ESSAYS IN INTERNATIONAL FINANCE

No. 52, April 1966

PUBLIC FOREIGN CAPITAL FOR PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

RAYMOND F. MIKESELL

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
Princeton, New Jersey

This is the fifty-second in the series ESSAYS IN INTERNATIONAL FINANCE *published from time to time by the International Finance Section of the Department of Economics in Princeton University.*

The author, Raymond F. Mikesell, is W. E. Miner Professor of Economics and Associate Director of the Institute of International Studies and Overseas Administration at the University of Oregon. He has frequently served as a consultant to various United States and international organizations, both public and private. Not only is he a prolific writer of books and articles in the field of international economics, but he has been a frequent contributor to the publications of the International Finance Section.

The Section sponsors the essays in this series but takes no further responsibility for the opinions expressed in them. The writers are free to develop their topics as they will. Their ideas may or may not be shared by the editorial committee of the Section or the members of the Department.

FRITZ MACHLUP, *Director*
International Finance Section

ESSAYS IN INTERNATIONAL FINANCE

No. 52, April 1966

PUBLIC FOREIGN CAPITAL FOR PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

RAYMOND F. MIKESELL

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
Princeton, New Jersey

Copyright © 1966, by International Finance Section
Department of Economics
Princeton University
L.C. Card 66-19016

Printed in the United States of America by Princeton University Press
at Princeton, New Jersey

PUBLIC FOREIGN CAPITAL FOR PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES

Although the private sector employs most of the labor and capital and is responsible for the largest share of the output in developing countries, the vast bulk of foreign economic aid to these countries has gone to the public sector. There are a number of obvious reasons for this, including the fact that most of the economic-overhead facilities—such as power, transportation, and communications, etc.—are owned and controlled by the state in developing countries, and that traditionally most international-loan capital, whether private or public, has financed these activities. Foreign assistance for social-overhead projects—such as health, education, sanitation, rural improvement, low-cost housing, etc.—must by its very nature be extended to governments or quasi-public institutions. In addition, many external loans, however they may be labeled, are for the purpose of supplementing the foreign-exchange resources of the borrowing country, resources which are under the control of governments or central banks.

Foreign financing for industry and resource development, including plantation-type agriculture, has traditionally been provided in the form of direct private foreign investment. While foreign-aid institutions have sought by a variety of means to encourage direct private foreign investment, there remains a vast area of private domestic industry and agriculture in developing countries that has received relatively little financial assistance from foreign sources. This fact has been of growing concern to national and multinational foreign-assistance agencies, and the governments that support them, for two reasons. First, there is a feeling that the present allocation of external assistance may be influencing developing countries in the direction of a greater degree of public ownership and control; in fact, a major critic of foreign aid, Professor Milton Friedman, has argued that external-assistance agencies are driving countries toward socialism. More significant, however, is the fact that the private sectors of many developing economies are lagging or stagnating. Not only are private industry and agriculture the most important sectors in terms of aggregate output, but they constitute the principal engine for growth.

Foreign assistance directed specifically to the private sector must be considered in the context of the purposes and types of foreign development aid generally. Current foreign-aid doctrine envisages the functions of assistance to developing countries in terms of relieving or eliminating three types of limitations on economic growth: namely, (1) the skill and management limitation; (2) the savings limitation; and (3) the foreign-exchange limitation.[1] The skill and management limitation covers all of those factors which limit the capacity of a country to employ capital productively, including not only the shortage of skilled workers and experienced managers, but various institutional constraints on the planning and formulation of investment projects and their execution and efficient operation for increasing the social product. This limitation is sometimes referred to as "capital-absorptive capacity," although this term has been defined in several ways.[2] The savings limitation refers to the insufficiency of domestic savings to finance the volume of investment consistent with a given target rate of growth of which the country is capable—that is, allowing for skill, management, or institutional constraints. However, even if there are potential savings to finance the desired volume of investment, a country may lack the foreign exchange needed for the import components of the required volume of investment.

Foreign aid is employed for dealing with all three of these constraints to productive investment, and all three types of limitations apply to both the public and the private sectors of developing economies. Broadly speaking, foreign-development aid takes three basic forms: (1) technical assistance; (2) project loans (or grants); and (3) program loans, which are loans for financing the importation of a broad list of commodities and services without restriction as to the end uses to which these goods and services may be put. Technical assistance tends to deal with the skill and management constraints on productive investment common to both the private and the public sector. However, technical assistance may be employed for encouraging savings—as in the case of assistance for the creation of savings-and-loan institutions and the improvement of capital markets—or it may be directed to expanding the

[1] See Hollis B. Chenery and Allen M. Strout, *Foreign Assistance and Economic Development*, AID Discussion Paper No. 7 (Washington, D.C.: Office of Program Coordination, AID, June 1965). See also Ronald I. McKinnon, "Foreign Exchange Constraints in Economic Development and Efficient Aid Allocation," *Economic Journal*, Vol. LXXIV (June 1964), pp. 388-409; and John C. H. Fei and Douglas S. Paauw, "Foreign Assistance and Self-Help: A Reappraisal of Development Finance," *Review of Economics and Statistics*, Vol. XLVII (August 1965), pp. 251-267.

[2] See John H. Adler, *Absorptive Capacity: The Concept and Its Determinants* (Washington, D.C.: The Brookings Institution, 1965).

production of export goods or to the marketing of exports—as a means of relieving the foreign-exchange constraint. In practice, technical assistance is frequently packaged with financial assistance.

Project loans, such as those for the financing of a highway in the public sector or a chemical plant in the private sector, serve both to supplement domestic savings and to provide foreign exchange for the import components of the project. Finally, program loans also may supplement savings, but to a considerable degree this form of aid is made available for relieving the foreign-exchange constraint. In practice, it is frequently difficult to differentiate program loans in support of economic development from balance-of-payments assistance such as that provided by the International Monetary Fund, although officials of the Agency for International Development (AID) insist that there is a difference. An adequate consideration of the rationale for these categories of assistance in relation to the three types of limitations on growth is beyond the scope of this essay. My purpose is to discuss foreign assistance to the private sector in the context of this general approach to foreign aid.

Much of the technical assistance supplied by foreign agencies to developing countries is either concerned with education, health, and other human-resource investments that contribute to productivity and capital-absorptive capacity in both the public and the private sectors, or is of direct benefit to private industry and agriculture. Probably the most important technical assistance is that which accompanies direct private foreign investment, and, while maximum encouragement should be given to such investment, the limitations on its flow are well known. There are also serious limitations on the ability of foreign-aid agencies to stimulate and provide technical advice to private industry and agriculture in developing countries. To be effective, such programs must be formulated in cooperation with local governments. They usually involve assisting governments to develop their own programs in the form of industrial-productivity centers, centers for agricultural research and demonstration, specialized credit institutions for small industries and farms, and so forth. Undoubtedly, more could be accomplished in this field by cooperative efforts of local government and foreign agencies, but there are tolerance limits and an absorptive-capacity limit on foreign technical personnel in developing countries, even if there were no supply constraints on this type of assistance. However, our principal concern in this essay is with the allocation of foreign capital to the private sector of developing economies as a means of dealing with both the savings and the foreign-exchange limitations on growth.

THE CASE FOR CHANNELING PUBLIC FOREIGN CAPITAL TO THE PRIVATE SECTOR

If there exists a proper allocation of capital between the public sector on the one hand, and various branches of industry, agriculture, and distribution in the private sector on the other, as determined or influenced by governmental policies and measures affecting the flow of credit, is there any need for foreign-assistance agencies to adopt special measures for channeling a larger proportion of their largess to the private sector? If foreign-assistance agencies, such as the World Bank, are partial to power and transportation projects usually found in the public sector of developing economies, should not their willingness to lend for these purposes release savings or foreign exchange for use by the private sector of the economy? Likewise, if developing countries receive program loans from foreign-assistance agencies, perhaps mainly as a means of supplementing their import capacity in order to sustain a higher level of investment, will not the foreign-exchange resources be allocated in a rational manner for maximum investment and output in all sectors of the economy, as dictated by the country's development plan?

