BANKS, CREDIT AND CULTURE

Cross border lending and credit ratings, their effectiveness and the impact of cultural differences.
Volume 2 - Annexes

A thesis presented by

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In partial fulfilment of the requirements for the degree of Doctor in Business Administration

School of Management
University of Bradford

2005

ANNEX 1. TRANSCRIPT OF SEMINAR

1. WEDNESDAY MARCH 24

OPENING CEREMONY

1.1. Welcome to the Seminar

by Gert Jan Mulder, moderator

Good morning, ladies and gentlemen. I would like to welcome you all to our conference here in Punta del Este, the theme being the future of relationship banking, I would like to welcome every one of you. Unfortunately I did not have the opportunity to reach you all in person but we shall have plenty of time in the coming three days to do so.

I would like to give a special welcome to the Ambassador of Germany Mr. Krieghoff, a special welcome to our co-sponsors, the FMO and the DEG. Here present are the chief operating officer Mr. Nanno Kleiterp, a very dear friend of ours, and the regional manager for Latin America, Mr. Hendrik Lühl. The Dutch Ambassador had to apologize, as the Queen Mother in Holland passed away, at the age of 94 a couple of days ago, and opening today our condolences are registered in Montevideo at the Dutch Embassy.

I will briefly touch upon the program of this morning. We have invited the Ambassador of Germany to say a few words to open the conference, then follow introductions by Mr. Kleiterp and Mr. Lühl on their respective organizations, being the co-sponsors, as well as my dear friend and colleague John Beauvois, who will say a few words on DBA. We will finish off with a small panel discussion. As you can see in the program it is about the Germany-Holland relationship. Part of our program is on relationship banking and on cultural differences, and we shall try to touch upon that in our little panel discussion of this morning, following which you will all be kindly invited for a drink at the pool followed by lunch here at the Conrad.

First of all, why did we organize this conference?

I would like to start with a statement of Edward Hall, who is an anthropologist. You all saw one of his statements in the formal invitation (to this conference). In a recent interview, when asked the question of what makes people manage a successfully in international missions, to be sent abroad by companies on expatriate careers, following sixty years of studying this issue he said that those

people need to have the capability to make friends. And that in our humble opinion is the main objective of this conference. We would very much like and we also truly believe that the way of conducting business, no matter in what area of the world you are, indeed rests upon this premise, of people having the capability to make friends. We as DBA took initiatives previously and brought people together in small settings, in the past couple of years.
The idea was to organize this event in March 2001, but due to the tragic developments in Argentina we had to postpone this.

The structure of the program and the topics are an abstract of some papers I am preparing for my DBA thesis. My DBA thesis is a doctoral thesis in Business Administration, and I am very happy that I can use this opportunity for you all to help me with my research for that. We are prepared, we have a survey prepared and my colleague María Solá will during this conference try to have a short interview with each and every one of you, a short questionnaire with 20 rather nice questions. I think it is going to take about five minutes, and Maria will approach you.

Besides the welcome session we have three parts. The first is banks and banking, that will be this afternoon; tomorrow we have credit and credit rating, followed by a leisure program. In your folders, among the papers you got, there is a form where you are kindly requested to state in which of the events you would like to participate. If I am well informed most people are likely to accept a ride on a catamaran which is for 45 or 50 people. Others who are afraid of water may decide to come with me to play golf at the Club del Lago. It is a nice golf course. For those of you who prefer to go fishing we have a boat ready for you to get this big fish, what do you call it, the one you get here with the sharp nose? Not sharks I hope?

We approached the speakers individually, based upon giving them some suggestions on the different subjects. We are very appreciative of those who have accepted, very appreciative, we know that if one is being asked to give a presentation in a conference one hardly ever meets people who say “I’d love to do that, please, could I?” Most people avoid it if they can, but we found some brave people. We are very happy that they accepted.

The other thing I would like to mention, is that although people speak here on behalf of their organizations I would like, for the sake of the discussion which we would very much like to have with you, and an exchange of opinion, that opinions are considered private. It is not necessarily the opinion of your organizations. I did not check with my colleagues whether they approved or not of what I was going to say. In fact I do not know what I am going to say.

The other point is – I won’t skip it, I will say it anyway –ontological relativism. For me it is the philosophical view on which I try to build my thesis, and it accepts that people are different depending on where they come from. People see reality completely differently. And they accept those differences, and that it is very difficult sometimes, very often impossible, to cross those differences, or to settle those differences. I come to speak about that a little bit later.

My doctoral research I mentioned already… Objectives for these days: as far as we are concerned in a way it has been achieved, because you are all here. I must apologize, some advised us that three days was a little bit too much perhaps, so we know that you all made a great effort to be here. Some people cannot attend the three days, some come today and they have to leave in the afternoon, some others come tomorrow. I think altogether we have some 75 participants, there are still people calling to see whether they can join.

Also we realize that there are a lot of colleagues and friends who tried very hard to be here and they could not, because their organizations did not let them. Maybe next time they will manage. We also have people who made an enormous personal effort to be here, and we are very appreciative of that.

We would like to have some lively discussions, no monologues, for that we will have moderators, I will try to do one (part), and I found Nanno and Hendrik more than enthusiastic to share each of them a part.

We really wish you to have a very nice time, please enjoy, we will try to keep you in here as little as possible, because outside it is really beautiful. Make friends, that is the idea, and we very much thank FMO and DEG for having accepted our invitation to be co-sponsors, and we are very appreciative.

Mr. Ambassador, may I invite you to take the floor?

1.2. His Excellency the Ambassador of Germany

Mr. Jürgen Krieghoff

Mr. Mulder, ladies and gentlemen, I will continue to be brief in my address here. In my capacity as an ambassador I cannot enter into details about your business, you know it far better. What I understand is that the administration and governments have to provide for you a framework, a legal one and a real existing framework in which you are able to cope with your problems as thoroughly and as best as possible for you.

This was one of the reasons in 1957 for which the European Economic Union was founded for and that is the main reason, every day more main reason, for the existence of the European Union. The European Union today has not the same contents as its had in the beginning years, where six countries started an economic cooperation with a very large, difficult and complicated political background, it was a political situation in Europe after the Second World War and today we are looking forward within a couple of weeks, on the 1st of May to enter another 10 countries to the European Union. The purpose, the idea behind the advantages these countries see today for entering Europe, is not just exchange of trade or goods, it is both economic advantages and political stability, and I think security as well.

So we in Europe are even today, after 50 years of existence, in favour of this type of integration, not just cooperation between countries in the neighbourhood, and that is why we support very strongly the development process of Mercosur, and also hoping that we can conclude, by the end of this year or even by the end of October, a bilateral agreement between Mercosur and the European Union on economic but also a lot of other items, for example social and so on.

To reach and integration as we have it in Europe it was necessary to go through more than 50 years. Mercosur has now existed for 10 years and what it needs is the common conviction of the leading politicians that they have to do this and nothing else. So it seems as if the political situation in the area, especially in the Mercosur countries, is in a good and prosperous thinking, at least, at this very moment I would say that the leading politicians of the four member states and maybe one of the other associated countries here are really willing to integrate more than ever before. These are the situations to be taken to make some progress. It needs some very courageous decisions in the area.

But we have to accept that policy and economics today are no longer national, especially smaller countries, as Uruguay is one. Holland considers itself also a small country in Europe but by far it is not the smallest one, there are ten or twelve smaller behind now, it is all relative, but all these existing problems, especially on a psychological basis, can be overcome if one wishes to do so.
Therefore we need a political and legal framework for you to make more, better and effective business.

So I have to welcome and congratulate you, especially Jan, Mr. Mulder, as chairman and John, two Europeans from smaller countries who have organized this initiative, because we believe strongly in Germany, and I can speak also for my Dutch colleague, in international cooperation, even in sometimes difficult political circumstances. So I wish all the best in this respect to our friends here this morning, from the region, and I think the future is in cooperation in the region here, with the European region here, in economic cooperation, financial cooperation, you need in certain respects to trust each other, and in building this up, this seminar is a very good idea. Thank you very much.

Gert Jan: Thank you Mr. Ambassador. Maybe I should clarify, that some of you may not realize that John Beauvois is actually Belgian. Most of you may think that he's Uruguayan, but actually he's Belgian.

1.3. Introduction of the FMO

Mr. Nanno Kleiterp, Chief Operating Officer, FMO

Mr. Nanno Kleiterp: Thank you Gert Jan, I would like to welcome you very much on behalf of FMO on the occasion of the start of this very important gathering, in this very pleasant place here in Punta del Este. I must tell you that I had a very hard time explaining in Holland to people who stayed in the office where it was 60° and raining, that we were coming here to work. It was really difficult. They did not believe me, but, I told them that it is the way working on relationships and partnerships works. It is work and pleasure together. I thank DBA very much for organizing this great meeting and we are very happy that we can co-sponsor it together with DEG, and of course very special thanks to Gert Jan who came up with this very good idea of brining a lot of people together to get to know each other better and in that way, to be able to do better business for all parties involved.

I would like to explain a little bit about FMO, not long because I think most of you know FMO already. For those who do not know FMO but know DEG I can tell you we are very similar. This is the shortest explanation I can give, I hope Hendrik thinks the same. Tomorrow Janos Bonta, the regional manager for Latin America will explain a little bit more about FMO and especially about our activities in Latin America.

For those who do not know we are a development bank, 51% owned by the Dutch government, 49% by Dutch banks, mainly ABN-AMRO, ING and Rabobank, our main private shareholders. We focus in our business on exporting business, and for the Mercosur here present in infrastructure and financial institutions. Something about our results, here is 2003, we faced some difficult years in 2001and 2002, part of those difficult years had to do with the crises in this region, and in 2003 as we see in the countries in this region, although there is not a 100% correlation there is some correlation between FMO results and the situation in the region. The growth of our portfolio in dollar terms was about 10%, the commitments in 2003 were 25% higher than in 2002, and our profits which are also very important indicators were a success, and also in our development impact because we are sure that there is a high correlation between good returns and a good development impact. Our profit went up from 9 million to 29 million last year. The Mercosur is a very important part of our portfolio. Latin America as such is a third part of our portfolio, and Mercosur is one third of our portfolio in Latin America. Until 2001 Argentina and Brazil portfolios were about the biggest and also the best performing, within the FMO total portfolio.

FMO has experienced in the Mercosur a very challenging, dynamic but also very volatile environment. The steep ups and down, and especially challenging to keep our focus and making the right choices. We have lots of good experiences but of course some less satisfying experiences. We have learnt a lot of lessons from that experience because always in a crisis you see a test for the choices you make and it is a test for the relationships you have. And what we can see is that we may say that during the crisis that occurred in Argentina at the end of 2001 and of course the related crisis in the financial system in Uruguay, with the effort we invested in the client selection and the relationships we had an intensified management of our portfolio Our portfolio weathered through the crisis without too many problems, so we are also happy with that in what we see in the results of 2003.

Of course on the other hand we had some clients who ran into difficulties, through a variety of issues such as currency mismatches, and also an issue which we are going to discuss during these days, insufficient corporate governance and in some instances that has even led in those difficult situations to frauds in institutions which meant that we had a very difficult time with some of our investments.

Our strategies are built on knowing our business and environment, recognizing and adequately mitigating, and building on selected local and international partnerships with specialized and focused experience. We aim at the highest quality in all those aspects, we are selective and we focus on those opportunities that can resist economic downturns and on companies that are competitive by international standards. This is part of the experience we have, you really have to stand up to high standards in order to be able to survive in difficult and volatile environments as we have in the Mercosur.

We believe as FMO that we can offer financial services in that high-risk environment. We are a relatively small financial institution and we can offer our services on a very selective basis to those companies which achieve sustainable development. Of course part of the sustainable development are: good returns on investment, but also sustaining minimum requirements for environmental issues, corporate governance and responsible social policies. These are prerequisites for survival in the long run.
Partnerships are very important for us because we are a small institution with only one office, and that office, let's say it's our one official office. We have a lot of unofficial offices, some in Montevideo, with DBA which are partnerships, and we have those partnerships around the world because it would be impossible otherwise, we need to have people and relationships on the ground in order to understand what is happening and in order to let's say build up some business.

We aim at creating synergies, add value and enhance services by creating structures to enable local funding or enhance ratings, especially not in the Mercosur but in other countries like Mexico or Peru we are very active in the capital markets, where we make it possible for medium to bigger size companies to access the capital markets with bond issues with partial guarantees from FMO. We can also assist at the level of corporates through syndications and enhancement, as well as at the level of funding for financial institutions for small and medium enterprises. Knowing each others' priorities, we believe in developing deep and interactive partnerships. We are thinking about our mission which is of course creating sustainable development, and then we have three Ps, which are: Profits – Partnerships – Professionalism. So partnerships are key in what we do.

One of our most successful partnerships is with our colleagues of DEG. We have been working very hard on it we have a long tradition working together, we have been working especially hard during the last two years, to intensify it, to make it as positive for the client as possible. So we strive to use each other's appraisal reports, combine missions, and use the other's proposals for both credit committees, and harmonize legal documentation to mention a few, so that is really a far-going working relationship, a far-going partnership. As an objective for you, that we can offer efficient financing in bigger amounts, for the benefit of our mutual clients.

I would like to say that this meeting is about constructing partnerships, the building of networks, and we are here to learn. We are here to learn what you are doing, in a very great extent we know, because we know a lot of the people who are present but we want to know more about you, and we want to learn more about ourselves. And I think I would ask you in a similar way as what Gert Jan said, please be very frank on what you see that we as FMO can do better in working with our clients, with you as our clients, and also the prospects here present, and also, what can we do better to be better partners and to have a better cooperation. So criticism is very welcome, and do not hesitate to mention them to me, to Gert Jan or to John, because this is the way that we can improve and become a better financial institution and better partners.

As mentioned, I am very happy that we supported this meeting, and I wish that you and me and we all have very fruitful discussions, and especially that we learn a lot about each other.

Thank you very much.

1.4. Introduction of the DEG

by Mr. Hendrik Lühl, First Vice President,
Regional Manager for Latin America, DEG

Ladies and gentlemen, Mr. Ambassador, first of all I would like to thank DBA, Gert Jan and John and their colleagues for organizing this. I have to tell you, we did not have a discussion coming here, because I did not tell too many people!

We are very pleased to be here with our colleagues, and I would like to start by presenting those colleagues to you. In the first place I would start with my colleague Karl Heinz Kolz. Karl Heinz is in charge of our existing portfolio in Latin America. We have a different structure and organization than FMO (maybe we can discuss this in the course of this seminar) and he takes care of all projects which have been disbursed, and takes care that these projects are performing well, a very important job. Then I would like to introduce Karl Weinfurtner, he is the head of our agribusiness department. I understand that more than 50% of the participants come from the agribusiness sector. I think he is your discussion partner in that respect. Finally I would like to introduce Thomas Kessler, he runs our office in Brazil.

Nanno, you mentioned that you have only one office in The Hague, well, DEG has three offices: one in Cologne and two offices in Latin America, one in Brazil and one in Mexico. We have a number of offices in Asia too, so this is one other item where we are different from FMO. Nanno mentioned results. I was not prepared to talk about this but DEG had a record year in 2003. We had a record volume of commitments of more than 500 million euros, and we also had a very good profit despite some problems, also in Latin America.

Since Nanno mentioned it, if you know DEG you know FMO, though he has not presented FMO very much. Let me just briefly go through my presentation, through I know it is much too long…

(Slide # 1) DEG is not 51% private, like FMO, but rather we are 100% owned by KfW. I think most of you know KfW, one of the largest financial institutions, and I think some of you have worked with KfW in the field of export finance.

These are some general theses, I will skip through this…

(Slide # 4) I think what is important is that both FMO and DEG are not just institutions where you file applications and then we say yes or no, we would like to offer you tailor-made financing, to sit together with you, discuss the structure, make proposals, and come to a solution, which is in the interest of you as our client and also in ours as being your lender.

(Slide # 5) These are some financing criteria which are important for us. I think I do not have to explain most of them. I think we shall have a discussion tomorrow about corporate governance, a very important item. DEG has, as Nanno mentioned fraud, suffered a very substantial loss in the Dominican Republic because of bad corporate governance in one of the banks, so I think this is becoming more and more important.

(Slide #6) What we offer as I think most of you know is long-term loans, mezzanine finance and equity. The traditional instrument we have offered to Latin America and also other parts of the world is long-term loans, and this is the bulk of our business today, but we are looking more and more into possibilities of providing mezzanine finance, because we feel this is a very interesting instrument in cases where additional equity is needed. Since most of the companies specifically also in the Mercosur are private companies owned by families, it is often very difficult for us to offer private equity, or we can offer it but in most cases it is not accepted, so mezzanine finance might be a solution to solve the problems of the projects of our clients and also give some attractive returns to DEG.

(Slide # 11) I will skip through the specific conditions of our loans and will show you some figures. Here you see the development of the DEG portfolio since 1962 when DEG was founded until 2003. The development in Latin America has been accordingly but very volatile. We had record years and then very bad years. I think it reflects the situation in Latin America. So coming to our exposure in the region we have a portfolio in Latin America and the Caribbean of presently 555 million euros. As Nanno mentioned already we are not a very large institution but we are more the partner for the smaller and medium-sized companies.

(Slide #14) So this map shows you our engagement in Latin America. As you can see the biggest country is Brazil, that is not only because Thomas has been there for three years, creating a lot of business, but Brazil traditionally has been a home market for DEG, because still part of our business is with German countries and as you know Brazil and Mexico are the countries where the German industries have most of their investments in Latin America. We still do a certain percentage of our businesses with German companies. We still have room to improve our business in Brazil, we have a country limit but we have a long way to go, so whenever you have proposals we are very interested in discussing them.

Argentina has come down. We did have a very large exposure in Argentina, we have not done too much business in Argentina over the last two or three years due to the problems you all know, but we have started business again, some of our clients are here. We have restructured very substantially our portfolio in Argentina, and I think Karl has accepted one or two problem projects. We now have a clean portfolio and we are very happy that we came through the crisis without any major problems, except one in the financial sector, without any major problems.

The third country is Uruguay. I have to say that luckily DEG had not invested in Uruguay until last year or so, so we do not have a bad track record in Uruguay. We decided to look again into Uruguay again early in 2001, I think Thomas because we felt that Uruguay at that time was a country which DEG would like to support, you all remember that 2001 and 2002 Uruguay ran through a very deep crisis. It took us a long time to convince our management to engage ourselves here. We found interesting partners, some of you are here, and we started our business in Uruguay and we would like to continue over the next years.

Let me talk about sectors. Sector-wise we still do most of our business in the manufacturing sector, but we are very interested in increasing our engagement in the agro sector, and that is also why Karl Weinfurtner is here. I think this Mercosur region is a region where we are specifically looking for agro projects. And we have done a few new efforts now in Brazil to talk to companies in that sector, and that is why we are very interested in being here to talk with you.

To summarize, DEG is a long-term partner. We come when the weather is bad and we do not run away when the weather is bad. So I think therefore a relationship between yourselves and DEG, I think the same with FMO, is of interest for both sides. We do cooperate very strongly with the commercial banks, some of them are here today, we do not compete with them, DEG is largely going to the long end whereas our commercial friends from the commercial banks are more interested in shorter periods, so we cooperate very strongly with them and therefore we are very happy that some of them are here today.

That is what I wanted to tell you today. Again DBA thank you very much, I am looking forward to talking with you in the next two days, and I fully agree with Gert Jan, it is very important that we not only present ourselves but talk a lot, make friends and have two enjoyable days. Thank you very much.

Gert Jan Mulder: Can I just ask you to comment for a few minutes on mezzanine finance, because perhaps some people missed the explanation?

Mr. Hendrik Lühl: Well, mezzanine finance is a very broad instrument with many different features. Mezzanine is in between long-term senior debt, normally secured with assets or secured by bank guarantee, or with an ECA or whatever, and on the other side is pure equity. It is usually not secured, it is an unsecured loan, it is often paid back in one shot at the end of the period but has a risk character. It is regarded as quasi-equity. It is a very important instrument specifically for the banks because of laws and regulations, part of it is recognized as equity so we use that a lot, specifically in the financial sector, but also more and more in project financing. For example, in telecommunications, when you have new projects with a high element of risk, and where it is difficult to secure yourselves, then we use mezzanine finance. Of course it has a higher return but also a higher risk.

Gert Jan Mulder: Thank you very much. Can I ask John (Beauvois) to say a few words on DBA? Then we can go on to our panel discussion.

While John prepares the presentation, Hendrik, I am very pleased at what you said. I think it is very important for the clients in this region, that there are institutions who say, and who live up to it, that they come with bad weather and they stay with bad weather. I think if there is something needed in this area it is institutions with that commitment. I wonder however, do you feel comfortable here in Punta del Este today, where the weather is fine?

Hendrik Lühl: Well, saying that we come with bad weather and that we stay when the weather gets worse does not mean that we do not like good weather, we prefer being in a good country than in a bad country!

1.5. Introduction of DBA

by Mr. John Beauvois, Director, DBA

Good morning, Mr. Ambassador, ladies and gentlemen. I see lots of known faces, lots of friends and thank you Gert Jan for the clarification of Belgium! But I am sure that in a couple of years you will be Uruguayan. I am completely sure of it.

Just a small introduction of DBA, for people who maybe do not know it very clearly.

(Slide #2)I will give only five little issues and chapters on how we began, and I would say that all our origin began in relationships.

(Slide #) We can go back maybe 30 years in my case, when I was working mainly for German banks, in European banks I would say, which were always involved in commodity trade finance, and working with some companies which are still here today. Gert Jan was also active at that moment, or maybe some years later in Rabobank, and in 1986 or so we met professionally, when he was travelling in these areas investigating and trying to find some business opportunities, and since then we were always in contact and looking for different kinds of business opportunities.

In 1997 or so, we began talking together and thinking that we had quite some capital with regard to knowing people, knowing corporates, knowing different ways of operating in the market, and agreed in 1998 – that's more than five years ago now - we founded DBA Corporate, and decided to work out from Uruguay, which I would say was a very convenient geographical and operating position, very near Buenos Aires, very near Sao Paulo, Chile and other areas where we could be very active. The most important point maybe was that Uruguay and Montevideo at that time, and still today, we consider it a very convenient and agreeable place to work and live, especially regarding quality of life.

(Slide #4) Lots of people may think that DBA is a broker. We do not like that word because we are not brokers. We do not intermediate at bank credits. Logically we do not provide bank credits. We really believe that many companies sometimes are not maybe prepared or do not have the contacts and so on in order to try to obtain outside assistance, especially in markets where we have been through difficult moments, difficult situations in order to obtain local credits, and I would say especially in the medium to long term, that really did not exist.

In the case also of banks, especially European banks who do not have a presence in the area, or rep offices, it was quite difficult for them to contact markets, and really have a solid and good credit. Also a very important point is to understand the involved business, and all this can be granted by the different corporates to the banks, through good information and communication, in which case we are doing quite an important job, because sometimes it is difficult for companies to provide all this type of information. Sometimes a good balance sheet or the last five years' balance sheets are not that really good information or enough information for the banks' needs.

(Slide #5) Here you can see clearly where we stand. We consider that we are always standing very near the companies, and introducing them there to these new financial markets, especially to these banks who for them sometimes it is quite difficult to contact, especially from a place far away and it has happened that many companies have tried to get to some banks, knock on the door, do not know whom they have to contact, and finish up with maybe the corresponding banking man which is obviously not the man to talk to.

(Slide #6) We try to keep in contact with lots of our friends abroad, with a weekly publication which we call DBA News, it is more than five years old. Every week we send it via mail to more than one hundred destinations, in which we try to give information on the different markets, agribusiness markets mainly in Argentina and Brazil, Uruguay, and also some interesting information on international economic issues.

In case of structuring different kinds of transactions, we have been assisted and have worked together with financial institutions as is the case of Dresdner Bank, it is nearly 5 years now of a structured deal which went through different storms especially in the Argentine market, and is still performing, with no delays in payments, and I will say quite satisfactory for the companies and the banks.

In the cases of cooperation with FMO and DEG, for some years now, more with FMO and now with DEG, where we had opportunities to introduce different companies, especially from Argentina and also now from Uruguay, a project which did not exist in these markets, especially Uruguay where what we call long term is 180 days. So these were very satisfactory transactions for both parties.

We try to assist clients and mainly also banks with all kinds of different information on the different markets, update them on what is happening, who is who and so on which is very useful, especially for the banks in Europe where you do not get any kind of information on what is happening in these areas. Some years ago we organized some mini-seminars like this one, which were very useful and practical. It is very difficult for a company or a bank to organize something like this, something neutral like DBA can do it, we did it, and I think we will continue doing them in the future.

(Slide #7) The outlook, what we are thinking about the future of DBA is a moderate growth, we select our clients very carefully and specially the companies which maybe we have to introduce to financial institutions, we began working very actively with Argentine companies, now Uruguay, we already began with Brazil, Brazil is an enormous market, so we selected some areas in the agribusiness sector, where we really have quite some more experience.

When we talk about continued investment in human resources and training that means mainly cooperation from our staff and here I would like to mention the case of our manager and now also partner, Alfredo Stirling, who joined us some 3 years ago. We are very happy with the training that we were able to grant him through different trips, and specifically we want to thank him also with FMO and DEG where he spent last year some very interesting and useful days, especially for him. According to our growth logically we want to continue increasing our size, hiring new people, and it is not easy to train them because there is no university for this type of job, so it is with the help of all these different experiences and different markets and with companies and institutions.

Logically I would not say that every year but we shall continue repeating this type of networking events. I am sure that we shall not do it again in this place because nobody likes it, so we will try other places! What we think is that we have to continue maintaining the good friends and also making new friends, and this event I am sure is something very useful.

Thank you, we hope to continue, and welcome again.

1.6. Panel discussion

Germany/Holland: how do big and small go together?

Moderator: Gert Jan Mulder

Gert Jan Mulder: Thank you very much, John. I believe that there are some microphones available for those people who may be challenged to ask questions, can someone explain how this works? I am definitely, very definitely, provoking you to ask questions, stand up, give your opinion. We had a panel discussion prepared, I invited the Dutch and German Ambassadors to come to our office, we chatted for one hour, and they asked me politely as diplomats often do, whether we could prepare something for them in order not to surprise them too much with the questions we were going to ask. Unfortunately the Dutch Ambassador could not make it today, so maybe in order to maintain some balance in the discussion, John could just pretend to be Dutch. All right, I will try to stick to the questions, and try to focus on what has been said by the speakers.

I was very intrigued by a statement of the German Ambassador, explaining where Europe came from, and that it would only be done by very strong political leadership. I think I fully endorse that position, we had very strong leaders in Europe in the last decades, if I may I remind you particularly of Mr. Kohl and Mr. Mitterrand who also took personal risks, because political leaders do have personal risks. I remember one image I saw on a photo, holding hands. I do not know whether you saw that, I do not remember, Mr. Ambassador, on which occasion it was, that you see them from the back and they are holding hands, this enormous Mr. Kohl and this charming Mr. Mitterrand at a great age.

Let us go to the theme, and the theme is Germany-Holland. The theme is a little bit FMO-DEG. Maybe we could make some comparisons between Holland and Germany and compare that, if we can, with the countries here.

Germany is about five times larger in population than the Netherlands. And maybe if I could start with this question, Mr. Ambassador. Could you give your personal input and comment on how this relationship prospers, because it obviously does, over the last 55 years, taking into consideration that in every relationship you need to have equilibrium. Now we have this big brother and we have this small country, if I may say so. Could you give us your opinion?

Mr. Krieghoff: Thank you. I think this comparison between the two countries Holland and Germany and Uruguay and Argentina is very well done, because these two countries have a long-standing history, and the history, the roots for both countries are the same. I understand that the roots of these countries' origin, Uruguay and Argentina here are almost exact, your laws, you share the same language, had the same kings. With time those two countries developed, one in one and one in the other direction. That has happened here after 1811 or 1813 between Argentina and Uruguay. This is a good comparison, the situation in many aspects is very close, very near. And so what has the bigger partner to do? Well, it is very simple. Several times, sometimes at least, it has to step aside. You cannot only count we are five, you are one, so we always win. That would not work, so one has to accept what is called here the "asimetría" of the countries, and the bigger one has to consider whether or not a decision is ideal for the other one. It is very easy, especially for diplomats, but the politicians have to do the same. Let me say one more word: are there any Spaniards here in the room? Any Spaniards? Yes? OK, so I may proceed.

What was done last year in Europe was a European constitution. The one from Spain was exactly the opposite and especially from Poland. What is normally to be done when you have to integrate a group of countries of really different sizes and importance, let us say? It is not possible to ask, let me speak from my German standpoint, say Germany with 82 million inhabitants to have no more weight in democratic decisions than a country with say 38 million. We need in a union like the European Union a minimum of democratic liability, of democratic responsibility and attitude. And in this respect one country is not like the other. What you can do if you have a decision to make, if it is a measure of financial background, or organizational, or passport background or whatsoever more bureaucratic items, you can say, this decision is the same for all countries.
And that worked, but it is evident that a smaller country is always in an unfavourable position. Sometimes these smaller countries have an advantage over the bigger countries, because these have to step back. Thank you very much.

Gert Jan Mulder: Thank you. From these comments one may conclude that the elephant is not going to crush the smaller one, at least if it depends on the German Ambassador. Let me make a short introduction and then I would like to provoke our friends from FMO and DEG. Maybe you remember a recent discussion in Europe about the Maastricht criteria where for Germany and France, for some economic and political reasons, it was not convenient to stick to the 3% deficit of GDP. I was discussing that this morning with my friend Rob Louzada, who worked for Deutsche Bank and understands Germans better than some fellow Germans do. Maybe if I may ask, Hendrik, and Nanno, this discussion in Europe, whereby one often assumes that Germans are more strict to keep to the agreements they make, how came that the Dutch finance minister was so strict, he wanted to keep Germany and France to the 3% rule, he did not want to bow, and in the end he had to. From your perspective, Hendrik, could you comment on that?

