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ADELA - Development Company for Latin America

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Gentlemen, how did ADELA develop?

The idea of founding such a company was advocated by leading European and US internationalists in both the private and public sectors. In the early sixties the western industrial nations recognised the necessity of intensified international cooperation in the field of public and private development finance. ADELA was established by a group of leading European, US, Canadian and Japanese financial, manufacturing and commercial enterprises in 1964 with the objective of contributing to Latin America's economic development through the application of private enterprise principles. Accordingly, ADELA in carrying out its development objectives is expected to and has since its formation operated profitably. The ability to operate profitably has permitted ADELA to expand its capital base over four fold since its formation and has permitted the company to obtain loan funds from both private and public sector financing sources.

One of ADELA's main activities is the investment of its own and outside funds in Latin American enterprises. Who raises these funds?

At present ADELA disposes of capital and reserves of $72 mn and of credit lines of $295 mn – bringing the total funds available to $367 mn. The equity originates from private corporations in the USA (35 p.c.), Canada (8 p.c.), Europe (47 p.c.), Japan (4 p.c.), and Latin America (6 p.c.). ADELA's credit lines are principally provided by its banking shareholders; in addition ADELA maintains very close connections and working relations with non-shareholder banks and financing institutions. Moreover, ADELA has obtained long-term credit facilities from such international and public financial institutions as International Finance Corporation (IFC), Inter-American Development Bank (IDB) and Kreditanstalt für Wiederaufbau (KW).

Forms of Financial Assistance

What are the different forms of financial assistance ADELA can give?

The taking of minority equity participations is fundamental and essential to the concept of ADELA and as such constitutes the cornerstone of ADELA's investment activities. ADELA's average equity participation does not exceed 25 p.c. of the capital of the enterprises in which it invests. The equity participations are frequently complemented with medium- and
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long-term loans, since the small to medium size companies in which we concentrate our investment activities normally do not have access to other than short-term borrowings, ADELA's other lending activities cover a broad range of terms from 6 months up to 5 years.

Another important area of ADELA's financial activities involves the providing of medium- and short-term financing to Latin American enterprises. The main purpose of the lending program is to satisfy part of the high demand in Latin America for medium-term financing and to introduce and establish non-traditional Latin American borrowers in the international lending market.

Finally, ADELA provides a broad range of financial services, ranging from financial consulting to underwritings and placements.

Does ADELA always wait until a Latin American company approaches it, or does it also develop an idea first and then start to look for a business partner?

ADELA to an ever increasing degree identifies opportunities and takes the initiative in the structuring and implementation of projects. In this catalyst role ADELA works closely with local investors. Taking the initiative with respect to investment opportunities permits the channelling of scarce investment funds in projects of high economic impact.

Has it happened that one of ADELA's shareholders has exercised pressure on the company to implement a certain project that is of particular interest to him?

This is a question we are often asked by outsiders. It was put to us by Swedish Television recently in a slightly different wording. The answer is: it has never happened. Our shareholders adhere very closely to the original concepts and objectives of the company.

Dual Objective of Investments

Each ADELA investment is supposed to be both profitable and development oriented. Are these two objectives compatible?

This dual objective is admittedly often difficult to achieve in perfect balance, especially if one considers that ADELA has undertaken over 120 different investments in Latin America since 1965, and if one takes into consideration that the development objective is essentially long-term, while a purely profit-oriented approach is short-term. Nevertheless, ADELA has been able to attain a balance between the two as evidenced by its sustained profitability since formation and development impact in Latin America. During the last Board of Directors' meeting it again was made clear that from the shareholders' standpoint, the two goals that were established for ADELA when it was founded continue to be very much valid today.

What are the main development factors you take into consideration when you pre-evaluate a certain investment project?