If the answer to these questions is that developing countries do allocate their domestic and foreign financial resources in an optimal manner, then it makes little difference where and in what form external capital or foreign exchange is injected into the economy. However, developing countries have not employed policy instruments in a way which would achieve a rational allocation of scarce resources—which is one of the reasons why they are underdeveloped—and foreign-assistance agencies operate on the assumption that they have a responsibility for influencing the allocation of resources, both their own and the total investment resources available to the countries they are assisting. If this were not so, foreign-aid agencies could limit their activities to making general budget-support or balance-of-payments loans or grants to developing countries without concern regarding their end use, except possibly for reviewing overall development plans and general monetary and fiscal policies.

Foreign-assistance agencies seek to identify and alleviate specific limitations on growth by distributing their financial assistance among alternative uses, as well as by influencing the overall development policies of the aid recipients. These development-assistance activities, rather than simply the provision of a certain volume of foreign capital, are the most important contributions to growth made by public foreign-lending agencies. Contrary to the assumptions frequently made or implied by development theorists, there is no predictable relationship between the amount of foreign capital a developing country receives and its rate of

growth. Much more important is how wisely the country employs its total resources.

The case for channeling a larger proportion of external public funds into the private sector of developing economies depends in part upon whether the principal limitation on the growth of private industry and agriculture is to be found in a shortage of capital and of borrowing facilities available to the private sector, or whether government policies together with the social and economic structure make for a low level of investment demand. But even admitting the existence of a low level of effective demand, it is possible to devise and support institutions that will increase both the demand for and supply of capital in the private sector, just as foreign-assistance agencies have contrived with considerable success to expand the demand for funds in the public sector by helping governments to plan and to formulate projects suitable for external financing. Nevertheless, it is far easier to supply money and plans and technicians for large projects in the public sector (or simply make balance-of-payments loans) than it is to inject capital for productive uses into the private sector. There is, indeed, a real question as to just how much external agencies can do in this field beyond supplementing the efforts of national governments, since the successful activation of the private sector may depend upon a transformation of the whole social and economic fabric of the country.

MEANS OF CHANNELING FOREIGN CAPITAL TO THE PRIVATE SECTOR

The major sources of public foreign capital for economic development are the Agency for International Development (AID); the Export-Import Bank of Washington (Eximbank); the World Bank (IBRD) and its affiliates, the International Finance Corporation (IFC) and the International Development Association (IDA); and the Inter-American Development Bank (IDB). (In addition to these public foreign-lending institutions, there are two development-assistance agencies of the European Economic Community—the European Development Fund and the European Investment Bank; several European national foreign-assistance agencies; one Canadian and two Japanese foreign-lending agencies. All of these public foreign-assistance agencies provide some loans to the private sector of developing countries.)

Most of the capital made available by these institutions takes the form of loans, although the loan terms vary from those that reflect the cost of borrowing in the private international markets—as in the case of loans made by IBRD—to no interest (other than a three-quarter of one per cent service charge) and 50-year maturities—as in the case of loans made by IDA. Most of the loans made by AID are relatively low-inter-

est loans (currently 2½ per cent) with a maturity of 40 years. The Eximbank makes only so-called hard loans, with terms similar to those of the World Bank, while the IDB makes both hard loans and loans at relatively low interest rates repayable in the currency of the borrower. The IFC, which makes both loans and equity investments solely in private enterprises in developing countries, employs loan terms that reflect rates of interest in the domestic markets of the countries where the loans are made.

Excluding investment guaranties and other efforts to promote U.S. private direct investment in developing areas, the following types of arrangements are employed by public foreign-lending agencies for channeling funds into the domestic private sectors of developing economies:

(1) Direct loans to domestic private enterprise or mixed domestic-foreign-ownership entities;

(2) Equity investments and the underwriting of securities of private firms;

(3) Program loans to governments or government agencies, the foreign-exchange proceeds of which are earmarked for the financing of imports by the private sector of the borrowing country;

(4) Loans to intermediate credit institutions for relending to the private sector, including industry, agriculture, and housing.

Although sizable amounts of loans are made by public foreign-development agencies directly to domestic private firms in developing countries, this channel for financing the private sector is rather limited except for loans by the Export-Import Bank of Washington and by other national export-credit institutions—such as those found in Western Europe, Japan, and Canada, the principal function of which is to promote exports rather than economic and social progress. The World Bank has not made any direct loans to private firms over the last couple of years, while the Agency for International Development and the Inter-American Development Bank have provided only a handful of such credits.

The International Finance Corporation, which is the only multinational agency empowered to make equity investments in private firms in developing countries, made loans and equity investments averaging about $20 million a year over the period July 1963-June 1965. The work of the IFC is quite important as a catalytic agent in mobilizing private domestic and foreign capital for investment in private enterprise and in contributing to the improvement of private-capital markets in developing countries. However, as a medium for channeling large amounts of foreign capital to the private sector of developing

countries, the IFC is subject to the same general handicap of all foreign-financing agencies: it does not have the staff and knowledge of local conditions nor the opportunity for continuous contact with the borrowers necessary to the role of retailer of loans on a world-wide basis. By and large, foreign-development agencies must serve as wholesalers of capital funds.

Program loans have become increasingly important as a method of foreign assistance by AID to developing countries in recent years. Program loans, which currently constitute about half of AID's development-loan assistance, are not tied to specific projects, but provide financing for broad shopping lists of imports—including industrial raw materials, spare parts, and replacement equipment—an estimated 75 per cent of which goes into the private sector of the recipient countries. A principal argument advanced by AID officials for the program-loan technique is that it assures a larger allocation of the total foreign-exchange resources available to the country for use by the private sector, both agriculture and industry. For example, in the case of the $150 million program loan to Brazil authorized by AID in December 1964, a substantial portion was specifically earmarked for the purchase of a broad list of essential imports made available through special letters of credit issued to private importers. A similar arrangement was established under the $80 million AID program loan to Chile in December 1964. A substantial proportion of AID assistance to India and Pakistan also has taken the form of program loans, with the bulk of the imports financed going to the private sector. In June 1964, the International Development Association made a $90 million program loan to India to finance imports required mainly by the private sector in India's industrial-machinery, commercial-vehicle, and construction industries. The credit constituted a new departure for the World Bank and IDA, which previously had made virtually all their loans to developing countries on a project basis.

Program loans, as contrasted with project loans (which go mainly to large economic and social-overhead projects in the public sector), may serve as a means of channeling a larger proportion of external assistance to the private sector in those cases where the availability of *foreign exchange*, rather than *savings* as such, constitutes the major constraint on private-sector investment and output. Where imports for investment and current production are not restricted, program loans to finance private-sector imports would not be of direct benefit to the private sector, although there might be an indirect benefit through an increase in the availability of credit from the banking system or from special government-credit programs. Under program loans for the purpose discussed here, the additional capital resources go to the government, which sells

the foreign-exchange proceeds through the central bank to private importers for local currency. Conceivably the government might reduce its allocation of foreign exchange to the private sector below that which would have been made in the absence of the program loan earmarked for private imports. To this extent, the purpose of a program loan designed to alleviate the foreign-exchange constraint on private investment would be defeated. However, since, according to AID officials, program loans are made on the basis of a continuous review and evaluation by the external-assistance authorities of the overall development program of the recipient, such devious action on the part of the recipient government would soon be discovered. The major objection to program loans, even where their use is limited to a selected list of raw materials and intermediate goods of various kinds imported by the private sector, is that they provide no control by the lending authority over the end use of the imports. The same imports may be used to produce luxury apartments and automobiles, or low-cost housing and farm machinery.

