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ADELA – Concept and Experience

by Harald Lungershausen, Zurich *

Four and a half years after the birth of ADELA (the Acronym for Atlantic Development Group for Latin America) the company's fully paid-up share capital amounts to US\$ 52 mn, subscribed by 230 industrial, financial and commercial enterprises from Western Europe, the US, Latin America, Canada, and Japan. The rules governing capital subscriptions have not been relaxed during this period. In order to assure a wide distribution of ownership a shareholder in ADELA cannot subscribe to more than US\$ 500,000, while the continued active interest of the shareholders in the affairs of the company is assured by a minimum subscription of US\$ 100,000. The list of shareholders reads like the "who's who" of international business, documenting the worldwide interest in Latin America and the development efforts presented by ADELA. Companies from Western Europe form the largest stockholder group, while the United States shareholders have the most important single country participation. During the last year, an increasing number of larger Latin American companies have joined their colleagues from industrialised nations as partners in ADELA.

Purpose and Aims

The idea to found ADELA originated in the early sixties when US political and business leaders became increasingly aware that their country's development aid plan, starting with the "Point Four" programme in 1947, would be more effective with a greater active participation from the European side. In the public sector this pre-occupation led to a stronger support on the part of Western Europe of the international public development agencies. In the private sector, however, no vehicle for a combined Transatlantic effort existed. Foreign investment in the specific case of Latin America continued to be confined to single US and European companies branching out into the sub-continent within their field of manufacturing or merchandising. The private Latin American entrepreneur and the smaller or medium-sized foreign company did not have ready access to international risk capital unrestricted by geographical considerations, a particular technology

or ties to imports from the investing country. ADELA was formed to fill this gap.

The basic concept of ADELA is private, voluntary, and multinational cooperation among "developed" industrial, commercial and financial enterprises and aims at strengthening local private initiative within the broad context of economic development in Latin America. ADELA provides a link between modern technology, management methods and financial resources as applied and available in the industrialised nations, and the Latin American public or private entrepreneur who welcomes foreign private partners in his endeavour to utilise his own and his country's resources. ADELA, apolitical by definition, was formed to assist Latin Americans to help themselves.

As a private company, ADELA is in business to make a profit, based upon the success of the ventures in which it invests. However, the individual profit objective of the company is combined with the aim to render optimal support to the national economic development of the host country. This is logical, considering that ADELA as a company with long-term objectives can hardly expect its investments to be profitable if they are not within the national interest of the country where they are made.

Investment Policy

Operating within a continent representing many nations with diverse approaches to economic development and different policies of public administration and private business, ADELA's investment policy necessarily needs to maintain a high degree of flexibility. ADELA is active in all fields of private investment and investment banking, from long-term investments in form of equity participations, often combined with long-term credits or alternatively given in form of convertible loans, to the short- and medium term financing of working capital requirements.

Providing long-term seed capital for new ventures, complementing investments already decided upon by local or foreign investors, attracting additional foreign or local capital through the example of its own confidence in a project, ADELA assists in

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increasing the role of private enterprise in the creation, expansion or modernisation of Latin American industry and agriculture. As an equity partner, ADELA insists upon limiting itself to minority partnerships. It favours situations where local investors, either from the beginning or at a later stage, own the majority of the equity, and provide, wherever possible, the management for the company. In its cooperation with other foreign investors, ADELA promotes the concept that operating control and modern management can be assured even where the extent of the foreign capital participation departs from the traditional system of wholly-owned or majority-controlled subsidiaries.

Investments presented to ADELA are thoroughly researched for their feasibility, profit potential, and contribution to the economy of the host country. Before an investment is proposed to the Executive Committee (which is composed of 20 selected members of the 80-member Board of Directors) it has passed an in-house clearing process designed to detect any potential flaws or problem areas to which the implemented project might be exposed. In spite of this thorough checking procedure, ADELA can investigate, approve, and disburse a participation within a period of two to three months.

In its short and medium term financing operations, ADELA uses a different approach. Due to liquidity considerations, the short-term nature of these lendings, and the dependence of the lender upon the borrower's good judgment in managing his operations, ADELA applies strict banking practices in its financing operations. The long-term approach, mainly concentrating on the partners' potential, is largely replaced by the evaluation of the present credit standing of the borrower.

Resources and their Application

The resources at ADELA's disposal include its share capital and credit facilities made available by shareholder banks and other international financial institutions. Presently, total resources amount to US\$ 150 mn, of which US\$ 120 mn are currently invested in Latin America. On March 31, 1969, US\$ 32.5 mn of long-term funds had been disbursed, of which approximately 60 p.c. were in form of equity while 40 p.c. were straight or convertible long-term loans. Long-term commitments, i.e. approved investments, amount to US\$ 54.8 mn distributed over 77 projects, and range in size from US\$ 3.5 mn participations in large Brazilian and Central American paper mill projects, to US\$ 90,000 invested in a Chilean book-binding company concentrating on exports. The 18 host countries include virtually all nations on the Latin American mainland, from Mexico to Chile.

In the first 4½ years of its existence, ADELA was directly involved in short and medium-term in-

vestments in Latin America totalling approx. US\$ 200 mn, of which US\$ 71 mn were outstanding at the end of March, 1969. As on the average 60 p.c. of the amounts outstanding at any time are maturing within one year, ADELA has been able to accumulate valid experience regarding the payment morality and punctuality of its Latin American debtors. This experience has been outstandingly favourable and the publicity given to ADELA's safety record in the lending field has received the attention of the international financial community.

