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*The Story
of the Latin
American
Agribusiness
Development
Corporation
(LAAD)*

Robert L. Ross

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The Story of the Latin American
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To
Tom Mooney

Without whom, we
would not have made it

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Foreword

All successful companies have a story to tell. The Latin American Agribusiness Development Corporation has its own and it is a very special one. For this reason, the Board of Directors wanted to put it in writing so that future generations of employees, directors and clients would know about the pioneer years of this great little enterprise.

LAAD has a very rich tradition, obtained through almost thirty years of dedication, innovation, flexibility in dealing with difficult situations, and mainly perseverance, without which we would not have survived these difficult first years. Robert Ross, LAAD's president since 1972, provided excellent leadership during most of the life of the company. As he approached retirement, the Board decided this was a golden opportunity to have the company history written by the person most qualified to do so.

For those interested in modern Latin American history and evolution, reading this book is a must. These are the historic facts as seen through the eyes of a small financial company at the mercy of the always volatile Latin American marketplace. The destiny of LAAD was so dependent on the Latin American economies that their histories largely dictated our own and this influence will continue as long as the company exists.

We thought our story worth telling. We sincerely hope you will enjoy reading it.

Gonzalo J. Dal Borgo
Chairman of the Board

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Preface

I wrote this book at the request of my Board of Directors. It narrates the nearly thirty-year history of an unusual company created for the purpose of financing and encouraging private agribusiness enterprises in Latin America. The Latin American Agribusiness Development Corporation, better known as LAAD, was a creation of corporate America. Latin America is, after all, a major market for American agribusiness.

At its inception, LAAD represented a challenging idea with a modest capital base. Even today, it remains small by American standards. Thirty years later, its cumulative impact on the region is statistically barely measurable. Yet, in agriculture, the story was quite different. By focusing its efforts, LAAD was able to play a significant role in financing the small players in what has become an agricultural revolution in Latin America. Our clients were the frontline fighters in this revolution. People were our real business. LAAD may be judged by numbers, but it is individual work that creates them.

I begin this book by describing the world as it was when our shareholders decided to form this venture thirty years ago. They lived in a very different world from now, one full of conflict and ideological rivalry. The world was divided into three major ideological camps, each jockeying for position and advantage. Many American business leaders sought ways of engaging themselves and their companies constructively in this conflict.

This book focuses on the key actors; including clients, directors, and management. This is above all their story. The book contains an approximate chronology of events, but I have tried to use the chronology to illustrate a point or to highlight the individual clients we financed.

I undertook to measure and analyze the results both in terms of development and of the financial performance of the company. The reader will find no theoretical advance in his understanding of the development process. He will find how one company coped with an idealistic mission in a real world of financial crises, political uncertainty, civil unrest, and volatile commodity markets.

This book also has much to do with my professional career, involving over twenty-six of the thirty-eight years I spent in the field of Latin America's economic development. Trained in the ideologies and languages of the Cold War, to me the challenges of developing the Third World easily outweighed the directionless nuclear stalemate of the two superpowers.

In 1960, David Pollock, a Canadian economist in charge of the U.N. Economic Commission for Latin America's (ECLA) Washington office, hired me as his assistant. David taught me my first lessons on Latin American theories of economic development. This assignment coincided with the launching of the Alliance for Progress, the first American policy of constructive engagement in Latin America following the end of World War II. President John F. Kennedy was faced with his first Cold War challenge in the Western Hemisphere following Fidel Castro's taking power in Cuba. Seeking the moral high ground, he consulted Latin American leaders and economists, who

recommended that the United States take a strong stand in favor of economic and social reform. The most influential of the Latin America leaders was Dr. Raul Prebisch, the head of ECLA. He argued persuasively that the region was falling behind economically because of "structural rigidities" in a region dependent on supplying raw materials to the world and receiving high value goods in exchange. Dr. Prebisch's ideas provided the ideological underpinning to the Alliance for Progress.

The Alliance chose to send a major planning mission to the region's poorest country - Haiti and I was hired as the assistant to the mission chief. Designing a plan proved a relatively easy task in a primitive environment, but implementing it proved impossible. The Haitian government was rife with incompetence and corruption.