Of growing importance in the financial and technical-assistance activities of nearly all external-development agencies are loans to intermediate credit institutions, which in turn relend the proceeds to private industrial firms, farms, cooperatives, and private-housing ventures of various kinds. Loans and investments by the World Bank Group, AID, IDB, and the Export-Import Bank to intermediate credit institutions or other financial institutions in developing countries for relending to the private sector totaled nearly $300 million in 1964, and they will run as high or higher during 1965. This assistance has made possible thousands of sub-loans to private firms and farms in developing countries. Aside from program loans, loans to intermediate credit institutions constitute the most important channel, in terms of value and number of firms assisted, for directing public external assistance to the domestic private sector of developing economies.

Each type of intermediate credit institution—for example, industrial-development banks, agricultural-credit institutions, and home-loan institutions—involves special problems both from the standpoint of the operations of the institution itself and from that of the foreign-lending agency. In order to limit the scope of this essay, I shall deal mainly with public foreign financing of intermediate credit institutions concerned with financing private industry, which I shall refer to as industrial-development banks. This type of institution has received most of the public foreign financial assistance that has been extended to intermediate credit agencies in developing countries.

There are several types of intermediate credit institutions through which external funds have been channeled to private industry, and the terminology relating to such institutions has not been standardized.[3] First, there are the privately owned and operated industrial-development banks or private *financieras*, which make loans to, and equity investments in, private enterprises. In some cases these institutions specialize in venture-type capital and promotional activities, concentrating their operations on a few firms in which they take a special interest. In other cases they may make medium- and long-term loans to, or equity investments in, a large number of private firms, standing ready to consider applications for financial assistance from a number of sources. The Industrial Credit and Investment Corporation of India is an example of this latter type of institution. Second, there are the publicly owned and operated institutions in which there may or may not be a minority private-equity interest. The Nacional Financiera of Mexico, the Corporacion de Fomento de la Produccion de Chile (CORFO), and the Banco Nacional de Desenvolvimiento Económico (BNDE) of Brazil are representative of these institutions. These public development agencies usually provide financing for both private and public enterprises. Most developing economies have organized public development agencies which operate as a branch of the government in promoting investment in various sectors of the economy. In some countries the central bank, or possibly a large commercial bank in which there is a substantial public interest, may make development loans to private enterprises. In a number of cases these institutions, whose principal functions are other than those of a development bank, have been employed by public external-lending agencies as media through which to channel loans to private enterprises. In some cases external loans destined for specific projects in the private sector have been merely "passed through," and perhaps guaranteed by, the central bank, while in other cases external loans have been made to such institutions for relending on their own initiative to a number of private firms, subject to review by the foreign-

[3] For a discussion of industrial-development banks, see William Diamond, *Development Banks* [The Economic Development Institute, International Bank for Reconstruction and Development] (Baltimore: The Johns Hopkins Press, 1957); Shirley Boskey, *Problems and Practices of Development Banks* [International Bank for Reconstruction and Development] (Baltimore: The Johns Hopkins Press, 1959); J. D. Nyhart, *Toward Professionalism in Development Banking*, Working Paper (mimeo), (Cambridge, Mass.: MIT, 1964); *Private Development Finance Companies* (Washington, D.C.: International Finance Corporation, June 1964); and Robert W. Adler and Raymond F. Mikesell, *Public External Financing of Development Banks in Developing Countries* (Eugene, Oregon: Bureau of Business and Economic Research, University of Oregon, 1966).

financing agency. Such institutions are not generally regarded as industrial-development banks, since long-term lending to private industry is only a subsidiary function.

In addition to national development banks, there are regional development banks, such as the Central American Bank for Economic Integration (CABEI) and the newly organized African Development Bank. These regional institutions are owned by the governments of the countries which they serve, and they obtain, or expect to obtain, the bulk of their financing from public external loan sources. For example, the Central American Bank for Economic Integration had received loans totaling over $40 million from AID and the Inter-American Development Bank by the end of 1964. The Inter-American Development Bank and the proposed Asian Development Bank are also designed to serve the foreign-assistance requirements of a number of countries in a particular region. However, unlike the Central American and African institutions, the IDB and the proposed Asian Bank are partly owned and controlled by developed countries, from which they obtain the major part of their effective equity and loan capital. It might be observed, in passing, that there is a question as to the unique economic function served by regional financial institutions whose capital is subscribed entirely by developing countries, all of which are heavily dependent upon external financial sources for development. Unlike national development banks, the officials of regional development banks (such as the African Development Bank) are not likely to be well acquainted with economic and business conditions and with individual firms in member countries other than their own. Moreover, such countries are acutely short of qualified personnel to manage these institutions. Their principal *raison d'être* would seem to lie in the field of loans for social and economic-overhead projects which cut across national boundaries. However, many of the loans made by CABEI have gone to private enterprises operating in one of the regional members. Also the major international-development agencies, such as the World Bank, have shown themselves to be quite capable of making joint loans for projects involving more than one nation. I strongly suspect that the motivation for the creation of regional development banks, as well as their support by the developed countries, is largely political.

I shall define an industrial-development bank as any financial institution whose primary function is to provide long-term loan and/or equity capital to private industrial enterprise; the financial institution itself may be publicly or privately owned, or a mixed entity. My discussion of external public financing in the following section is based upon this concept of an industrial-development bank. It should be mentioned that

the World Bank Group, in its annual reports and other documents, employs the term "development finance company" to designate *privately owned* industrial-development banks.

Public Foreign Capital to Industrial-Development Banks

Beginning in 1949, when the World Bank sent a mission to assist in the formation of the Industrial Development Bank of Turkey, public foreign-development agencies have been active in the promotion of industrial-development banks and in providing them with technical and financial assistance. During the 1950's the Development Loan Fund and the International Cooperation Administration (predecessors to AID) were assisting a number of industrial-development banks, and since 1961 the World Bank Group (including IFC and IDA) and AID have been joined by the Inter-American Development Bank in providing financial and advisory services to industrial-development banks in Latin America. Some of the European foreign-assistance agencies have also been concerned with intermediate credit institutions in developing countries, principally the U. K. Commonwealth Development Corporation and the Caisse Centrale de Cooperation Economique of France.

Except for the Inter-American Development Bank, about one third of whose total loans have been made to intermediate credit institutions, and to a lesser degree the IFC, loans to industrial-development banks have not constituted a large proportion of the total financial assistance extended by international lending institutions. Undoubtedly, both the World Bank Group and AID would like to increase their role in this type of financing, but there are severe limitations on expanding assistance in this field, arising in part out of the loan philosophies of the external institutions themselves and in part from the conditions in the developing countries which they serve. It should also be said that, while the Export-Import Bank has made a number of loans to industrial-development banks and other financial institutions for relending to private industry, it does not have a special program for promoting and giving technical assistance to such institutions.