Hendrik Lühl: Well, you put me on political ice here, because I know that some of our colleagues have different opinions. But you asked me for my personal opinion, and I should say only what I think.

I think the Maastricht agreement has been very much supported and negotiated by the German government. I think that Mr Wagel, the former finance minister was one of those who inserted the 3% criteria, against the opinion of other countries. I think therefore many countries could not understand why it had been Germany that had been I think the first country which did not fulfill this criteria for 2002 and 2003. And I think the Dutch government had always been at the German side, am I correct? The Dutch government had supported the German government in negotiating these agreements, so I can imagine that for the Dutch government it was very difficult to understand why now specifically Germany was the first to break this agreement.

From my perspective it was good particularly that smaller countries tried to influence Germany and France to come back to this 3%. I know that there are a lot of different opinions on that subject, but I have a lot of sympathy for the Dutch position.

Gert Jan Mulder: Thank you very much, Hendrik. Would you like to say something about this, Mr. Kleiterp?

Nanno Kleiterp: I think that it had to do also a lot with understanding the political and economic situation in those countries. On one hand what was important was that Mr. Zalm, the finance minister of the Netherlands, thought he was in a more comfortable position, and wanted to keep the rule strict, because of one issue of course, (is that) if you have an agreement and if you do not fulfill that agreement then nobody is obliged to do it, so I think the principle basis, based on "an agreement is an agreement", was very important for him. On the other hand economically for Germany and for France, and today for Holland, those criteria are very difficult to keep strictly, and there is the question of whether there is economic logic behind it, of reducing more and more the government spending. There are limits, but I think Mr. Zalm is having difficulties in keeping Holland within this 3% too. That is why I have sympathy for the German position.

Gert Jan Mulder: Maybe if I can just from a Latin perspective in this discussion maybe change hats and pretend that I am one of yours, and say that it is painful to see that the big ones, the wealthy ones, they break the rules, they go over the 3% deficit whereas on the other side, we also had Germans running the IMF and wanted to oblige Argentina and Brazil to keep a surplus of more than 3%, when 3% is not even enough! But it all depends where you stand.

Mr. Krieghoff: I would like to add a comment. From a political standpoint this shows what difficulties can arise within a relatively close union of states. First, what you said, one important point is the political situation. And we had at this time a very clear separation between left and right in the governments in Europe. Balkenende is now from the right side, Schroeder is on the right side, A big part of the discussion was just party politics, there was just no interest in economics or international affairs.

The other part is that the agreement of 3% ten years ago was made in special circumstances. The main question was whether Italy was in or not. If this clause of 3% was accepted, Italy always had the reputation, we can say this directly here, because we do not have any Italians, not to look too much at inflation, deficit spending, and so on. May I remind you that in '91, Italy had an inflation rate of about 10%. May I remind you that in '93 the Italian lira was about 1.200 for a mark, and afterwards when the European monetary union came, it was 999 to a mark. So Italy was the main reason for the introduction of this 3%, because it was a political and economically reasonable wish integrate Italy from the very beginning in this monetary union.

What you cannot do, in a situation like 93 is foresee the future, and foresee the difficult fiscal situation for France and Germany, for example. That is why, leaving beside this political discussion, the issue was different and we have to look at the details. That is why the situation in Europe now is quite calm. Thank you very much.

Gert Jan Mulder: Could people raise their hands if they know who Balkenende is? Has any one of you ever heard of Balkenende? I feel sorry for you. No, it's a joke. He is the Prime Minister of Holland. He looks like Harry Potter and is fairly unknown.

Mr. Krieghoff: One has to see how close Holland and Germany are! There is another Balkenende, even less known, who was a winner in the Olympic Games, for Germany.

Gert Jan: In what sport?

Mr. Krieghoff: Horse riding. He is from Düsseldorf.

Nanno Kleiterp: Then maybe we should change. Can we change?!

Gert Jan Mulder: You heard Hendrik and Nanno in their introductions, suggesting that they have a perfect marriage. That happens a lot with marriages. To outsiders, they always try to keep up the image that they have a perfect marriage. But we all know that those perfect marriages hardly exist. I was talking this morning again to a friend of mine and we were trying to find one example of a German/Dutch association that we could call a success. And we could not come up with anything. Except FMO and DEG! Of course. Many of you know the examples. In banking there have been a few, of Dutch institutions buying out German banks, and failing completely or largely, so I would like to raise the question, first to Nanno who is the smaller partner in the relationship by size. First of all I know it is difficult, if he suggests it is easy and natural then I will be disappointed. It is definitely not easy. So my question to him is: besides some of the arguments, what is the basis for cooperation? What makes the relationship FMO/DEG really work?

Nanno Kleiterp: Gert Jan, thank you very much for giving me some room to answer the question! I cannot tell you that it is easy, but relatively it is also not too difficult. As you said there are no perfect marriages, but I think the basis for a perfect marriage is that you discuss a lot, and that you try to understand each other, and that you try to put the differences of ideas and of opinions on the table. I think we are getting better and better at doing that, because then, when you do not understand the other, and that happens now and then, we say no to a proposal, or DEG says no to a proposal, well, what is happening? this is the best proposal we have had, ever! and then going into that and trying to understand each other, because that is the basis. If you go on and say well, I do not understand but go on, in the future you will be getting more and more problems. That is the basis of what makes it close to perfect, because we are able to discuss those issues.

Basically, we are very similar as institutions, and you see that when we get together. We had a few months ago, on 18 February, 20 people from DEG came to FMO to discuss all the regions, where we stand in the corporation and what works, and we talked very frankly there, and what we see is that the *people* are very much alike, in the sense of the people who have chosen to work for an institution like FMO or DEG, so cultural differences in the sense of the people who work there are not so big. I think that although most of people who work at FMO come from the commercial banks, the difference between the culture of a large commercial bank and the culture of FMO is bigger than the difference between FMO and DEG. And then of course you have the national difference in culture and solving problems. That is also where understanding each other is very important.

(I shall give you) an example which I discussed with several of my colleagues at DEG, and I think it is a generalization: I started and said well, let us try to do more business together. And they said, well OK, let us fix the rules. First let us hear what we should do, what is the basis to work together, make the rules, make the procedures, and then we go on. I did not understand, because I wanted to pragmatically work together. We have a German colleague in FMO so I went to him and said, what is happening here? What am I doing wrong? He said, well, you have to understand that you Dutch are a trading nation. And the Germans are an industrial nation. As a trading nation you try to sell something, and when it does not work, well, you try something else. When you have to develop a product and put it on the market, you have to be very thorough and basically think through what happens. I found that that comparison made it clear to me. So it is a very different approach to a problem.

So we are getting closer, taking big steps in harmonizing procedures, the biggest problem is that we have a different organization, and this makes everything more complicated. So yes, it is complicated, nevertheless last year in 2003 we did 25% of our business together, in half of that business one of the two institutions had to lead, and do most of the work, and we are aiming this year to do one third of our business together. And this is going on.

Gert Jan Mulder: Hendrik, could I invite you to say something too?

Hendrik Lühl: Well, I think Nanno has mentioned most of the points. I would like to add that unlike the relationship between Germany and Holland, the size of FMO and DEG is very similar, it is not that FMO is the smaller institution and DEG is the big one. I understand that in Latin America FMO is even bigger than DEG, and I think in Asia DEG is slightly bigger so, we are equal partners. I think this is very important.

I think the cultural differences between the German and the Dutch are there. I think it is not only the question of cultural differences between DEG and FMO but I mean, we were taken over by KfW two or three years ago, and there were cultural differences between our colleagues in Frankfurt and ourselves! And to be very honest I do not know whether we have more problems with FMO than with KfW. So for me it is not a question of Dutch/German, but it is like any marriage. Young people sometimes marry very fast, they know each other for only six months or maybe one night and then they are married, then what comes after is building up trust, it takes some time, maybe you are in love but do you trust your wife? Do you tell her about every bank account you have in Switzerland? I think that is one of the points, on the operation level.

You have to understand that as Nanno said we are doing 20%, 30% of our business together and we have gone so far that one of us takes the lead, if one of you approaches us and has a big project and were are doing it together, then one of us will take the lead. One will do the appraisal, and do the due diligence, then the other will rely on his findings. So that implies a lot of trust in the other. And since we all have our weaknesses sometimes the results of the due diligence of DEG or FMO are not satisfactory to the other institution and then people are very quick to say, "Ah, FMO, everything they do is b….", with us this is just the other way round. So this building up of trust these last years, this is an obligation of the management to support this project, to bring people together and to build up trust. This is an ongoing process, and I think that we are on the right path and that we are an almost perfect marriage.

Gert Jan Mulder: Thank you very much. Personally I am looking forward to seeing a meeting like this in Europe in a while whereby Brazilians, Argentines and Uruguayans can explain to us Europeans how well they work together. I would like to see that. Can I invite any of you to raise a question? Rob Louzada.

Robert Louzada: Thank you very much for giving me the opportunity to make some comments. I think the question about cooperation – my name is Robert Louzada, I have some experience in Rabobank and after that I worked for Deutsche Bank a long time. For Rabobank I was also involved in a Dutch/German bi-national company. That was the steel industry. I remember very well that on footwork and at the practical level, both parties were focused on one cooperation, and that worked very well. The point is that I would add that it is not only cultural differences that we have. We might be working very well at the working level, shall we say, with people of both countries, but suddenly something changes from outside. There is very strong influence in strategy in different countries not being decided by the people who work together, but being decided at other levels of the company. Sometimes I have to admit that those external reasons influence a cooperation which is very sound, and which works very well, but it is not given a long-term chance. It is not only the cultural cooperation in the short term, it is more of strategies that start to defer, and start to go one or the other way. And then, cooperation does not have any sense any more.

Gert Jan Mulder: Thank you very much. That is why cross-border mergers have such a high failure rate, not necessarily because of cultural differences. May I invite someone else to make a question? Does anyone feel challenged? Alfredo.

Alfredo Stirling:
I just want to make a comment, no questions. Last year I had the opportunity to perform a due diligence together with FMO and DEG, in a company in Argentina, where I found it very interesting to see what were the differences and how they cooperated. People participated from DEG and FMO, and I can tell you that the experience was really interesting, for example FMO was more focused on corporate governance, while DEG focused on other topics. The experience was really very interesting, and I think that the cooperation between both institutions is very positive, not only for both of you, but also for the companies.

Gert Jan Mulder: It is nice to hear some good news! Nathalie, if I am not mistaken, Niek Boot is going to ask a question. Please give me just one second, there in the back, trying to hide is Nathalie Rippe and Maria Solá, two of our colleagues in DBA, who have been working very hard the last couple of months to put everything together and I would like to ask everyone to applaud them.

Niek Boot: My name is Niek Boot, I am the president of the Dutch-Argentine Chamber of Commerce, at least it is part of my life, and Gert Jan was kind enough to invite me. The German Ambassador was wise enough to tell us that Europe next month would be 25 countries and not 15 only, and Gert Jan very quickly reduced the topic to only two countries, Germany and Holland. Are there DEG's and FMO's in other countries in Europe and do you intend to cooperate and show a European face? Because what we notice in Argentina is that apparently Europe is giving more aid to Argentina than the United States are, but everything seems like the United States is the biggest giver because what Europe does is atomized, and we have to learn to de-atomize. Can you make some comments on that?

Gert Jan Mulder: To whom do you direct your question?

Niek Boot: There is a big table, Gert Jan…

Nanno Kleiterp: … there are a few examples, Proparco from France, CDC from the UK, and others, those are not tied to national or multinational business. Because we try to do business all over the place, we like to do business with companies from our country but it is not an obligation. That makes the approach quite different from the others, for example in Italy, Denmark, Sweden or in

Finland everybody has similar institutions, but they are much smaller and much more tied to their own national companies. And yes, there is a European government finance institution, which is where all these companies come together and where progress has been made to work closer together, but it is as the European Community, it is difficult to get everybody together, so I see also the cooperation between FMO and DEG as a kind of platform because in one way or another this will come up. We have also a European investment bank which is very large but which also is very geared to the national interests, to governments' interests, and the part they do with private business is very small. So I think the combination of the European national institutions like DEG and FMO, Proparco and others in a longer term will work more together and focus more on these activities.

Gert Jan Mulder: Hendrik, Mr. Ambassador?

Mr. Krieghoff: This shows very clearly what the process of unification is, or what internal cooperation means. There are so many fields of possible and necessary cooperation that there is no roadmap for this type of activities, it depends very strongly on the actors in every field. And I am looking forward exactly to what you said, at this very moment this is one of the points to come within the next five or six years, not only in the long term future, because in development cooperation the European Commission is now better off than any other country and this will also happen in this development banking system.

Gert Jan Mulder: OK, thank you very much. We started a little bit late and we want to be punctual. I invite you to fill out the form and leave it to Natalie or Maria, for the leisure activities tomorrow, that may take you about ten seconds, and then we kindly invite you to the cocktail or welcome drink. I think it is the second floor, at the pool, it is called "Gauchos". Cowboys. We will be happy to see you there, then we will have lunch at the pool, and we will be back here if possible, try to be punctual, at half-past two.

First Part: BANKS, CLIENTS AND RELATIONSHIPS

Moderator: Mr. Nanno Kleiterp

1.7. Introduction: Why do banks exist?

Mr. Gert Jan Mulder, Director, DBA

Gert Jan Mulder: There are some people missing, but I have such a terribly boring presentation that I could start without any problem.

(Slide #1) My apologies for the delay. I *do* have a boring presentation, but I shall skip through it quickly, because we have very interesting speakers this afternoon, so I shall make it quick and dirty.

(Slide #2) Why (do) banks exist? Why are you here? I am finalizing my thesis, my doctoral thesis for the University of Bradford, England. I wrote three papers: Why banks exist, one paper on credit and credit rating, and one on cross-cultural studies. The premise of my study is that I feel that when banks engage in cross-border lending, they all recognize that they have to understand, that one of the first basics is to be able to judge management, to pass opinion on the management of the company. My argument in my thesis or in my research is that it becomes very difficult to do so when bankers do not understand the culture they are operating in. That is it in just a few words. I come to talk about that a little bit later.

(Slide #3) I shall skip this one.

(Slide #4) I am just going to say a few words on the history of banks and banking, relative economic theories, the position of banks today, and conclusions.

(Slide #5) Since you are gathered here, I like this statement very much on the history of banking: "Everything has been said before, but since nobody listens, we have to keep going back and begin all over again". The people here gathered, most of them are active in banking commodities. I found it - although my career was in banking and to some extent it still is - I found it very interesting that the origin of banking finds its roots in the grain trade. You can see that here, 3.000 years before Christ, developing of banking in Mesopotamia. This paper, Why banks exist, I thought it was going to be the easiest paper I could ever write in my life because I spent 20 years in banking, and it took me like six months. And there was no other paper I sweated so much on than this one. The origin of banking really starts in Babylon, the banks were given form and substance when some kind of banking law was issued. Yesterday at the dinner table we were arguing about rates, and I found it immoral and unethical when banks charge rates to ignorant people above 15%. History tells us that a normal rate, throughout history of banking a normal rate, and I repeat that particularly to clients, a normal rate for business which is considered to be normal risk, is ten percent. So whatever the banks tell you, it cannot be more than 10%. I am sorry! It cannot be less, it cannot be more! Speak for yourselves.

I thought that banking was invented in Italy. It is not true. The first bank in the world was in Barcelona, 1401. If you look at history - I spent hours and hours reading and studying - but it is not a good history, banking. The banks were founded (for) financing wars in those times, and gave privileges to some people who were just in the position to take advantage of it. Development goes hand in hand with laws.

(Slide #6) I am not going to spend much time on relevant economic theories because you will all fall asleep, but there are three that stand out: transaction cost theory, agency theory and intermediation theory. My favourite issue is information economics, asymmetry of information, and the main papers I read were those of Stiglitz who argues that economic theory has changed during the last 25 years because of these issues. And when we read high profile cases, like Parmalat or Enron it is all in that area.

Transaction cost theory: I shall just mention one aspect, which is that this young chap from the London School of Economics in 1937 wrote a one and a half page paper and asked himself, why do organizations exist? And the answer was that sometimes, only sometimes, the costs of organizing transactions within an organization, is cheaper.

Agency theory: most of you have come across this theory if you touch upon corporate governance or if you look at relationships between shareholders and management of companies, but in this paper I related agency theory to the mere existence of banks.

Intermediation theory – I shall not touch upon that.

(Slide #7) If you read the paper of Stiglitz, if or you look at economic theory, just look at opportunism. I opened up papers like this, and I read about opportunism, and I was trained as a banker, but I was never trained in my banking course or in high school or in university, I was never trained on a definition of opportunism like this. It is quite harsh. It includes lying and stealing and cheating, in banking courses we are not educated for this to happen.

(Slide #8) Other definitions: moral hazards, actions by agent are hidden or costly to observe. And you always come across adverse selection, whereby the agent possesses information that is unobservable or difficult to obtain for principals. I find these theories highly interesting.

(Slide #9) I shall skip this one.

(Slide #10) The position of bankers. This small sheet whereby I see that banks, the ones who have to practice it, are being pushed, controlled and monitored from above by regulators, by shareholders, by laws, by competition. If you look at Basle II for example, the concept is to standardize banks, the concept is to make banks the same, to oblige banks to live within certain limits, to have a credit rating system which is testable, which is reliable, which is replicable, which stands the test in time, whereas markets and clients as we know require tailor-made solutions. It is often said but in practice we see very little of it.

So the downward push is to standardize banks, and the upward push, from clients, from markets, even from colleagues, is to specialize. So the bankers for me are stuck in the middle.

(Slide #11) Conclusions in my paper - it is available on my web page - are that the existence of banks can be explained through agency theory, transaction cost theory, intermediation theory.

Thank you very much.

Mr Nanno Kleiterp: Thank you, Gert Jan. We shall continue with Janos, unless someone has a question first. Janos will explain more to us about FMO.

1.8. How FMO works

by Mr. Janos Bonta, Regional Manager Latin America

Thank you very much for the opportunity to give you a small presentation of FMO in the region. After the theory and the philosophical side of banking by Gert Jan we shall go back to the harsh reality of what we try to achieve as FMO here in the region. A small introduction of myself - most of you I believe have known FMO for quite a long time – but do not know me because I was only appointed in September to manage the Latin America department of FMO, before that I was in the Africa department. But I am very happy to be here and for me it is a second chance in Latin America, because I started my career in Latin America. This region is actually a first visit for me, to Argentina and also to Uruguay.

(Slide #4) So to understand how we work at FMO I think I shall go a bit back, to what are the fundamentals of FMO. Basically we believe in economic growth as a basis for development and poverty reduction in the emerging markets and we believe that the private sector is a strong element to achieve this. Where are aiming at? It is at good sustainable development and financial returns. I believe that they go together.

(Slide #5&6) Some facts and figures… I am not going through all of that, but it is important for you to know that FMO has a triple A rating from Standard and Poor's and this has helped us quite a lot to be more effective in our markets, and I will come back to that later.

(Slide #15) Some core facts: our portfolio at the end of the year. This is Latin America only, to be correct, as you see our portfolio is 800 million Euros by the end of 2003, 36% of the total FMO portfolio. The other figures show our achievements for the year 2003, approvals, commitments, disbursements were around 200 million Euros.

(Slide #7) Here is an overview of how our portfolio in Latin America has evolved compared to the total FMO portfolio. As you can see we have grown steadily as FMO. The Latin American growth has been lagging a bit behind but is still satisfactory.

What are our strategies, and this is not only for Latin America but it is general for FMO? We want to achieve a development impact, we want to be complementary to commercial banks, we want to be catalytic, and catalytic means that by our finance, we want to enhance the role of banks also as much as possible, they will participate in our finance. We want to be profitable, we want to be a very efficient organization. We have selected focus countries where we concentrate our business, we try to specialize in certain sectors not excluding other sectors, we are building on partnerships and we want together with clients of the highest reputations and aiming at the highest qualities in our finance.

(Slide #8) What are our typical clients in the market? Financial institutions, and indirectly through the financial institutions we believe we can also target the small and medium size companies in the region. We are aiming at the leading, the high-potential private companies and wherever possible we sustain Dutch and other foreign companies investing in our markets.

(Slide #12) The focus in Latin America, the countries where we focus on are Mexico, more or less the whole of Central America, Colombia, Peru, Bolivia, Argentina, Brazil and also Uruguay. These countries can shift per year, sometimes a country comes off (the list) and another will add to it, so last year we decided not to work any more in the Dominican Republic and Venezuela because of the economic and political conditions and we have added last year Colombia as a focus country where after many years we did not work we are developing new business.

(Slide #9) The focus sectors: these are as I mentioned earlier exporting companies, the financial sector, infrastructure, and in infrastructure we have focused and specialized people in transport, logistics, infrastructure, in the telecom sector, in the power sector and water. Again, partnerships, networking; as Nanno mentioned earlier in the morning, we have only one office and we try to enhance our local presentation by associating with local banks, international banks, local enterprises and other agents that can assist us to increase our network and the quality of our business by working on their knowledge of the market and help to increase our

(Slide #10) Here is an overview of our portfolio in the focus countries, and as you can see Mercosur as I mentioned earlier has a bigger share of our total portfolio…

(Slide #13) Here is, very summarized, the strategy in the different areas, which can be quite different. In Mexico for example the capital markets are much more developed, we have been very successful, based on our triple A status in developing new instruments whereby we can assist local companies to be more efficient in attaining local currency funds for their investments. In Central America we are basically in the financial sector and are growing in infrastructure, in the Andean region we have a bit of everything, in the Mercosur for the time being we are focused on the top corporates that are exporting, mainly in the agribusiness sector and what we are also doing now, after the crisis of last year when we were mainly focused on short-term finance, we are now gradually trying to roll over those short-term financing to longer-term finance. And we assist companies who now are finding the time to start investing or expanding their capacity.

(Slide #14) A very important element of our strategy is mainly playing this catalytic role, catalytic in the sense that we assist companies in getting cheaper local finance, where we facilitate with our guarantees, we make it possible for local institutions and investors to invest in companies because with our triple A status we can enhance the rating of local companies that have a triple B or a single A status, and with our partial guarantees we facilitate them to get a higher rating, and that enables the institutional investors to provide them (with) or to issue bonds that can be taken up by local institutional investors. We are also quite active in syndicated loans, some banks, especially the Dutch banks but also other banks from the European Union can, under the umbrella of FMO, in a more efficient way, provide medium and long-term finance in our markets. We are also active with mezzanine finance, the importance of this has already been mentioned earlier by my colleague of the DEG, so I will not go into details.

What is our market approach? This is very important for our clients to understand us. First of all we want to have a very good knowledge of the markets. We want to understand our clients, because only that way we can make the right choices and provide the best services. We want to be very professional, our Latin American team at this moment has 11 professionals, people who work in certain parts of the market, either by country or specialized in certain sectors. It is quite a big team and together with our partners we think that we can now be quite efficient in the market. We want to add value to the finance that we can provide, really giving a maximum out of our limited resources, because basically FMO is a small institution compared to commercial banks or to FIC, and how can we do this? We also aim at long-term relationships with our clients, with our successful clients we want to grow, we want to give them the best service, we want to develop our products that we can provide, in accordance with the market extend the term, we can go short, we can go long, the size of our finance can go substantially and together with DEG and other associates we can provide as a package quite sizeable finance. At the end of my presentation I will give you some examples.

We do leveraging by providing guarantees, we do risk sharing, giving mezzanine-type finance, we can also invest in equity of companies. With guarantee products we can assist our clients to mitigate the currency risk. We want to be fast, we think that we are quite fast, we think that we are quite flexible, we can be really make a tailor-made finance, and teaming up with our selected partners we can really offer a very attractive package of finance.

We also of course look very carefully at the risks, we are very selective, we have a very stern credit committee, and it is not always easy to get approval of what we do from the commercial side, we look carefully for mitigants in our finance, and we build on our network. Through our network we try to increase the flow which then helps us to make the best choices to achieve the best returns with our resources.

A bit of an inside knowledge of how we work internally, where are we looking at when we go into markets? We look at the reputation of our clients and the strength of the sponsors, management, and this comes at the front, and if we are not convinced that this first condition is met satisfactorily then we stop going along. We want to be efficient, we look to synergy with our partners. What the country risk is high, internally we have credit rating systems, we have internal limits, we have a portfolio of governance, environmental and social risk management, these are important elements of our credit culture.

(Slide #14) Here is an overview of our products, this is quite standard, maybe what is interesting is the capital market instruments that we have. The enhancement of our products using our triple A status, we can provide guarantees for local funding, arranging syndication activities. What is our outlook for the Mercosur? We want to grow with the leading exporting companies, we think that gradually we can be active in the development of the capital markets. We can increase our syndications and our arrangement activities, the limits are more on the country side, country ratings, this is really what limits our further growth here, and in Brazil we think that gradually we can also enter the infrastructure sector.

(Slide #16) Here are a few examples of what we have done in Latin America. This for example is a typical structured trade finance, pre-export finance facilities, it was a total syndicated loan of 45 million, including a 30 million B-loan, so the B-loan was from other banks who were teaming up with us and FMO was instrumental in structuring and arranging the facility, and FMO also provided a 15 million dollars senior loan.
(Slide #17) Another example, this is from El Salvador. It is a project in the telecom sector. We financed a GSM network. It was a total investment of 45 million and part of the finance was a mezzanine debt of 6 million, 4 millions of that was provided by FMO, and together with one of our partners we structured the whole facility, so FMO participated both in the senior and the sub-debt facility.

(Slide #18) The last example is a mortgage bank in Mexico, a sub-bank which was aiming at the low income housing. FMO provided a partial guarantee on mortgage-backed security. FMO has given a 9% partial guarantee on that facility, this relatively small finance facilitated mobilizing about 54 million mortgage-backed bond issue.

(Slide #20) So I think this is the end of my presentation and thank you very much for your attention.

Nanno Kleiterp: Thank you very much, Janos. Rafael will present the case of Rabobank in the difficult markets of Argentina, “Opportunities and threats”.

1.9. Banking, the Argentine market: Opportunities and Threats. Rabobank's case

by Mr. Rafael Bonasso, Commercial Director, Rabobank Argentina

(Slide #1) Thanks very much for inviting Rabobank to this seminar, thanks DBA, DEG and FMO. It is an honour for Rabobank to be here this afternoon, it is also an honour for me to be a speaker. I believe this seminar is not only quite interesting, we as a bank we have the opportunity to hear directly from a company why they believe we might be evil, or why we might not be the ideal partner for them, or what we need to do in the future in order to develop a good relationship with them. But the purpose basically of my agenda this afternoon is to go over quickly who we are, why we are doing business in Argentina and Uruguay and what we believe was learnt in the crisis, and what other threats and opportunities we see in the coming months and years.

(Slide #2) Just quickly, I believe most of you know us, we are the biggest bank in the Netherlands, we have a cooperative structure and as of today we can say that we are triple A rating, one of the safest banks in the world. I am sure that if the rating agencies at one point in time should downgrade us, I would be proud to be a double B plus bank. But as of today we can say that we still have a triple A rating, something we are proud of.

(Slide #3) As you know Rabobank International is the international arm of Rabobank Netherlands. Our main focus and only focus is the Food and Agri sector, the F&A sector.

There is a strategic rationale behind it. First of all the origins of the bank, the bank was founded by Dutch agricultural cooperatives. We believe that the stable growth of the population is aligned at the end of the day with the stable consumption of goods. The size of the bank gives us a competitive advantage to focus on these niches of the F & A sector. The strategic implications for us are the following: these allow us to have a good understanding of not only the F&A sector, but of all the value change inside the finance sector, gives us the opportunity to have a global research team and global networking. Because of the knowledge we have of the sector we believe we can offer tailor-made products to our customers, and of course everything related to advisory services, I believe we are very well positioned to provide this kind of services to our clients.

(Slide #4) Now, why do we have a presence in Argentina and Uruguay? This is a long story. First I would say that the reason why we are in Argentina and covering Uruguay from Argentina for the last 11 years is because the multinational companies came down to Argentina and the bank said OK, if I am going to support these companies in Europe or in the States I should also support this company in Latin America. Second reason is of course the F & A sector is a relevant sector in both countries, and because we believe that there is long sustainability of the F & A sector. There is a competitive advantage of this sector vis-à-vis other countries in the world, and at the end of the day what matters to banks as you know is profitability, so we thought that we could be profitable in these two countries. Of course if you do not agree with the reasons for which we are in Argentina please do not share with my senior management based in New York, I am a married person, five kids, and sixth kid on the way, so I need a job.

We believe we are the most important F&A corporate bank in Argentina, and because we have a presence in most sectors, we have a strong presence in the oilseed complex, we also have a presence with the grain exporters, lemon exporters, the dairy industry, leather, beef industry, rice. Just for information we have a total exposure as of today in these sectors of approximately 500 million dollars, and we feel comfortable that we are not only offering financing to the corporations, financing being a plain vanilla loan, a more structured deal such as the ones we did with the multilaterals, but also because we can provide advisory services to our clients.

(Slide #5) Well, I would like to share with you what we did in 2002 and 2003. I would say that because our only focus is in the F&A sector, and because of what I said before that we believe in the sustainability of the F & A sector in Argentina, no matter that in the macro context there was a sovereign default, there were scarce financial resources, there was a strong devaluation, unstable political environment, and economic recession, we were able to do business. The industry itself, just focusing on the oil and oilseed crushing sector, had a record oilseed production, very good industrial margins, however it had some kind of working capital needs. For us it would have been very easy to say, "Hey! Don't knock at my door, I'm suffering because of this crisis as well as you are". However, we were able to, convince is not the right word, but to agree with our senior management that now was the time to support our clients and to really show them that we were supporting them and that we were behind them in difficult times.