In 1962, Dr. Prebisch sent me to Chile to teach at the U.N.'s Institute for Economic and Social Planning. Upon arrival, I was given three weeks to prepare myself in Spanish, a language I barely understood. I spent three years teaching and doing research on economic development, including half a year working with Paraguay's Central Bank helping to prepare that country's first development plan. Economic planning and social reform were at the top of everyone's priority list in Latin America in those days. People believed that government planning could help jumpstart the region's stagnating economies. The rhetoric rang strong, but at my humble level, I was hard pressed to find any concrete accomplishment from my very hard work.

In the spring of 1965, I was offered a job in Peru with the Adela Investment Company. Adela had been formed the previous year by a group of

multinational corporations from around the world to promote venture capital in Latin America. The company hired me as its staff economist, a job that took me around much of Latin America evaluating investment opportunities. Here was a company that risked its own capital along with local investors in building new production facilities. The company quickly expanded its operations to the entire region growing eventually to nearly half of a billion dollars, a considerable sum in those days.

This became my new world. Venture capital and project financing were at the forefront of developing Latin America in a more direct way than was ever possible in government planning offices. Adela had its successes and failures, but it was always in the front line and its executives all learned valuable lessons from that experience.

In the spring of 1972, I was offered the presidency of LAAD by its chairman, Paul Cornelsen, who was also the executive vice president of Ralston Purina International.

Some months before receiving this offer, Ralston Purina's Chilean subsidiary was intervened by the Chilean government under President Salvador Allende. Ralston Purina and the Chilean government hired Adela as a mediator. I was asked to negotiate with the American side, while Adela's Santiago representative, Edmundo Miquel, negotiated with the Chileans. An agreement was soon reached and signed by all the parties, thereby ending one of the first flash points in the growing tension between the leftist Chilean government and the American administration.

Just prior to the signing, the LAAD Board of Directors had asked Mr. Cornelsen to hire a new

president for LAAD. The timing proved to be fortuitous, as he gave me the first option to take the job. Before accepting, I flew to Mexico City to meet LAAD's representative there, Bruce Berckmans and then on to Guatemala City to talk to Thomas Mooney, a friend and former colleague from Adela days. I frankly harbored doubts about LAAD's viability because of its small capital base and I hoped to dispel my doubts. It was Tom, who with his typical ebullience, persuaded me that the company could succeed based on a \$6 million long term loan he had negotiated for LAAD with the U.S. Agency for International Development. I accepted the offer.

I submitted several drafts of this book to people who knew us best. Benjamin Fernandez, my successor, and a LAAD executive for over twenty years mercifully saved the reader having to wade through an ideological analysis that is anachronistic in today's world. Oscar Alvarez, our treasurer, with the company for twenty years, brought his prodigious memory to shore up my failing one. J. Hunter Martin, our regional vice president and an English major from the University of Virginia, finally took his revenge after years of my correcting his loan proposals. Carlos Julio Ravelo, also a regional vice president, reminded me repeatedly to give maximum attention to the people we did business with.

Among our directors, Ricardo Robles from Cargill went through the draft with his customary thoroughness. Fred Sutton from Monsanto and Warren Leonard from Chase both helped set the record straight many years after the events.

Most importantly, Tom Mooney wrote his own draft of this book based on his long personal

knowledge of individual clients and projects. Many of the examples cited in this book were drawn from his draft.

In the end, of course, I take full responsibility for any and all shortcomings. I hope they are few and outweighed by the historical record and insights of one company's perspective of Latin America's postwar development.

Introduction

The Cold War may seem like an unlikely beginning to our story, but it is. In 1962, then Senator Jacob Javits, Republican of New York, speaking at a NATO parliamentary meeting in Paris, called on private business in the industrialized world to take the initiative in assisting private enterprise in what was then called the Third World. He argued that the development institutions of the free world were government controlled and that multinational corporations were better suited to promote private entrepreneurship in the poorer nations of the non-Communist world.

