIAL DEVELOPMENT IN AN IMPOVERISHED CONTINENT: SOME CONSIDERATIONS FOR THE ESTABLISHMENT OF A REGIONAL BANK

(Extract from a conference paper)

In general, the production capacity of a country or a region increases for three reasons:

- Population growth;
- Greater productivity;
- Greater investment.

Let us consider what happened to savings and investment in Latin America during the 1980s.

Savings grew from about 23 per cent to nearly 25 per cent. The second line, which represents investment, displayed a violent decline from 24 per cent of GDP in 1980 to less than 16 per cent in 1983 and remained at that low level thereafter. Savings did not fall, but investment did.

With investment rates at that level, no-one can be astonished that regional production should have stagnated. But why, if savings increased, did investment fall?

The first explanation of the divergence between savings and investment that comes to mind is the external debt. Part of the savings had to be transferred abroad to service the external debt.

That is correct, but it explains only half of the problem. The other half of the decrease was due to deterioration in the terms of trade.

Of the difference of somewhat more than 8 points between the rates of savings and investment, the drain of resources to repay the external debt accounted for 4 points while deterioration in the terms of trade explained the remaining 4 points.

That is to say that the phase in the terms of trade which was so unfavourable in the 1980s explains half (4 points) of the difference between savings and investment; the other half was attributable to debt service.

If we desire growth at the rate of 5 per cent per annum (about 3 per cent per capita) we need to invest more or less 25 per cent of the national product. The fact that we are investing about 17 per cent means that we have to raise the investment rate by 8 points.

In round figures, the Latin American product amounts to one thousand billion dollars. Investment must rise to this order of magnitude to permit an increase to 5 per cent per annum. And, of course, that proportion must be maintained.

Where can the resources be obtained?

Renegotiation of the external debt can make some contribution. If we succeed in alleviating the problem of debt so as to reduce the transfer of resources to zero, we could raise something like US$ 28-30 billion to cover part of our debt of US$ 80 billion. That is to say that about one-third of the problem would be solved in the area of the debt by reducing the flow abroad to zero. By winning such a difficult battle, we should scarcely have reduced the necessary effort by one-third.

If we could restore the average historical level of the terms of trade we could cover approximately one-third more. However, we should still be left with one-third unsolved.

The structure of this serious overall situation is repeated country by country. In other words it is not the case that all the countries are in a bad situation and that some of them are not.

How can the situation be dealt with? I shall refer broadly to three areas for manoeuvre:

1. Efficiency in the use of available resources;
2. The increase of domestic savings;
3. Cooperation formulas with multiplier capacity.

Let us explore the three areas but let us not fail to state at the outset that the first lesson of experience is that without appropriate macroeconomic balances there is no way out of the problem. A country that suffers repeated difficulties in macroeconomic balances will be condemned to move between hope and despair, which leads only to instability and collapse. Henceforth, although I shall not return to the point, I shall take it as understood that my remarks presuppose action within a framework of reasonable though not perfect macroeconomic balances.

Efficiency in the use of resources: Here there are two major areas for work.

The first is the financial system and the form in which investment resources are allocated by means of that system.

It strikes one that in the Latin American countries the debt (the total of the internal and external debt) is 50-60 per cent of the product in the most favourable cases and exceeds the level of the product by 20, 30 and even 50 per cent in the most unfavourable cases.

That means that any change in the interest rate has a tremendous effect on the economy. That not only makes credit more expensive - or cheaper - but also produces transfers of capital between debtors and creditors.

It is a well-known fact that the difference between the rate that is paid on savings and that which is charged on loans in our countries is far greater than in developed countries. In Latin America it is not unusual to find differences of 5 and up to 15 per cent or more between the two rates.

This difference reflects two things: economic policies and the efficiency of the financial system. The principal element in economic policy is the ratio of reserves to deposits that the banks must maintain. Normally this is non-remunerative and therefore increases the costs incurred by the financial institutions for the management of their operations. The remainder of the difference noted consists essentially of the operating costs of the banks, including the costs of the provisions that they have to make in order to maintain the quality of their credit portfolio.

However, in a country in which the debt is equivalent to the national product, if we reduce the spread (i.e. the difference between the two rates) by 1 per cent we increase the product by the same extent.