As of the end of 1964, 148 loans and equity investments had been made by the principal public external-development institutions (the World Bank Group, AID, the Eximbank, and IDB) to over 75 industrial-development banks, located in 46 countries, plus one regional bank. Of the total number of loans and equity investments made by these institutions, 104 represented loans in foreign exchange; 14 took the form of (foreign-exchange) equity investments by the IFC; and 30 loans (by AID) were made in local currency. Of the 19 loans made by the IDB, 8 were mixed foreign-exchange, local-currency loans. The total

value of foreign-exchange loans and equity investments made during the postwar period to December 31, 1964 was over $700 million; in addition, nearly $580 million in local-currency loans were made, almost entirely by AID. (See Table I.) While AID made the largest number

TABLE I

NUMBER AND VALUE OF LOANS (AND EQUITIES) TO INDUSTRIAL-DEVELOPMENT BANKS IN DEVELOPING COUNTRIES BY LENDING AGENCY, AS OF DECEMBER 31, 1964*

Public Lending Institution	Number of Loans and Equities		Amount of Loans and Equities (in millions of dollars)	
	Foreign-Exchange	*Local-Currency*	*Foreign-Exchange*	*Local-Currency*
AID	45	30	238.0	556.0
IBRD	24	—	283.2	—
IFC	14[a]	—	12.2	—
IDA	3	—	15.0	—
IDB	19[b]	[b]	93.6	22.9
Eximbank	13	—	70.2	—
All Institutions	118	30	712.2	578.9

(a) Equity investments.

(b) Eight of the loans made by the IDB were mixed foreign-exchange and local-currency loans.

* Note: For countries covered in data see notes to Table II.

Source: Robert W. Adler and Raymond F. Mikesell, *Public External Financing of Development Banks in Developing Countries* (Eugene, Oregon: Bureau of Business and Economic Research, 1966), Appendix Table IV.

of loans, 75 (of which 30 were local-currency loans), the World Bank Group made the largest volume of foreign-exchange loans and equity investments in terms of value, over $310 million. As of December 31, 1964, AID had made over $550 million in local-currency loans to industrial-development banks, largely out of the proceeds of PL-480 sales. AID has also made a few local-currency grants to industrial-development banks. As of the end of 1964, the IDB had made $94 million in foreign-exchange loans and about $23 million in local-currency loans to industrial-development banks. Finally, the Export-Import Bank had made 13 loans, totaling over $70 million, to industrial-development banks for relending to private industry. If we include both foreign-exchange and local-currency loans and equity investments in industrial-development banks in developing countries, total public foreign financing to these institutions had reached nearly $1.6 billion by the end of 1964, and the volume of such loans and investments has continued to expand in 1965.

By area, the largest volume of loans has been made to industrial-de-

velopment banks in Asia (excluding the Middle East), totaling $317 million in foreign exchange and $282 million in local currency. Loans to development banks in Latin America totaled $223 million in foreign exchange and $133 million in local currency, as of December 31, 1964. (See Table II.) It should be added that some public foreign-lending

TABLE II

NUMBER AND VALUE OF LOANS (AND EQUITIES) MADE BY PUBLIC LENDING AGENCIES TO INDUSTRIAL-DEVELOPMENT BANKS IN DEVELOPING COUNTRIES BY AREA, AS OF DECEMBER 31, 1964

Area	Number of Loans and Equities		Amount of Loans and Equities (in millions of dollars)	
	Foreign-Exchange	*Local-Currency*	*Foreign-Exchange*	*Local-Currency*
Africa[1]	12	2	40.4	7.2
Latin America[2]	47[a]	6	223.0	132.7
Europe[3]	11	1	55.1	93.0
Asia[4]	35	17	317.3	282.3
Middle East[5]	13	4	76.4	63.7
TOTAL	118	30	712.2	578.9

(a) Includes 8 "mixed" foreign-exchange and local-currency loans made by IDB.

[1] Africa includes all Africa except Egypt.

[2] Latin America includes all Western Hemisphere outside of United States and Canada.

[3] Europe includes Austria, Finland, Greece, and Spain.

[4] Asia includes Formosa, India, Iran, Korea, Malaysia, Nepal, Pakistan, the Philippines, and Thailand.

[5] Middle East includes Egypt, Iraq, Israel, Lebanon, Syria, and Turkey.

Source: Robert W. Adler and Raymond F. Mikesell, *Public External Financing of Development Banks in Developing Countries* (Eugene, Oregon: Bureau of Business and Economic Research, 1966), Appendix Table IV.

agencies have made loans to central banks and large commercial banks in developing countries for relending to private industrial enterprises. Twenty loans to such institutions, totaling $118 million (of which $84 million constituted foreign-exchange loans) had been made by the end of 1964. However, the institutions to which these loans were made do not conform to our definition of an industrial-development bank.

Figures on financial assistance to industrial-development banks do not reveal the full extent of the contribution by public external-development agencies to such institutions. A substantial amount of technical and advisory assistance has been provided by all of the major public external-lending institutions, with the exception of the Export-Import Bank. In addition, the IFC has been active in cooperating with industrial-development banks by participating in the underwriting of the

securities of both industrial-development banks themselves and their clients, and in certain cases has participated in joint loans with industrial-development banks to private firms.

Although public foreign-lending agencies differ somewhat in their approaches to industrial-development banking, there are a number of policies which they share in common. First, the development bank must be organized to serve private enterprise, although sub-loans out of the proceeds of loans from the foreign agencies may be to mixed-ownership companies, provided the control is predominantly in private hands. Second, external-lending agencies favor the project approach to sub-loans as against, say, the provision of working capital to private firms. Third, they usually require that a substantial proportion, at least half, of the financing for the project must come from sources other than the development bank. Fourth, in the case of foreign-exchange loans made by foreign agencies, it is required that the industrial-development bank employ all or the bulk of the funds for loans to finance imports required by the sub-borrowers. Frequently the local-currency portion of the loan to the sub-borrower is provided by the industrial-development bank from other sources. Fifth, all of the external-lending agencies have established review procedures with respect to sub-loans by the development banks, including prior consent for loans above a certain size, say $100,000, and full reporting on all loans made out of foreign-agency funds—including a disclosure of the purposes of the loan, the financial condition of the sub-borrower, the terms of the sub-loan, and other relevant information.

Foreign-lending agencies establish a variety of conditions governing the sub-loans made by industrial-development banks out of the resources supplied by the foreign agency. These conditions include: the maximum interest rate or spread between the interest rate paid by the development bank and what it receives in the way of interest and fees from the sub-borrower; the maximum amount of sub-loan to any one entity; the proportion of loan funds which can be made in the form of local currency (if any); the locus of the exchange risk; the tying of the foreign currencies disbursed to purchases abroad; and the nature of the product of the sub-borrower. For example, foreign-lending agencies generally forbid the use of their funds for financing the production of luxury goods, hard liquor, the purchase of land, working capital, or the production of goods in world over-supply. Finally, external-lending agencies have adopted certain rules of eligibility for development banks themselves, including the maximum ratio of debts incurred by the development bank to its own equity (usually 3 to 1), the ownership of

the development bank, and the competence, experience, and independence from political influence of its management.

I shall now review briefly the special policies and methods of operation of the major public foreign-lending agencies with respect to industrial-development banks.

The World Bank Group (IBRD, IDA, and IFC). The World Bank Group, to a greater extent than any of the other public foreign-lending agencies, has limited its financial assistance to predominantly privately owned development banks or "development finance companies." The inability of development-finance companies to raise an adequate amount of equity capital has led the IFC to provide equity financing for about a dozen development-finance companies. The total amount of equity financing supplied by the IFC, however—less than $13 million as of July 1, 1965—has been relatively small. In addition, the IFC has collaborated with development banks in underwriting the securities of private firms. For example, in Colombia the IFC participated with two Colombian private *financieras* in the purchase of equity shares of a new forge plant, Forjas de Colombia, and in underwriting, together with the two *financieras*, the placement of a million dollars in shares of Forjas stock. In addition, the ADELA Investment Company, which is organized for making investments in Latin America and whose shareholders include private companies in Europe, Japan, and the United States, subscribed $500,000 to the stock of Forjas. In another example, IFC joined with a Mexican investment company, the Crédito Bursatil, in underwriting the stock issue of Fundidora, a Monterrey steel company. In this operation, IFC enlisted three sub-underwriters in the United States and Switzerland to share its commitments.