Apart from investing its own resources, which are modest in comparison to the financial needs of Latin America, ADELA has been instrumental in generating an additional flow of funds into Latin American business estimated at many times its own investment. ADELA considers it part of its functions to make investment opportunities in Latin America known to local or foreign investors, to rally support for feasible projects, and thereby to attract funds which it could not provide alone.

Preparation of Projects

The failure of many of the early public attempts of development aid stemmed from the belief that the developing countries needed only cash, and that the economically optimal use of such funds would be a virtually automatic process. When the fallacy of this thinking became obvious, through rising dissatisfaction of lenders and borrowers alike, the public lending institutions have taken great pains and accumulated substantial merit in intensifying their efforts in the form of administrative and technical assistance and follow-up. However, the political implications often inherently combined with public aid, have hampered many of these well-meant approaches and can still today be considered as one of the main obstacles to the efficient employment of such aid.

In this context, the private character of ADELA and its partners in Latin America and the industrial countries by definition warrants an action-minded, result-oriented approach. Though a minority investor, ADELA joins its partners in the commercial, financial and political risks of a venture. As a partner, ADELA consciously shares the rewards of success or the cost of failure, insisting on meaningful and active participation beyond the passive role which would be reserved to a mere supplier of funds.

In a large number of projects ADELA's involvement has started when the original idea was born. In the early stage of ADELA's existence, project ideas were often brought to the company by local or foreign outsiders. However, with growing experience in Latin America and awareness of the continent's resources and requirements, ADELA has become more active in originating projects, and carrying them from the first idea to final im-

plementation. The research effort in the pre-project stage, identification of resources and markets, is the home ground of ADELA's subsidiary ADELATEC, a technical and management service company which serves as the spearhead of ADELA's implementing functions as an investor. With its own staff, or in cooperation with interested local or international consultants or potential investors, ADELATEC provides basic research facilities geared to convert ideas or opportunities into bankable projects. Within the total research volume executed by ADELATEC since its inception in 1965, ADELA is only one, and in fact one of the smaller, clients. ADELATEC assists development-oriented national Latin American governments in preparing project studies for implementation by private business, and is constantly aiding private, local or foreign entrepreneurs in studying and implementing existing or potential Latin American ventures.

Implementation of Venture

While ADELATEC is mainly active in the preparatory stage of a project, an equally important task is carried out by ADELA's Investment Management Department which is responsible for the implementation and ultimate profitability of a venture in which ADELA is a partner. Once an investment has been accepted, the investment management staff follows it through the preoperating, start-up and operating phases. While every project obtains a certain amount of attention, actual involvement ranges from "side-line support" of the proven skills of ADELA's partners and management to active and sometimes decisive moves in critical situations. While the former is naturally preferred to the latter, the possibility to do either must form part of an investment activity based upon the supply of risk capital. During the past years, ADELA has built an investment management system which not only counts upon an "early warning system" for detecting trouble before it results in serious problems, but also has grouped together able technical and financial staff members in the form of a "fire brigade" which can move into a situation quickly and decisively. With the "repair services" organised, the investment management function is now perfecting its system of "preventive maintenance" which is designed to assure a minimisation of occasions where active intervention is needed.

In the short and medium-term financing field, ADELA is also stressing its service capabilities beyond the limits of its own resources. In the past years two major underwritings have resulted in the placement of US\$ 20 mn of Latin American financial paper with European and US shareholder banks. Other similar projects are presently under way. Bankers, manufacturers, and exporters, be they shareholders or not, are seeking ADELA's advice in their approach to Latin American financ-

ing and are opening up a large field of opportunities for cooperation.

Organisation of ADELA

The sizeable and diversified task of ADELA, this need to be almost omnipresent in a large continent, the fact that investment banking requires the support of highly qualified personnel long before its objects of attention render economic returns, and the need not only to support itself, but also to be profitable from the outset, require a high degree of organisational flexibility. The ADELA group of companies, headed by Luxembourg-incorporated ADELA Investment Company, now includes three subsidiaries operating throughout Latin America, namely ADELA Compañía de Inversiones S.A. (an investment subsidiary), ADELA International Financing Company S.A. (a financing subsidiary with a banking charter) and ADELATEC, whose functions of technical and management assistance have been mentioned before. ADELA has local subsidiaries and branches representing the company in eleven Latin American countries. A branch office in Zurich, Switzerland, is in charge of the treasury and liaison with the international financial markets and provides administrative services. A full-time representative is maintained in Washington, serving as a link to ADELA's US shareholders and the international development agencies.

Financial Results

ADELA has been profitable from its inception by initially investing its capital resources in short-term Latin American financial paper during the search and preparation period which the long-term investments require. At the end of its fifth operating year in June 1969, ADELA will have earned an annual net profit equivalent to 6 p.c. of its present equity capital, in addition to capital reserves of US\$ 4 mn earned in previous years. A consistently larger percentage of this profit is apportioned by the long-term investment activity in form of dividends or capital gains from the sale of investments which have reached sufficient maturity to attract other investors. By the sale of such investments, ADELA can utilise its capital resources for new ventures on a revolving basis. During the 1968/69 fiscal year, compared to 1967/68, ADELA's total assets have increased by 75 p.c. and net profits are 90 p.c. above last year's level. During the same period operating expenses have increased by only 40 p.c.

In view of this profit performance and in order to avoid the dilution of the return of investment for existing shareholders, the issue of new share-capital has recently been discontinued. The further growth of the company is assured by the availability of large, firmly committed borrowing funds, while the form and extent of possible new capital subscriptions is being studied.