(Slide #6) So in order to mitigate the macro context that we were suffering in Argentina in 2002, together with the multilaterals, such as the IFC, FMO, DEG, we put together some interesting transactions, such as the one that I describe in this slide. We were able to raise for AGD 60 million dollars in 2002, in the case of Nidera this was more a kind of club deal, but also with some kind of structured trade finance. Just to give you an example: in 2002 our total exposure in new money increased by 110 million dollars. In 2003 the AGD model was replicated with 3 other companies, Vicentin, Molinos Rio de la Plata, and also with Nidera with the help of the FMO. The fact that the multilaterals were in on the deal gave us the rational to execute all these deals based on the fact that these multilaterals had preferred trader status, which allowed us to settle internally that in case there was another problem the companies would be able to give back our loan. These transactions were three-year programs, it was a transaction that was disbursed one year, and after one year it needed a cleanup, the following year it was again disbursed, and this for three years.

Again, just quickly to show you that you can do business no matter that tough times are on the country. Here it is basically sharing with you the different transactions. Molinos Rio de la Plata sold its dairy company to Molfino, to Saputo, which is a leading company. We advised Saputo in this acquisition. And on the other hand last year Atanor did a tender offer of its shares and we advised the main shareholder, Dennis Alva from the US. We not only advised them but were the arrangers of a 60 million dollar facility for four years, where Rabobank committed 40 million dollars.

(Slide #7) So having said this, what are the lessons learnt from the crisis? We shall see later on if people who follow me after the coffee break agree or not. My personal impression is the following. Banks: you should always be looking for the right client, right client that can be defined by the following characteristics: what is the character of the shareholders and the management, in tough times is where really you see whether companies are willing to share all the information with you, moving into the right direction, or just thinking about screwing the banks.

Second thing is the viability of the sector. As long as one agrees that the sector is going to be a survivor, no matter what happens, the bank can say "I don't mind supporting these companies in bad times". And of course in the ideal world what we are looking for is a bullet-proof company, that as you know is impossible.

Another conclusion as a bank that learned is that exporters are or will be the survivors during tough times. Last but not least is creative solutions from a bank. A bank needs always to present added-value ideas to its clients, no matter how tough the situation in the country is. And maybe the last one from the bank's side is that profitability should not always be the focus.

As you know maybe right now in Argentina many banks are coming back to the market, basically because margins are higher than in other parts of the world. Is this an opportunistic approach or is this because you are trying to stay for the long term? In our case we believe that profitability should not always be the focus, and I agree with our first speaker that 15% rate is something that does not make sense. If not ask the local banks what happened to them, and what are they doing with sovereign bonds.

Corporates – this is basically what I believe they might be thinking, and let us see if what I am thinking is true or not, but it is clear that during tough times many friends disappear. Others stay behind, maybe a conclusion from this crisis is that pricing should not always be the focus and that no matter that liquidity is around in the market, sometimes it is good to think who the real partner for the long term will be, and who is just around with an opportunistic approach.

So in a few words, what I believe the new model is, a model that we believe is always in place, not only in the good times but also in bad times. It is a real partnership between banks and corporates, where we all share the risks and rewards.

(Slide #8) Just quickly, what is going on in 2004? Short-term liquidity is coming back to a selected group of companies. I think that this concept applies both to Argentina and Uruguay, old international players are back, however, old players left the country. Local banks are pretty active, and companies I believe are enjoying something very important, that is that they can find competition, and they can make banks compete against each other regarding prices. However, regarding the long-term or medium-term, its currency is almost nil. What we are seeing is that money is available but only for exporters, on highly structured deals, and with tenors that do not exceed three years.

We shall not see the syndicated loan market coming back in the near future, hopefully next year they will be back, what we see is for the second semester of this year more club deals, club deals where you can team up, a bank can team up with two other banks and provide large financing for companies.

(Slide #9) And the last thing that I would like to share with you, is what are the challenges ahead that we view at Rabobank. The opportunities are clear: working capital – the banks – do we have a line available? What is the threat? First, do you have a line available, two, what is the price I am going to get on that line? Maybe from the companies' perspective, what is the threat? First of all, I have X working capital needs, are those lines available in the market? Do we have the support from the banking community? And on the other hand is, what is the pricing I get on these lines? What is a possible solution for this? Assuming there is a line available from banks, assuming that banks are willing to go down in pricing, and that corporates are pushing hard to get the best pricing available, at the end of the day both from the banks' side as well as the companies' side we should always think about long-standing relationships. I think that with that in mind, banks will not lose customers and companies will not lose banks.

Second opportunity I see in the near future is export-oriented investment. By now there are several public announcements on companies planning to increase capacity, port facilities, etc., however you know as I mentioned before cross-border availability is almost nil. I am assuming that corporations would like to get financing so as to leverage their investment and improve their return on investment. However, what are the possible solutions for this? I think that the focus from the multilaterals will play a very important role. And in the near future multilateral financing through the A/B loan structure will allow commercial banks to get into the deal, and will allow of course companies to get long-term financing to finance their investments.

The second possible solution is for banks who can internally justify that they are going long-term by getting political risk insurance from private insurance have access to those. Lately those prices first of all during 2002 and the beginning 2003 as you might imagine PRI was not available or was available at very high prices, about 30%. The question mark is whether in 2004 and the coming years will PRI be available and at what cost.

(Slide #10) Thank you very much.

Nanno Kleiterp: Thank you very much, Rafael. Although we are 40 minutes behind schedule we have a few minutes for questions and answers. We had the presentation of Gert Jan (Mulder) who explained to us why banks exist, and the presentations by FMO and Rabobank. They show moderate optimism, both emphasizing that they do not like to see the opportunism that Gert Jan described and but they see a solution in long-term relationships. So maybe that is an interesting part and the clients of the banks can ask some questions, and tell us how confident they are in this long-term relationship with the banks.

Very confident, I see… They have no problems. Are there any questions for Rafael?

Well, I think Rafael that you have a very ideal model of what the relationship should be between banks and their clients, but what you see in practice is that when things come under pressure interests differ, and then you look at this relationship which differs very much between corporates and the banks. I think the Argentine crisis is a clear example of that, when a lot of banks left their clients.

Rafael Bonasso: Yes, I think it's pretty clear that what you are saying happened in Argentina, financial institutions disappeared. There was a lot of pressure from the headquarters not to have any more exposure in the country and try to recover as much as possible as soon as possible. In our case, hopefully I was clear in my presentation, and that clients would agree with what I am saying, I believe we stood behind our clients. Basically because at the end of the day it depends on what approach we are taking on the relationships, if they have an opportunistic approach, make our returns, or if it is a long-term approach. No matter that you are making money today, you may lose it in the coming years. But you see your clients are survivors in the future. I believe that we were lucky during the crisis because of the approach we had, we were only focused in the F&A sector, and for good or for bad, or good for us, those sectors were the winners of the Argentine devaluation.

Nanno Kleiterp: Did you get a reward, from staying behind and that you are still there?!

Rafael Bonasso: I did not get a good bonus from my bank, if that is the question. Maybe I can answer that question better by the end of this year when as I mentioned before liquidity is back in the market and we see what our clients decide. My first reaction is that clients of course it's a matter of sitting down and seeing there needs
How we can reach an agreement.

Nanno Kleiterp: Any questions? Mr. Ambassador?

Mr. Krieghoff: It is my feeling that this type of strategy requires much more engagement by the bank, because a bank in the long range has to take more responsibility and therefore more risks in this type of long-term cooperation you are proposing here. Are the banks ready to do so or is it only an ideal example, as you said before? Thank you.

Rafael Bonasso: I can only speak for my institution, the institution I represent. Maybe we had exposure with local companies, local companies that had a monopoly or almost a monopoly in Argentina, but they were generating pesos and their credit was in dollars. So what these companies needed was time, time to make the repayment of the debt, that was basically it. The business was sound, the only problem was that the company could not generate dollars, and was only generating pesos. Again, my institution together with the other banks that were involved, and that were creditors of these companies, decided to extend the tenor of the loans for five years, and after 2002, during 2003 and the beginning of 2004 these companies are doing really well. The peso was revaluated, they were able to pass to consumers the increase of the cost of their products, but again, at the end of the day I think it is key what we need to focus on as banks is who do you want to do business with. As long as profitability is the name of the game I believe that banks are going to be losers in the future. If we are able to select the right companies that we believe are going to be the survivors, no matter what happens in the long-term, if time is what they need, time is what they are going to get.

Gert Jan: I just want to take this opportunity just to say that I would like to make a compliment to my former employer, Rabobank, who was one of the few together with, I would say in the particular case of Argentina, where the situation was at times desperate, where Rabobank and (not clear) perhaps I am forgetting some, clearly followed up on the strategy they had, the strategy being to be very committed and understanding, and those sectors they were committed with were truly winners as Rafael clearly said, and I think they took a very courageous position there, because it was definitely not easy, not even for Argentines to understand, or even for Uruguayans for that matter, how that situation was.

On the other hand, to say something nice about the other banks, the world did change and it is demanded from banks that they organize themselves differently as shareholders demand that, as regulators demand that, as a result the position of risk management in most of the organizations is increased. Perhaps it has increased a bit too much, those people who are not too much concerned with the strategy of the bank, or who never actually meet a client, they become detached from the market, from the companies, they become detached from the economy. That speaks very much in favour of the two banks I mentioned and very clearly, not only in Argentina but in Brazil, firmly, as well as in Uruguay, a lot of companies and businesses have been saved because some did take responsibility, some of the banks and multilateral institutions amongst which FMO and DEG as well as I have seen. They stepped in where others had to step out.

Nanno Kleiterp: OK. Janos?

Janos Bonta: I would also like to add a few words to the question of the Ambassador. During the crisis I was not yet engaged in Latin America. But traditionally the role of FMO is doing what traditional banks cannot do. Out traditional role is to provide long finance. In the course of time we have discovered that we can play a role even with short-term finance, especially during crises, and that has effectively proved what the role can be, not only during the Argentina crisis, we have done similar things in the Far East. We are always actively looking for niches in our markets, we have an active market view, which we develop every year, so we always try to look for those sectors where we can be complementary to commercial banks. That can be in many ways, and we are there to take risks, and during crises that should also work, in one way or another.

Nanno Kleiterp: Thank you very much. We shall have a break, and then we have the view of some of the clients of the banks, Roberto Gazze and Osvaldo Bertone who can tell us how *they* would like to see us.

1.10. DEG: More than a financial partner

by Mr. Karl Weinfurtner, First Vice President, DEG

(Slide #1) Thank you very much for your attention after the short coffee break. I was asked to talk about the subject "DEG: more than a financial partner", and I was given 15 minutes for that topic. You will understand that this is already contradictory to the topic, to talk about a financial partner, more than a financial partner, you need something that is quite rare these days in business, you need time. So I have only 15 minutes, therefore I will emphasize some headlines and some examples. Hopefully we will still have some time during the next three days and of course hopefully thereafter, in more context in the future.

(Slide #2) Hendrik Lühl has already informed you about DEG, founded in 1962 to structure and finance private investments in developing countries and emerging markets, and I think this is a difference with commercial banks. In addition to investing in projects which are profitable we also want to contribute to sustainable development, and we look very much at both environmental and social aspects of our financing.

Agribusiness in DEG is about 15 % of the total portfolio. Last year we did 55 million euros, and most of it, more than 50% was in Latin America. We are glad and I think this was only possible since we had the support of DBA. Together with DBA we did 3 projects in the agribusiness sector and another one which was in the manufacturing sector.

(Slide #3) DEG as a financial partner, you learnt already about our product mix, long-term loans, I have underlined it because it is a major product we offer. I would like to point to the second point, equity, I think that is already a difference with banks because we are also prepared to take the risk of a shareholder, we are prepared to take equity in companies.

(Slide #4) This is part of DEG financial partner: why are we more than a financial partner? And here I would like to give you some ideas, about DEG's philosophy, about our thinking, about what we have done for the last 40 years, and what I think has made us successful, and what has made us a partner that is considered a financial partner and more.

(Slide #5) First of all I would like to mention a formal project, a formal program of DEG, a specific developmental approach. DEG is offering grants of up to 200.000 euros for some projects, here we can finance pre-investments and investments that are tied up with projects, for example to protect the environment, or measures for education and qualification, and pilot projects.

At the moment this program is open and applicable only for EU companies, and their subsidiaries, but we might open the program in the future also to what we call local companies meaning companies in Latin America or in Africa without German or European backgrounds.

This is a formal program, I just wanted to mention it. But now, coming to why are we more than a financial partner. I think this word was mentioned quite often today already, the word "partnership". (Slide #6) And I think the principle of partnership is something which is outstanding and which you can see as a principle through 40 years of DEG, and I am sure that it is the same with our sister institutions like FMO, Proparco and the others.

We are interested in long-term relationships and in long term cooperation and I think that to have long term relation it requires that you build up mutual confidence and understanding. It requires a type of relationship building. Confidence is vital to get through difficult times. And I think we need to take into account different aspects. For example in DEG we are investing in Latin America, in Eastern Europe, in Africa, In Asia. We have to take cultural differences into account. So we need a specific approach to our partners, we don't want to treat our partners in Asia the same as we treat our partners in Latin America because it's a different cultural perspective, it's a different cultural approach and we have to take this into account.

At the same time what we need to do, we have also to ask from our partners. Although I think that our partners must build up trust in us, not only talking to us in good times, not only reporting good news, but we should also talk about difficult things, difficult developments, about ideas, reflections. I think that what helps us is information about companies about their problems, in the country in the sector in the industry. The better we understand them the easier it is for us to continue cooperation even during more difficult times.

(Slide #7) I would like to give you three examples for long-term partnerships. This is a Belgian company, we have financed 6 projects with them since 1978, meaning for the last 25, 26 years. And we were able to maintain always a good relationship during that time, although there were quite difficult times in between. And the company operates in the commodities sector, and during 25 years prices have gone up and down, problems have come up and chances came. So it was a difficult time, but during all these periods we went through difficult times, we went through good times. Even 3 projects failed, one in Africa for country reasons, one in Asia, a hurricane went over the plantation and the plantation was gone, so you still need to cooperate with them and I think we managed in good spirit to get through those problems.

(Slide #8) Another example, it's again a Belgian company. John, they seem to be the most loyal ones, the truest ones… Here we have done 6 financial commitments in the last 7 years. We know them quite well. We meet them quite often, we talk to them, we know the people, they are in Brussels, not so far away from Cologne. We have given them four loans, we are shareholders in three companies, and we are members in several boards of directors of that company.

So we know them quite well, (we have) frequent contacts, exchange of views, and this has also helped us to get through times which were not as good as at the moment, when the palm oil price and the rubber price are at a good level, but the prices were down two or three years ago for the two commodities at the same time, but we understood their business and we were prepared with them even to restructure if required. In this case it was not required, and I think it is interesting to see and to realize that the more you know about each other the easier it is to structure projects, to help to get through times of problems as well as good times.

(Slide #9) I also want to mention a recent case, a company in Mexico. We have given them 3 loans in the last 3 years: 2001, 2002, 2003. The first loan was given during a situation in Mexico where for the specific industry it was a very difficult time, it was the sugar industry. Nobody was prepared at that time to provide loans to that sector. You see at the moment we are negotiating a fourth loan. And this shows that, though it is not a big amount but it shows at a moment when they would perhaps not need us any more because the sector is booming again but they know what it means to have reliable partners and they know that times will be more difficult again in the future, and they keep up relationships with us and we do the same with them.

(Slide #10) I was mentioning our long-term approach. I would also like to mention another aspect that is very important for partnership. We consider regional know-how is very important, but at the same time sectorial know-how is regarded as a key issue. We would like that our project managers when they come to you are able to understand your business, that they can do a smooth risk-oriented appraisal of the project so they should not come to you and stay in agricultural terms and tell you "Oh, what a wonderful cow", and you have to tell them that it is a bull. So we need to understand the sector, that is very, very important. We want to be a partner, again, to talk not only about mere financial issues but we want to talk to you, and are prepared to talk to you about strategies, markets, and all the environmental and social issues for example.

I remember some years ago in Eastern Europe, where we talked to companies about environmental and social issues. Now they are quite happy about that, because you cannot sell any more to a great many companies if you do not fulfill high social and environmental criteria. They are afraid that environmental pressure groups are address the retail companies directly, and blackmail retail companies, to skip contact with producers if the producers are not sound. So some were quite happy, also companies like for example cut flowers in Kenya. They are quite happy that we forced them at that time to introduce labels, to introduce a high-standard environmental quality.

(Slide #11) What I call here business and market network approach, I think it is a good sign that we meet here today, we have tried to do it not only today, we have organized for example a reception in Cologne, and our intention is to assist companies, to assist our partners in developing business by bringing people and companies together.

(Slide #12) Also I would like to give you here some examples. For example, we are a shareholder in a Hungarian company, a canning factory, the N° 2 producer of sweet corn in Europe. DEG is a 25% shareholder. And during the last 4 years we have given quite active support, in identifying suitable partners, by using DEG's own industry network that we have build up over the last years. We have managed together with them new acquisitions in the neighbouring country, Poland. It was our idea and we introduced that company to our Hungarian partner. There was a spin-off, and we managed to sell part of the company to a French company, which is N° 1 in the sweet corn business in Europe. Because that was good business for both, and we are helping them on cooperation (with) Eastern European companies, companies from Western Europe, and we have even brought them into contact with a Chinese company that has similar products and is very much interested in a cooperation in exchange of views, but also in trading relationships.

(Slide #13) Another example: this is a Chinese food-processing company. DEG is about to sign a contract in two weeks time. It will get a shareholding of 10% in this company. This company was not mainly interested in DEG because we provide finance. They were mainly interested in DEG because they know that through DEG they can build up networks, be brought into contact with others, and it took us about two years to build up confidence. And confidence was more important to them than our funds. Of course, they also like and require our funds, but they wanted us as 10% shareholders, also to have DEG on the list, to demonstrate to partners, banking partners, industrial partners, to demonstrate that when DEG is a shareholder, this gives them a higher degree of confidence in the market. And we are prepared to do that, of course we also want to earn money. I think we can expect a good return, but at the same time we provide this service.

(Slide #14) Another example, a French company; we have been working with this company since 1991, it is a very important player in food production, of banana and pineapple in Africa. We have provided 3 loans to subsidiaries in Africa, in two different countries, and just recently we managed to bring them into contact with one of the leading Latin American producers. Both are very interesting corporates and we will see what the results will be, but it is very, very interesting for both sides. Both have known each other for quite a long time, but they hadn't managed to get into contact and through DEG we facilitated this contact.

These were a few examples to demonstrate to you that we try at least to be more than a financial partner, therefore I think this is an ideal occasion today, and I am very grateful to DBA because they are helping us and they have the same philosophy I think, from what I understand from Gert Jan and what I understand from John. They have the same philosophy and the word *relationship-building*, the word *partnership* were mentioned quite often already today, and so I am looking forward also to a long-term partnership with DEG as a financial partner and more, with you, and thank you very much.

Mr. Nanno Kleiterp: Thank you Karl. Roberto will give us his ideas about relationships with banks.

1.11. A point of view on relationships with banks

by Mr. Roberto Gazze, CFO Vicentin, Argentina

Good afternoon everyone, it is a pleasure for the people of Vicentin to be here at this event, this meeting which seems to be so promising due to the topics that are being dealt with and to all the extra material (I'm speaking about drinks, barbecues, dinners, etc.). I thank the people of DBA for having invited us to speak here, and especially Gert Jan (Mulder) for having assigned to us the topic "A point of view on relationships with banks". Many people are looking forward to what companies have to say, so there is a certain expectation about it.

We at Vicentin have been trying to decide how to approach this topic, because it is quite abstract and not so simple. We did not want to theorize either, we wanted to deal with it from a practical point of view so we said, let us begin by giving a summary of the history of our company, how it began, how it evolved, what are the assets and resources of the company to perform in such a competitive environment as Argentina, and how banks interacted with us and what their impact was, and then make some recommendations. We would like to make some recommendations on bank/client relationships, and then try to draw some conclusions.

I do not know if all of you are aware of it, but Vicentin is a family-owned company. I shall go rather fast because this is just a summary. It was founded in 1929 by our grandparents, initially, as many companies that are crushers in Argentina nowadays, they started with storage and general warehousing, and then they started to evolve. In this way in the year 1937 the storage of cotton led to the inauguration of a ginning mill, that is, a mill for separating the seed from the cotton fiber. In 1943 the company began crushing oil seeds, mostly cottonseed and linseed. Here you can see the first letterhead of the company, and it is a drawing that reflects the dream of our grandparents about what would be the layout the first plant in Avellaneda. In 1966 the company started its first solvent extraction plant. In 1978, which was a landmark in the history of the company, Algodonera Avellaneda, a company controlled by Vicentin, began to operate a super ginning mill, producing 300 tons a day, which was a really important figure at that time. In 1979 the company decided to install its headquarters in Ricardone, Santa Fe, some 30 km from Rosario, which is now the main milling center, I would say of the world in terms of scale and volume.

When we settled out there only one plant existed, Indo, then La Plata Cereal. Nowadays that plant belongs to the Bunge group. This plant, of 2.000 daily tons, was the largest that had ever been installed. Then came Cargill, Nidera and all the other players that are operating in the area now. In 1983, this is the same picture, the company doubled production capacity in that plant to 4.000 tons per day. In 1987, another important landmark in the history of the company, it filled the first ship, which meant quite a shift for us because we became FOB exporters. In was a shift in the sales structure, going from the internal market to FOB exports. In 1996 the company started a very aggressive expansion policy, in Chaco, near the border with Santiago del Estero province, it bought two ginning plants. In 1997, and this was also very important, there was a wave of investment in the sector, and the company increased its capacity by 5.000 tons initially. Nowadays, the capacity of that plant is 6.500 tons. Also in 1997 the company made a very painful decision. Besides increasing capacity, we had to close the Avellaneda plant, which is where the bulk of shareholders and directors reside, due to reasons of competitiveness. The plant was founded years ago, had old technology, and it was costly to run and badly located. It was not located in a good area in terms of the production of oil seeds. We had to make a very hard decision for the company in its entirety.

In 1998, always trying to pursue an expansion policy in the cotton sector, we built a ginning plant and also these storage facilities, located in Bandera, province of Santiago del Estero. In the year 2000, the company also made an important decision, a forward integration measure, we bought from a very well-known businessman in Argentina, Eurnekian, this spinning and weaving plant, located in Reconquista, quite close to Avellaneda.

What does our company do? Vicentin is a company which is a combination of oilseed crushing, ginning and spinning cotton. To that end we have two crushing plants, two ginning mills and one spinning plant. You can see where it is located here on the map. Avellaneda is where we have our central management and head office, Reconquista is where the spinning plant is located, the rest of the locations show storage and ginning plants, and in the south, Ricardone and San Lorenzo is where we have factories and ports. In Buenos Aires we have warehouses for yarns and fabrics, and part of the administration regarding finances and exports.

What do we produce? We produce raw oils, sunflower and cottonseed, pellets and flour, also soybean, sunflower and cotton, we participate in the local market in the sale of bottled oil, and we also produce cotton fibers and yarns, also fabrics, which mostly go to the local market. This is our capacity, we have a port which loads 2.400 solid and 1.500 liquids tons per hour, and to give you an idea in 2003 we loaded 5.3 million tons. It is the second port in terms of volume in Argentina. What do we have in the port? Not only the port itself but also storage facilities, that is the tonnage, and also in the neighbouring port we have a crushing plant which produces 6.500 tons per hour.

This is the Ricardone plant, located 3,5 km from the port. What you can see is the facilities for storage, in that area we have a capacity of about 600.000 tons. We also have a multipurpose plant which can crush soybean, sunflower seeds or cotton seed. Its capacity is 4.000 tons. This plant is connected to the port with a pipeline, and we can channel the oils via that pipe.

The core business of Vicentin: it started as a cotton company and its cash flow nowadays is produced mainly by oilseed crushing.

We invested in technology and in economy of scale, which is the secret of this business these days. Also we added a certain potential for obtaining positive results because we can switch from soybean to sunflower or to cotton, in accordance with volumes.

But definitely, as you can see on this chart, crushing represents 90% of our business, and the remaining 10% is represented by cotton weaving and by the sale of bottled oils in the local market. Within that percentage 88% goes to exports, and as you can see soybean pellets, flours and oil represent 85%, followed by exports of sunflower oil. The domestic market carries 11%, of which the bulk sales of sub-products and oil represent 39%, and bottled oil 26%. This segmentation reflects more or less the same features of other crushing companies in our market.

Now we are going to look at the evolution of the company in the past 20 years in terms of crushing, sales, and we also want to show the transformation process that the sector underwent to become what it is today in the oilseed business. This chart shows the evolution of daily capacity, the green line shows daily crushing capacity. In 1972 we reached 1.500 tons, when we installed our first factory in Ricardone. This is the year 1983 when we doubled capacity, and for a period of ten years we maintained the same capacity. This was more or less the same pattern as the rest of the sector. In 1997 the sector adjusted and reached the capacity that we have today.

This is the graph in terms of volume - I apologize for the missing information - and we can see the evolution up to 2003 with almost 3 million tons. This is the evolution of sales, domestic market and exports amounted to 800 million dollars. This is the evolution of sales regarding domestic market versus exports. Here we can see that there is a shift. Up to that moment we channelled everything that we produced through trading companies. We sold via what was called the FAS. They were sales in pesos to trading companies, who took care of the FOB exports. From then on we increased our export volumes, until we reached the present levels of almost 90% in exports.

This has a certain correlation with the evolution of our relationship with banks. As we can see here, the green line is, in percentage terms, our standing with local banks. In 1985-6 we began our relationship with international banks. Our company's approach to international banks was due to the fact that we were becoming FOB exporters. Here we can see the evolution, and how banks have been with us, weathering the different crises that the sector went through. In 1997 we did our first finance project with IFC, which is when we grew in installed capacity as I showed you in pictures and graphs. Then we can see a larger participation of multilateral credit agencies, IFC, FMO who financed a project in 1999, and today we do not only have project finance with these institutions but also working capital facilities, that is, they are financing our exports. This is in percentage terms and it is exactly the behaviour of banks and how we have been working with them throughout these years.

This chart reflects the tremendous effort of the sector to become what it is today. This is personnel employed in crushing only, and this is the daily crushing capacity. In 1984 we had 1100 employees. Here you can see until 1989, the beginning of the convertibility system. We had to become more efficient in terms of cost per ton, especially concerning the incidence of labour, which is the main fixed cost of an oil manufacturing company. It is not nice to carry out adjustments, but it was what we had to do during this period.

And today we have 10.500 tons and a total of 355 persons including directors and managers in the crushing business. For instance, the plant that we founded, or rather invested in 1979 and 83 has 145 employees. The layout is a little more complicated, with the storage facilities, the reception of materials, power generation. This all needs 145 employees. This plant, the one we invested in the port in 1997, has only 17 employees. And the new plants that will be incorporated will have no more than 16 employees. This gives an idea of the technology that the sector is using, it is the latest, there is no more modern technology than what the sector is using in Argentina.

Well, now comes the nice part, because up to now what we were trying to do was to tell you about the evolution of the company, there was no other way to express what the evolution was and what the relationship was with the banks. What Vicentin seeks in relationships with banks:

- Continuity
- Consistency
- Commitment (especially personal)
- Professionalism
- Competitiveness in costs and service
- Chemistry and frequent contact

All these points are in theory what one has to try to achieve with friendly banks.

These are concepts that one tries to achieve in relationships with banks. But if you look carefully, these concepts should be applied not only to relationships with banks but with friends, wives, girlfriends, partners, with people from the football team… That these items converge at the same time is quite difficult in a normal relationship, and even more so in relationships with banks. Many times these concepts are affected by matters completely beyond the relationship itself. We Argentines – well, I believe that people from the whole region can relate to this – have not only suffered but even caused some crises ourselves. Those of us who survived – we have gone through political, economic, social crises, periods of hyperinflation, war, internal debt, looting, terrorism, devaluation, default, which is the present situation in Argentina in which local players have to compete and grow. In addition to these crises that we suffer now and then, we have gone through other types of crises like the Tequila crisis, the Russian crisis, the Brazil crisis with its devaluation, when convertibility was questioned, etc.

We also had to go through a process by which the banks, at least many of them, had to redefine their strategies. We felt that they did not have a clear picture of where they were going, whether they were commercial banks or investment banks, a series of issues that were not clear when we talked to them. Of course all this affected the relationship with our banks, and fortunately a few of them (less than five) have maintained a consistency, a commitment that is very strong, and which strengthened the relationship, if anything, during these periods of crisis. We all know that in a friendly relationship the other party does not expect to be thanked, but they know very well that we are deeply grateful and it is something that we wish to continue through time.

What we saw - we were on one side of the counter and on the other side were country managers, credit officials, who were in charge of the relationship with the company – was that they were under the same stress as we were. And the problem was that they had to report. Though we saw commitment, and a good risk evaluation, they knew the business, wrote their reports to their bosses at headquarters, what we noticed was that at the time of deciding the people at headquarters received other inputs, from CNN, the Financial Times, and at decision-making time this did not help. Therefore many of those relationships went sour in spite of the former good relationship. This is not meant as a reproach, it is simply an observation of the existing reality at that time, Also, we were not in a position to judge because we ourselves felt as if we were on the deck of the Titanic. All sorts of things happened in Argentina, I am not trying to dramatize but really so many things happened!

Within this context, what we tried to do was to differentiate the company from the Argentine context. We always tried to sell the idea that our sector was one of the few that had comparative advantages, and that was genuine. Obviously nowadays we can see that it has been fruitful, but Argentina continues to be a laboratory case. Many people think of Argentina as a research project, we are surrounded by a kind of miracle mystique, everything starts to revive and to change. But the reality is that the sector is not miraculous at all. The sector has proved once and again that it is capable of fulfilling its commitments and carry out business plans, and the results are what we can see today.