The vast bulk of the financial assistance to development-finance companies by the World Bank Group has been made available by the World Bank, totaling $346 million as of June 30, 1965, with IDA providing another $25 million. However, loans by the World Bank and IDA have been concentrated heavily in a few development banks, with loans to Pakistan's Industrial Credit and Investment Corporation and the Industrial Credit and Investment Corporation of India constituting about two-thirds of the World Bank Group's total loan commitments in this field. With few exceptions, proceeds from loans to development-finance companies by the World Bank and IDA must be employed for financing imports by the sub-borrower. IFC investments are not tied to imports.

Agency for International Development. AID makes dollar loans to both private and public development banks and, in addition, has made available a substantial amount of local currencies from PL-480 opera-

tions and other sources for loans to these institutions. Taking both foreign-exchange and local-currency loans, AID and its predecessor agencies have provided more financing to industrial-development banks in developing countries than all other public external-lending agencies combined. AID also permits a portion, usually no more than 25 per cent, of its dollar loans to industrial-development banks to be converted into local currency for loans to sub-borrowers. However, the dollar proceeds of AID loans must be earmarked by the central bank or government of the borrowing country for the purchase of goods and services in the United States. While AID does not make equity investments, it does in special cases permit the industrial-development bank to make equity investments in private firms with AID funds. However, this practice would normally not be feasible in the case of foreign-exchange loans in which the government does not assume the foreign-exchange risk. In the case of local-currency loans, over the past several years AID loans to development banks have not contained a "maintenance-of-value clause," so that both the development bank and the sub-borrower are relieved of the foreign-exchange risk arising from a devaluation of the local currency.

The Inter-American Development Bank (IDB). The IDB appears to have no special preference for private over public industrial-development banks; in fact, the bulk of its loans in this field have been made to public institutions. The IDB has no facilities for equity participation in industrial-development banks, nor does it permit its loan funds to be used for equity investments by industrial-development banks. Portions of the loans by the IDB have taken the form of local currencies subscribed by the borrowing country, and the IDB also permits a portion of its foreign-exchange (dollar) loans to be converted into local currency for loans to sub-borrowers. However, since a maintenance-of-value clause is attached to both foreign-exchange and local-currency loans, the sub-borrower must assume the exchange risk in the event of devaluation of the currency, unless the risk is assumed by the government. The proceeds of foreign-exchange loans out of the IDB's Ordinary Capital Resources may be used for the purchase of imports anywhere in the world, but loans made out of dollar contributions by the United States to the IDB's Fund for Special Operations must, with certain exceptions, be employed for purchases of goods and services in the United States. This requirement has also applied to loans from the Social Progress Trust Fund, administered by the IDB for the U.S. Government. (The operations of the Social Progress Trust Fund have recently been merged with those of the Fund for Special Operations.)

The Export-Import Bank. The Export-Import Bank makes loans to both private and public development banks and in all cases the proceeds of sub-loans must be used to finance imports of goods and services from the United States. The Eximbank requires detailed information on projects for which sub-loans are made and prior approval for loans above a certain amount. Eximbank funds may not be used for equity investments by industrial-development banks or for local-currency loans. The Eximbank has no facilities for making local-currency loans and in nearly all cases the exchange risk on sub-loans made by industrial-development banks to private borrowers is borne by the sub-borrower.

Shortcomings of Industrial-Development Banks as Channels of Foreign Public Capital

An important element in the philosophy of development financing is that public foreign funds should constitute only a portion of the total capital resources available for a particular project or program. In addition, it is held that foreign financing should be made available in a manner which will encourage the mobilization of domestic savings and perhaps attract private foreign capital as well. This approach has been applied to the foreign financing of industrial-development banks in various ways. We have already noted the strong preference on the part of the World Bank Group for financing private development banks, a large part of the capital for which should come from private domestic and foreign sources. While this preference for private over public industrial-development banks is less strong in the case of AID and IDB, the principle that industrial-development banks should become an important means for the mobilization of private savings and not be continuously financed from foreign public sources is strong. Unfortunately, however, development banks have not been particularly successful in attracting private savings, either in the form of deposits and the sale of fixed-income securities, or by issuing equity shares. Only where fairly well-developed capital markets and a reasonable degree of price and exchange-rate stability exist, as for example in the case of India, Pakistan, and Mexico, have development banks been successful in attracting private capital.

In some countries, as, for example, in Brazil and Chile, the leading publicly owned industrial-development banks have obtained their domestic capital largely from the government or from compulsory investments by other financial institutions in the securities of the development banks. The leading private industrial-development banks in India and Pakistan have also obtained a substantial amount of loan funds from their governments. By their very nature, development banks in

underdeveloped countries are not likely to achieve a rate of profit for their owners corresponding to what can be earned in private industry, real-estate speculation, or loans to the unorganized money market. In countries that experience a rate of inflation of 20 per cent or more, investments in development banks are likely to yield a negative rate of return. Thus, in many countries industrial-development banks need to depend on government sources for the bulk of their domestic capital. Therefore, adherence by external-financial agencies to the principle that development banks must be predominantly privately owned may constitute a serious limitation on public external financing. This point is illustrated by the fact that the World Bank had by June 30, 1965 not made a single loan to an industrial-development bank in Latin America, while AID and IDB had made a number of loans to such institutions, most of them publicly owned. One reason given by a World Bank official for the absence of World Bank loans to private development banks in Latin America is the inability of such institutions to obtain loan financing from Latin American governments.

A related problem has to do with the shortage of equity capital for private enterprise generally in developing countries. Industrial-development banks, regardless of how they are financed, are frequently limited in the amount of equity investments they can make; in any case, equity investments tend to create problems for both private and public industrial-development banks. Private development banks, in particular, must limit their equity investments to a portion of their own equity capital. In the absence of well-developed security markets they may thus find it difficult to turn over their equity portfolio, even after the firms which they have assisted have become reasonably profitable. In the case of public industrial-development banks, a substantial equity holding makes the assisted firm in effect a public enterprise. On the other hand, underwriting activities by industrial-development banks and the purchase of minority interests in private enterprises have often given confidence to prospective private investors, but again this depends upon the character of the private-capital market.

A more basic limitation on the operations of industrial-development banks and their employment as a channel for public foreign financing of the private sector arises from the low level of effective demand for their funds. There have been a number of cases where industrial-development banks were supplied with ample funds from both external and internal sources, but their rate of disbursement in the form of sub-loans to private enterprise has been exceedingly slow. The most frequently expressed reason for this has been the lack of well-formulated projects. Thus, to become effective dispensers of capital in poor countries, indus-

trial-development banks must often engage in promotional activities and undertake a number of preinvestment studies, as well as provide substantial technical assistance. These services are expensive and beyond the ability of most industrial-development banks to provide without government subsidies or close cooperation with technical and preinvestment-survey agencies.

It should also be noted that industrial-development banks, which are required to earn a reasonable return on their investment, cannot make small loans; for many, the minimum-size loan is as much as $50,000. The permitted interest-rate spread is simply not large enough to cover the cost of making small loans, particularly when a substantial amount of investigation and research is required before the loan can be made.

So far as I am aware, no estimate of the effective demand for productive loans by private enterprise in developing countries has ever been made. There is considerable evidence, however, that the effective demand for long-term financing is not very large in developing countries. There is, however, a frequently expressed need for working capital, particularly in countries where rapid rates of inflation tend to erode existing working capital. But public foreign-financing agencies generally prohibit the use of their funds for sub-loans for working-capital purposes.