As we have estimated that the difference between savings and investment that is not attributable to the external debt is 4 points, this change in the spread is equivalent to 25 per cent of the difference. In other words, the efficiency with which the financial system manages its business is absolutely crucial for contributing at no cost to solving the financing problem. This is a subject which all too often does not receive due attention. Improving the efficiency of the financial system can make a major contribution towards solving the problem before us.

In the developed countries, the differences between the annual credit and debit rates do not exceed about 2 to 4 percentage points. There are exceptional cases in which the difference is even lower.

We must strive to promote the internal efficiency of the financial systems with regard to operating costs, personnel management, the costs of moving papers, working systems, and also, obviously, portfolio quality requirements.

A second important element within the financial system is the assignment of credit resources. The assignment of resources within the financial system and between alternative projects must be strict, obey demanding criteria and be independent.

It should be remembered that, if credit in a country represents something like 100 per cent of the product and if we succeed in using those resources more efficiently, we are making a substantial contribution towards solving the financial problem. The decision how to assign credit is consequently critical.

The objective is to improve the efficiency not only of new resources but also of those already accumulated in the economic system.

The authorities that supervise the banking system should ensure that project evaluation systems are clear, technically based and independent.

The other point that I mentioned refers to efficiency in the use of State resources. Here also, there is much to be gained. In many countries there has been great progress in the evaluation of State projects. That progress must be sustained and intensified because it produces clear and important effects on the economy.

The increase of domestic savings

I propose that we exchange ideas on this subject with reference to new sources of savings.

In ECLAC we have made careful studies, country by country, to try to determine what savings depend on. The first conclusion, which is generally valid for the twelve Latin American countries with which we have worked, is that increases in interest rates do not help savings and that, when these increases are very high, they damage rather than help savings.

The reason is that the quantitatively most important form of savings in our countries is savings by enterprises - and the interest rate is a cost to the enterprises. What the enterprise observes is that, when interest rates rise, their options for favourable investment decrease, and it is consequently less attractive to them to save resources. The great stimulus for savings is the existence of profitable investment alternatives to which the enterprise will wish to gain access. As a high interest rate negatively affects the profitability of investments, it affects savings in the same way.

Within certain limits, the interest rate is important: for a better allocation of resources, in order to prevent resources from leaving the country. If these limits are exceeded, the crisis is compounded by distrust and there is a flight of resources.

Recognition of this fact means that the recommendation for stimulating savings that is found in textbooks, namely, to raise interest rates, ceases to be fully valid and must be replaced by combined fiscal and private action. Fiscal because, for example, incentives for the reinvestment of profits perform this function.

However, to be realistic, incentives of this type are meaningful only if taxes are paid. When the fiscal system does not function, the incentives become a dead letter.

Furthermore, an inefficient fiscal system generates great insecurity because it is not known whether draconian corrective measures will be taken later.

It seems to me that it is in the interests of all that efficient fiscal systems be established, incorporating appropriate incentives. This is a long-term goal that must be approached from this point of view.

The other major reservoir of resources is State savings. Today I shall not mention the desirability that current State expenditure should not exceed certain limits but shall instead deal with the concrete experience of some of our countries, including Chile, regarding the effects of appropriate targeting of social security expenditure. By means of this approach, it is possible to achieve equal effects at lower cost and to reach directly those whom it is desired to benefit.

To target social security expenditure, to eliminate across-the-board subsidies, to make better use of precisely directed instruments, means seeking to achieve appropriate social objectives, while at the same time freeing resources. It is possible to achieve certain State objectives by using less resources. Methods for this purpose have been successfully used in our own region.

The third subject that I wish to touch on with regard to tapping resources is savings by families.

Our investigations show that the volume of resources of this origin is very low, but with one great exception, namely institutionalized saving. Saving for house-purchase, for education, for a future pension can reach high levels.

I shall give an example.

A pension reform was carried out in Chile. Previously, the Chilean pension system operated on the basis of various funds to which the workers, the enterprises and the State contributed. Each group had its own fund, whose resources were invested badly. Pensions were linked not to contributions paid but to earnings. The result was a source of revenue for the State, a large part of which was used for current expenditure.