Company policy regarding banks (and other commercial contacts)

• Due consideration of long-term results versus short-term costs and investments
• Long-term view by the company finds its origin in the long-term view of the shareholders in the business and the company (vision)
• Open book policy, frequent visits to main banks, continuous dialogue and providing of all information on the company in a structured and organized way

In the case of our company, we have always honoured our debts. There is no merit to this, it is the way it should be. Maybe the rest of the Argentine economy does not behave in this way. We believe that, merit or not, it is something we can sell every time we want to carry out a new business. Therefore we believe that accordingly, the only thing that we can suggest to banks in general is that considering the value of the sector – the Argentine crushing sector represents 30% of the world trade, this is the value of Argentina in oils, flours and pellets - banks should have a more defined commercial policy in respect of the region and the country. People that are here should have continuity, maybe at the beginning they have no experience, but years provide the necessary tools to evaluate and measure what is important and what is unimportant during a crisis, and so they should be able to handle the different cycles that a local company goes through in an environment like Argentina.

In the 90s, when convertibility started, we thought that we would never get into trouble again. Ten or twelve years later, the crisis repeated itself. However, it is necessary for banks to have a clear policy. It is the only way for results to be observed, and certain banks have been able to handle this. They have been cautious, and they have stood beside the companies. It is not pleasant to feel unprotected.

The worst part of it is that the due diligence that we used to do with Corporacion Financiera or with FMO I recall that they always asked, In the next crisis how are you going to handle a hypothetical exit by the commercial banks, as this is cyclical? Well, we felt like grabbing for our violins to help us waffle, because one does not handle that type of question too well. The fact is that it is quite a repeated question, and what we want is a clear message from the commercial banks. They have to be clearer. We regard all this as a challenge and an opportunity. We are grateful for the confidence that banks have endowed the company with, it is not necessary for me to identify them because they know full well who my gratitude is directed to.

Another thing that I could mention is that banks have to be creative. From our company's side, we have always been very open-minded in that sense, we have capitalized debts, we have issued negotiable instruments, we implemented what was called special-purpose companies, we have worked with insurance companies to obtain collateral, things that could give an added value and allow us to structure intelligent and practical deals.

One other thing that we made a note of: there is an appetite now for working with the Argentine exporting sector. This is quite clear, there is a sort of rediscovery of the sector. To think that this appetite means that our efforts have been successful is somewhat pretentious, but we take it is as a confirmation that in the future, the banks' commitment is going to be stronger, that we shall be able to work in a more predictable way, and make more progress in this direction.

Conclusions:

• Presentation shows that Vicentin has been an appealing client to several banks for many years
• The company intends to continue to grow with its business and expects its financial partners to accompany
• A continuous and open dialogue leads to good business and friendship.

If you saw the graphs, you may have noticed that it would have been impossible for the company to face, in an environment like Argentina, the levels of activity it developed, or the evolution that it shows. In 20 years we went from 1.500 daily tons to 10.500 tons. Without the banks this would have been impossible. This had ups and downs, as any other relationship. The only considerations that we have to put to you are these, what you see here: open mind, open dialogue, and are you going to allow us to do good business and maintain our friendship. This is the conclusion and the corollary. That is all, thank you very much.

Nanno Kleiterp: Well Roberto, thank you very much for your fascinating presentation on your company and your relationship with banks, and how you would like to see that relationship improve. Osvaldo, please.

1.12. Banks, a necessary evil?

by Mr. Osvaldo Bertone, General Manager, ACA, Argentina

I have not come prepared with technology, I did not realize that we would have so much technology available for our presentations. First of all, I think that we should thank DBA for the brilliant idea of organizing this meeting, and of course the co-sponsors, DEG and FMO.

I am going to try and make a very brief description of ACA, and also try to speak about the relationship with banks, and how we look at it from the point of view of ACA. ACA has a very special feature, which is different from what banks see normally, which are companies structured as corporations. We are a cooperative, a cooperative of cooperatives. It was founded 82 years ago in Argentina, and at present it assembles more or less 170 first-class cooperatives. In their turn, these gather some 70.000 producers.

The history of ACA, as the history of all companies, has had good times and difficult times, but in the last few years we have gone through especially hard times due to the economic context in Argentina. Thank God we are alive, and that we have been able to grow in the past few years. This meant that during the nineties many of our cooperatives disappeared, and through a very explicit policy by ACA towards the cooperatives, we offered to help them as long as they merged. Rather like what Roberto was saying about the factories, this was what we were seeking to achieve with the cooperatives.

Therefore our total number of cooperatives decreased, but the remaining ones grew in terms of volume. Today this allows us to be in a situation of internal evolution in the commercialization of cereals - our business amounts to 8 million tons per year as originators. We are not big manufacturers, our profile is more focused on the stockpiling and origination of merchandise, which we do through our cooperatives. For the past six or seven years we started direct ACA stockpiling in areas where there were no cooperatives, and at this time we have approximately 30 sites where we carry out our activities directly.

This internal commercialization is complemented by logistic activities in two ports, one that we have in the south of the province of Buenos Aires in Quequén, and another in the Rosario area, Port of San Lorenzo. We might say that the core of ACA’s business is the commercialization of agricultural products in a comprehensive manner, from the time that the product leaves the producer, passes through the cooperatives, and reaches us, and we place it in the internal market or export it. Approximately 40% of those 8 million tons are exported directly by ACA. In terms of volume, we are evolving annually at a rate of 1..200 or 1.300 million dollars, of which approximately 400 million are in exports.

The other important business line for ACA is the supply of inputs for the sector, both for our cooperatives and for our producer members. For this we developed two seed production plants in the past 15 or 20 years, one for wheat seeds and another for hybrid seeds like sunflower, corn and sorghum; a plant for chemical synthesis which we mounted in the area of Campana, where we manufacture certain chemical products for agriculture, and also veterinary products. We also distribute fertilizers. This began many years ago but started to grow strongly in the past few years, after a joint venture with Mitsubishi to invest in a company that provides services in the unloading and warehousing of fertilizers.

These would be ACA's two main businesses. We have other activities which we develop through companies that we own shares in, like the insurance business, meat-processing plants, both beef and pork, and also a few small private ports where we own shares.

My challenge, facing an audience like this one, is not an easy one. I was told that I had to discuss the issue of whether banks are a necessary evil or what. I think that this title is a little bit aggressive. In ACA we carried out a few studies, not for this seminar but because we wanted to know how to deal with or position ourselves in our relationships with banks. We have always thought that a bank is a partner, not a partner in the sense of owning shares, and more so in our case, as in a cooperative it is impossible for a bank to be a partner, as Karl was saying earlier; but rather a partner in the sense of being a participant in our business, a helper in our business, someone who knows it well. This is why I would like to divide these comments into two parts: what we would like the banks to do, and what we think we should do ourselves towards banks. If we are partners I believe that we have mutual obligations, therefore, though I think that many of these things are not new, I shall try to summarize them, and also discuss what we should do ourselves in this two-way relationship with banks.

Obviously whoever is providing financial assistance is taking risks. From a methodological point of view I think that we should divide this risk between the company risk and the country risk. As far as the company risk is concerned I think that it depends on us to inform the banks for them to know the company fully. And not only information from balance sheets; I am concerned sometimes, because the only element that is considered is the balance sheets. I believe, or rather our experience shows us, that in this cooperative activity where there are also financial activities, as much as we may analyze balance sheets, projects still fail. Then, why do they fail?

I believe that knowing *people* is at least as important as the figures on the balance sheet, especially concerning their professionalism and their honourableness. I think that when people are honourable, there may be problems, but they can be solved easily. But I see here what Mr. Mulder said earlier, that our dealings are either with people with representation offices in Argentina, or with commercial agents who visit us. Decisions are made by credit committees located 12.000 km away, who do not know us. I know the effort made by representation offices or by those who visit us to transmit what we are or what we try to convey, but I think that there is a dissociation here, something is missing, something that improves the information on us that is available. Of course there will be discussion on this later, and I believe that it will help us to know how we should act.

With regard to risks, I spoke about two types: company risk and country risk. Unfortunately I am old enough to refer to my experience. I have been in ACA for

31 years, and only recently I became the general manager. Before that I was always strongly involved in the financial area. So I have gone through crises, as many as those of you who are not so young either may recall, crisis like Sacetru, the Falkland Island crisis, hyperinflation, the tequila effect, etc. We have had relationships with several banks. Which were the banks who overcame those problems without going down themselves? It was the banks who knew Argentina, those who knew the regulations of the Central Bank in detail. I am not saying that they were not shaken, but I see that their knowledge facilitated the relationship, that they were able to control their business, and even make a lot of money. The risk was higher, but so was the spread.

Concerning the last crisis in Argentina in 2002, I remember working closely with some of the banks, dusting off Central Bank bulletins from the eighties, to know what we had to apply for the pre-financing of exports and how to repay our debts abroad. We achieved this with a firm attitude from the exporting sectors, several of us were there, with some people from foreign banks. We went together to the Central Bank to say what it was that we wanted. It was always like this, in every crisis. Therefore I think that we must always take this method into account. Argentina is not going to be free from crisis in the future, though I hope I am mistaken. But if the work is done jointly, and we have knowledge about the priorities, whichever government we have, considering the volume of foreign trade that Argentina has had for the past 30 years I believe that we should feel a great deal more comfortable and help each other mutually to overcome these times of crisis.

Therefore in ACA we have always privileged long-term relationships with banks. In spite of the fact that the people have changed, we have relationships of more than 30 years with certain banks, very fruitful relationships, with ups and downs, and with a few arguments in the middle, as it should be. I do not think that anyone gets on so well with a wife that there are never any arguments! At least in my case, I think that there are more arguments than necessary, but I think that with banks, the same criteria should apply. I believe that this is a very important point. In the case of ACA, and I am not saying this because in this environment it is easy to say, we prefer to work with European banks. We decided that we did not want to work with US banks. The reason for this is that we do not want opportunity business. We want long-term commitment. This is an ACA policy which was defined a long time ago.

Here we may speak about both working and investment capital, but even if we are speaking about working capital or short-term financing, the dynamics of our business is very agile, we need quick reactions, today a deal is closed, we need pre-financing for tomorrow, therefore we do not have time to look around for someone who is interested in the business. Rather, we need a strong, established relationship which allows us to operate with speed.

There are aspects that could be improved. In our case we have always focused strongly on the issue of pre-financing of exports, and now with FMO and DEG we are looking into some investment projects. For us, or for our cooperatives, we are the instrument through which our cooperatives can improve. But there is something that could help us in the future, which is post-financing. For a fully

Argentine company such as ours, it is difficult to evaluate the issue of post-financing. One way to grow in the future is for banks to help us with the post-financing of exports to some faraway countries, where it is very difficult for us to understand what is going on.

To conclude, I would like to comment, at least from the point of view of ACA, on what it is that we should do for banks, what we have tried to do. This is not something new. First of all we must try and provide good information, through our annual balance sheets, with our partial balance sheets, and with additional reports that we publish regularly. As some of you know, one of our characteristics is the memoranda and balances of ACA. We have memoranda which contain detailed descriptions of everything that we do. I think that we are an exception in this sense, this type of memoranda is rather scarce. We issue them not only to provide banks with information, but because we have 170 cooperatives and 70.000 producers who are watching us, and we have to reach all of them with information about what we do, and explain why we do it. This helps financial institutions to understand us better.

With regard to figures, we have tried to draw up our balance sheets and partial balance sheets and to audit them, to give them more reliability. We have been working very closely with DBA, and they have helped us a lot in compiling information which is additional to our balance sheets to facilitate the task of understanding what ACA is, for the banks who lend us money. We know the effort that financial institutions must make to understand us, which is harder than in the case of other types of companies because of the characteristics of our legal structure.

We have also rated ACA in order to provide additional information to our banks, if we want to be their partners, we want them to know who their partner is. We have tried to create trust, beyond the figures we may provide. And also, there were cases where we have tried to help, by saying how we interpret the context. Argentina is a difficult country – I think it was Roberto who said that it was a laboratory case – and we have tried to provide the point of view of the sector and of Argentina in particular. This is the result of living in Argentina, as a second opinion I think it is important for us to convey our point of view to the institutions that help us, so that they can interpret our country better, because Argentina is a difficult country and I think we should help each other.

To summarize, I would say that the sector has liquidity nowadays. It is a sector that as the result of changes that have occurred, has a great deal of liquidity. But as good things never last, I believe that the situation will continue through time but not at the present levels. I have the feeling that the agricultural sector has a more than reasonable future in Argentina, but it is very difficult for us to maintain these levels of liquidity. Therefore, it is important for us to have our partners close by to help us, because the type of business we do is unthinkable without the support of the financial sector. There are no companies that have sufficient working capital to move the volumes of commodities that are handled by the agricultural sector. In the case of ACA, a fully national company, we do not have headquarters abroad, therefore our headquarters are yourselves.

Thank you very much.

1.13. Panel Discussion chaired

by Mr. Nanno Kleiterp

All speakers plus Henk van der Heiden (former director of Commodity Finance - Deutsche Bank)

Nanno Kleiterp: Thank you, Osvaldo. These businessmen seem as cautious as bankers when they speak! But they are thinking about their long-term relationships, about maintaining that. I think that the idea is that Henk should come up here, you are invited… are you coming or not? Henk van der Heiden is a very experienced banker. He didn't tell you? Well, he's on holidays and volunteered to give some (thoughts) … Gert Jan told me that you have very strong opinions about relationship banking, so we want to benefit from that opinion. Oh please, I think there are some clear statements – the call by the entrepreneurs is that banks should know them better at all levels, not only at information 12.000 miles from here, and decisions made from paper…And that there should be more personal relations, and based on trust, in the long run, in the sector, in the companies and not so much in the country because the country passes every so many years through a difficult crisis. The sector, especially these enterprises' sector, has survived, and is doing well, especially during these times.

Please Henk, maybe you can give us some comments on what you have heard from the entrepreneurs.

Henk van der Heiden: I was very pleased about what Roberto said, and our friend from ACA, they are certainly very friendly, but they scarcely touch on customers' problems. So before Roberto started his presentation, I asked myself, as I am on holidays and I continue on holiday, my wife is somewhere on the beach, but we do not touch the reality. In my opinion they did not reach the reality surrounding relationship banking. Anyhow, thank you Roberto. Because when one is travelling around, with foreign clients, you also talk to foreign colleagues, the majority of my foreign colleagues in my opinion and the majority of my foreign customers are still facing the same problems which ACA and Vicentin touched in a very friendly way. I ask myself, as well FMO, as DEG, we have here a number of very selective customers from Argentina, customers from the top of the lists. But what can we do for the smaller companies, and the smaller companies of 40, 50 million dollar exports, with a lot of experience in exporting, which are facing now as well as internationally being in the wrong country, they need the liquidity to finance their crop or finance their receivables, and I ask myself, which bank (is going to do this?).

I was in Buenos Aires for five days and some time in Brazil, which I hadn't done since I retired.

Nanno Kleiterp: Who asked this question?

Henk van der Heiden: (Everyone is saying) this is fantastic, we are partners for life. I think that most of the banks can say the same when the sun is shining and there is good weather, but when there is bad weather I would like to know what the attitude is going to be.

Nanno Kleiterp: Who feels that he can answer this, from a commercial bank?

Marnix van Iterson – ING: There is presently quite an active answer to your question in Argentina, Henk. The capital markets are getting back in their place, mainly (through) local banks, but through foreign banks who are organizing bond issues through trust funds, which are placed on the local pension funds, and these aim to reach small and medium-size companies, so at this moment these companies are not really suffering from lack of liquidity. I imagine that this product will continue to exist in the future. Mexico has also showed too since its crisis that the local capital market has replaced international loans, so why not, the same thing may happen in Argentina. Maybe it is part of the answer to you question.

Henk van der Heiden: Again you are saying the right thing, but where were the banks in the meantime? Financing is not a question of a few years, and then you pull out for another two or three years and there is no more financing. We have to speak about continuity, of a life-long partnership during the active life of the company. I agree with you, I heard that in Buenos Aires. But in the past two or three years there were very serious problems, and when there are two or three years without liquidity, because of the lack of cooperation of the institutions, one doesn't exist any more as a company.

Marnix van Iterson: I agree completely, but I am glad that they have found something different to financial institutions, the issue of bonds within the local pension funds. There are different alternatives. Medium-sized companies have opportunities for financing, for example ACA or Vicentin. We are not talking about the large players, but the medium-sized ones.

Nanno: Well, allow me to ask Janos.

Janos Bonta: I think it's a very good observation. I was actually wondering myself what local banks are actually doing, what role they are playing, because in my short visit I met big names and most of my contacts were with international banks. Apparently there is a gap for some reason. But talking as FMO yes, to some extent I would say that we also focus on what is the easiest way at this moment. We try to be efficient, we operate from a distance, and we also first instance we are thinking in big numbers. But yes, we have some credit lines with the local banks, it is for the local banks to play with the smaller producers. In the case of Brazil we are working with a new initiative, with a fund that was created by foreign investors. We focus on providing trade finance facilities for the smaller producers, and their view is that there is a big market there and that they can be a very nice return. Obviously in that market the risk is higher and you can achieve a bigger return.

Nanno: Henk, it is an interesting observation. Let me talk on behalf of FMO, and from the point of view of DEG. We have to find ways in order to reach and work with these companies. What I mentioned is that our basis is only indirect, so the smaller it gets sometimes it is less transparent, so we have to find ways to understand the risks we take, and we have to do that with others, we cannot step into medium-sized companies on our own, without any financial partners. Specially from the observation of Janos, we are looking for ways, not only in respect of Argentina. We have the situation that especially the big companies are getting access to the commercial banks, and we have a layer below that which still has difficulties, even when there is a lot of liquidity in the markets, we see that in Peru, in Mexico, in Asia, it is very clear, we have to find ways to work with financial institutions or with friends in order to share risks. That is what we can do, but we cannot by ourselves. We are far away, we do not have the capability to finance these companies directly without other financial institutions. So we have our limitations to what we can do concerning the taking of risks.

Hendrik Lühl: I would like to agree with you, Nanno. I think we have a very intensive discussion in each Latin American country, to what size we can contribute directly from Germany. And we have the same problem, that if you go below a certain level of sales or assets, then transparency is lacking and those companies usually have different philosophies, which makes it very difficult to work with them. In Mexico for example we tried to go as low as possible and do business with small and medium-sized companies. And for example in the smaller Central American countries one has to be very frank, you can do business maybe with the first ten companies in a country like Guatemala. In Argentina I think the situation is changing, we have done a lot of business also with medium-sized companies. Now in a difficult environment like this we say well, we would like to concentrate on the stronger ones, on the larger ones. But we have for example in Argentina concluded an agency line with one of the local banks, which provided us with a guarantee and then we give direct credit, direct long term loans to a substantial number of medium-size companies. So I think we have the same philosophy as FMO.

Karl Weinfurtner: I would like to add three more remarks on my side. First of all, we did 50 million in agribusiness last year, 500 million in total euro worldwide, same thing as for FMO. So definitely, seeing those numbers, we would not be able to provide all the credit needs in these countries without the multilateral institutions.

Second, we can finance smaller companies by indirect financing. As Hendrik said, we provide loans to local banks and they can pass them on. They can and they do.

I think a third point to be seen is that we usually provide foreign exchange loans. Most of the smaller companies would need local loans. I don't think we have the facilities for that. And for this you need local savings and you need to develop local structures, because in the end it is the local banking sector who has to see the needs, who has to see the requirements, local framework conditions, they have to work on that to have it in place. That's a very, very crucial point.

Henk van der Heiden: I have a question, Nanno, which arose during the day. When Rabobank made the presentation and said, well, we are a triple A bank, and another two institutions have a triple A status as well, an interesting question is when that rating agency says to Rabobank or to FMO: OK, you have to make a choice: or you decrease your exposure in certain developing countries or you lose your rating. What will be the choice?

Nanno Kleiterp: For me the answer is very easy, for Rabobank it is more difficult, because with 51% shareholding by the government, it is our mission to work in developing countries, that is easy. I think in the case of Rabobank the answer is more difficult.

Rafael Bonasso: When this seminar started I remember John or someone said that here we are not sharing our institutional views, but our personal views. So I'm thinking about my pocket, who cares about the rating. We will continue to do business in Argentina, and as I said in my presentation today we are proud that we have a triple A rating. We know that a rating at the end of the day is a third party that analyzes how the bank is *today*, things might change in the future. I strongly believe that in the case of Rabobank, the rating is another detail. Our views are more long-term in Argentina and the F & A sector in Latin America.

Nanno Kleiterp: OK. Miguel?

Miguel Acevedo: I am Miguel Acevedo from AGD Argentina. Talking about the size of the company, I think that in the case of Argentina it is very important to assess the quality of the risk rather than the size of the company. If you are lending money to companies that are using that money, lending hard currency to companies that use it with the local currency, then you have a lot of problems, I believe in the 90s that was the case with a lot of companies. And that was not only the size of those companies. You know that there were large companies that had problems because of this, and that is I think the focus we have to keep in the next years.

Nanno Kleiterp: Maybe it is interesting to mention that we are working in India, with Rabobank, to have credit lines where we share risks for these medium-sized companies and give local currency loans, and we share part of the risk which makes it possible for them to extend their exposure towards these companies. But it is still something that has to be worked out, it is not straightforward or simple to do that. But I think those are the ways we are looking at to share risks with others in order to be able to reach this market sector.

There was a question that both Osvaldo and Roberto laid on the table, which is: is there a solution to the issue that the credit committee is 10.000 km from here, and has a different view from the people which are established locally and which is felt as something that the companies cannot influence, and it is also difficult for the staff here to influence? It is something which you see in people who work in the international banks, and face this problem. What can be done? Is there a solution? Gert Jan has a solution.

Gert Jan: I'll make it quick and dirty. I got some advice from a colleague in Sao Paulo. He is now member of the board of Rabobank. And he said all that paper filling activities, they do not help at all. It is just what you need to do to bring the big boss over. Or the bosses. Show them, show them what you want to do. We are very happy in FMO and DEG that you spend some time with clients, if there is something that we have been trying to do for the past five years, it is to explain to the companies, that if you are the president of the company, you have to show your face, and vice versa it is exactly the same. You have to bring decision-making people to where the action is. Otherwise they will never understand, and it is just a waste of a lot of energy and time. Besides, it's fun!

Hendrik Lühl: Gert Jan, from our own experiences, I think that the problem is that the internal approval procedures at least in the banks, and DEG is also governed in Germany by the banking commission, are changing. You have a veto right in these days by a credit department and even if the big bosses say "Well, we should do that", they have a veto and these are people who do not travel. I mean, you can be lucky if they have some experience. In DEG luckily they do, these are people who come from the operational level. But this is something that is imposed to us by law and it is very difficult to overcome.

Henk van der Heiden: You are right, this is a problem for development.

Horacio Aranguren: I am Horacio Aranguren from Molinos Rio de la Plata. Two points that I would like to share with you. First, we know very well that clearly after 2001 and today, especially since the second half of last year, many international bankers came back to our companies, and of course there is a nice supply, or availability of funds for our operations, especially in the crushing business. Of course, simultaneously with the problem we faced in 2001, we had a huge change in the farmers' attitude in Argentina. One point that nobody remembers, but Gert you remember that very well, in the past we used to see the farmers' selling attitude (which was) very aggressive, that means a marketing by which by the end of June/July almost 70% of the total crop was sold by the farmers and was in hands of the crushing industry, and nowadays we are talking about only 30 days.

The reason why I am talking about this is that we have to realize that the soybean market came from five-dollar bushels to ten and a half today, the freight market is three times what it was last year, and I guess and we guess that most probably within the next couple of months or year some adjustment in the prices of the commodities will force the farmers to start thinking about selling in a better pace, at a bigger pace than in the past, especially in the last two years. One point that we have to realize is that 2003 and 2002 were very interesting for us in our crushing activity because basically the need for funds was probably one third of what it was in the year 2000. But we as crushers and you as bankers have to realize that that move will change probably, and on the other side we are a step higher in terms of costs. That means either from the crushing industry, also to the merchandisers, nowadays we hear from Bertone about post-financing. We know and we have to realize that in the middle, between the processor and the end consumer there is more than one actor, and those will demand more funds and will need bigger amounts compared with the years before. So that means: on one side we are very clear that there is availability of new funds, probably at more reasonable spreads than we had during 2002 and 2003, but of course on the other side we will have to think about what is next in this type of communication and the use of these funds.

This is one point that I wanted to stress here because I think that it is something that is not in the picture and it is something that will be important for the whole scenario. The other thing that I wanted us to talk about is that we have to think that our activity in Argentina is very competitive worldwide, and competitiveness means that in the bad years as well as in the good we are looking forward and we are thinking about the next steps. Probably you heard about more than one investment for the coming year, in terms of adding more crushing capacity to our business. This is clearly a good example of what local and international companies think, that we must during the good years, continue investing, adding the ideal brick and mortar in order to be competitive in the future. And I think that is something that we have to stress, personally I am totally convinced of what you said, Gert Jan, about visiting, sharing information and being on the spot being a key issue. Of course we have to realize that we are in a country that is under default, we know that it is very difficult to convince boards offshore about the success of companies in Argentina, because first they think of Latin America and then Argentina, and the third will be the company. But of course on the other side it is clear that in our activity, track record means a lot of things. And those bankers that were with us in the past, will be working together with us in the future without a doubt. The key here will be to understand that this is a partnership between crushers, commercials and bankers, and I think profitability is a key point in all the chain, but of course we must think about how to be efficient, and the other point is, we have to do our benchmark compared with all international companies. So for us it is very important to get, I don't want to use *cheap* finance, but adequate finance, OK? But you know that means cheap finance, and to share the needs and anticipate the next steps that we can see in the future for the business.

Nanno Kleiterp: OK? Any more questions or comments? Ah, Gert Jan.

Gert Jan: If I just may, because we have been so very nice to each other in the last couple of hours that I think it is time to be a little bit more critical. Henk, I very much appreciate your comments, I think that your worries are very correct, appropriate. I think it is also time that perhaps Nanno if you let me, I just recalled a conversation we had a couple of years ago in Buenos Aires when you asked me, and you asked that question a couple of hours ago again, to all participants here, to be a little bit critical, to the banks, and to FMO and to DEG and making suggestions on how you can improve. Now I don't want to talk only about Argentina, I think we can also talk about Uruguay, whereby - I don't have a recollection of the exact numbers - but whereby you, IFC, DEG have been supporting the local banking system for a couple of years, and that has not been at all successful. They have failed, the banking system in Argentina has failed, the banking activity in Argentina, I would say including Uruguay was not sustainable, if you want to use that word. They used the deposits to lend to the government and I think that there is some responsibility there that you can share. Did you recognize that at the time? I think the damage is done, I think that the banking system in Uruguay hardly exists, in Argentina it is trying to recuperate but it will take a long time. You were there as partners at the time, DEG was there, IFC was there, a lot of commercial banks were there, and just to finish my comment, it does hurt, because there was good money thrown after bad money and that did affect the companies that Henk van der Heiden is talking about, because they were left without money, and it also did affect the larger companies, it did, because even for a company like Vicentin it would of course it would be more ideal if they did not depend 90%, 80% or 100% sometimes on international banks coming from Europe only. Just to describe it as an unfortunate accident.

Nanno Kleiterp: Is that advice?

Gert Jan: No, I gave my opinion and at that time you said it was good advice.

Nanno Kleiterp: So your advice had a big impact because since you gave that opinion to me, exposure in the financial sector in FMO's total exposure decreased by 15%, so you see how we listen to good advice, Gert Jan. It is true in that sense that part of what we have been doing in supporting those banks in difficult times and your argument at that time was whether the money was being used to invest in government bonds and not in the companies to which it should come. We see it in a lot of countries and that is the issue Henk mentioned, not only in Latin America, but in most countries financial systems are not very efficient in reaching those middle-sized companies. On the other hand as I mentioned we have to be realistic. We are as a small development institution but also the big ones like I have seen depend on local infrastructure and working together with those local financial institutions. So there are simply limitations on what we can do. What we try to do is to provide credit lines that help medium and small-size enterprises, or as I was mentioning, supporting companies like ACA, who have a big impact on smaller agricultural companies. But we have to face also the limitations that we have.

If there are no more comments I think that it was a very fruitful afternoon, although not as critical as you would have liked Gert Jan, but I think it was a very lively discussion on important topics and I thank you all very much.

Gert Jan Mulder: I think that the idea is that we convene at 8:15 in the lobby for dinner at a restaurant just opposite the port. I think most of you would have no inconvenience to walk over there, it's a ten or fifteen-minute walk.

2. THURSDAY MARCH 25

Second Part: CREDIT, CREDIT RATINGAND CORPORATE GOVERNANCE

Moderator: Mr. Hendrik Lühl

2.1. Introduction to credit and credit rating

Mr. Gert Jan Mulder

If you don't mind I shall try to reduce my introduction on credit and credit rating. It is the second chapter of our sessions.

(Slide #2) The contents of the presentation: credit rating is 100 years old tool to calculate default probabilities – which to me, but this is my personal opinion, it is like forecasting the weather… I am going to talk a little bit about the difference between a relationship bank, what they call in Germany housebanks or core banks, and I'll make a short reference to the case of Rabobank with the permission of the Rabobank people present. I'm going to say a few words on the Bank for International Settlements, Basel and banks and conclusions.

Before continuing I was going to introduce the people present here at the table, I am sorry, on the right our special guest of today from Sao Paulo, Mr. Bengt Hallqvist. He was invited by the suggestion of the people of FMO. He is currently what I would I would like to become, he is a member of the board of many many many companies. He travels the world all the time and he is an expert in corporate governance and he is going to talk us through the issue of corporate governance and family-owned companies just after my presentation. I appreciate that FMO made the suggestion, because it is a highly appropriate subject within the context of our seminar. The person in the middle you know already, Hendrik Lühl, he is going to chair it (the meeting) and Ricardo Zerbino, former minister of finance of Uruguay and president of Fanapel Uruguay, one of the leading companies, special guest because Fanapel is one of the companies who for a long, long period, for many years has been a company well-rated, and working in capital markets here in Uruguay.