A very important factor taken into consideration in our evaluation process is the job creation effect of a project, since unemployment and underemployment remain one of the most critical problems in Latin America. This explains our commitment in the tourism sector, which is a highly labor intensive industry creating a large number of jobs per investment dollar and is particularly suited for areas with relatively scarce natural resources and dense populations. Another important factor that is taken into account in the pre-evaluation of a project is the contribution it will make towards export earnings. We have a number of investments in companies which export a significant amount of their production. To give an example: Armat Metalúrgica S.A. is an enterprise in Chile which manufactures copper products, with special emphasis on the production of coin blanks. An important factor in our decision to participate in this company was the fact that it uses one of Chile's principal natural resources, converting it into semi-finished products of considerable added value. We have assisted the company not only with our equity participation, but also in helping it to carry out its export program. In this connection we have provided financing and performance guarantees necessary for winning foreign sales contracts. With ADELA's help Armat has exported coin blanks to countries such as Argentina, Iran and Thailand.

Cooperation with Governments

How far does the cooperation with Latin American Governments go?

Our relationship with governments is characterised by mutual respect. We normally do not participate in joint ventures with governments since our interests and objectives with respect to a given project are usually different. Clearly, we would not go into a project which is not in harmony with the government's declared plans. As an equity investor, ADELA must and does take into consideration the long-range development plans of each government. Since our local private partners and ourselves plan to be continuous investors in each of the countries of Latin America, we avoid those sectors which the government has declared, or there is a reasonable risk that it will do so.
at some future time, to be in the public domain.

This does not prevent us from cooperating with governments in the project planning and promotion stage. This has been the case in quite a number of tourism projects and in high economic impact projects. For example, in land-locked Paraguay, with the endorsement of the government, our consulting arm, ADELATEC, has prepared a study on the feasibility of a barge transportation system similar to that used on the European waterways. This study has been finished and we are now in the process of organising the company with local Paraguayan partners and a European know-how partner who will assist in the technical implementation and management. This project will have a significant impact upon the economy of Paraguay since it will considerably reduce transportation costs.

Development of Capital Markets

Another explicit aim of ADELA is to develop capital markets in Latin America. What can ADELA do in this field?

There are basically two things ADELA can do. First of all we make it very clear from the moment we invest in a company that we are not in permanently and that when we sell our participation, we will seek to sell it to a large group of small local investors, so as to give them access to the company. Secondly, we are trying to assist in modifying the old commercial codes by which, if you had anything less than 51 p.c. of the equity, your rights as a shareholder were minimal to nonexistent. We also seek to encourage governments to provide incentives patterned, after the successful type of legislation Brazil has enacted, for companies that are willing to go public.

Your policy to invest only up to 49 p.c. of the total equity falls in line with the aims for example of the Andean Group to allow foreign investment participations of at the most 49 p.c. Do you think that this will stimulate the activity of ADELA in these countries in the future?

The reaction among the private sector of the Andean block countries to the measures against foreign investments—not only the 49 p.c. foreign participation clause, but others as well—makes it apparent that these measures will not improve the general atmosphere for private investments. Furthermore, the utilisation of scarce local financial resources to buy out existing investments will serve to divert funds from development of new projects, reducing economic growth. Since in our investment policy we must necessarily join forces with a country's private sector in implementing projects, our investment opportunities logically tend to diminish where the local

Main Tasks of ADELA:

The main task of ADELA Investment Company S.A. is to foster socio-economic progress in Latin America through providing development services, technology and capital as a minority investor to economically viable new projects for the expansion of existing enterprises. In furtherance of its objectives the Company also provides medium- and long-term financing which it in turn refinances through borrowing from banks and international finance institutions. The granting of loans with terms beyond 5 years will usually be connected with an equity investment in the recipient company or stock options or conversion rights. The outstanding capital stock of ADELA at this time amounts to US $ 61.2 mn. ADELA’s over 240 stockholders from 23 countries hold between $ 100,000 up to a statutory limit of $ 1.5 mn of the Company’s equity.