The Exchange Risk. Except for local-currency loans out of PL-480 and counterpart funds made available from AID, the bulk of the public foreign financing for industrial-development banks takes the form of foreign-exchange loans, which in turn are relent to sub-borrowers for the financing of imports. With few exceptions, the exchange risk arising from a possible devaluation of the local currency must be borne by the sub-borrower.

This lending policy creates two problems. First, the principal beneficiaries of the foreign-currency loans are firms that have to pay for imports. The financing of local-currency expenditures for labor and domestic materials or for commodities which may have been imported by dealers or which may have a large import content, such as locally assembled items, must come from the local-currency resources of the industrial-development banks or be raised by the private firm in other ways. Yet, for most firms the greatest need is for local-currency financing, and this type of long-term financing on reasonable terms tends to be in short supply in most developing countries. Even if development banks were permitted to convert a larger portion of their loans from foreign-financing agencies into local currencies for the making of sub-loans, there would still remain the problem of the exchange risk, unless the govern-

ment or the central bank is willing to assume the risk. However, central banks will often assume this risk, provided the foreign exchange is sold to them for local currency in the first instance.

The second problem arises from the preference of private firms for borrowing local currency even when the loan proceeds are intended for the direct purchase of imported goods and services, since the borrowers avoid an exchange risk by assuming an obligation to repay in local currency and converting the proceeds of the loan into foreign exchange through the commercial banks. Thus, where importers have no difficulty in securing import licenses and foreign exchange for raw materials, machinery, and spare parts, etc., or where they can obtain these items readily through local import dealers without an exorbitant mark-up, they have no interest in seeking foreign-exchange loans. This is an important reason given for the slow utilization of external loan funds by industrial-development banks, particularly in countries with a history of exchange instability, but where exchange restrictions on raw materials and investment goods are not severe. On the other hand, where exchange restrictions are severe and firms have great difficulty in obtaining import licenses for goods needed in the process of production and the expansion of plant capacity, foreign-exchange loans are eagerly sought.

In some cases, as for example in India and Pakistan, there is a history of relative exchange stability that tends to reduce the degree of risk, at least in the minds of the borrowers. But, perhaps more significantly, where exchange is short and imports severely restricted, this fact is reflected in the internal prices of imported commodities or of those with a high import content, so that there is a distinct advantage in being able to acquire imports at world prices with foreign-exchange loans. Even though the imported materials and equipment are intended for use by the private firm and not for resale, the firm is usually able to obtain a price for its products that reflects the effective premium on foreign exchange. Under these circumstances there may be relatively little risk in a foreign-exchange obligation. Moreover, it is quite likely that the sub-borrower from the industrial-development bank may be motivated more by the opportunity for obtaining foreign exchange than by the need for financial capital as such. Thus, it is perhaps not surprising that, out of a total of $346 million in loans to development-finance companies by the World Bank up to June 30, 1965, nearly two-thirds had been made to two institutions: namely the Industrial Credit and Investment Corporation of India and the Pakistan Industrial Credit and Investment Corporation. Moreover, the World Bank reports no difficulty in the utilization of loan funds by these institutions, and this is evidenced by more or less regular extensions of World Bank loans to these

institutions. In both countries foreign exchange is tightly rationed and there is a history of exchange-rate stability. In addition, the Indian and Pakistani governments have supplied substantial amounts of local-currency loan capital to ICICI and PICIC, respectively.

Shortage of Equity Capital. Mention has been made of the fact that public external-lending agencies usually require a reasonably low ratio of debts to equities for industrial-development-bank borrowers, generally on the order of 3 to 1. Although this may be defended in terms of sound banking practice, it may very well constitute a severe limitation on the borrowing and lending capacity of development banks, particularly if the equity capital must be raised from private sources. One way of dealing with this problem is to provide what has been called *quasi-equity* capital in the form of loans with very long maturities, with long grace periods, and with low (or zero) rates of interest. Sometimes quasi-equity capital is provided by governments in the form of loan obligations which are subordinate to other obligations that might be contracted by the development bank. Thus, portions of the governmental loans to ICICI and to PICIC have taken this form, and the World Bank has regarded this financing as equity capital in calculating the debt-equity ratios of these institutions. AID has made local-currency loans repayable in local currency without a value-maintenance clause to certain industrial-development banks; such financing might also be regarded as quasi-equity in nature. Both AID and IDA have made foreign-exchange loans on very generous terms for the financing of loan operations of industrial-development banks. However, the benefits of the low interest rates established for such loans have generally not accrued to the development banks but rather to the governments to which the funds were lent in the first instance; the governments relend the proceeds at substantially higher rates, say 5½ per cent, to the industrial-development banks. In such cases the purpose of the concessionary terms is to ease the balance-of-payments burden of repayment on the country rather than to provide quasi-equity capital for the industrial-development bank.

Conclusions

Public foreign-assistance agencies clearly have an obligation to promote increased investment and productivity in the private sectors of developing economies through both technical assistance and the channeling of financial resources. In most cases they cannot rely on internal allocative processes for an optimum distribution of capital available for investment. Direct loans to private enterprise by foreign-develop-

ment lending agencies provide only limited means of channeling external capital into the private sectors of developing countries, and significant amounts of foreign capital can be made available in this way only to large, well-established firms. The activities of the IFC, which in recent years have tended to be concentrated in the field of equity financing and the underwriting of the securities of private firms, can have an important influence in the improvement of private-capital markets where local conditions are favorable. But, even with the acquisition of larger resources (made possible by a recent amendment of the Articles of Agreement of the World Bank and the IFC, allowing the latter to borrow $400 million from the World Bank), IFC cannot provide more than a small fraction of the public foreign capital that becomes available every year to the developing countries. Public foreign-lending agencies must by and large serve as wholesalers, not retailers, of capital funds.

In their efforts to promote investment in the private sector, public foreign-lending agencies have sought to deal with both the foreign-exchange constraint, where it exists, and the savings constraint. The use of program loans specifically tied to imports of investment goods by the private sector constitutes a clear case of dealing with the foreign-exchange constraint. However, foreign exchange made available to private firms through industrial-development banks may also relieve the foreign-exchange limitation on private investment and production.

The appropriateness of employing foreign-aid techniques as a means of influencing the allocation of the total foreign exchange available to a country in favor of the private sector may well be questioned, on the grounds that external-development agencies should insist on development policies which provide for a rational overall allocation of exchange resources. This result can best be achieved by financial and foreign-exchange policies which obviate the necessity of exchange and import restrictions, especially on imports of raw materials, spare parts, machinery, etc., required by the private sector. On the other hand, it may be argued that the heavy preference given in the past by public foreign-assistance agencies to the financing of economic-overhead projects in the public sector, many of which have a high import content, has resulted in an allocation of foreign-exchange resources unduly favorable to the public sector. My personal view is that the use of foreign aid as a means of allocating exchange resources between the private and the public sector should be employed sparingly and only for temporary periods, during which developing countries should be required to adopt rational policies and procedures for assuring an adequate supply of foreign exchange to the private sector. Of greater and more lasting significance is the channeling of external funds and technical assistance

to the private sector as a means of increasing the supply of financial capital from both domestic and foreign sources, and of promoting the demand for these funds in the form of productive investment. Past experience has shown that the creation of an effective system of industrial-development banks capable of serving small, medium, and large firms throughout the developing economies holds great promise.