(Slide #3) Just briefly, Basel II is a new system by which banks are going to be governed, it seeks to standardize the approach to credit risk for banks. The Economist last week published an article raising doubts on whether more regulations for banks will effectively solve the problems, and they made nice references to cases like Parmalat and Enron. The increased regulation: some also suggest that it may increase the differences between OECD or high-income versus low-income countries. During the last sessions we briefly touched upon these issues.

The solvency of German banks is a little above 6%, the average in OECD countries is 13.4%, the Argentine banks for whatever it meant, before the default was above 17%. And the other problem which is identified: we have three principal rating agencies, Moody's, S&P, Fitch IBCA, and the question is here, are they objective? What is their position? Who pays them and who rates them?

The Basel II seeks not necessarily to increase the role of those rating agencies, but obliges the banks to install their own internal rating system. The implementation of Basel II is envisioned for 2006 and all the banks are obliged to design and to operate and to test their internal rating system and obviously the success of their system, which can vary from bank to bank, is supervised by a central bank and monitoring authorities. Such is the case in Germany where it is called the Bundesaufsichtsrat.

Now my personal observation is that any credit rating system is a model, and what does a model do? It takes reality, then it deletes parts of reality and what is left is the model. Now, you have other people who think, Oh, let us design the model so they think they start from scratch, and they design the model, and then when the model is ready, with lots of numbers and invariables, they get very excited about the outcome. But they cannot, by definition, be a reflection of reality. Reality is much more complex. That is my personal position on credit rating. I don't think that credit rating by itself will do the job, and you are going to hear Mr. Hallqvist later, you are going to hear Mr. Zerbino, speaking out of their experience. Probably for Mr. Hallqvist, corporate governance is one of the most important issues, in order to be able to judge credit risk, and credit rating companies did not do a particularly good job whilst rating country risk in Argentina, to give you an example. Country rating agencies didn't do a fantastic job predicting the crisis in Asia. Credit rating agencies didn't see the Enron cases, the Ahold and the Parmalat cases. In my humble opinion credit rating as such won't do the job and banks do.

(Slide #4) There is maybe a difference, investment banks can use more credit rating systems, they are more transaction-oriented, and historically, if we take the cases of Germany, let's say the ones I know best, the German case, the Dutch case, Rabobank, whereby you have local banks, regional banks, with local management, who largely come from the region, who don't change jobs every two three years, but they are raised in the neighbourhood, they know the area, they know the companies, they know the gossip, they know the social context of where those companies are operating, that made a number of banks in Germany very successful over the last 100 years and definitely made also Rabobank successful in Holland.

Transaction-based financing we could take as an example commodities. In Germany there is a phenomenon which they call housebanks…. Both in Holland and in Germany it is quite common for a company to have one or two core banks, housebanks or principal banks where they concentrate the majority of their business. Now for a Uruguayan company, a Brazilian company or an Argentine company that would be very risky, so that is why it doesn't exist…

Recent years have seen a clash between investment banking and commercial banking. We are still trying to recuperate from that. And we also learned now in the last couple of years that not even investment banking can do without relations.

(Slide #5) I'll skip that.

(Slide #6) I wondered in my study how come that we are all moving in the same direction, Basel II, discussions, the trends are all moving in the same direction, and that there are no critical voices?

The people who are involved in designing Basel II, new regulations, are the people from risk management. I am sure that they did not ask Hendrik Lühl, or Nanno Kleiterp, or Jan Portegies to give their opinion on whether the direction of these increased regulations were going to resolve anything in the future.

(Slide #7) Then I'm reading, I won't quote everything which is being said here, but you read what World Bank and IMF, what they are arguing, and if you look at this statement, they blame the problems in emerging markets on weak corporate governance, inadequate loan provision, accounting and auditing practices, insufficient supervisory independence, and I don't think that this tells the entire story. I think that there is much more to that.

(Slide #8) So for me to finalize my presentation: I think that Basel and the dominant paradigm in finance seek to agree on universal rules and regulations, which supposedly would be applicable in every region in the world, and they are eliminating context. I think it's wrong. Basel II does not seem to deal with existing differences, it does not resolve asymmetry of information, moral hazard, adverse selection, agency costs. It certainly does not try to attend to soft factors such as cultural differences. Thank you.

Hendrik Lühl: Gert Jan, thank you very much for your very interesting introduction. I would like to ask Mr. Bengt Hallqvist to continue with his presentation.

2.2. Corporate governance in family-owned companies

by Mr. Bengt Hallqvist, Independent consultant, Brazil

First of all, how much time have I got? 45 minutes? Thank you.

I made a presentation in Holland for FMO about corporate governance and family companies . There were only bankers, apart from FMO. Now here there are a lot of family companies also. So I had to change it, but I have been travelling all the time, so I did it by hand and Natalie came in 15 minutes before 9 am and she has tried to put that into my slides. Now, I explained it in Portuñol, in English partly, and I am not sure that it is in the right order, and that makes for quite an interesting and challenging thing.

How many here are from family companies? Oh good, about half, and I assume the other half are bankers, is that correct? OK. What I will do is I will first talk about corporate governance in public companies, because there things are relatively straightforward. And then towards the end I will talk about corporate governance in family companies. That will be substantially different in many things to consider. Now when we had these presentations in The Hague, with three of us, we never got past the first six slides, because we invited interruptions. So anything that is not clear, and anything that you don't agree with, then please interrupt because it will be much more lively and much more interesting.

Now let's see… The governance model for public companies is first of all many owners, practically all minorities. In large companies there is rarely anyone who has more than one or a couple percentage. The board of directors represents the owners, so really if you have 100.000 shareholders, there is no way that these people can get to an agreement about anything, so then they elect the board and the board, seven, eight, nine, ten, twelve people, they can probably coordinate and represent the owners. Then there is the Chief Executive Officer, management, elected by the board. And then the fourth pillar of corporate governance is the independent auditor. The independent auditor should ideally be chosen by the owners, but if you have 100.000 owners that is not possible, so the representative of the owners chooses the auditor.

Now, this is the order: Owners – board – management or CEO and the independent auditor. Now accountability goes the other way round: the independent auditor reports to the people who chose him or them, be it the board of directors or the owners, the CEO or management reports to the board, and the board is accountable to the owners. It is very straightforward, really very simple, but in reality it doesn't work this way. (Slide #2) Owners: in general there is a situation of conflict of interest. Owners might have other interests than the interest of the company. So you have a question of insider trading, a question of related-party transactions, and there can be other things like unfair treatment of minorities, especially if you have groups of owners that can get together and thereby can control the company.

Before the slides I should have mentioned that really there are now all over the world codes for best practices, codes of best practice for corporate governance. It all started really after the recession in 1989, when a lot of companies got into deep trouble, and people are trying to investigate how, what happened, and what you can do to avoid it. And then they created a code, so you had Cadbury Code in England, that was really one of the first, you had the Vienneau code in France, you had the General Motors guidelines for corporate governance, so these codes then led everyone to create their own codes of best practice. Incidentally, on the 30th of March the Brazilian Institute of Corporate Governance will present their 3rd version of (the) code of best practice. So we had the first version in '99, the second in '01, and we are now presenting on Thursday the 3rd code, though it's really the third edition.

(Slide #3) Now, conflict of interest and lack of independence on the level of the board of directors: this is too long to talk (about), so I'll give you twenty seconds to read it and then we will save some time. These are typical for codes of best practice, how to define independence and avoidance of conflicts of interest. There are basically six classifications, and this one is partly stolen from the Association of Corporate Directors of the United States. But practically all codes define independence in this way. Now we were on board of directors, and I think this is one of the most fundamental things for good governance, to have adequate representation of the owners. When we talk about that we should never forget that owners' wishes are supreme. So it is really for the board to see to it that they comply with the wishes of the owners.

(Slide #4) Now, a good board: each board member should have these qualifications; every one. The most important thing is integrity. What is the board doing? They are handling other people's money. It is absolutely fundamental that the board is playing fair, that they have integrity. Everyone must have that if you are going to have a good board. Secondly, absence of conflict of interest, as defined on the previous slide on the question of independence, motivation obviously, availability. If you look at a big company in the United States, they make a research every year and I think that in the last research they found that to be a member of a board you have to spend at least 150 hours a year on that board. Some years back, maybe 5 years back, people spent maybe 50 hours. Now 150 hours per board member – and that is preparation, that is travelling and so on – and in a big company you are taking multibillion decisions. How is that possible? How can you understand General Motors, or things like that in 150 hours a year? 150 hours is a day and a half per month – it's impossible.

So then also with all these problems that have surfaced in the last 2 or 3 years it is obvious that to be a member of a board, to comply with your fiduciary duties and so on, you have to spend a lot more time than 150 hours. I am not sitting on so many boards as Mr. Mulder indicated, I sit on 5 boards right now, and it is small companies, the biggest company has about 300 million dollars in sales per year. I like statistics, so I have good statistics. The average on these boards is 350 hours. And on one of the companies that was not the biggest I spent 514 hours last year. And still I think I am inadequate.

So there is one absolute fundamental thing, if you are a member of the board and if you want to make management accountable, you cannot get into operations; you cannot decide. But you have to establish strategy, you have to have oversight, know exactly what they are doing, but *they* are doing it, but you cannot go in and say, Do this, do that, the whole board can do it, but an individual board member cannot do it. So basically, in those 350 hours or 400 hours, because one of the companies is very small and I spend very little time there, you have to know the product, you have to know the market, you have to accompany the sales manager to visit a customer, you have to shut up and listen and so on, you can't make any decision about prices and so on, because if you do, you can't make management accountable. You have to visit their factories, you have to know the key people and so on and so forth. 400 hours might even be inadequate for that. To be a good board member you really have to have adequate availability in order to comply also with your fiduciary responsibilities. You have to have compatibility with company values, if I am lucky I might get into that area of values towards the end. Financially literate: in practically every board without exception that I have come in, I have discovered after a few meetings, that half the board members can't read a balance sheet. It's absolutely terrible.

Gert Jan Mulder: It's normal. Not only board members in companies, but also in banks you have a lot of those.

Mr. Hallqvist: OK… and also management, and it's very curious because it's easy to do. I was shocked once. I took over CEO for a German company – it was a Swedish company but a German subsidiary – and first of all the management, I discovered right away that the only one who could read a balance sheet was the financial manager. The CEO, or previous CEO, the research manager, everyone, they couldn't read it. And then we had a big, big problem, that half our market disappeared so I had to fire half the people basically. In Germany, and a lot of you have reference to Germany, you know how easy it is to fire people in Germany. It's impossible. So then I established contact with the union, and of course they had not a clue about that. So I took the union management and the management of the company, put them in a room and I gave a course on how to read a balance sheet and income statement. And really you can learn practically 95% of what is needed in less than 20 hours. But there is a resistance from people. And there is no way you can learn about a company quicker than these 3 papers: the assets, the liabilities and the income statement. So if you can read that and if you can understand what is behind, you are way ahead in understanding the company. So I gave this course to them and it was quite interesting. In the end the union realized that if we didn't do something radical there wouldn't be any company in a year; so I had the union management helping me to fire 200 people, it was a 400-person company. And of course you had the crazy Swede there, it was probably easier for me than if I had been a German, involved in the German structure and so on, to come with radical solutions and it was possible. It was fantastic when everyone started to understand what we were doing.

And it's only sixteen/twenty hours to understand 95%. The final 5% takes six years to understand or more. So you need 95%. Knowledge of best practices of corporate governance, strategic vision: there is a lot of fancy talk about strategy; but really, what is strategy? It is to determine if you want to be somewhere in two years' time, what do you have to do today, tomorrow, and so on. It's basically easy. And on the reverse side, what you are doing today, what will be the consequences of that in two or three years' time. That's strategy. It's easy, but you have to have some kind of imagination, and basically I think everyone on the board should be able to have this kind of vision. And then finally team spirit, if you can't work as a team you are a bad board. I was in a meeting yesterday in Sao Paulo, a five-person board, where one of the members is not working for the board, but is working for some shareholders that are fighting with the rest. And it's a lousy board meeting; because you can't speak openly, you can't really say really what you think because that might be used against you and so forth… so it's fundamental that the board has some kind of team spirit. And also that every board member realizes that once you sign on as a board member you have to work for the company, for the best of the company; and as a consequence, you have to work for all the shareholders. If you only work for one or two, I mean, it's not a good board.

(Slide #4) Now, in a board of directors you need this knowledge and experiences. You need someone or some people who have been on good boards, because then they can help their colleagues to get into the real rhythm of work. The board is relating all the time to the chief executive officer. You need to have chief executive officers, not all of them, but you need to have one or two chief executive officers in order really for the rest to understand about the real relationship between the board and management, the ones who are executing things. Crisis management: the worst crises always happen in good companies, because good companies make profits, every year then they grow and so on and so forth, and when something explodes one day they are lost. If you are very, very successful this is the real danger because you are not used to panic and crises and so on and so forth. So it's very important that in a board you have someone who has gone through all these things, because then you don't enter into panic, you can start right away to systematically see how you can handle the crisis. And a crisis will always happen. It might take five years, it might take ten years, it might take longer; but there is no company that is fool-proof, where there won't be a crisis. And you need someone who knows how to handle it.

Risk analysis: it's something similar to that, I won't go into that in view of the countdown… Accounting: what happens every year in every company? Something goes wrong, so the CEO might think that all right, I missed out on that but I know how to handle it, but on the other hand I don't want the board to blame me, so it's easy to cook the books. If someone is good at it, you can hide things for a long, long time. And then if the CEO or the one responsible makes a bad judgment, then you lose half a year where you could have corrected this thing. Now preventive maintenance is you have to have one person on the board who is really good at accounting. Because if the management knows that there is someone there who really can dig into the figures, who probably would discover any cosmetics or any cooking of the books, then they won't cook the books. So then they find out it is much better to come clean right away, we have a problem, we didn't think about this and that, we got into this thing and we are going to do this that and the other. It's fundamental that the board is aware of such things; and it shouldn't be hidden. And one way to avoid it being hidden is having someone really good at accounting on the board. Finance: what are the two kinds of resources you are working with? You are working with people and you are working with money. Now, if you get elected to the board, normally you have gone through a lot of things, you have some grey hair or you have no hair at all, and so on, and you have been exposed to a lot of things with people, but the other kind of resource, money… I have seen boards where there is no-one who has knowledge or competence in finance. It's important to have someone with that competence. Similar product, similar market, good contacts, it's obvious, so I won't get into that.

(Slide #6) Now it's interesting, when you know these two previous things, and especially the last thing, to be able to evaluate your board, and you can make a matrix here, you have to the left all these on the last slide, good board, CEO etc., and last is the frequency. So you have two people used to good boards, you have one CEO, you have none for crisis management, probably it's a very good company making profits for many years, one accounting, one finance, none with similar products. Then you read the frequency and then you can determine in a very easy way what you should do next time you elect a board member. It's so easy it's practically childish, but it's a very good tool.

(Slide #7) Now going on with this thing that all the codes address, conflicts of interest and independence: it 's basically behind every line in a code of best practice. Now you get into the question with auditors. The auditors have been very smart, independent auditors, and clever, and lobbying very hard, but they have basically managed to stay out of practically all the big scandals that have happened in the last three years. The only exception was Enron, but the case of Enron it was not that they made big mistakes - I get into this a little bit later - the problem with Enron was that one of the partners destroyed files. The interference with justice in the United States, that is very dangerous. So if those files had not been destroyed, Arthur Anderson would still be one of the five big auditing companies. By destroying the files, they left 85.000 people round the world out of work and also people that were retired, who lost their pension, it was really a dramatic thing.

Now how could this thing happen, and I stay with Enron a little while because it is such a good illustration. Arthur Anderson invoiced the last four years 52 million dollars to Enron. That was 25 million dollars in auditing, and probably the profit of those 25 million dollars was 1 or 2 million dollars. And they made 27 million dollars in consulting, and probably the profit in consulting might have been 10 million dollars. Now it's obvious if you do both auditing and consulting that you have a very serious problem of conflict of interest, because you are looking after the 10 million dollars – I mean the figures are not official, and I don't know that , I guess – it's a lot more money than 1 million dollars, 2 million dollars. So if the auditing firm complains violently then they are at risk of losing the consulting. It's very easy; and they might lose the auditing also. So in the case here a lot of the stuff that Enron did wrong in tax planning and special-interest companies and so on and so forth, was due to consulting from Arthur Anderson. So in reality they were not independent. I entered the board of a Swedish company about six years ago and I discovered that Ernst & Young had been auditors for 15 years or more. They'd done an excellent job, no problem, everything was fine, but this is in principle wrong. It took me two years of fighting in the board to get rid of Ernst and Young, and at that time it was Arthur Anderson that got in. In the contract with Arthur Anderson they were prohibited to do any kind of consulting, and Ernst & Young, that knew the company perfectly, they had all the consulting, so you have ways to solve this. It's a game, but instead of you having audit and consulting from the same firm you split it up, and it comes out the same thing in the end.

Audit firm rotation: also this case with Ernst & Young. Fifteen years - they were very good friends, the financial director and her family had social relations with the auditor, they had barbecues together, they made trips together and so on and so forth. It would be kind of difficult for the auditor to discover something that was not perfect. I mean, this company was pretty good, so there was not a lot to find, to start complaining, because he knew that the people were straightforward, they were not doing monkey business, etc. So they can say Ok, you straighten it up and we'll forget about it. This close relationship between auditor and management is extremely dangerous, so it's important that the relationship is at arms' length and strictly professional. The audit rotation is a big problem, in Brazil it's a tremendous problem. The security exchange commission in Brazil has decided that there should be rotation every four years. And a lot of people are complaining about that because both management and the auditors like it. Management like it because if we have good relations and we stay a long time they will be nice to us, and the auditor believes that the contract will be renewed if he has good contacts. This is the most serious problem, the rotation, as far as the auditing companies are concerned. And everyone of the big four is investing millions in lobby, in various soft kinds of lobbying, but it's there. In the Brazilian Institute of Corporate Governance I think we have as members all the four auditing companies. And if you go through everywhere where you see something about corporate governance, you will see one or two auditing firms there. They are working very, very hard to protect their interest, which is also a situation of conflict of interest.

Now if you do audit firm rotation the argument is that it takes a long time to get to know the company, therefore one of the things that would be decidable is that by law in every company all the working papers, electronic files should be passed to the new auditor. Relations with management: it has come up several times, but what I specifically refer to here is that, OK, you have a lot of owners. Owners can't use the auditor, and for the board it's unpleasant to negotiate scope and values and so on, so they delegate it to management. The CEO comes from sales, something like that, so normally the auditor negotiates a contract with an accountant, and the interest of the accountant is to pay as little as possible, so every time they manage to get a couple of thousand dollars less, then some hours disappear from what they would work, and that way they can also determine the scope of the audit. This is something that is very serious, and very common, and is something that cannot be delegated. This is the responsibility of the owners, or the representative of the owners which is the board of directors. Absolutely fundamental.

Recruitment by audit client: In Sweden right now we have a big scandal, it's Scandia, the large Swedish insurance company, probably known to a lot of you who work in finance. The company was audited for many years by Ernst & Young, and the president of Ernst & Young in Sweden was recruited by Scandia to be their financial director. So of course you had then the interest of both sides, and by not being alert and stopping a lot of bad practices, especially regarding bonuses for the management, then this scandal occurred and Scandia has lost an enormous amount in image and probably an enormous amount of business, because of this thing.

Another thing that is common is that the auditors say that your movements have been booked the right way, the debit to the left, the credit to the right and so on. I exaggerate a little bit, it's a little bit more complicated than that. But they confirm that the books have been made according to the rules, the generally accepted accounting principles. I would like anyone of you here who feels confident that you know details of generally accepted accounting principles to raise your hand. No one? So you are approving something that you don't know. I don't want to be offensive, but really this is the truth of the matter. Now what people would like to know, if you are a shareholder you would like to know that the three pages of assets, liabilities and income statements, that that reflects the true and fair view of the company. You don't care if it is done according to the specific rules, and so on and so forth, you would like to know that these three papers when you read them you understand the company, that the company is more or less worth so and so much. But this is another thing that is in the works, the international accounting standards board which is basically a European operation is getting that to be done, and they have managed to influence the Americans, the Federal Accounting Standards Board which establishes the standards in the US, and who are members of that board? The auditing companies. But now with all the scandals it is possible that they have softened up and it will probably become in a few years' time a world standard.

(Slide #8) Now I get into family companies, and unfortunately we have only eight minutes and 35 seconds left. Now the model I described for public companies, four levels, quite easy, separate responsibilities and so on, even if that in reality is not true, people are not doing it in that way, but first of all, family company definition: one or more families own at least 50% of the voting stock. Then the board of directors often consists of family members; the CEO is normally a family member, the shareholder, board and management meetings, it happens practically every day, you have a barbecue and that can be a shareholders' meeting or it can be a board meeting or it can be a management meeting – and it's family. We trust each other. So why pay a lot to have an independent auditor? So it's very seldom really that you have good audits in family companies. And you can see here all the way through the potential conflicts of interest and lack of independence. Now there are many advantages with family companies, so the crucial thing is how to handle this thing, how to handle the problem with potential conflicts of interest all the way through and having clear levels of authority and responsibility.

(Slide #9) Here we come into relationship banking, and that is: everyone concerned must understand the family company, even the family company themselves. And of course the bankers. (Applause). So first of all the family structure, in which generation are you? You have companies that can have several generations at the same time, you can have a first generation member, a second, a third generation member, and you have to know or present a structure in which generation everyone is, in order really to start understanding it. Any of you a member of a family business network? This is a really fantastic organization. It's an organization for family business, based in Lausanne, Switzerland, related to IMD, and you have once a year a big congress. This year it will be in Copenhagen in September. And you see there the grandfather, the son or the daughter and the grandchildren, sometimes the whole family is there. And they don't allow service providers to participate, so it's basically only families and they make an exception for directors in family companies, so I have a chance to be there also, and it's very, very interesting. I recommend you here who are members of family companies, it is really worthwhile. During three days, the discussions are about the problems, the opportunities, and there are lots of them, of family companies. You learn then from others' experience, they present cases and so on and so forth. It is extremely interesting.

(Slide #9) In relationship banking, and also if you are involved as an outside director or even for the families themselves to understand, you have to know them all, including in-laws. Very often problems are generated through the in-laws. They have not the same feeling of family connection as those who really are the bloodlines, and it's very often that problems start that way. You have to understand the family problems, in relationship banking you have to have a feeling of what's going on. I'm in one company where there has been a latent problem building up, between second or third generation daughter and her brother, and also their father. (Applause). On one occasion I had contact with the daughter, and she told me, I want to see my father and my brother in jail, and in order to get them there, I would even myself accept to be in jail. Can you imagine this company's functioning? And I mean, this is not an unusual thing. I've been in another company where there were two cousins, two ladies, forty years old, fighting, old problems, long time back, and it was a large company, it was one of the leaders in its field, and in the end it went bankrupt. It was a very good company basically, with traditions, and so on and so forth. But this problem caused the extreme solution.

Now it's very, very important, and this is really relationship banking, that you are so involved with this that you feel it, you can smell it. And maybe you can as a banker or as another family member start doing things to avoid a catastrophe. The family in the company, the governance structure: there are extreme examples. I'm involved now in one company that the chairman of the board is also the CEO. The rest of the management - the top management is two vice presidents and they have ten directors. Now you have a director of invoicing. Has anyone heard about a director of invoicing before? They invent jobs in order to get all the family members involved. The board is also three people, and one of the board members reports to a vice president. He is superior to the vice president as a member of the board. As a director of the company, like a top manager, he reports to the vice president. So he is probably getting quite confused. He has to figure out all the time, is it this hat or is it that hat I have on? These are the things that the family must realize, and this family is getting to realize such things now, the relationship banker also has to know it and try to influence it.

The family charter: normally there are shareholder agreements, what to do if someone is leaving … (alarm clock beeps) 45 minutes, shall I shut up right away or do I get a few minutes more? Five minutes more? It's like yacht racing right? It's important to be aware of the family charter, the shareholder agreement, but one thing that is important is that not all shareholder agreements are written. This is fundamental because that establishes internal rules. Another thing I already mentioned is strong trust. It's family, I mean, if we are in the same family you wouldn't do anything bad to me, that's basically the philosophy. So the trust is so strong, then internal controls are probably terrible.

In another company where I am today, it's a very successful company, very high standards, very high values, and practically no internal controls. So one person can determine that we pay so much in commission to such and such a person, and has no control. Now the values of this company are very high, and the culture, so I don't think anything dangerous has happened, but this has potential for very serious problems. And with family companies there are generally more skeletons in the cupboards than public companies, and basically it's related to taxes. We are in the family, we don't like the taxman and we do this, that and the other and so on. (Applause). And this is a potential danger. Something can happen, so you must be aware of this.

(Slide #18) Here is a little about – well, first you have to understand the family company and then what is the structure. Now on the left hand side, it's like a public company, you have shareholders, meetings, board of directors, CEO and independent auditing. On the family side, you have family meetings, that are normally informal, they might be frequent, you might have a formal family assembly, and then the family assembly, they might elect a formal family council. A family council in its turn, normally they have members of the family council on the board. They have legal power also. And then on the family side you also have a family office, that is people that are operating things for the family, investments and so on, family foundations, especially philanthropic foundations, it's very often also part of the family structure. And also family development, really career development, you have specialists trying to work with the last generation, how to prepare them to get into the company or how to prepare their life program or whatever, and some are very sophisticated and very, very good.

This we have seen before, the legal part, the company law determines of course what you can do, the by-laws of the company, and then shareholder agreements. And then optional the family charter, very important, code of ethics: a lot of companies establish that, really the values of the company, the values of the founders, and another thing that is very important is regular valuations. Some of the biggest problems that can happen is when someone wants to leave. OK, I want to leave, I want to have my own life, I want to make such and such an investment, I am a doctor, I want to create my clinic, and so on. And when I am leaving I think my share is worth a fortune, and the others think that it is not worth a lot. So you should have regularly, maybe every six months, (applause) a specialist that makes a valuation of the company, and establishes the value of the shares. That should never be a discussion, because it is established and accepted beforehand. It's a very important thing.

(Slide #19) This is the last slide I think. What are the things for the owners? The owners of a family company establish the values, what are the values of the founders, what are the values of the current generation, and clearly established. Then what is our vision, what do we believe the company will be in the year 2010? That's really the basis for establishing strategies further down the line. Then the mission, in what industry, in what business are we, are we in a conglomerate, are we focused and so on and so forth. These are the fundamental decisions for the owners. And then also major acquisitions and things like that. But basically values, vision and mission. And then the next level is the board, the proactive part of the board is strategy. So the board converts values, vision, mission into strategy, concretely, what do we have today in order to reach our goal in such and such a year? And that makes it shorter than 2010. And then oversight – oversight of management. The CEO – execution: normally the CEO wants to get involved in everything, in establishing strategy and so on – he or she can contribute, but strategy is for the board. And then the audited control. All these things are put together in the codes of best practices of corporate governance. There are lots of them, and I even have the second version of the Brazilian code, I have eight copies of that, if someone is interested then I have that available.

Thank you very much.

Hendrik Lühl: Mr. Hallqvist, thank you very much for this very interesting presentation. I think you have talked about the core of something which has not been recognized, or the importance of which has not been recognized until recently. I think that is also one of the reasons why FMO and DEG are putting more and more emphasis during the analysis of companies on corporate governance. We have even broken off discussions with partners when we felt that there were severe violations of corporate governance issues. I think we will have a lively discussion afterwards, but before this I would like to continue and ask Mr. Ricardo Zerbino to give us his presentation. Thank you.

2.3. Credit rating: a necessary tool

by Mr. Ricardo Zerbino, President, FANAPEL, Uruguay

Good morning, it is a pleasure to be here with you today, with this highly qualified audience, and I would like to thank DBA, John and Gert Jan for the opportunity of sharing these days with you. Gert Jan has given me the theme of "Credit rating, a necessary tool", and he authorized me to use a few minutes to introduce my company, which for me is very important, so I shall try to make it short, and not to use more than the twenty minutes that I was assigned, though maybe I can get a bit of tolerance, like the friend who preceded me.

Fanapel is a company that produces paper for printing and writing of the type that we are using now, and it is a company that could be rated as small-to- medium in size, with reference to the usual size of this kind of company. In the first years of the nineties you know that the Mercosur agreement was signed, which means an agreement to achieve a common market. Now we are already in the stage of an incomplete customs union. This meant that Uruguay, Paraguay, Brazil and Argentina would have a common market with zero tariffs, and therefore there would be competition in this very large market for all the participating companies. This was a very big challenge for us for the future, and forced us to make some strategic decisions, that is to say to decide how we were going to compete with larger companies, particularly Brazilian companies which are highly competitive in the paper market. At that time we designed a strategic plan, we defined niches of the market to specialize in, and in that way compensate the lack of scale. We also technologically updated the plant and increased the scale of production. We carried out an investment plan including working capital, which reached 50 million dollars after 3 years, and quality programs were launched, with a lot of emphasis not only on the quality aspects but on the philosophy of continuous improvement. We were aware that we had to offer not only quality products but also service as a complement to the relationship with clients. The consequence of this was that the chosen specialization was stucco papers, which are used for advertising, and glossy paper. The main investment was a Jagenberg coater, a state-of-the-art German piece of machinery which we bought new, and this provided the scale for the production that we were planning. The company designed a commercial strategy which required a distribution network in Brazil and Argentina, which were our main objectives. We already had a certain experience in exporting to these countries but mainly to Argentina, and as I was saying we decided that the quality of service was absolutely fundamental and basic, to be able to provide door-to-door service to our clients. Direct contact with the manufacturers for medium-to-small-size printers was something that they could not get from other larger manufacturers, and this was going to be our natural market where we were going to further develop all these attributes.

In this graph which we are going to look at very quickly, these are total sales, blue represents export sales and green is the domestic market. What you can see here is the year 95 when the investments were completed. Here we can see the Tequila effect in the domestic market, and this is the effect of the last recession and the crisis of the year 2000 and the recovery of the year 2003. This industry is very good to follow economic cycles. As you can see the motor of the growth company was exports. Our strategy was based on exports, and as we can see more than two thirds of our production go to markets outside Uruguay.