The system has been replaced by another under which management enterprises have been set up that receive pension contributions, setting up individual funds that will be the basis for the future pensions. In a country with a young population, the result is the accumulation of a very large volume of resources. In Chile today, the institutions that receive these funds handle a volume of resources that is equivalent to about 40 per cent of the national product. When the system comes into force, the accumulated funds will be very similar in amount to the national product.

These resources must be invested, since they must generate pensions. A beginning was made with treasury bonds and debt certificates of some enterprises (preferential securities). Little by little there was a transition to direct investment in stocks.

Returning to the magnitude of resources, it can be estimated that the prevailing system will manage about one-third of the national capital, which means a higher proportion (about one-half) of the capital available for use. This is not only an opportunity but also a problem, because, as the number of enterprises is small, there is a high degree of concentration; if very high levels were reached, that would be politically intolerable, so that the system would have to be changed.

However, there are various ways in which the serious problem of concentration can be solved: through the participation of the contributors themselves in the system, through good supervision, through the issue of stock conferring a limited capacity of intervention in the management of the enterprises, and so on.

The immediate position is that an enormous volume of resources has been generated; that has permitted a great development of the capital market in Chile, which is today one of the most advanced in the region in terms of instruments and machinery. This has been a great stimulus for sophistication in the capital market, which has made it possible to increase efficiency. That is to say that the system has not only generated resources but has also improved the efficiency of the financial system.

It is also necessary to consider how to continue managing these expanding resources. A possible reply is investment abroad, which partly alleviates the problem of concentration. But our countries have reverential dread of investment abroad, which is the result of long-standing foreign exchange restrictions and of the natural reluctance to use scarce national resources elsewhere.

The question of mixed investments should be raised. If we manage to conclude agreements that facilitate such investments, we would succeed in diversifying the portfolio of investments and in diminishing the political problem that derives from concentration, without reducing the volume of resources available in each of the countries.

That does not require complex integrationist agreements because we already accept foreign investments and we have legislation for that purpose.

The point seems to me to be especially relevant for enterprises that produce capital goods. By means of mixed investments it would be possible to gain access throughout the entire regional ambit to the opportunities of the privatization process and to gain influence on those economic agents who will in future purchase capital goods. The best formula for integration is to participate in the joint ownership of enterprises.

If a group of countries were to adopt a pension system similar to that in force in Chile, it would not only ensure a good pension system but would also contribute to generating an enormous volume of resources that the region as a whole could apply to the financing of development, if, by opening a new window, mixed investments were to be considered.

Cooperation and integration with multiplier capacity

To facilitate mixed investments it is necessary to achieve improvement with regard to some marginal and some more substantive but not difficult aspects such as an insurance system similar to OPIC.

In our institutional financial system we already have an investment bank (IDB), a financing corporation (ICC), which is a subsidiary of IDB, an export bank (BLADEX), a development corporation (ADC of the Andean countries), but curiously we have no commercial bank that could operate with multinational capital from several countries in the region. Many national banks already have branches in other countries, but this does not diminish the risk - it spreads it. If there is a conflict, as happened in the Malvinas, the national banks are totally vulnerable; the same applies with regard to a debt problem.

A bank formed by several countries in the region, a bank that combines capital from different countries, is less vulnerable and can accordingly multiply its resources by a greater proportion.

Latin American reserves, valuing gold at market prices, are at present of the order of US$ 35 billion. If about 3 per cent of the reserves were allocated to providing capital for a bank, we should have US$ 1 billion. With good management, this figure could increase by a minimum of 10 times and probably by as much as 14 or 20 times.

Such a bank could help us, among many other things, to moderate exchange rate fluctuations. If a major bank operating in international markets can be active in the field of sales and purchase foreign exchange futures for the countries as a whole, it reduces costs, and a market guarantee is established to overcome sudden variations in exchange rates.

A purely Latin American bank has a certain degree of vulnerability that need not be greater than that of a bank of equal size in the United States but would indeed obviously be less than that of a national bank in the region.

I shall cease now this turmoil of ideas because, though in my opening remarks this morning I stressed the quality of boldness, I fear that I have made excessive use of it today. Thank you very much for your attention.