Aid to the private sector through industrial-development banks and other types of intermediate credit institutions has certain distinct advantages over program loans. First, it can be used to meet either the savings or the foreign-exchange constraint (or both) on investment in the private sector, whereas program loans are of direct benefit to the private sector only in dealing with the foreign-exchange constraint where it exists. Second, by their review, and in some cases prior approval, of individual sub-loans made by intermediate credit institutions, foreign-lending agencies can control the end use to which their funds are put. Third, assistance in the formation as well as the financial support of intermediate credit institutions helps to mobilize domestic savings for productive investments. Indeed, a primary objective of assistance to intermediate credit institutions should be to make them self-supporting channels for directing domestic savings into productive enterprise. Finally, intermediate credit institutions provide a means of packaging technical assistance from external sources with financing for the private sector.

There is undoubtedly a place for the type of industrial-development bank favored by the World Bank Group. Such institutions serve the needs of larger firms requiring loans of $100,000 or more and which may also require equity financing or the underwriting of their securities. Loan assistance from the World Bank, together with joint participation by the IFC in the underwriting and acquisition of the securities of private firms, can have an important influence on the development of the local capital market and in attracting private-foreign-capital participation.

But this type of operation is not suitable for financial and technical assistance and promotional activities directed towards small- and medium-size firms. The costs and risks associated with promoting investment by small- and medium-size firms are too great for private industrial-development banks dependent for a large portion of their resources upon private investors. While private participation and control are certainly desirable for industrial-development banks in this field, they must in most cases be heavily subsidized and financed from public sources, either domestic or foreign. Because of the urgency of promoting and expanding the private sector of developing economies, some of the tra-

ditional rules of sound finance, such as low debt-equity ratios, might well be waived with respect to both industrial-development banks and the enterprises which they assist. Whatever their ownership and control, the need for a substantial amount of public financing by these industrial-development banks will give them something of a quasi-public character, and, as such, their basic operating objective must be service to the private industrial sector rather than profits for the owner. Thus, in most cases they must either be wholly government-owned institutions or mixed entities. The types and conditions of their financing of private enterprise should be quite flexible, including equity, long-term loan, and working-capital financing. In most cases, the bulk of their resources must be in the form of local currency. They must also be in a position to provide a wide variety of technical assistance, including pre-investment surveys. While some of these costs may be covered by fees charged to the borrowers, a good part of the costs will have to be borne by the industrial-development institutions themselves. Alternatively, they can operate in close cooperation with productivity centers or similar agencies.

These conclusions have important implications for the policies of public foreign-lending agencies. First, these agencies should be willing to provide a larger proportion of the total resources of industrial-development banks in the form of loan capital; and the industrial-development banks in turn should be enabled to provide a higher proportion of the total resources of the private firms that they assist in the form of both loan and equity capital. Second, a larger proportion of the resources of industrial-development banks should be in the form of local currencies. Third, the exchange risk on local-currency loans should not be borne by either the industrial-development bank or the sub-borrower. In some countries AID can provide the local currencies out of PL-480 and counterpart funds. In other cases, however, foreign-exchange loans can be converted into local currencies at the central bank and the government should be asked to assume the exchange risk. Fourth, financial assistance to industrial-development banks should be packaged with a substantial amount of technical assistance, both for improving the administration of the development banks themselves and for enabling them to render technical services to their clients. Finally, public foreign-lending agencies should be willing to make loans to publicly owned industrial-development banks.

There is a difference between a doctrinaire adherence to traditional principles of private finance and an insistence on the efficient use of resources (which should never be compromised). Rapid industrialization is a primary goal of virtually all developing countries and will be

achieved one way or the other. What is at stake is whether this industrialization will be predominantly private or governmental in ownership and control. What I am suggesting, therefore, is that foreign-assistance agencies would be well advised to adopt whatever policies, consistent with the productive use of their resources, may be required for the promotion of a predominantly private industrial sector in the developing economies. Even with the maximum availability of financial and technical assistance, there are serious limitations on the ability of external agencies to promote a vigorous private-enterprise economy in developing countries. There has been too great a tendency to provide liberal assistance to governments and public entities, often in the form of balance-of-payments and program loans with little control over the end uses of the proceeds, while at the same time adopting rigid procedures embodying the principles of orthodox finance in lending to the private sector. The risks are great in both cases. Considering the stakes involved, however, there is no reason to believe that channeling assistance to the private sector requires a far higher degree of caution.

PUBLICATIONS OF THE INTERNATIONAL FINANCE SECTION

The International Finance Section publishes at irregular intervals papers in four series: ESSAYS IN INTERNATIONAL FINANCE, PRINCETON STUDIES IN INTERNATIONAL FINANCE, SPECIAL PAPERS IN INTERNATIONAL ECONOMICS and REPRINTS IN INTERNATIONAL FINANCE. All four of these may be ordered directly from the Section.

Single copies of the ESSAYS and REPRINTS are distributed without charge to all interested persons, both here and abroad. Additional copies of any one issue may be obtained from the Section at a charge of $0.25 a copy, payable in advance. This charge may be waived to foreign institutions of education or research.

For the STUDIES and SPECIAL PAPERS there will be a charge of $1.00 a copy. This charge will be waived on copies distributed to college and university libraries here and abroad. In addition, the charge is sometimes waived on single copies requested by persons residing abroad who find it difficult to make remittance.

For the convenience of our British customers, arrangements have been made for retail distribution of the STUDIES and SPECIAL PAPERS through the Economists' Bookshop, Portugal Street, London, W.C. 2, and Blackwells, Broad Street, Oxford. These booksellers will usually have our publications in stock.

A mailing list is maintained for the distribution of ESSAYS and REPRINTS as they are issued and of announcements of new issues in the series of STUDIES and SPECIAL PAPERS. Requests for inclusion in this list will be honored, except that students will not be placed on the permanent mailing list, because waste results from frequent changes of addresses.

The following is a complete list of the publications of the International Finance Section. The issues of the four series that are still available from the Section are marked by asterisks. Those marked by daggers are out of stock at the International Finance Section but may be obtained in xerographic reproductions (that is, looking like the originals) from University Microfilms, Inc., 313 N. First Street, Ann Arbor, Michigan 48107. (Most of the issues are priced at $3.00.)

†No. 1. Friedrich A. Lutz, International Monetary Mechanisms: The Keynes and White Proposals. (July 1943)
† 2. Frank D. Graham, Fundamentals of International Monetary Policy. (Autumn 1943)
† 3. Richard A. Lester, International Aspects of Wartime Monetary Experience. (Aug. 1944)
† 4. Ragnar Nurkse, Conditions of International Monetary Equilibrium. (Spring 1945)
† 5. Howard S. Ellis, Bilateralism and the Future of International Trade. (Summer 1945)
† 6. Arthur I. Bloomfield, The British Balance-of-Payments Problem. (Autumn 1945)
† 7. Frank A. Southard, Jr., Some European Currency and Exchange Experiences. (Summer 1946)
† 8. Miroslav A. Kriz, Postwar International Lending. (Spring 1947)
† 9. Friedrich A. Lutz, The Marshall Plan and European Economic Policy. (Spring 1948)
† 10. Frank D. Graham, The Cause and Cure of "Dollar Shortage." (Jan. 1949)
† 11. Horst Mendershausen, Dollar Shortage and Oil Surplus in 1949-1950. (Nov. 1950)
† 12. Sir Arthur Salter, Foreign Investment. (Feb. 1951)
† 13. Sir Roy Harrod, The Pound Sterling. (Feb. 1952)
† 14. S. Herbert Frankel, Some Conceptual Aspects of International Economic Development of Underdeveloped Territories. (May 1952)
† 15. Miroslav A. Kriz, The Price of Gold. (July 1952)
† 16. William Diebold, Jr., The End of the I.T.O. (Oct. 1952)
† 17. Sir Douglas Copland, Problems of the Sterling Area: With Special Reference to Australia. (Sept. 1953)
† 18. Raymond F. Mikesell, The Emerging Pattern of International Payments. (April 1954)
† 19. D. Gale Johnson, Agricultural Price Policy and International Trade. (June 1954)
† 20. Ida Greaves, "The Colonial Sterling Balances." (Sept. 1954)
† 21. Raymond Vernon, America's Foreign Trade Policy and the GATT. (Oct. 1954)
† 22. Roger Auboin, The Bank for International Settlements, 1930-1955. (May 1955)
† 23. Wytze Gorter, United States Merchant Marine Policies: Some International Implications. (June 1955)
† 24. Thomas C. Schelling, International Cost-Sharing Arrangements. (Sept. 1955)
† 25. James E. Meade, The Belgium-Luxembourg Economic Union, 1921-1939 (March 1956)
† 26. Samuel I. Katz, Two Approaches to the Exchange-Rate Problem: The United Kingdom and Canada. (Aug. 1956)
† 27. A. R. Conan, The Changing Pattern of International Investment in Selected Sterling Countries. (Dec. 1956)
† 28. Fred H. Klopstock, The International Status of the Dollar. (May 1957)
† 29. Raymond Vernon, Trade Policy in Crisis. (March 1958)
† 30. Sir Roy Harrod, The Pound Sterling, 1951-1958. (Aug. 1958)
† 31. Randall Hinshaw, Toward European Convertibility. (Nov. 1958)
† 32. Francis H. Schott, The Evolution of Latin American Exchange-Rate Policies since World War II. (Jan. 1959)
† 33. Alec Cairncross, The International Bank for Reconstruction and Development. (March 1959)