This graph shows the structure of sales, these are sales percentages, in blue the Argentine market, in green the Brazilian market, in red Chile, and other markets in yellow. What is interesting about this is that the company developed a very good commercial flexibility, supported by productive flexibility. In all this period which comprises 6 years or fiscal years, the company worked in three shifts for 24 hours every day of the year, except when it stopped for maintenance. Here we have these two annual periods - we close our balance in June - here is the Brazilian devaluation in January '99, it catches up with us half a year after the devaluation, and this fiscal year. As you can see the green participation of Brazil declines, Argentina is at first the market that absorbs the volumes that we lose in Brazil. Here comes the Argentine devaluation in January 2002. This is the reverse phenomenon: Argentine sales decline, the Brazilian market recovers, especially after the elections when Lula's government manages to calm down the markets and the exchange rate in Brazil becomes a bit more stable. It remains at 2,80 or 2,90, very important because Brazilian companies risked buying abroad. The volatility of the exchange rate made everything very complicated for us during the whole of the year 2002.

In the meantime we tried to develop the Chilean market, in red (on the graph). It's a much more stable and predictable market, though it is much more competitive than those of Brazil and Argentina. And lastly we decided, especially after the fluctuation of the dollar in the Uruguayan exchange market to go outside the region to diversify our market options. As you can see in these last three fiscal years, sales to other markets grow significantly. Today we are exporting to the United States, Mexico, Canada, South Africa, very small amounts to Europe and to certain countries in Central America, as well as Argentina, Brazil and Chile which are our main markets.

This is the little pie that shows our total sales. As we can see our main market is Brazil with 32% of the turnover in dollars, Uruguay with 29%, Argentina 16%, Chile 14%, and 9% other markets. This is to show you briefly and visually where we exported in the year 1998, four destinations, and in the year 2003 fifteen countries (applause), which is a very substantial change, and which also gives us a great deal of security in the sense of being able to reorient exports if we have any problems in our main markets, which are those of the Southern Cone of South America.

Here we can see the increase in the productivity in our company, measured as output per employee, taking 100 in the fiscal years 93, 94 we have multiplied production by more than three times (applause). This has been a factor for competitiveness which is very important. What I want to show here is that already in 1999, 2000 we were seeing that profits from productivity were going to tend to decrease in growth because of our improvements in that field, and that possibilities of growth, with the design that we had achieved, which had certain limitations for important leaps in scale, were going to lose acceleration as from here.

Well, fortunately we had the opportunity to purchase an Argentine company called Cellulose Argentina, which had also been producing the type of paper that we produced, because they had diversified and sold the areas of tissue and cardboard boxes, and it had two plants at that moment, one in Capitan Bermudez and one in Karate. This is a view of the plant in Capitan Bermudez, and this is the plant in Zarate, and this whole area is the plant. When we went into this company, the Zarate plant was paralyzed. Maintenance was being done on the two paper machines, and the only plant that was producing was Capitan Bermudez. This is one of the machines that we purchased within our investment program when we went into Argentina. It is a German Bielomatic machine, it produces small-size paper, what is called cut size, like photocopying paper, and it was a new machine that we bought 4 months after we went in. What is outstanding here is that we went in the year 2002 in November, and during the two complete exercises that we closed in May last year, the company has invested more than 10 million dollars. This has been done with the cash flow produced by the company itself. We have not obtained local credit, the financial liabilities are those that the company had previously, though reduced now, with the Citibank, the bank we purchased the equity package from. I also want to emphasize is that in the year 2002 we did not interrupt investments, basically because of the strategy that we established since we bought the company, which especially took into account the growth in the exporting sector. There was a great change in philosophy, it was a company that exported leftovers from the domestic market, and it now has become a company where exports are a regular part of the strategy. These are the exports when we add the destinations of Fanapel and Celulosa Argentina, and we are accessing 23 countries now.

I shall soon finish this first part, showing you how the purchase of Celulosa Argentina meant a leap in terms of production, a very important improvement. This is where Fanapel was in the year 93, before the investment plan, there is a leap here that increases production by 80%, we were producing some 50.000 tons. In the year 2000, adding the production of both companies we were talking about 115.000 tons of paper, today we are talking about 170.000 with a tendency to increase. Our objective for the year 2009 is to reach 250.000 tons. Now we are the group with the largest production for this type of paper, if we take into account Argentina and Uruguay. In Brazil we are still behind the first four large companies, Susano, Votorantim, International Paper and Ripax.

Now let us go into the issue, which is credit rating. It was important to provide the company background because the investments that were carried out in 94/ 95, for a total of 50 million dollars, had an important financing out of the capital markets. We started to issue bonds in the Uruguayan market in the year 94, and thanks to that and to financing we obtained from Germany and the Bank of the Republic, which is a state bank that provides long-term credit to companies, and to the issue of bonds that we placed on the market for a value of 12 million dollars, we could finance this operation, so participation in the capital market was essential.

To mention credit rating, I am not a specialist in the subject, I was hoping that one of the rating agencies would be present to answer Gert's comments, but in general we all know that rating is an opinion on the possibility of payment in the established period of time of the capital and interest, and the severity of the loss in a default situation. Normally in all these degrees there are two main areas, there is an investment grade and there is a speculation grade. A brief comment: we should consider that credit rating, with all its imperfections, is a tool which is very useful for private investors, for institutional investors who act in the capital market and also for financial institutions, particularly banks, because it is a reference element which is very important, which complements auditing, which only gives us a vision of what has happened up to that moment, and can give us a glimpse of the solidity and the financial structure of the company, but it does not look beyond in general terms. Rating considers the risk factors of the issuer and the systemic factors. It considers the elements of risk associated with the macro economy of the country, it takes into account the possibilities of growth of the country where the company is located, the risk of devaluation, how the credit market is in general, what risk there is in the banking system. It also measures the tendencies concerning inflation and how they can affect the companies, combined with devaluation, in accordance with the structure of the liabilities, taking into account local currency, foreign currency, and what position the company has in terms of currencies and its liabilities. It analyzes factors of the company, of the industry, of the operational aspects, and it also analyzes factors of the economic environment or macroeconomic factors. It also takes into account political, institutional, legal, regulatory factors, fiscal risks, it takes into account cultural aspects of the country, and this has been mentioned a lot between yesterday and today, cultural aspects are very important when a company's ability to develop in certain fields is being judged. Basically it also provides an outlook of the future from the present financial situation of the issuer, and its projection for the future.

So credit rating provides all this information, uses all this information, and it makes it very important for the rating company to have a deep knowledge of the economic, institution and cultural environment or reality in which the company is situated. Rating companies must also be acquainted with the business of the company that is being evaluated, with the sector of its activity, the general characteristics at least, and the competitiveness of the issuer, the quality of its management and the outlook for the sector of activity. This may be a sector that has a lot of competition from new technologies or new sources. On management quality: we believe that this is very important, it has been mentioned here in other presentations, the quality of the people is the most important element of the company. Machines and technology can be bought, but what makes performance different in the market is the quality of customer service, and profitability has a lot to do with management and direction. Benchmarking is carried out with companies from the same sector in order to appreciate the differences, because different sectors of activities involve different risks, which are affected in different ways by technology, with different volatility. This also requires different financing structures sometimes.

Let's take a quick look at rating, not only for the institutional investor but also for the company itself. (Applause). Here I said that it forces the company to evaluate its risk factors at regular intervals, it's like a medical check-up, the company is forced to know that every six months it will submit to a very refined analysis, not only of the audited accounts, but also of the projections, and of how the company is positioned in the market, whether its position is stronger in its market, how its competitiveness is doing, if it exports, what the outlook is for its external markets, and all these other elements. It forces the company to compare with other companies of the same sector, we have done this in our company in depth and also we've done it to show the rating agency the different cultural elements and to provide information about some differences in rankings which have been done for certain ratios or indicators, for example debt relationships, operational margins on sales, liquidity ratios, so benchmarking is very important in relation to companies of the same sector, but also benchmarking with international companies of the same sectors.

Therefore as I was saying the company has to carry out benchmarking and must also focus on the improvement of its risk factors, those factors that the company controls directly, what is its financing situation, the currency situation, should it or shouldn't it modify the type of currencies that it is acquiring debts in, what is the profile in terms of periods of time. It must also take a look at systemic and macroeconomic factors, and develop, as far as possible, preventive policies for problems. For example, the problems of Argentina we were quite clear on the fact that they were coming. So we started working on the development of the Chilean market, we had a distributor there, in order to access small and medium size clients directly who do not purchase directly from abroad, and we also started to develop exports to the US, Mexico and Central America, trying to become acquainted with the markets and to pay the price of entry to those markets, there is always a cost of entry to new markets, in order to be prepared for the negative effects in the macro economy, which were going to happen.

A last comment is that (rating is not so useful) in periods of good economic progress. This may sound difficult to understand, but I would say that in the same way as one looks at a lighthouse that has a real use at night when it is dark, and vision is imperfect, a good rating is also like a lighthouse in the middle of the night or in stormy periods. It makes a company different from another in the market, it is a firm sign for doubtful investors, or scared investors, it is a basic element for institutional investors, so I believe that this value is a lot greater than in periods of progress when the markets are growing and investors are willing to take more risks, when an investor wishes to widen the scope of his investments and in general investors are not scared of risk factors pertaining to the environment. (Applause).

Briefly, our experience was interesting as issuers. We started in the year 94, there have been 36 issues, 21 short-term and 15 long-term, for a total of 87.3 million dollars, with an outstanding in the market of 16.6 million at this time. Between '99 and May 2002 we had an A minus rating at the local scale, and when Uruguay lost its investment grade our rating went down, and I can show you this better. This is a graph that can help us to understand. Here we place the years and as a backdrop the investment grade, the period when Uruguay had a triple B investment grade until February 2002. The most critical period was when we had the banking crisis and Uruguay went down to triple B minus, excuse me, to a double B minus rating, then it went down to B, B minus and we ended up with a triple C. After the exchange of the debt the new debt was rated as B minus, probably in the middle of 2003. How did this affect the company rating? We had had a triple B plus rating until October '99, here we had an A minus. In May the rating agency lowered us to triple B plus and in September to triple B.

After this period when we worked very intensely (applause) and I shall mention briefly how to work with the rating agency, taking into account the new criteria concerning the issue of bonds in local currency or in foreign currency, we managed a triple B plus rating for short-term series in dollars, with dollars as the payment currency. We commit to returning dollars, so we also obtained an A minus UY rating, a local rating, for two series that we're going to issue now, one in Uruguay in pesos, adjustable according to the exchange rate but which is an obligation in local currency, and another one in dollars. Dollars are incorporated as a value reserve, and I would say that also as the payment currency, but a clause is added that, at the moment of paying its commitments, should the company have difficulties to access or transfer foreign currency (applause), it will fulfill its debts, paying in pesos but at the exchange rate of the Central Bank of the previous day, so therefore this is an issue in dollars but with a safeguard clause that allows us to pay in pesos in the case of difficulties (applause). So this allowed us to maintain an A minus rating for this series.

The last comment has to do with the new criteria, which after the defaults that have existed lately and the problems of "dollarized" economies where there are practically two currencies working simultaneously, and there is a currency like the dollar which is not the local currency - this happened in Argentina and it's happened in Uruguay - there has been a great differentiation concerning how to handle an issue in foreign currency. If you take a foreign currency as a value reserve, which can be done by issuing in pesos, in the local currency, but adjustable according to the exchange rate, there is a risk but there is not a risk of convertibility and transference. Why? Because the company is not committing to return foreign currency, whereas if the issue is in dollars as the currency of payment, what is being added there is the risk of conversion and transference which reduces the rating that one can obtain. What did we do? We took the new criteria into account, and worked very intensely with the rating agency to see how we could change the profile of a company that issued only in dollars until I would say until the first semester of the year 2003. So in 2003 there was an issue in what we call Indexed Units, which is in Uruguayan pesos, indexed on the basis of the Index of Prices to the Consumer, and since then what we have been doing is experimenting with issuing in pesos adjustable according to the exchange rate, or we have issued in dollars, but with this clause that in the case of impossibility we cancel our debt in pesos.

So to conclude, credit rating is a necessary tool, as all tools it is imperfect, and we have already seen that it does not necessarily provide security, nor has it prevented crises in different markets of the world, but it's very useful for investors, it's useful for the issuers, because it helps the issuing company to revise and focus on its risk factors, and I would say that it is indispensable for the development of the capital market.

The rating agencies, are they an asset or are they a liability? This is not a question of ours, but rather it's a question by Mr. Gert Jan Mulder. This question, which is like that other question, why do banks exist, is going to depend on the rating agency and on the attitude of the company that is being rated. It depends on the two parties, because I would say that there has to be interaction, in-depth interaction. A certain amount of information has to be generated beyond the audited balance sheets, there has to be regular reporting as Osvaldo Bertone of ACA was saying yesterday with reference to the relationship with banks, beyond balance sheets one has to provide them with regular information in order to make them acquainted with the local culture, with how the banking system works, the local equity market, institutional aspects, and one must help to lay a bridge between foreign companies with certain ratios and the local company's own ratios. Therefore there is work to be done by both sides that is very important, and that will yield as a result a relationship of trust, and an understanding of the customer and of the business.

Thank you very much, and excuse me for speaking longer than I should have. Sorry, this is a comment that has to do with what I was talking about before. This was in the Economist of 17 August, on the problems which occurred. It has to do with corporate governance, and when the SEC asked for CEO's and CFO's to swear that there were no false elements in the balance sheets that they were approving. As usual there are attenuating circumstances to try and open the umbrella as we say here, in the face of future problems. Thank you.

Hendrik Lühl: Ricardo, thank you very much, I think it has been a very impressive presentation. I think both your statements about your development as well as the explanation of your ratings have been very interesting and we are very pleased to be associated with Fanapel, as a matter of fact it was our first project which we financed about one year ago in Uruguay. I specifically liked your statement about the lighthouse in the middle of the night, that's what sailors like to see, the lighthouse, and I think that it is also under corporate governance, elements one likes to see like a lighthouse, and maybe this is a combination between the first presentation and the second presentation.

2.4. Questions and Answers

Hendrik Lühl: Ladies and gentlemen, the floor is open for questions, we are a little bit tight for time, so please ask your questions. Yes, please. Do we have a microphone?

Niek Boot: Mr. Hallqvist, thank you very much for your both your features. I felt a little bit of course addressed when you asked whether I was aware of the general accounting rules, and I didn't lift a finger like most of us here. On the other hand, it is in relation with the joke that Mr. Zerbino told in the end, after our small company has its records checked by one of the major auditing companies, and after they have checked them, they make me sign this declaration that is as Mr. Zerbino basically said, which I call the Enron declaration, which says that I have told everything, that there is nothing else, nothing untold (laughter and applause), I take so much responsibility out of the hands of the auditors that I really don't care whether I know the general rules of accounting or not.

Bengt Hallqvist: I am not quite sure I understood your question, can you repeat it please? Not the whole story but the question.

Niek Boot: It is not really a question. It is really my supreme irritation with the auditors that come to your company, that ask you all the stupid questions which are evident, they are not intelligent enough to ask the good questions, they don't see what they have to see, and then they make you sign a declaration that you have told them everything that has to be told and nothing has been overlooked. You are doing their work and they charge you for it! (Laughter, applause).

Hendrik Lühl: Any other questions?

Bengt Hallqvist: I think that the question of independent auditing is probably the next big thing in corporate governance (applause). The responsibilities of the owners, the board, and the chief executive officer, the management, is relatively well defined. Now the question of the function of the auditors and the future of auditing is still in the balance, and I think that the attitude that the big four auditing companies are taking, that they are defending the status quo, is not good for business, is not good for them. People are getting more and more disappointed with the work of the auditors, and they are really not helping the capital market in an optimum way, they are not really helping the companies to straighten out their work. I don't know what's going to happen, but I believe that in the end the market factors will decide the outcome. And really the big missing thing is education of owners. You have training for everyone – how to work, how to perform and so forth, but the supreme authority is not getting any training at all. And there are very few bodies that are focused on training of owners. This will come, and this will force the hand of the auditors. I think that probably within five years' time, we will have a completely different situation, both in regard to let's say owner activism, and the way the auditors are working. Did I answer your question?

Niek Boot: I'm looking forward to the change.

Hendrik Lühl: Any other question?

Karl Weinfurtner: Most companies in Germany have no ratings. Most are family-owned companies, medium-size companies, and for them I think there was no necessity in the past for a rating, because of the close ties they had to banks, what was called housebank, principal bank relationship. But this will change in the future, with Basel II coming. I would be interested, because we have some family companies around, what's your opinion whether other than Fanapel are rated or the better question, whether they are preparing to be rated? It would be interesting to learn.

Hendrik Lühl: Any comment from one of the companies here? Karl, maybe we do that during coffee time.

From the audience: Or during drink time!

Hendrik Lühl: Or maybe even better during drinks. I have another question. You mentioned that the board takes care of the interests of the shareholders. I think it might be a specific discussion in Germany, whether the board is responsible for the shareholders, or whether it is even broader for the stakeholders, including the employees, the public, and other related parties. Is that an international discussion or is that something typical that we have in Germany?

Bengt Hallqvist: I think that it is really an international discussion. What has happened historically in Germany, and also in Sweden, is that the government has made laws, different reasons, one reason was the coal and steel union that really provoked it in Germany, to have a supervisory board consisting of 20 members of the large companies, and half of them are representing employees. In Sweden, we have by law, in companies already of relatively small size, that there are 3 labour representatives on the board. Now, both these boards are unworkable. I think a lot of the German problems, and excuse me, I might be wrong but I lived for 6 years in Germany, is that the boards are not functioning. And in Sweden it's the same thing, although the Swedes have managed to turn it around, I don't know to whose advantage but for someone's advantage. One of the top chairmen of the boards in Swedish companies made a presentation about this and he said the following: We have several factories, and one of the factories doesn't work. We have put in consultants, we have checked it out, we have done everything and there's no way. We can't find any way to save this company, or this factory. At that stage it comes up to board level, and of course the 3 labour representatives, they are always a minority but they go Ah! That's not possible, in this little town you can't fire 200 people, and so on, it's not possible. OK, go and see. And they have all the chances to dig into the company to see all the solutions and so on, and after management has done that for years, and has not been able to find a solution. It's very peculiar if the labour representatives on the board would be able to solve the problem. So in the end, it's up for discussion in the board, it's then decided in the board, and all these things are confidential, I mean they can't go back to their union until after the decision is taken. And then these three guys go back to their respective unions and say, We have participated in a decision where we will be closing this factory and we will put 200 people on the streets. Now you can imagine what happens when they go back to their union and say that. So this whole thing has backfired. The basic principle is the following, according to my view: that stakeholders are a management problem. Who are the stakeholders? They are the employees, they are the suppliers, they are the customers, they are the banks, the municipality, the environmentalists, and so on and so forth. Who are working with them every day? It's management. It's the management that has to solve these problems, and basically, if they don't solve them, it's bad for the company. The company will be losing, so they have to solve it. Now the board has to be vigilant that they are attending to this in an adequate way, but to get the stakeholder problem up on the board level, then the board is no longer representing the owners, which is their basic function. Now as you said, this is very contentious, there are a lot of discussions about it, there's a lot of politics in it, I mean it goes far beyond the company. The political parties get involved and so on, and you have a bad situation. But you have to be clear on who really handles these things: it's the management. They have to be responsible, they have to be responsible for doing things in such a way that the company doesn't suffer. And the board has to check that they are doing their job.

Hendrik Lühl: OK, clear answer. Any other questions? If that is not the case I would like to close the first session of this morning, and we shall meet again in ten minutes. Thank you.

Hendrik Lühl: For today we have slightly changed the agenda insofar that we skip the presentation of Fred Arnold from KBC and we will include it in the agenda of tomorrow, in order to give more room to discuss the issues of corporate governance and credit rating, so we will now have a presentation by my colleague from FMO Jan Portegies, it's about FMO's experience with corporate governance, and afterwards we shall have a panel discussion on both topics. Jan, please, you have the floor.

2.5. Corporate governance in practice

by Mr. Jan Portegies, Senior Investment Officer, FMO

Can somebody put on the presentation?

(Slide # 1) Ladies and gentlemen, dear friends, to continue with the discussions this morning about corporate governance, I think the floor has already been opened by Bengt Hallqvist with some issues. (Slide # 2) I would like to add the views of FMO and how we deal the issue of corporate governance in practice in our credit approval processes and monitoring of our clients after the implementation of financial operations.

(Slide # 3) As a starter I think the words "necessary evil" have been mentioned yesterday as well, whether banks are a necessary evil. The same may be true or not for corporate governance. You can look at it from two sides, some of you may say well, we have been dealing with institutions like FMO DEG, IFC and so on for quite some time. Having been with FMO for quite a while I've seen a lot of topics being introduced over the years, starting perhaps with gender aspects, (applause), more balanced situations with respect to male and female employees in companies. I think then 15 years ago we raised the issue of environmental problems in our companies and the way we are handling our environment. Today I think everybody knows that it's an inevitable and interesting subject, which has been on the table for quite a while. Then we moved on to the social aspects, and I believe that corporate governance is here to stay and is something which has to be taken into account in our decision process for the future.

(Slide # 4) A few words on what we mean exactly by corporate governance. There has been a lot of discussion about it already, but the way that we see it, we look at structures, you are looking for appropriate checks and balances, the processes for direction of management and control of companies, taking into account the interests of different stakeholders. The interests of the shareholders have been discussed quite extensively this morning, what's the role of the board and the management, how these three bodies interact and are independent from each other or not. Then the other stakeholders have been mentioned, the community at large (applause), for instance if we look at the environment of some of our companies here, the oil crushing for instance in Argentina, how they deal with the locations where they are situated, for instance how to deal with the dust problem in terms of loadings of ships, unloading of the trucks in the ports. I have seen some examples where there have been complaints raised by the community and how these companies have dealt with those, so these are all elements which go beyond just how we run the company and how we try to make some money.

We believe that corporate governance contributes substantially to sustainable development by enhancing the performance of companies, so it's not something like a fashion, which looks good if you have taken it into consideration, but we actually believe that although it may not be quantified in the short term, that in the end it improves the results of the company at large. There are some key elements as well, transparency in the accountability, open up to the outside, and to be accountable to third parties for your actions.

(Slide # 5) We try to spell out some of the benefits that you may ultimately gain from corporate governance. We believe it will lead to an increased reputation of the company, it will strengthen investors' confidence in the operation, which ultimately may lead to better access to capital markets, direct foreign investment, long-term funds, some of these things which have been scarce, especially in Argentina, Uruguay as a result of the crisis. Improving your corporate governance may be one element, certainly not the only one, but another element to take into consideration to improve this situation. Linking it perhaps to Mr. Zerbino's presentation from a little while back, it may improve your credit rating, although perhaps today we may not see substantial evidence that credit rating agencies are quantifying the aspects of corporate governance in their rating of the company, but we are confident that it is inevitable as we go along corporate governance will be something that these agencies will take a look at more closely, and if you are in good shape in respect of that, in the end it may also mean that you pay a lower price for your credit.

Perhaps on the other side in respect of equity it may lead to higher valuations, and in that way shape better conditions if the company reaches a certain stage which may be true for a number of you in the next few years. If I see the people who raised their hands for Mr. Hallqvist's question about family-owned companies, and if you link that to the soya boom and the investments that have been introduced recently, I think numbers like 400 million dollars are being mentioned, and maybe some limits (will come) in the future growth within these family-owned companies as how to attract additional capital, so from that point of view you may sooner or later have to resort to outside sources, look for a new shareholder, a joint venture with a multinational, or do an initial public offering and as you know at that point in time you have to open up to your potential investors.

Finally we believe it will lead to more stable sources of financing which may be especially important during times of crisis. If the banks know your business they know you, perhaps they will tend not to run away as fast as some of the other banks in which they have less trust.

(Slide # 6) Not only do we believe that it is of importance to the companies but we see some benefits for ourselves as well. I think it is a key aspect in project selection in terms of who we work with, and it will certainly help to get a better insight into the investment risks, know what you approve, who you start doing business with, which may at the end of the day be translated into a lower level of provisions and show a better balance sheet and profit and loss for FMO at the end of the year.

On the other side, the softer aspects, nobody wants to be associated with a company that appears in the headlines of the local press in terms of scandals, poor corporate governance and so on. Of course that is something quite serious, if in that respect something comes out into the open it will ultimately backfire on us as well for doing business with the wrong guys. And I think the other aspect has already been mentioned, that it helps us develop local international capital markets and a strong private sector which is the ultimate goal of FMO.

(Slide # 7) Briefly, what is needed for good corporate governance? We don't have a single answer to that, you may opt for a general approach, and we certainly don't put it into cement and this is it, and you have to comply or you have a problem. As it has been said - the words best practice have been mentioned - there are some links to local culture, it's not that we say OK, we have a moral from Holland, that's what we do over here so why don't you do the same as well. Certainly, as we do with other aspects of our credit approval processes, we take into consideration local conditions, but we think there are some universal values that we like to see in the all the financing we get involved with, things like transparency, accountability, control, decent behaviour, morale, integrity as Bengt said. Another aspect is that it is not something that we want to introduce from one day to the next, so we believe in going through a process of gradually improving the aspects of corporate governance. The principal elements have to do with the shareholders, directors and management. The stakeholders have been mentioned as well. Basically how we view it: we have developed some minimum requirements as we have in other areas as well, and then in discussion with our clients or our potential clients we try to work out a plan that is, where are we today and where we want to be let's say one year or two years from now. These minimum requirements, I think there may be some flexibility but we also have a bottom line, as we have in some of the other aspects as well. Recently we had a case in Latin America, for instance with respect to social aspects, specifically the relations with the trade unions, where minimum conditions were not met. We took the project to the board and it was rejected so it's not only the numbers that we look at, nice balance sheets, equity and so on, but especially if there are serious issues concerning corporate governance it may ultimately lead to not being able to do the project.

(Slide # 8) Briefly, the position and rights of shareholders, which is one element in corporate governance where there may be a tendency to take things for granted, as everybody knows the ownership rights are registered, is it possible to transfer your shares… As it was mentioned this morning there may be a time when one of the shareholders wants to get out, does somebody have a right of first refusal, are there pre-emptive rights and basically, have you foreseen what at some point in time may happen, especially during transitory phases where you may substantially change your ownership structure. It's also important that the shareholders are being informed timely, regularly, and adequately by the company, basically how the shareholders are being kept aware of the company's performance, some other issues like participation in the general assembly of shareholders which is quite obvious, to participate in the appointment of directors, preferably independent, but that is something that in practice perhaps you do not always see in certain types of companies; how the profits are going to be distributed, are they going to be capitalized, are we going to see some dividends, is it wise to try to pay dividends every year and so on; participation in the appointment of the accountants, which in practice is something that is more frequently taken care of by the board of directors, and the board of course approve the annual financial accounts.

(Slide # 9) There are some issues where the shareholders should be involved. If the by-laws are amended, it may sound very simple but I have seen it happen quite often, if you do a due diligence, we ask for a copy of the by-laws and pretty sure that most of the people in some companies may not always know what is the content of these by-laws, in some cases they have been written up twenty years ago and perhaps somebody forgot to update them at some point in time. So this is something that you may want to review as you go along. Where the shareholders are also involved is in the issuance of new shares and major decisions as the sale and the merger of the company, and the protection of minority shareholders.

(Slide # 10) Then something about the board of directors. We see a clear separation between the shareholders, the board of directors and daily management, and we would prefer especially to see a clear difference between what the competence of the board of directors is and what the task of daily management is. Some responsibilities of the board of directors, basically to safeguard the interests and continuity of the company which is quite obvious, the strategy, the policy, performance, selection and supervision of management and approval of major transactions.

(Slide # 11) Of course the audited accounts have to be approved by the directors before they are presented to the shareholders in their annual meeting; in general make recommendations to the shareholders with respect to where are we going in the next few years, set out as Bengt mentioned, strategy, vision and so on, then monitoring cash flows, liabilities, especially in a situation where the environment is problematic and you have a crisis situation. It would be helpful if the board in general becomes involved, OK, are we able to meet our obligations and if not, what sort of action has to be taken in order to make sure that we are going to survive this crisis.

(Slide # 12) Regarding the qualifications of directors Bengt has already mentioned some aspects, I think this matrix for instance is more of an illustration of the balanced mix of directors, representing shareholders, independent from management and this is something for instance that in family-held companies may not always be the case, but by nature you have a selection of an appointments of directors, then the distribution of tasks between the people which are being elected to begin with. Perhaps it would be advisable to look at it from the other side, what sort of expertise do we need, add value in certain areas, look for people who can deal with the banks, who are aware of the latest developments in IT, with respect to the markets and so on. Of course they need track records and experience as Bengt mentioned, sufficient time available, or make sure that they attend a fair number of board meetings, and make sure that the knowledge at board level is being kept up-to-date continuously, not pretending well, we've been making a nice profit for the last 20 years so we're in pretty good shape. Maybe today, but certainly not for the next five or ten years.

(Slide # 13) Another element that I think is important is management information systems, to make sure that things are on paper, not say to everybody, OK, we know how things are being done in this company so what's the use of writing it all up. Then I think it's important to look at the number of committees which may be of assistance to the board, like an audit committee, which I have not seen in many companies in these countries for instance. The audit committee for instance appoints the internal auditor, has a very important role in terms of measuring risk and dealing with it, for instance precisions which in the trade of commodities is an important issue; (Slide # 14) a compliance committee which is more precisely in the area of corporate governance and dealing with transparency, a committee which deals with issues of succession and appointment of new staff, for instance the criteria that you would like to see for the appointment of a new president or a new board member to the company and finally a remuneration committee.