At the time of his speech, virtually all of the financial assistance being channeled to the Third World was provided by international development institutions like the World Bank, the United Nations specialized agencies and bilateral aid agencies of individual governments, such as the U.S. Agency for International Development. Western companies were investing for their own account in the Third World, but Senator Javits was calling on them to cooperate in stimulating local private enterprise as a matter of enlightened self-interest. The Second World (the Communists and their allies) sought to expropriate and collectivize private property in the Third World as a way of weakening its rivals in the First World (the industrialized democracies). Its reasoning was ideological and

political/military. Private enterprise worldwide was very much at the center of the Cold War debate.

Senator Javits' speech attracted the attention of key world business leaders, including George Moore of the United States, Marcus Wallenberg of Sweden, Gianni Agnelli of Italy and Frederik Philips of the Netherlands and many more. They, in turn, encouraged other corporate leaders from around the industrialized world to join. Over time, four separate private companies were formed and funded by large multinational corporations for the sole purpose of financing and encouraging private enterprise in the Third World.

The first of these, the Adela Investment Company (Adela) was incorporated in Luxembourg in 1964. Its focus was venture capital in Latin America. Within months, the new company had hired a managing director, Ernst Keller of Switzerland, and had established its head offices in Lima, Peru.

Within a few years, three more companies were incorporated and capitalized around the world. The Private Investment Company for Asia (PICA) set up its headquarters in Tokyo. The Societe Internationale pour le Financement de l'Investissement en Afrique (SIFIDA) operated out of Geneva, Switzerland. Finally, the subject of this book, the Latin American Agribusiness Development Corporation (LAAD) held its first Board of Directors meeting in New York City in January, 1970.

The largest of these companies was Adela, which pioneered the concept. It was initially capitalized at \$16 million, but quickly doubled that figure. It eventually included 220 of the world's largest corporations from North and South America, Western

Europe and Japan. Ownership was carefully regulated to prevent any one company from controlling Adela. It was truly a multinational initiative and it attracted professionals and executives from around the world. It operated throughout Latin America and the Caribbean. It specialized in providing venture capital to new and expanding businesses in a wide range of economic activities, but it also provided technical, managerial and underwriting services to the region. It sought to invest as a minority shareholder in new businesses and then sell its shares locally once the business became profitable. It set up offices throughout the region. Adela's assets quickly grew in response to the shortage of venture capital in Latin America. They eventually peaked at almost \$500 million in the mid-nineteen seventies.

The smallest was LAAD. It was capitalized at \$2.4 million and was also designed to operate in the same countries as Adela. Its primary mission was to strengthen private agribusiness enterprises in Latin America. Its shareholders were twelve multinational agribusiness and financial institutions with major trading and investment interests in Latin America. Its intended market was the entire agribusiness sector from farm production to retail marketing. Its intended clients were medium and small agribusiness firms.

The founding shareholders were:

The Adela Investment Company *
Bank of America N.T. & S.A.
Borden Inc.
Cargill, Inc.
Caterpillar Tractor Company *
CPC International Inc.

Dow Chemical Company *

Gerber Products Company

Deere & Company

Monsanto Company

Ralston Purina Company

Standard Fruit and Steamship Company

*Indicates shareholders who later sold their shares back to LAAD.

Subsequently, five more corporations joined, including Chase Manhattan Bank of New York City, Girard Bank of Philadelphia, Goodyear Tire and Rubber Company of Akron, Ohio, Rabobank Nederland of Utrecht, the Netherlands, and Southeast Banking Corporation of Miami, Florida. Girard Bank was subsequently bought by Mellon Bank, which sold its shares back to LAAD. The company repurchased all of the shares held by Southeast Banking Corporation from a bankruptcy court following a public auction.

Over the years since its inception, LAAD evolved from a wish list of good intentions to a profitable corporation specialized in financing agribusiness investment projects in a competitive world. LAAD has faced all of the business risks associated with agriculture, such as weather, market fluctuations, and physical isolation; the personal risks of working in countries racked by insurrection, kidnapping, and murder; the political risks associated with expropriation and exchange control; the economic risks of inflation and devaluation; the legal risks of operating in over twenty judicial systems; and the managerial risk of operating in twenty-five countries, each with its own business ethics and practices. Dealing with

these risks in the real world has been the daily fare of management and directors.