† 34. Miroslav A. Kriz, Gold in World Monetary Affairs Today. (June 1959)
† 35. Sir Donald MacDougall, The Dollar Problem: A Reappraisal. (Nov. 1960)
† 36. Brian Tew, The International Monetary Fund: Its Present Role and Future Prospect. (March 1961)
† 37. Samuel I. Katz, Sterling Speculation and European Convertibility: 1955-1958. (Oct. 1961)
† 38. Boris C. Swerling, Current Issues in International Commodity Policy. (June 1962)
† 39. Pieter Lieftinck, Recent Trends in International Monetary Policies. (Sept. 1962)
† 40. Jerome L. Stein, The Nature and Efficiency of the Foreign Exchange Market. (Oct. 1962)
† 41. Friedrich A. Lutz, The Problem of International Liquidity and the Multiple-Currency Standard. (March 1963)
† 42. Sir Dennis Robertson, A Memorandum Submitted to the Canadian Royal Commission on Banking and Finance. (May 1963)
† 43. Marius W. Holtrop, Monetary Policy in an Open Economy: Its Objectives, Instruments, Limitations, and Dilemmas. (Sept. 1963)
† 44. Harry G. Johnson, Alternative Guiding Principles for the Use of Monetary Policy. (Nov. 1963)
† 45. Jacob Viner, Problems of Monetary Control. (May 1964)
* 46. Charles P. Kindleberger, Balance-of-Payments Deficits and the International Market for Liquidity. (May 1965)
* 47. Jacques Rueff and Fred G. Hirsch, The Role and the Rule of Gold: An Argument. (June 1965)
* 48. Sidney Weintraub, The Foreign-Exchange Gap of the Developing Countries. (Sept. 1965)
* 49. Tibor Scitovsky, Requirements of an International Reserve System. (Oct. 1965)
* 50. John H. Williamson, The Crawling Peg. (Dec. 1965)
* 51. Pieter Lieftinck, External Debt and Debt-Bearing Capacity of Developing Countries. (March 1966)
* 52. Raymond F. Mikesell, Public Foreign Capital for Private Enterprise in Developing Countries. (April 1966)

PRINCETON STUDIES IN INTERNATIONAL FINANCE

†No. 1. Friedrich A. and Vera C. Lutz, Monetary and Foreign Exchange Policy in Italy. (Jan. 1950)
† 2. Eugene A. Schlesinger, Multiple Exchange Rates and Economic Development. (May 1952)
† 3. Arthur I. Bloomfield, Speculative and Flight Movements of Capital in Postwar International Finance. (Feb. 1954)
† 4. Merlyn N. Trued and Raymond F. Mikesell, Postwar Bilateral Payments Agreements. (April 1955)
† 5. Derek Curtis Bok, The First Three Years of the Schuman Plan. (Dec. 1955)
† 6. James E. Meade, Negotiations for Benelux: An Annotated Chronicle, 1943-1956. (March 1957)
† 7. H. H. Liesner, The Import Dependence of Britain and Western Germany: A Comparative Study. (Dec. 1957)
† 8. Raymond F. Mikesell and Jack N. Behrman, Financing Free World Trade with the Sino-Soviet Bloc. (Sept. 1958)
† 9. Marina von Neumann Whitman, The United States Investment Guaranty Program and Private Foreign Investment. (Dec. 1959)
† 10. Peter B. Kenen, Reserve-Asset Preferences of Central Banks and Stability of the Gold-Exchange Standard. (June 1963)

* 11. Arthur I. Bloomfield, Short-Term Capital Movements under the Pre-1914 Gold Standard. (July 1963)

* 12. Robert Triffin, The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives. (June 1964)

* 13. Robert Z. Aliber, The Management of the Dollar in International Finance. (June 1964)

* 14. Weir M. Brown, The External Liquidity of an Advanced Country. (Oct. 1964)

* 15. E. Ray Canterbery, Foreign Exchange, Capital Flows and Monetary Policy. (June 1965)

* 16. Ronald I. McKinnon and Wallace E. Oates, The Implications of International Economic Integration for Monetary, Fiscal, and Exchange-Rate Policy. (March 1966)

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

*No. 1. Gottfried Haberler, A Survey of International Trade Theory. (Sept. 1955; Revised edition, July 1961)

† 2. Oskar Morgenstern, The Validity of International Gold Movement Statistics. (Nov. 1955)

* 3. Fritz Machlup, Plans for Reform of the International Monetary System. (Apr. 1962; Revised edition, March 1964)

† 4. Egon Sohmen, International Monetary Problems and the Foreign Exchanges. (April 1963)

* 5. Walther Lederer, The Balance on Foreign Transactions: Problems of Definition and Measurement. (Sept. 1963)

* 6. George N. Halm, The "Band" Proposal: The Limits of Permissible Exchange Rate Variations. (Feb. 1965)

* 7. W. M. Corden, Recent Developments in the Theory of International Trade. (March 1965)

REPRINTS IN INTERNATIONAL FINANCE

* 1. Fritz Machlup, The Cloakroom Rule of International Reserves: Reserve Creation and Resources Transfer. [*Quarterly Journal of Economics*, Vol. LXXIX (Aug. 1965)]

† 2. Fritz Machlup, Real Adjustment, Compensatory Corrections, and Foreign Financing of Imbalances in International Payments. [In Robert E. Baldwin et al., *Trade, Growth, and the Balance of Payments* (New York: Rand McNally and Amsterdam: North-Holland Publishing Co., 1965)]

* 3. Fritz Machlup, International Monetary Systems and the Free Market Economy. [In proceedings of a symposium on International Payments Problems sponsored by the American Enterprise Institute for Public Policy Research and held in Washington in September 1965.] (Feb. 1966)

SEPARATE PUBLICATIONS

† (1) Klaus Knorr and Gardner Patterson (editors), A Critique of the Randall Commission Report. (1954)

† (2) Gardner Patterson and Edgar S. Furniss, Jr. (editors), NATO: A Critical Appraisal. (1957)

* (3) Fritz Machlup and Burton G. Malkiel (editors), International Monetary Arrangements: The Problem of Choice. Report on the Deliberations of an International Study Group of 32 Economists. (Aug. 1964)