ADELA’s main activities are the following:

- Investment and loans of its own or borrowed funds in or to private enterprises that are important to the economic and social progress of Latin America.
- Consultation on management problems and transfer of technical know-how and professional services.
- Promotion of private investment activities of third parties in countries that offer suitable conditions for private capital investment.
- Assistance in the formation of local and regional capital markets and promotion of efforts directed towards Latin American economic integration.
- Cooperation with corporations in trade, industry and finance of the countries where ADELA's stockholders reside and that are interested in capital investment and the economic development in Latin America.
private sector feels that the economic and investment outlook within a country does not merit their own support.

Profit and Technology Transfer

One of the main arguments used by Latin American technocrats against foreign investments is that the transfer of profits is not done openly but through higher internal pricing. Is this an argument that could be used against ADELA?

This argument does not concern ADELA directly, since the criticism is generally levelled at foreign wholly-owned subsidiaries where the identity of interests as between the parent and subsidiary are more conducive to such arrangements. As a purely financial investor limited to investing in Latin America, we must insist that our investments not only contribute to development, but also make their profits in the corporate entity in which we are the partners.

It should be made clear, however, that transfer pricing itself is one of the most complicated fields in accounting and that many companies have not even internally solved transfer pricing problems which are vital for their own profit centres. That is why we have never stopped alerting our shareholders to the absolute need for fair, logical and transparent solutions in this area for their Latin American operations. It is quite obvious that the future will bring stronger controls from host governments regarding local profitability and very strong measures in line with growing nationalistic tendencies against such companies which are unable to satisfactorily support their transfer pricing systems.

Another argument is that technology transfer from industrial countries—licensing, know-how arrangements, etc.—is too expensive and often not adequate for developing nations.

If we invest in a company our primary interest is in seeing that this enterprise gets the best know-how it can. We therefore try to obtain the optimal technology for an optimal price, either from one of our shareholders or from a non-shareholder. Naturally you could again ask what is the “optimum” price. But we think that the arguments which all foreign investors face from the receiving side with regards to technology transfer—high prices, wrong technologies—are often more political than practical. The few glaring examples found in most countries of overly sophisticated plants or of plants whose capacity exceeds the local market serve to make this line of argument a popular one. The irresponsibility of the very few foreign companies, which are guilty of such practices, tends to overshadow the overwhelming amount of useful technology provided to the developing countries, and without which their development would be seriously retarded.

Capital In- and Outflows

The problem probably originates from the fact that most critical studies on foreign private investments compare only the capital inflow into a country with the capital outflow in form of profits, royalties, etc. But they seldom consider that these investments might create employment, exports, etc.

The fact is that ADELA is limited by its statutes to investing in Latin America. So all profits generated eventually wind up in Latin America again in one form or another. Therefore, ADELA is able to demonstrate that as a result of its investment policy during the last 6 years, the capital it has channelled into Latin America has been far in excess of any outflow. There has been rotation of a number of investments as a result of very sizeable profits having resulted from a few investments. But there is no danger that ADELA’s profits in a certain country will be larger than the capital inflow—barring, of course, unexpected political and economic developments.

Furthermore, such charges fail to take into consideration direct and indirect non-monetary benefits resulting from foreign investment in the form of creation of employment, exports, technology transfer, etc.

What is your opinion on the outlook for economic development of Latin America?

When we talk of development we think in terms of providing jobs and opportunities for people. There are many critical problems in Latin America, the most critical one being chronic unemployment, which is necessarily compounded by the population explosion. Many countries are faced with net increases of population by 2 to 3 p.c. per annum, while unemployment rates run at the rate of 10 to 15 p.c. So one of the important governments tasks will be to somehow control the population growth with all the difficulties this entails, while the private sector will have to provide a mechanism and the leadership for investing scarce resources in productive ways as to provide employment opportunities. We assist the local private sector in this task.

Admittedly there are many countries which tend to show an economic and political pendulum effect from time to time. But seen from the point of view of the opportunities and resources both human and natural the continent offers, the future prospects are indeed positive and challenging.