LAAD's mission of promoting private investment in rural areas has remained unchanged from its first board of directors meeting until this day. Although LAAD operates as a private, for-profit company, the developmental mission of the company remains paramount when selecting projects and clients. Managers and directors debate development strategies and periodically review the economic and social impact of our investment activities. We had to stay focused both on our primary mission as well as our need for financial viability. LAAD had to be profitable in order to pay back its obligations and to grow. Profits were also necessary to motivate management to improve its performance. But, above all, profits were important to show that agriculture in Latin America is viable and bankable despite its reputation of high risk.

During this period, Latin America itself evolved from an inward-looking region to becoming an active participant in global trade. State tutelage gave way to private initiative. Agriculture recovered from decades of stagnation and agrarian reform to become a dynamic partner in the region's economic growth. The rebirth of Latin America's agriculture took years to accomplish and had to overcome periodic financial and political crises. It was measurably helped by the long trade negotiations, which eventually led to the creation of the World Trade Organization.

As LAAD nears its thirtieth anniversary, those three busy decades are still fresh in our memory. We still remember the early debates about priorities, the agonizingly slow start-up, the painstaking search for

financial resources, the civil unrest in Central America, the Mexican default and instability in the commodities markets. But in the end, LAAD managed to leverage the original \$2.4 million shareholders' equity and disburse \$300 million in funding to some 700 private agribusiness projects in twenty-four Latin American and Caribbean nations. Thus, the shareholders' seed capital was leveraged 125 times over twenty-nine years, and the company's growth in loans and earnings continues to accelerate.

LAAD-financed projects are estimated to be generating over \$500 million in yearly new hard currency earnings and to have created over 50,000 new jobs, most of them in rural areas. This has been the bottom line from the shareholders' perspective.

Financially, the company's annual earnings, after loan loss provisions, exceed \$4 million, almost double the shareholders' initial equity investment. Dividends have been paid to the shareholders for twenty years. The dividend rate now exceeds 40 percent of the par value of the shares.

Historically, the Bank of America is credited with being both the intellectual author of the LAAD concept as well as the syndicator of the original shareholder group. Few people may remember, but the Bank of America was very much an agribusiness bank in its formative growth years. Within the bank, Fred Orth, vice president in charge of agribusiness, first proposed it to his bank and he received early support from Bill Bolin, the vice president in charge of Latin America.

Fred argued that agriculture presented unique problems which merited specialized attention. He defined his market sector as being agribusiness, in

recognition of the close link between production agriculture and agroindustry in the modern world. He followed the shareholder structure of Adela, PICA, and SIFIDA with a broad based support from the corporate world, companies with specialized knowledge in agribusiness as well as extensive investment and trading ties with Latin America.

The bank began to sound out some of its corporate clients in the agribusiness field and the proposal was positively received. The bank was quickly joined by CPC International, Inc. (now Best Foods), Deere & Company and Ralston Purina Company. Those four companies put together the final concept paper that served as the basis for structuring the new venture.

The organizing group had hoped to raise as much as \$15 million, comparable to Adela's initial capital, and the authorized capital was set at that amount. Unlike the earlier ventures, the founders agreed that all shareholders would own the same number of shares, and they settled on \$200,000 per company. Clearly, the founders considered their investment as seed money that would have to be leveraged from other sources at a later date. Specifically, they hoped to reach a cooperative relationship with the United States government in carrying out this concept.

The offering memorandum prepared by the intellectual founders spoke eloquently about the danger of worldwide hunger and depressed conditions in rural areas. It pointed out the growing interest of the United States government in seeking to involve the private sector to deal with these twin problems. It justified participation by other private corpo-

rations on both humanitarian grounds as well as enlightened self-interest.

It argued that smaller investments of less than \$1 million would be the most effective way of accomplishing their objectives. The memorandum emphasized that market considerations would dominate investment decisions. Most of the guidelines set down in the concept paper were in fact incorporated into LAAD's Articles of Incorporation and the company's operating policies.

This narrative provides an historical record of one corporation's experience during a period of historical economic and political transition in Latin America. It offers insights into matters of management, risk assessment, problem solving, as well as of the region's economic development.

A basic philosophical and operating tenet of LAAD has been its emphasis on people, which explains why specific names of persons appear frequently in the text. Corporations and institutions do not make things happen. People do.