(Slide # 15) How do we deal with corporate governance during our approval process? We try to explain the importance and benefits to our clients. During the due diligence we assess the client's situation, we determine what level of corporate governance you have today, and from that probably will result a number of issues that we would at least we would like to discuss and see what room there is for improvement, and then from that we draw up a plan which we believe should be done within a certain period of time, in some cases ending up as a condition precedent in a contract or as a certainly as a covenant of something that has to be complied with let's say within one year after the disbursement of the loan.

(Slide # 16) Maybe a recommendation to our clients is to put the topic on the agenda to begin with, selecting the right time, not saying well, it's Monday morning 9 o'clock, let's discuss corporate governance. Usually there is a certain point in time, if the president has expressed interest in retiring, or if you are planning an IPO or you get a new shareholder on board, that may be the right moment to take a close look at some of these issues. Of course the field is quite wide and we cannot do everything at the same time, so perhaps it will be better to focus on two or three major issues on which you think something can be done in the near future and concentrate on those, and certainly not try to change everything within a number of weeks, not try to roll over the whole organization so everybody gets nervous, but just taking your time to do things in a more solid way.

(Slide # 17) To end up, a small example from practice, how things can go wrong if you are not talking about good corporate governance but bad governance. In this case a not too big Argentine export-oriented agribusiness with an annual turnover of 35 million, a typical situation where you have a second-generation family business. The father has passed away and has been succeeded by brothers and sisters who hold an equal share in the company, which in practice leads to a situation where the shareholders form the board of directors, seven of them, and at the same time management, so all three levels come together in seven individuals. Of course they want to discuss everything, so every Monday and every Tuesday the whole day is taken up by discussions, no clear agenda, nobody presiding the meeting, maybe some summarized minutes but certainly not a structured situation. Then in the executive field each family member is responsible for a particular department, I'm in charge of the plantation, you are in charge of the export business, the other one is in charge of finance and hardly at the executive level outsiders are absent as well. (Slide # 18) Then the consequences that you see in practice is that there is no delegation of authority, lack of control, de-motivated personnel, they see the board meeting in one room, with the doors locked for two days, so everyone becomes suspicious and what all these discussions are about, there's no synergy at all, no team spirit, everybody manages his own shop, for instance one of the brothers was keen on IT, so he heavily over-invested in state-of-the-art technology in the processing plant, so now they have a jewel of a factory but unfortunately no money left.

This leads to a deteriorating image to the outside stakeholders, the clients become aware of it, of course banks, they enter into default, the community knows about it, you have negative articles in the local newspaper, then they do a steep decrease of formal credits and especially in a crisis situation even the export finance is cut off, so they have to resort to informal credits in the local markets, offering land as collateral, of course at substantially higher rates than they would get from their banks. In the aftermath of the crisis, where for instance the oilseed business had an excellent time, because of the situation they were not able to seize the business opportunities and basically the company went down in a period when theoretically they had excellent opportunities for future growth.

To conclude, this situation ended in a very sad way, where in the end the conflicts escalated. Bengt mentioned that somebody tried to get his brother or his sister in jail, in this case they succeeded, because of the fact that one of the brothers physically assaulted his sisters and he was taken to jail. So this is a sad story where if some of these elements are not taken into consideration what the outcome may be.

Thank you.

2.6. Panel Discussion, chaired

by Mr. Hendrik Lühl

Hendrik Lühl: Jan, thank you very much. Could I then ask the speakers of this morning, Ricardo, to come to the panel, and also Mr. Horacio Aranguren, is here? You included Horacio Aranguren from Molinos Rio de la Plata too. OK, maybe I would like to integrate you into the discussion and start with asking whether there are any additional questions or comments you would like to make with respect to corporate governance, credit rating… If that is not the case I have a question, Bengt. To what extent is corporate governance discussed in the Mercosur, and what is the legal basis here? Germany has passed a corporate governance codex in 2002. Is there anything similar in the Mercosur countries?

Bengt Hallqvist: We started the Brazilian Institute of Corporate Governance in 1995, and one of our key tasks has been training. So we have trained more than 1.000 board members during these years. This year we are running maybe a dozen courses. Even today a course for board members started, that's an eight-day course, runs over three months, something like that, so they have one day, then there's a period, and then they run one or two days again, and so on and so forth. We worked very hard in the beginning to get the big companies involved. Really it was funny, we went to some of the companies that you know about, Bradesco, one of the largest banks, Votorantim, the largest privately-owned Brazilian company, the Editora Abril and so on and so forth. We had no answer. We didn't even get past the secretary when we started. As time went by, the people who were interested were basically family companies, small, medium-size family companies. And they are most of the people that we have trained. And I would say that everyone of these over 1.000 people, they went back to the company and they put one or two of the maybe 100 recommendations we had into practice, and it grows like that. One company, a ceramic company, that made tiles and so on, they sent 16 people to the courses, to 4 different courses, and of course, they became quite involved with this. And then later on it spread to the large companies, so in our annual congress in November last year I had the pleasure of leading a panel which consisted of one of the top directors of Votorantim, who used to be previously the CEO of Votorantim paper and pulp, and from the probably largest supermarket chain, Pao de Acucar, one of the heirs, a lady. They were talking then about their program of corporate governance. So this thing spread from below and up.

There are lots of things still to do. There is a long way to walk. In the Latin American scenery the Global Corporate Governance Forum, which is an arm of the World Bank, has shown quite a great interest in training for Latin America, and they run a course in Washington in September last year, which I unfortunately missed, where people from I think Argentina, Chile, Peru, Colombia, Venezuela, Mexico and Brazil participated, 35 people, and they were all trainers, or focused on training. So what happened was, it was training of the trainers. Now I think unfortunately it has not gone so far in the other countries because the focus to a very large extent has been that people are looking for a job and they find that corporate governance is an interesting thing, and they start it, while when we did that in Brazil, we never thought about that this would be a job for us. So it was all on a voluntary basis, everyone contributed, everyone paid for the courses, I mean even the board when they took the course they paid themselves, there were no free lunches, and so on and so forth, and I think that that contributed very much. Hopefully other countries will do the same, because in that way I think they will be able to create institutes that will be similar to the Brazilian Institute of Corporate Governance. The interest from the World Bank, the IFC, from the OECD is very great. We have had 4 round tables, the first in Sao Paulo, the second in Mexico, the third in Buenos Aires and the last one last year in Santiago de Chile, where we have developed not a code but recommendations for corporate governance in Latin America. It's available I think on the site of OECD so everyone can get it, it's a document maybe fifty-sixty pages long, but full of wisdom, and it is also closely related to OECD principles of corporate governance. Things are moving in Latin America.

Hendrik Lühl: OK, thank you very much. One question to our Argentine neighbour: in what respect do Argentine banks put corporate governance into consideration when giving credit and loans to companies?

Horacio Aranguren: I would like to give you a reply in two ways. First of all there are certain companies like ours, which are public companies. Therefore there are a lot of gymnastics that we did in the past and we are doing today and we will be continuously making in the future, because you know, the relationship in the case of public companies is more strict compared with non-public companies. However, in the case of the banks in Argentina, I think that it is a combination but is not *the* key issue. Why? Because one of the most important things that we understand as the key to the success of credit facilities to the local companies in Argentina, is to know exactly which is the plan, and which is the result, and the objectives of the company, and to follow up very carefully all the steps that the company announced on the plans. Of course I would say there are mandatory regulations in Argentina that are in force, that are requiring in certain cases due to the transparency law that was issued I think during the De la Rua presidency, three or four years ago, and now are starting to be in place, for instance, nowadays there is a resolution which obliges the company to have an independent board of auditors, committees. That is an important issue because it will open a door that was not open in the past to generate third parties in the internal audit committees. That is something that I don't know if everybody is aware, but it will be very important for the future because it will provide more information for the stakeholders.

Hendrik Lühl: Ricardo, will you add something from the Uruguayan perspective?

Ricardo Zerbino: No, we don't have a specific code on corporate governance. We only have legal regulations and regulations of the Exchange that are applied to public companies, specifically sociedades anónimas (corporations) but we don't have a specific code on corporate governance.

Hendrik Lühl: Gert Jan, you are the master of the time and you told me to close at 12:10, is that still the case?

Gert Jan Mulder: I just want to make one remark, thank you very much for respecting the time, Hendrik. In the list of requirements for directors of Mr. Hallqvist – it was an impressive list – but hearing his speech, I would add one other condition: it is that those directors should permanently feel inadequate. Right, Mr. Hallqvist? You said: "I'm spending 350-400 hours as a director but I continue to feel inadequate". This is merely a remark from my perspective. A conclusion as far as I'm concerned is that in corporate governance there is some difference between theory and practice and I was very much appreciative of Jan Portegies' approach, very pragmatic, whereby he left all the space to companies and to banks on how to apply corporate governance, but each in its own setting, in its own context, and at its own pace. I am very much appreciative of that, Jan.

Bengt Hallqvist: Well, I can't argue with you, I agree with you, I think the important thing is to have a clear idea of what is the best practice. Now the way to go from your current situation to best practice - it's a long way and a lot of companies will never get there. A lot of cultural differences make some of these requirements inadequate or impossible. So I think it's important to have an idea of what is best practice. Practically every code – and there are maybe 100 codes in the world – they are more or less in agreement about most of the basic things. Now the way to apply it, you have to adjust to the situation, you have to adjust to the country, to cultural differences, to the size of the company, to the values of the company and so on and so forth. So certainly there are lots of differences, but it's always important to know what is best practice, and then decide for yourself. Good judgment.

Hendrik Lühl: OK, thank you very much. I think we had a very comprehensive session this morning, and I would like to summarize with three statements. The first is, I think we will continue discussing corporate governance in the future. I think we are just at the beginning of a discussion that is very necessary and I think the reason cases also in Europe about fraud, Parmalat has been mentioned, will continue to put pressure on that discussion. The second, credit rating, I think the same as what I said before, also refers to that subject. I know that specifically the German medium-size companies are heavily discussing the necessity of credit rating also in combination with taking up private equity from the funds. There are many private equity funds worldwide looking for opportunities and they go for these criteria. The third, and we don't have the time to discuss this, is what you said this morning, Gert Jan, about Basel II. I think that will also continue to be in the discussion, to what extent Basel II will influence the lending to the medium-size companies, and also to companies in emerging markets. We don't have time to discuss this now, maybe we can discuss it later on, over lunch, on the boat, wherever, I think these are exciting subjects and I am very thankful that you participated in the discussion. I thank the speakers on the podium for their presentations and I wish you a very pleasant afternoon, a good lunch, whatever you do, whatever sport you do, enjoy yourselves. Thank you very much.

Third Part: RELATIONSHIP BANKING, IMPLICATIONS AND CONSEQUENCES

Moderator: Mr. Gert Jan Mulder

Mr. Gert Jan Mulder: Good morning, ladies and gentlemen. Just on the program for this morning, we have to start off. After me, we have Fred Arnold, who gave up his place yesterday, and Paul van Heerde, before the coffee break, followed by Juan Diego Ferrés from Brazil (the company GRANOL), and Mr. Hans Hanegraaf, from FORTIS Bank. I think that the schedules for today are a little bit tight; some people have to catch planes, some others have others commitments, so we will try very hard to finish off certainly before 12:00.

3.1. Introduction to culture (and differences)

by Mr. Gert Jan Mulder

Mr. Gert Jan Mulder: I have prepared a presentation with at least 17 slides. It's my favourite topic, like Mr. Bengt Hallqvist who can be so enthusiastic about corporate governance, this is my baby – culture –, but I won't bother you with my presentation and the 17 slides. I could talk for 3 hours but I won't, I will just pick up some slides, talk you through for 5 minutes and then give the floor to Fred Arnold and Paul van Heerde.

I'll just say a few words about what is culture. I'll say something about my research, the culture into my research, as I see it. This is, I think, an interesting quote (see slide # 3). I haven't been trained in formal education and culture, I just happened to come across it at a very late stage in life. Let's say, when we train people in assets and liabilities, debits and credits, we don't train them in the field of culture. I think it's perhaps a mistake.

(Slide # 5). One comment on the meaning of culture. When we talk about culture, most people understand culture to be what you can see; you can see culture in language, in arts, in how people dress, how people behave, the language people speak. But as defined in literature, as Culture one, or culture in the narrow sense, culture which is much more important for you, if we relate it to relationships between banks and clients, it's all those facts which we can't observe: why do people react in the way they do, how do they think, and what motivates them, for example. Just in short, all those things you can't observe, that's what makes it so difficult.

(Slide # 8). This is the dimension of culture defined by Hofstede, and I was very pleased to see that one of the introductions of this morning by a bank picked up on this subject so I can skip it.

(Slide # 12) I held a ... in the University a couple of months ago on my papers, and I was brave enough to show this one: the organization chart on the chain of command. They still gave me a good number.

(Slide # 13). At the heart of culture, at the very heart, lies our value system.
Values are defined by "good" and "bad". Some societies talk about values, other societies talk about values and norms; some have, if we could qualify them, lower values than others, but they try to compensate it with higher norms. And norms are defined as what's "right" and what's "wrong" in different societies.

(Slide # 16). So, for my research, there are some questions resulting, and maybe, those of you who have participated in the interviews with Maria, you may have found some of these issues phrased in the questions you were asked to reply to. The questions in my research are:

- Do banks actually seek to work in cultures which are different from their own, or – alternatively – does their lending policy implicitly lead to a selection of cultures which seem similar?

As a banker, I would prefer to work in an environment where I'm comfortable; where I have the feeling that I understand the people. And to some extent, in our contacts with bankers, we very often meet those bankers in this part of the world, who really like to be here.

- The other argument, credit risk, which we have come to talk about in the last couple of days, in a large part is related to the capabilities of bankers to evaluate the competencies of management.
- And my question was, or the argument I try to make is, how difficult it is, or how is it being hindered if we do not understand that culture enough.
- And if we look at what the direction of Basel II was, for example, or let's say, what regulatory authorities intend to improve on, it's all those areas except this one.

O.K., I would like to leave it here. And I would like to give the floor to Fred Arnold.

3.2. Credit out of London to the world through relationships

by Mr. Fred Arnold, Vice President, KBC, England

Mr. Fred Arnold: Good morning. This is actually the first of the slides. Pretty snappy title, ha? It was suggested to me by Gert Jan, when he kindly invited me to give a presentation here today. Although knowing Gert Jan and the way he phrases his invitations, it's actually more like an instruction. But he didn't realize at the time, that in all the time that I've been in banking – and it's quite a long time – I had never given a presentation to an assembled audience like this. So I didn't quite know what the protocol was as far as this snappy title was concerned, so I plucked up the courage to ask him what I could do about the title, and he said:

"You can change it", and I thought: "Well... " I thought about it some more, and then I run out of time and other things took over, so I left the title as it is. I thought I'd come with a slightly different slang term on relationships as they apply to the business that we do in London, and I'll get to that in due course.

(Slide # 2). First, I just want to give a short background to the bank, if I may. I won't take long.

(Slide # 3). That's the KBC bank. It's a bank and insurance group. Half its income, half its business is in insurance. As far as I am aware, it's not now the only, but it was the first bank in Europe to cross-sell its insurance products through his banking branch network. The other interesting thing about it, is that it's privately owned. Although it's a free float, the Almanij group, the top, they're 63 or 64 percent of all shareholders and they control the group.

(Slide # 4). The bank's major focus outside of its home market is in Eastern Europe. A considerable strategy was a strategic development that was taken about three or four years ago, to establish a second retail banking market in Eastern Europe in anticipation of the adherence or the absorption into the European Union of those countries that are mentioned (on the slide): Slovenia, the Czech and Slovac Republics, Hungary and Poland. The bank thought that it was a good strategy to follow, at that particular time.

(Slides # 5 and 6). The bank also has a network of international branches which perform the usual sort of house-out banking operations in New York and so on, but in 1996, after a report by McKenzie, the bank wanted to set up a specialized unit to add on to its core businesses, and (slide # 7) the Global Trade Finance Group was established in 1996, with 11 members of its staff being recruited from one bank in London, UBS. That explains why the global trade finance area of this bank is established in London, and there was a small trade-finance couple of people in Belgium but they were absorbed into this unit in London in 1996. With 11 staff to start with, the group then developed to a size of 55 people, when I joined about 5 years ago, and has now shrunk back to 18 members. The concentration there on structured trade finance deals focuses on 3 core product areas: oil and gas, metals and mining, and soft commodities. This concentration was re-established in a strategy that was put forward and then approved by the Executive Committee just over a year ago, and it effectively represents a third incarnation, if you like, of the group, so that we are focused specifically on those three core areas, which are core-commodity driven. Activities in Sub-Saharan Africa, Russia and the CIS (Community of Independent States), and then Latin and Central America. We believe that we're one of the top 10 crude oil financing banks in terms of the structured trade finance deals that we do. And just to evidence that the bank does have a significant underwriting capacity, that was the largest deal that we gave an underwriting commitment for (US$ 350 million).

(Slide # 7) That's the organigram. That's the entire global trade finance group, spread up into those three areas. On the right-hand side there is the risk management and agency function that we have.

(Slide # 8). I'll skip over these ... a lot of these are historical. The Sub-Saharan Africa and Middle East area was a core business for the global trade finance group when it started and for about 4 or 5 years afterwards. It's where the group had established its reputation when the players were working for UBS.

(Slide # 9). CIS and Eastern Europe and Central Asia are the areas which have developed the most in the last 2 to 3 years and it's been quite a significant concentration of assets in that region.

(Slide # 10). And the Americas and Caribbean region, also an important market for us historically and going forward.

(Slide # 11). It's often asked of us how we manage to do our business when we have all those 18 people that I mentioned or identified, in the London office only and we have no representation anywhere else. So what we do, is we focus on certain geographic markets, pretty much the ones that I mentioned before, because those are the ones where we have a historical track record, or a particular expertise, born out of language capabilities, born out where people were working in their last or previous employments, and where the bank has shown that it's comfortable with that sort of risk. We focus on certain products. Historically we've widen or diversified the description of trade finance or structured trade finance products, and incorporated things which are not now regarded to us as core to our ongoing strategy. So we focus on the products that have historically been successful for us and products which throughout the group we think we understand. In the oil market, for example, crude oil, gasoline; in soft commodities we focus on grains, coffee, cocoa, sugar, tobacco, and pretty much keep our focus to the core raw material of the product. And we prioritise the deal flow to focus on the balance between credit and return criteria. Experience tells us that we are more likely to receive sympathetic consideration at head office from deals which they themselves feel comfortable with, and a simple calculation tells us whether the deals that we have are going to produce an acceptable yield.

(Slide # 12). Do we have the necessaries skills to achieve our aims out of London only? That's not a question. It's very easy to answer, it depends who you ask, really, within the organization. Our aims, I guess, are to establish a portfolio of structured trade finance assets, balanced by geography, by product and by risk. What are the useful tools at our disposal? In London we have a very strong risk management. There's an extensive credit approval process which starts with the origination team itself, it goes through a risk management group, on to a localized transaction committee. So in many ways a lot of the groundwork in eliminating and mitigating the risk that we won't take is done in London, before it goes to our head office in Brussels. (Another useful tool is the) global experience of many of the origination team. There are 10 originators in the group, and probably 6 of those have worked outside London in markets where we are developing business now. (The third tool is the) ability to research and absorb necessary industry information. Stating the obvious really, but it's amazing in my experience how many people don't know how to access information which is easily and freely available through Internet resources, through research organizations, etc. And (finally) good language skills. I'll comment on this because this is a bit of a double edge sword for us. We have an excellent language capability in London and it goes to explain to a certain extent where the balance of our portfolio currently lies. But apart from English and Dutch or Flemish, as you would imagine, we have capability in Russian, in Czech, in French, Italian, German, Polish, some Mandarin and, sadly, a little bit less in Portuguese and Spanish.

(Slide # 13). What are the drawbacks? Clearly, a lack of local representation. We rely totally on the due diligence that's done by the offices in the London office, and we have a shortage of resources. I mentioned that we were effectively in a new incarnation starting from the beginning of last year. The development of the portfolio since that time probably suggests that our resources ought to be made up a bit. But at the moment we have a slight imbalance between the deal flow that we have and the number of people that we have to do it.

(Slide # 14). So what we need are relationships. Edward Hall, if you can remember him, I think he's Gert Jan's favourite anthropologist, he said: "Relationships are what drive business". And our case, in this case, the definition of relationships is not just those companies that we want to do business with, not just the counterparties to the transactions, but the other relationships that, for us, enable us to establish a better rapport with the borrowers and are also, to my way of thinking, useful in the credit process itself.

(Slide # 15). So, we have mountains to climb, the number of things we have to overcome in order to get our credit committee comfortable with what we do and what we're trying to achieve:

- **Cultural issues** has been a busy topic over the last couple of days. How do we overcome these cultural issues? Sometimes we don't, but what we do, or we're trying to do, is work very hard to understand local cultures before we travel to, or meet people from, different areas we want to do business in. When we talk with representatives of local companies and we ask our friends to help out, to help us understand those cultural issues, so that we're not missing anything in the process for our credit application.
- **Language issues**. How do we overcome those? Well, the obvious answer is to take people on who can speak the language in the areas that we're marketing, and that's something which we are aiming to do. But clearly in the markets that we're talking about during this seminar, which is South America, there is a deficiency. We have some Spanish capability in the group, we have some Portuguese capability in the group, but at the moment it's not in the areas where the business deal flow is coming. It's something we have to address. But again, we use our friends to help us out with those languages difficulties that we do have.
- How do we address local **legal and jurisdictional issues**? We go to people who will be able to advise us on things like the law, the changes in the law, accounting changes. We go to the local federal authorities, we talk to them, we talk to collateral managers. And we've found over the years that, for the most part, if you talk to these people and demonstrate your interest in trying to achieve a new business arena in those countries, they will generally be very happy to impart their knowledge and wisdom.
- **Credit issues**. That's another subject which has come up over the last couple of days. To what extent does the comfort level that we get in

London, get translated when it gets put down on a piece of paper and goes to head office, for them to analyze and approve. There's a great difficulty in the different interpretations of the risk of any particular credit, caused by perceptions of country risk. Those are things we work very hard to counter, and it's why we think that the relationships that we try to establish can add considerable value to the credit process.

(Slide # 16). So, relationships as an aid to risk mitigation. Again, not just talking about the relationships with the borrowers themselves, that's sort of axiomatic. You get information from them, you put that information into your credit process. But I'm talking about the ancillary relationships that help us build a bigger picture of the credit risks that we're looking to take on to our books. (Relationships require:)

- **Interest**. To my way of thinking, the most important rule of establishing a relationship is to show an interest in your subject. It's easy for me because I find this is one of the most fascinating parts of banking and I think that applies to most of the rest of my team in London. But if you cannot demonstrate to a counterparty that you have an interest in their topic, interest in establishing a rapport, then you're not going to get the sort of feedback that you hope, and people respond to you showing interest – in my experience. And that's for all parties: banks and collateral managers, and lawyers, and so on.
- **Judgment.** I think when people are willing to impart their knowledge to you, they do so willingly on the basis of establishing a friendly rapport and hopefully an ongoing relationship. It's quite an interesting exercise in trying to pick out from the words of wisdom that are imparted the value of information that will make a difference to your credit process. And it requires a good marketing officer, I think, to exercise that judgment.
- **Perseverance**. I've known examples in the past where people establish these sort of relationships to get all the information they want out of the relationship; the deal is done, and the relationship dies. To my way of thinking, you have to work very hard at maintaining those relationships. The same thing applies to the continued interest that you show in the information that they are prepared to impart as you go along the process, and it pays dividends, in my view, to just maintain those relationships.

(Slide # 17). Just a final observation. Relationships are the oil for our Credit engine. That's for relationships across the board. But I think that the ancillary relationships can often be underestimated for the value they can add to the credit process. And my group in London does not easily underestimate those benefits. Thank you.

Mr. Gert Jan Mulder: Thank you very much, Fred. I'm sure that quite a few of us can hardly imagine that this was the first time that you gave a presentation before a group like this.

Mr. Fred Arnold: It's true, it's true.

Mr. Gert Jan Mulder: You're a naturally born talent, and I very much appreciate your very nice presentation. I'll come back to some of the contents a little bit later, but first I would like to give the floor to my friend Paul van Heerde, from ING Bank. And while he walks up maybe it's interesting for you to know that, in terms of banks who are active in commodities, we have a very interesting group of people present, together with Rabobank, FORTIS, ING, KBC, and I hope that you'll get something out of these sessions and these presentations this morning.

3.3. Long-term investments in relationship banking: Does it pay?

by Mr. Paul van Heerde, Managing Director Global Head Commodities Group, ING Amsterdam

Mr. Paul van Heerde: Good morning everybody. I'm happy that you're still there, and that you're still with us. I have not prepared a presentation for two reasons. In the first place, I had the pleasure in the last three weeks to be involved in the organization of a similar conference like this, but then the internal one in Amsterdam where we brought all our people from all over the world, all the teams got together, plus a number of people in Amsterdam, and talked for two days about, for instance, what is relationships, what is relationship banking, but also what our strategy was going to be for the future, what are the setbacks, and where do we see new opportunities. The other reason is that because of the presentation, I had little time to go with Gert Jan through the question that has been posed and that is my subject, in other words: "Long-term investments in relationship banking. Does it pay?". I'll come back to that later.

Just a short introduction on ING. I think most people know the name for various reasons. I think the most recent thing is what we've had going in Latin America, in Mexico, the insurance company that had a claim of 30 million dollars on its books and that has now turned into 650 million dollars. So that means that in the process we got to know, or we experienced directly what it means, in not perfect jurisdictions, like you apparently also have in Mexico, where your client goes from one state to another, and then to another state, and then gets back to the first state again, and still you're not getting anywhere. Also known for the bank that acquired Barings for 1 dollar, like my colleague who said: "Now my mother finally knows who I work for. You're in the group that acquired Barings?" But still, in all seriousness, ING is one of the largest banking insurance companies in the world, with a market capitalization of 50 billion dollars. We have a number of colleagues, 110,000. I won't bother to introduce them all to you.

But I think what is more relevant to you is: What do we do in commodity finance? What do we do in Latin America? We started in 1985, so we've been in this business for almost 20 years. When we started out in Holland in that period, if you looked at the Dutch market to see who was there, there was Fortis, which is a very committed and long-term player. There were a few other banks that were also very active and we were at that time a "B" Bank, so we said: "Well, what are we going to do here in this market?" That’s when our concept and our strategy became “Let's go global”. We have a number of offices worldwide: in destination, in financial centers, in typical transshipment centers and in origin. So we automatically opened up in New York, Sao Paulo, Buenos Aires, London, Geneva, Rotterdam, Singapore and Hong Kong. In the mean time we have closed New York, but that network is still in place. In other words: 8 locations, plus one central department in Amsterdam that tries to manage all things, but at the same time it also houses a group that is focusing on relationship management. At the same time, we have a similar group like the one that Fred Arnold was introducing for KBC.

Structured commodity finance is something that really started in '91, '92, '93. It was the breakdown of Eastern Europe and apparently there were a lot of banks that nowadays seem to be really in vogue. I'll get back to that later because that’s not an unimportant thing. We have about 500 clients worldwide. We tend to believe that we are a committed player, although some people may say that it looks different, but we operate in a number of difficult markets and sometimes you have some setbacks there, and you have to withdraw or partly withdraw for the time being, not only driven by ourselves but also maybe regulators and people like that.

What is our main activity, or what do we consider to be commodity finance? That is assisting, or accommodating, primary producers, primary processors and exporters of prime materials or raw materials. That is quite a wide range. It raises questions sometimes internally, when they say: "Well, basically you're financing the industry, and what does that have to do with commodity finance?" But we think you can only do a proper job in this business if you have a focus, if you have a deep penetration in various industries. And then, for instance, in the soy industry we end up with a farmer, although that is exactly what we are not doing, but in the second layer that’s where you start and you end up maybe somewhere in China, where the products are imported.

Obviously, if you have been doing this for 20 years, and before that you had spent another 13 years with another bank, involved in relationship banking, then the question, as it is posed to me, is: Is there a future in relationship banking, and does it pay to invest? The most simple and opportunistic answer is “Yes, of course”. But then you start to think: What *is* relationship banking? And I think the doubts I had at the moment were more or less confirmed in the past two days, because it looks to me as if there’s a different perception from a banking perspective and from a client's perspective. What *they* consider to be a relationship bank, and what *we* consider to be a relationship bank. That difference is not entirely clear to me, maybe that’s something worth a discussion later on.

Talking about the future and long-term investments, I think there are a couple of threats, coming from the outside world, also a little bit coming from the inside, but to a large extent coming from the outside world and developments in the market. Just to give you an example, some years ago in New York you had 30 banks engaged in commodity finance, today there are only 7 left. There is one that is coming back right now, but still it shows an opportunistic approach from a bank’s perspective, especially American banks; mergers that can change your

perspective entirely. I've heard in the past few days, a number of times, that we are "a necessary evil". It's quite an incentive. It can also be a challenge.
It's OK if my client considers me to be a necessary evil, then I have to work on it to change that perception. But it also makes you wonder what is the function of a bank. Primarily, providing capital, or risk capital. I think lending is still a form of risk capital. You have your suppliers – great friends –, you have your shareholders – great friends –, you have the banks – they're evil. Something to think about, maybe.

Banks are getting bigger. So what do they do? They grow bigger why? To grow, to be more active in the market, to have larger power, or to maintain their position because other banks are becoming better or larger, so you want to keep your relative position. So they're aiming for critical mass. Critical mass automatically means standardization, use of systems, and things like that, and that means that the client approach (changes). Everybody knows that when you call companies, and also banks, you get an answering machine: "If you want to talk about your account, dial 1; if you want to talk about something else, dial 2." In other words, you see a certain amount of deep depersonalization going on in the industry. That's a threat.

Third, and I think this has been extensively talked about: Basel II, and what it means for banks. First it started as a complaint against Basel I, mainly for investment banks. They felt that their risk book was much better than warranted by an 8 per cent capital requirement, and they started pushing the regulators to come up with new systems that would better define and refine the risk profile you have. But there were a number of events in the world, and it has now changed to a large extent, in such a way that I think a lot of banks may be glad that they can keep the 8 per cent, as they have today, and don't have to increase it. I think this benefits, to a large extent, the larger players with a higher rating, and it also benefits those clients that we can work with on a secure basis. But the middle sector – and it goes for our sector but it goes for everything that we have discussed in the past two days –, the small and medium enterprises that have to turn maybe to credit pushers or other people, they're going to be in a difficult position, I think.

For us there's also another connotation internally. We are only a group of some 200 people worldwide, plus a number of people in the back office, and then the risk management team, but as I said earlier, you have 110,000 people to fight against, and the connotation in commodity finance always is risky. Now, if I look at what ING has lost over the past 20 years, it was always (because of) fraud. It was not so much in terms of clients being very speculative, clients doing funny things that they are not telling you about, other than simply doing something with the books. Sometimes, fraud driven by those sort of things, by speculation or by other actions that the client could not cope with and didn't want to go to the bank at an early stage and rather let it go – I think in Dutch you call that "quit or double"– to try to improve his position. Which means that, what we expect and what we try to be transparent to our clients as well, is explain what you do, be transparent, and inform in a timely manner, and avoid us having to read things on the paper. One very recent example, I would say, (happened) in the late '90s, the oil crushing industry went into a quite an expansionist wave, and everybody was wondering what was happening in a market where you have a production of 70 million tons of soybeans and your capacity is about 25 or 26 million tons, and today we see the same thing happening again. In some cases I've read on the newspaper that one of my clients was increasing his capacity, and didn't talk to us. I'll explain what's the reason behind it. That also has to do with a fair amount of confidence. I think the word confidence has also been mentioned a number of times in the past few days. It's a soft term but it is a very, very important term.

Finally – and I think the presentation of Fred underlined it –, structured commodity finance for the client can be a threat, but it can also be an opportunity. What we've seen, or what we see, and especially in Europe, is that a number of the banks that only focus on structured deals, that automatically means that they are very much deal driven. I see that also with our people in Amsterdam. They go from one deal to another, and while they're doing that they build up some sort of relation, but it's not the profoundness of the relation that we are looking for. If the oil industry in Russia, that was 5 years ago very interesting because companies at that time were working on a structured base of 12 months' pre-financing, then turned to 18 months, then to 3 years, and today some of them are financed through bond issues, then for the structured people it is not interesting anymore. Also in this area, I would say that it can be – and Fred also underlined it – that in these relationships, and it might eventually also turn in a KBC bank, you give normal facilities on a different basis. But what I simply mean to say – and this does not only apply to you but also to other areas in the world –, it *is* a threat because one day someone will say: "Well, this market is not of interest any more, let's pull our resources and go elsewhere". But for us it's very important– and this has also been said before, actually everything has already been said before – that in relationships sometimes you fight and sometimes you make love, and in the mean time you try to get along. It's a two-way street. We always try to keep it on a friendly basis, have very good personal contacts, and based on that, build a relationship for the future.

I don't know whether today, or if I would have to judge this today, (I could answer the question): "Does it pay to invest in long-term relationships?" I think yes, but there are a lot of threats out there, and I don't have a crystal ball, so I don't know. Thank you.

Mr. Gert Jan Mulder: Thank you very much, Paul. I think I owe you all an apology, because some people feel very insecure about the fact that they are now considered to be a necessary evil, to some extent. But let me explain that to you, because that requires an explanation, if you'll just allow me to say a few things. First, the conclusion that banks could be considered a necessary evil was the result of a survey at the bank I worked before, amongst 2,000 clients, and they asked all kinds of questions to those clients. But the main result, the most important conclusion of that research, and it was not in Ouagadougou, or Mexico, but in Holland, a very stable market where people are very nicely attended by banks, so they don't have too much to complain about. The most important conclusion of that research was that our clients considered the bank as a necessary evil. Your interpretation of that conclusion is right, that's definitely something that banks should take into consideration and work on, and see it as a challenge. But what we tried to do in the last couple of days, here in Punta del Este, was to bring people

together, spend a nice time, arrange for nice weather (John, thank you very much, you did very well there), and what I've seen is definitely that we have been making some progress there. I wouldn't be able to quantify it, how large that progress is, but definitely I do consider that, what's elementary in relationships – that there's confidence and trust, and that there's friendship – I think that along those lines we can achieve a lot.
Could I invite some of you perhaps to comment, or come back on this, or raise a question to any one of the speakers?

Mr. Benqt Hallqvist: Fred Arnold, to what extent are you using the diplomatic representations and chambers of commerce to establish friends?

Mr. Fred Arnold: The short answer is: to a limited extent at the moment. I think that at this particular stage in our development, we perceive the development of friendships with people who are more specifically related to the businesses that we're trying to do, as better focused for the time that we have to spend in the areas that we come and market. So using the diplomatic service and chambers of commerce is not quite a last resort but it's a second area of relationships that we would look at; not just yet.

Mr. Gert Jan Mulder: Mr. Fred Arnold was very diplomatic when he spoke this morning. I saw some similarities between him and Mr. Blair. But if you ask clients here, and those who travel, and we all, in our personal experiences, we have had similar experiences: very often people from the private sector try to avoid using that kind of networks. Sometimes it's being considered not too helpful. We are different breeds, I would imagine. And I can speak freely. Can I invite someone else? No one? Well, then I would like to express my sympathy with Paul van Heerde and Fred Arnold for the great challenges they have to face in their organizations, because one doesn't realize always that working with a team of only 18 people in a big organization, and trying to get these big deals done, it's not an easy task. Definitely not easy. But at KBC you're 18 and you have to cover the world. Likewise, ING, in size, in portfolio, I would imagine someone bigger, with 200 hundred people, but 200 people in an organization of 100,000, they have to do a tremendous job in order to keep their shop up and running. Now I would like to invite Mr. Ferrés to give his presentation. We are very happy that Mr. Ferrés could make it , because we had some problems convincing people from the "pais mais grande do mundo" (the greatest country in the world) to come down to Uruguay to participate in our seminar and even to speak. Mr. Ferrés will speak in Spanish, so those of you who need translation, please get your headphones.

3.4. And how about Brazil?

Mr. Juan Diego Ferrés, GRANOL, Brazil

Mr. Juan Diego Ferrés: Good morning to you all. I am going to speak for a while about the Brazilian situation in general and then I'm going to introduce our company. First I'll say a few words about macroeconomic management, followed by some considerations on microeconomics on the current scenario. Then I will try to describe the obstacles that Brazil is facing in the establishment of a good macroeconomic policy – something it is now managing to achieve –, while at the same time promoting development and the resumption of growth through microeconomics. After that I will speak about the agribusiness, especially focusing on the soybean business, and finally I will present Granol.

(Slide #3). These are the main indicators that Brazil is obtaining through macroeconomic management. On the first line you can see inflation rates. The second line shows the exchange rate, which is a floating type of rate. When Brazil abandoned the fixed exchange rate system, the exchange rate stopped being its main problem. The floating exchange rate system has solved the foreign debt issue, through a balance of market forces. The critical issue now for Brazil is the management of its internal debt. The third line shows Gross (or Nominal) Domestic Product (GDP). On the fourth line you see the Primary Surplus, which is quite satisfactory, and has even surpassed the targets agreed with the International Monetary Fund. Next, the internal official debt, which, as a percentage of GDP, is the greatest challenge, but it's already beginning to shift. The total foreign debt, and then the foreign debt as a percentage of GDP. These are the situations that characterize the internal and the external environments that we are going through. I'll have to go over things very fast because the subject is very broad and John Beauvois told me that those of you who are here, know it all. I wish he had told me so before I prepared my presentation, but anyway ...

(Slide # 5). These curves show the situation. The blue line at the bottom is the official inflation target of the Central Bank. The dotted line is the market expectations concerning the inflation rate, which shows that the first great challenge that the first socialist government of Brazil had to face, which raised certain concerns in the markets, was solved throughout 2003. And by mid 2003, we see that market expectations were more or less equal to the official targets of the Central Bank.

(Slide # 6). This graph shows the exchange rate, deflated by "IPCA". What we see here is the devaluation that took place in 1999 and we also see that, over time, from the moment the exchange rate began to float, the two curves tend to adjust naturally.

(Slide # 7). This is the curve showing the country risk of Brazil. We were able to establish that the high component of interest rates that make up the Brazilian domestic debt – what is usually called the "non-recoverable part" of the debt – has, in a certain way, an impact on the ability of the government to manage the macro economy. The matter is that a large part of the domestic debt is the result of two phenomena: high interest rates, and the developments concerning the exchange rate. Before the devaluation in 1999, the Government had to issue a large number of bonds linked to the exchange rate, and that also caused a big jump in the internal debt when the currency was devaluated. Those components resulted in a rather large increase in the debt as a percentage of the GDP (which didn't grow enough to compensate for the devaluation), and that part of the debt is what is usually called non-recoverable debt. The primary surplus needs to be very high in order to allow for its future reduction, and that's where the Brazilian government is facing serious limitations, being practically unable to operate with regard to all the rest, including social policies and microeconomic policies.

(Slide # 8). This curve shows the gross need for external financing, which is decreasing at this time. This is one of the symptoms that show that Brazil is obtaining good results in macroeconomic terms.

(Slide # 9). In the same way, the current account deficit registered in 2003 was positive. We already have a surplus in the balance of payments.

(Slide # 10). The same thing applies to the trade balance: exports are larger than imports. In 2003 there was a 24.8 billion dollar surplus, which is also illustrated in this chart, where the red bars represent imports and the green ones represent exports. The difference is that balance of almost 25 billion dollars.

(Slide # 12). This chart represents foreign investments in the country. Between 1998 and 2000 there was a boom in investments, but this was more due to privatizations. It was not a normal phenomenon. Besides, beginning in 2003, where the figures get close to 10 billion dollars, growth starts again.

(Slide # 13). This is a graph which links the current account deficit (the brown curve in the middle), with the net requirements of external finance (the red curve), and the net foreign investments (the yellow line).

(Slide # 14). These two graphs show the domestic and the foreign debt. The bar graph on the left shows the total debt and the yellow curve in the middle is the net foreign debt (i.e., deducting the reserves), and they are more or less stable now. But if we measure this, as is shown on the right-hand side, in relation to exports, it is declining sharply. This means that, each day, it costs less to maintain and pay the foreign debt.

(Slide # 15). With regard to the debt service, both concerning GDP and exports, (of course in a more marked way on the right-hand curve with regard to exports, because exports have grown a lot, but also in relation to GDP), the debt service is declining. Therefore, from the macroeconomic point of view, nobody doubts today that Brazil is resuming a new cycle of growth, which is estimated to be between 3 and 3.5 per cent, and which may improve in forthcoming years.

(Slide # 16). In the macroeconomic aspect, things are going well, but at the microeconomic level, the long period of stagnation has caused a lot of undesirable effects, because high interest rates take too much from internal income and companies suffer from these effects to various degrees. Some of them manage to overcome the problems, because of their own characteristics, but others suffer more.

(Slide # 18). This slide is about installed capacity, and the percentage of use of that capacity in the different sectors. The upper line corresponds to the soy sector, ending at 87 per cent. The purple line is building materials. The green line is consumer goods. The year 2003 ended with a favourable trend, but now, due to some political problems, doubts are beginning to emerge, countering that initial enthusiasm, about investments prompted by the better use of installed capacity that is seen at present. Finally, the light blue line is capital goods. We see in the end a resumption of growth, which is quite encouraging.

(Slide # 19). "Productive investments represent an actual bet on the reduction of interest rates and the resumption of development. Otherwise, it would be a completely irrational decision". If there were no prospects of declining internal interest rates and a resumption of growth, there wouldn't be a feasible scenario for productive investments.

(Slide # 20) This list is the result of an analysis we made in order to determine which companies had levels of profitability that were higher or lower than the CDI rate of return (CDIs are certificates of interbank deposits). We could define this as an opportunity cost, the cost of using capital by companies. In 2001, 82.75 per cent of companies operated with a rate of return that was lower than the CDI yield. In 2002, 83.63 per cent of companies had rates that were lower than CDI. In 2003, 72 per cent had rates lower that CDI's. This means that there is a certain improvement in the profitability of companies, which should not go unnoticed.

(Slide # 21). On the basis that it would be reasonable for an industrial productive investment to have a rate of return of 5, 5.5 or 6 per cent above the opportunity cost of the capital, we can make certain comparisons with what can be seen in Brazil. In 2001, the rate of return was about 6 per cent, as compared to the profitability of Brazilian companies listed on the right-hand side. And these graphs do not consider that those figures are in dollars, and these figures here are in reais. In 2002 it was only 2.7, but it improved in 2003, with am average rate of return of 14.6 per cent. If we compare this with the CDI rates of return, we see that the CDI rate of return in 2001 was 17.2, in 2002 it was 19.2, and in 2003 it was 23.2, but these are nominal values. If we deflate these rates by FCA, the same values are 10.4, 10.6 and 12.3. So we have to compare the 12.3 rate of actual profitability of CDIs, after deducting the FCA, with the 14.6 percent rate of return obtained by companies. Therefore, the situation doesn't look so bad, and since it's dynamic, we can consider this to be a tendency that may continue in the future, making it a good idea to invest in production.

(Slide # 22). These are the main companies, the largest producers or generators of profits in the country. We tried to identify the factors that make these companies so successful, and we were able to classify them in four different groups: the first one is relative monopolies – like Petrobras, for example –, recent legal monopolies, and practical monopolies. Vale Do Rio Doce is the same thing, and so is AmBev, which is in the eighth place. In the second group we include companies with exporting activities, which are also highly profitable. The third group is banks; banks make their profits mainly based on the high rates of return of public securities. Banks buy a lot of government bonds. And finally, the forth group, is the highly competitive sectors, like paper, cellulose, agribusiness, the mining industry and metallurgy. In the agribusiness sector we have Bunge, in the 12th place, because this list is organized according to size, and the largest companies are not from the agribusiness sector. Bunge made 831 million reais in profits, after taxes, with an invoicing value of 18 billion, meaning a profitability of a little bit under 5 per cent, which is quite high. If we consider this figure in the world context, it’s almost three quarters of the total results of Bunge worldwide, something like 400 million dollars. Out of those 400 million dollars that Bunge made in the whole world, 300 million came out of Brazil. This is quite remarkable.

(Slide # 23). This is the structure of BNDES loans in 2002 and 2003. I'm going to go over these slides very fast, and later we can arrange to post them on the Internet, in the Granol site, if anyone wants to check the information. This is the total volume of BNDES loans.

(Slide # 25). On this slide you see the number of loan requests (not actual loans).

(Slide # 26). This graph shows the volume of total credits. As we can see very clearly, by the end of 2003 there was a great deal of enthusiasm, which resulted in an increase in the total volume of lending, because lending doesn’t always depend on the supply, but it depends on the demand as well. What happened at the beginning of this year came as a complete shock, and was very unfortunate, because it happened at a time when things looked favourable and did not warrant a retreat. We hope it will be short-lived, and that growth will resume again soon.

(Slide # 27). Now, going into more detail, considering microeconomic factors, we analyzed all the companies that are active in the economy, according to these characteristics:

- extent or scope of links,
- articulation of links/ chain structure,
- market risks,
- technology intensiveness,
- fixed capital intensiveness (long-term capital),
- working capital intensiveness (short-term capital),
- economies of scale,
- synergies with the local environment,
- positive or negative externalities, etc.

This analysis allowed us to determine and identify four groups of companies.

(Slide # 28). In the first group we listed serial capital goods, petrochemicals, plastics processing, textiles and clothing, furniture, the shipbuilding industry, ceramic tiles and panelling, and others. All these companies are reasonable modern, but:

- they have suffered from the long period of stagnation in the domestic market (a great deal of their income depends on the local market);
- they are going through a restructuring process;
- they need to adjust to external competition;
- they are going through technology modernization and training processes;
- they need to increase their scale, for instance through acquisitions or mergers;
- they need to improve corporate governance;
- they need to join corporation networks.

(Slide # 29). The second group is made of highly competitive companies and it includes three sub-groups:

- agribusiness (coffee, paper and cellulose, citric juices, tobacco and the soy sector);
- derivatives / labour intensive products (industries like leather and shoes for example);
- scale / capital intensive industries (such as the mining industry and metallurgy).

These are highly competitive companies, even in the global market, and they need to:

- improve their global action,
- add technology and value,
- improve the quality of their products and services,
- enlarge their production capacity (which requires investments),
- become more global, by opening branches or affiliates abroad, like the case of Gerdau in the US, for instance,
- overcome "bottlenecks" in their internal infrastructure (a critical problem in Brazil: the lack of infrastructure), and
- they need to penetrate global markets through logistics, distribution and marketing, which also requires a great deal of investments.

(Slide # 30). The third group is a group of Brazilian activities in the multinational context (assembly plants, vehicle parts, electric and electronic products, telecommunications, computers, pharmaceuticals). The Brazilian axis is quite viable, but within the context of multinational companies. The challenge in this case is to widen the Brazilian participation, by adding "Brazilian value" to the multinational company to which they belong. But this depends on corporate tools such as the identification of opportunities and of technological activities which add more value; enhanced competitiveness within the multinational company through the reduction of costs, and implementation of new product cycles. Finally, in terms of public policies, such as the tax and customs regimes, regulatory frameworks, de-bureaucratization, infrastructure, logistic facilities, human resources development, and all those things that are in fact rather complicated in Brazil.

(Slide # 31). The fourth group is made of new industries which depend on technological innovations, and which have a very significant synergy with technological research and academic sectors in the country. This fourth group is the one that suffers the most due to the lack of an industrial policy, because it is not on an equal footing with the same groups in developed countries and emerging markets in Asia.

(Slide # 32). The general conclusion, in macro and microeconomic terms, is that, due to the high level of non-recoverable indebtedness coming from the past, the Brazilian budget has ruled out any "room for manoeuvre" that would allow for a good convergence between a sound macroeconomic management and proper microeconomic policies for all sectors of activity. Certain sectors manage to overcome these obstacles by themselves and be successful in the global context. And in case there is an actual resumption of growth, apart from helping to consolidate macroeconomic indexes, there could be some additional room for

Brazil to be able to improve also its microeconomic policies and create more industrial policies.

(Slides # 33 and 34). Now, speaking about banks, you know them all: the official (public) banks, and the private (national or foreign) banks.

(Slide # 35). Compared to national banks, foreign banks have the advantages of offering easy access, being agile, and having tradition. The inconveniences or disadvantages are: high interest rates, short-term finance, and limited availability of lines of credit that are really useful for our sector. Most of them work only with lines of credit for foreign trade, which banks take abroad and transfer to Brazilian clients.

(Slide # 36). Turning now to the topic of agribusiness, this slide shows the general design of the agribusiness sector in Brazil.

(Slide # 37). It's a very important sector because it represents 27 per cent of GDP, and 37 per cent of employment. I'm going to convert these figures to dollars: every million dollar invested in Brazil generates about 600 jobs. This is a critical issue in Brazil. Brazil has an urgent need to generate jobs in order to overcome the great social difficulties that it has. The agribusiness is the largest producer of foreign currency, with a trade balance of 20.3 billion dollars in 2002 and 30.5 billion in 2003. I think that, due to a crop reduction, the estimated trade balance of agribusiness in 2004 will be about 28 billion, and around 40 or 42 per cent of all Brazilian exports.

(Slide # 38). This slide shows the balance of trade by sector. The red bars are imports and the blue bars are exports.

(Slide # 39). This diagram illustrates the soybean business in Brazil, with a production of 52.2 million tons, of which 20 million tons were exported, 28.2 million tons were processed by the local industry, 22.2 million tons were produced as soy flour, of which 13.6 million tons were exported and 8 million tons went to domestic consumption. This is an advantage of Brazil, compared to Argentina: Brazil has a very high internal consumption. As to soy oil, 5.5 million tons were produced, of which 2.5 million tons were exported and 3 million tons were consumed. This is again a significant difference with Argentina.

Mr. Gert Jan Mulder: Mr. Ferres, I have seen within the audience some Argentinian competitors of yours, who were asking me to tell you to please go slowly, because you're giving some important information. Anyway, what we will do is to post all the presentations on our website, so that you may download them.

Mr. Juan Diego Ferrés: OK.

(Slide # 40). This is the share of Brazil in global soy production. It's more or less obvious that Brazil, which has already become the leading exporter in the world - it has already overcome the position of the USA in that sense -, in the next few years it will also be the first world producer of soy. It is already the first exporter and it will be the first world producer.

The factors for this success are:

- low cost,
- high productivity,
- availability of new areas that are not being used, there are 90 million available hectares that have already been cleared, and they are more or less similar to the ones that are being used today; and today we are using 20 million hectares. We have almost four times more available land if we need to increase production.
- clear definition of weather periods or climate, and
- markets.

Difficulties relate to:

- infrastructure (there are many deficiencies in terms of infrastructure), and
- a lack of investments.

(Slide # 41). These are data on our national capacity. In the last three years, the production amounted to 43 million, 51 million and 54 million. The blue bars show the nominal installed capacity of our industry, amounting to 36 million, 37 million and 38 million in the last three years. The actually processed quantities are shown in yellow: 26, 28 and 30. But this relative inactivity is due to the harvest period. There is one harvest a year, so there are certain periods when industries stop operations to allow for maintenance work to be carried out.

(Slide # 42). Comment: This sector mobilized about of 51 million tons in 2003; 11 million in the domestic market and more than 37 million tons for export.

(Slide # 43). This map shows the main lines of movement, through the export corridors that are shown in black. There is also a very important waterway that has began to grow in the last 5 years through the Amazon river basin, where there is a port in Itacoatiara, which is being used by the entire Northern region of the Matto Grosso. The production of the entire northern region will be transported along that waterway, and the second, relatively new corridor, is the Maranhão river. There are some Northeastern regions that are not affected by the traditional droughts, that can export through the port of Itaquí on the Maranhão. The other ports are the better known, traditional ones: Vitoria, Santos, Paranagua, San Francisco do Sul and Rio Grande, all of them on the Atlantic coast.

(Slide # 44). This slide refers to international competition in the soy agribusiness. Brazilian producers in a very harsh competition with Argentina and the US. Logistics in the US is very good, and has very low costs. In Argentina, apart from being good, distances for road transportation are quite short, because they have the Parana river.

(Slide # 45). That is estimated to generate an average difference of approximately 24 dollars per ton. So, if we consider the volumes of our exports, we can estimate that about 850 million dollars per year are lost due to inefficiencies in logistics. This amount, accumulated for instance over 5 years, would be enough to finance the type of investments in logistics and infrastructure that the country so badly needs. If we calculate an internal rate of return of 10 to 12 per cent a year, 8 billion dollars could be invested with a relatively good rate of return of investments. The lack of public investment forces companies to make more investments in logistics and infrastructure by themselves.

(Slide # 46). With regard to installed capacity, we surveyed 49 companies, covering 91 factories, and we divided them in four groups: the first group includes four multinational companies (we call them "ABCD": ADM, Bunge, Cargill, and Coimbra – which is Dreyfus). Then we have national companies (Caramuru, Granol, Maggi – which is the largest producer in the world, now operating also in the industrial sector –, Imcopa, ABC-Inco, Sadia, Perdigão Braswey). Then we have cooperative companies, such as Cocamar, Coamo, Carol, Comigo; they also produce oilseeds apart from soybeans. And finally other companies, including Algodoeira Palmeirense, Menu, Maeda, Esteve.

(Slide # 47). What are the strongest features of these companies? Multinational companies have a better knowledge of the global market; inherited technology; better logistics; low-cost capital and almost unlimited capital (at least in the Brazilian context); profitability and risks that are distributed among the various sectors and regions of the world; they are strong, they have global brands, and a good portfolio of products. National companies have a better knowledge of the domestic market. They have good, more direct contacts with suppliers; they are more agile in their decision-making processes; they have tradition and consumer marketing. Cooperatives companies have certain fiscal advantages and incentives; they have a good relationship with their suppliers, which are their partners, as members of the cooperative, and they also have low capital costs because they are institutional debtors, and they have some industrial synergies.

(Slide # 48). This is an overview of Brazilian soy exports, covering the three products: soybeans, soy flour and soy oil. According to projections, grain exports in 2004 will reach 22 million tons. This shows a clear distortion here; there is an excessive amount of grain exports. This happens because markets want it, mainly China. But there's also a need to "level the playing field". There are rules related to the implications of taxes on the economic blocks purchasing the products. I'm thinking about Argentinian competitors. Argentina levies a 23.5 per cent tax on exports of raw materials, while products pay only a 20 per cent tax. So that 3.5 per cent difference, although it may seem small, it's very significant because it's calculated on the total. It represents about 10 dollars per ton, whereas the total industrial cost is only 5 dollars. In terms of adding value, this represents approximately 200 per cent more in subsidies. On the other end, Europe levies a 7.5 per cent tax on oil imports. China levies a much higher tax. So, the strategy devised by Brazil to correct this distortion is to engage in negotiations at the World Trade Organization and in the negotiations in the large trading blocks.

(Slide # 49). Now a rapid overview of Granol, beginning with our history.

(Slide # 50). The company was founded in 1966, so it's 38 years old. It entered the industrial sector in 1972, and it has acquired many companies throughout the years. In 1974, a refinery in Tupa; in 1981, a big oil crushing plant in Osvaldo Cruz; then a complete unit in Anapolis, in the state of Goias, near Brasilia, in 1986. And finally in 2003 we just acquired an industrial complex in Bebedouro, in the state of Sao Paulo. This factory had been inactive since 1996 and we put it into operation again.

(Slide # 51). The total crushing capacity is 5,000 tons per day, and total refining capacity is 700 tons a day. The crushing capacity of each plant, considered separately, is as follows: Anapolis 2,200 tons per day; Bebedouro 1,000 tons per day, Osvaldo Cruz 1,800. The refining capacity of each plant is: Anapolis 250 tons a day; Bebedouro 150 tons a day; Osvaldo Cruz has no oil refining capacity but it uses the refining capacity of the Tupa plant, which produces 300 tons per day. There are some photographs here. I'll show them very fast. This is the Osvaldo Cruz plant. This is the refinery in Tupa.

(Slide # 52). This is the logistics structure of the origination places of raw materials. These are the different locations where we have warehouses. From here we take the soybeans to the factories, to those places listed on the slide.

(Slide # 53). We have port facilities in the Tubarao port, that silo that reads "Cebragel". It's a partnership between Granol, ADM and Caramuru, at the Victoria port, within the logistic structure of Vale do Rio Doce.

(Slide # 54). These are our locations in Brazil. As you can see, we are mainly concentrated in the south center and west center regions of Brazil. We have a list of factories, warehouses and distribution centers.

(Slide #55). These are the production graphs until 2003. The installed capacity is shown in dark green and the used capacity is shown in light green. We have a relatively ambitious growth plan because we have identified the need to do this, because the sector is growing a great deal and we do not want to lose competitiveness in the future, compared to larger companies.

(Slide # 56). These are the invoicing levels: around 212 million dollars in 2003, and the growth plan for the forthcoming years foresees a sharp increase of about 50 per cent for 2004, because one of the factories in Bebedouro has already began to produce and we enlarged the Anapolis plant. The two new facilities are already in operation, which explains the significant increase between 2003 and 2004. .

(Slide # 58). Future projects refer in general to broadening the scope, modernizing and vertical complementation to maintain and fight for future competitiveness. The justification for these projects are: logistic improvements, reduction of costs, increasing demands levels in the markets, need to grow, and good profitability, as we have seen in the past four years.

(Slide # 59). With regard to funding sources, the domestic lines that are generally available are the BNDES (the economic and social development bank at the national level) and in one case the Banco da Amazonia. There are some fiscal incentives as well, and we also have a few credit lines offered by suppliers. As to external lines, we are negotiating with the Inter-American Development Bank and also with IKB, a German bank which I'm sure most of you know.

(Slide # 60). Finally, we offer you this yellow gold, which is the soybean, and we invite you to count us among yours client in the region.

Mr. Gert Jan Mulder: Thank you very much, Juan Diego. The comment that comes to my mind is that Uruguayans are few, but they are very good. Thank you very much for your presentation. I'm sure that there must be some competitors from Argentina who would like to ask you a few questions. Is there anyone interested in making a comment or asking a question to the last speaker? Yes, I see Mr. Horacio Aranguren from Molinos Río de la Plata.

Mr. Horacio Aranguren: First of all, I would like to congratulate you for your presentation. At a certain point in your presentation, you made reference to the subsidies in the oilseed industry in Argentina. I would like to clarify something in that respect. What we have is a lower tax burden, not a subsidy. Please bear in mind that export duties levied in Argentina amount to 20 per cent. It is true that there is an export duty differential, but that is not a subsidy. If we speak about subsidies, we should speak about reimbursements. Next, I would like to ask you what is the fiscal treatment in each of the Brazilian states and if there are any type of benefits, in terms of tax advantages, in each one of those states.

Mr. Juan Diego Ferrés: As to the first half of your question, it would be important to mention the following. In my presentation, I placed that comment within the context of what I called the "levelled playing field", which is not an invention of mine, but a publicly known concept. That is to say: what are the rules of the game? where should an industry be placed in terms of its relative competitiveness, within which economic block? If we consider that the cost of soy in Argentina, the price being paid to producers – because Argentina exports a lot of raw material – is determined by supply and demand, and a deduction of 23.5 per cent is made, then that means that the cost is 3.5 per cent lower than in the case of a deduction of only 20 per cent. This is what led me to say that, when Argentinian crushers compete with Brazilian crushers, they have a wider range of operation, since their prices are 3.5 per cent lower, as determined by a market where there is a surplus in supply as compared to the level of domestic industrialization. That gives them an additional margin in the FOB price of their oil and flour sales in dollars, compared to what they pay for raw materials. This is balanced with what they export in terms of grains, since Argentinian grain exports are larger than grain exports in Brazil. That increases the profitability of the Argentinian industry. This is not criticism, but it's just something that I have seen in practice. As to the second part of your question, which has to do with the way in which taxes operate in Brazil, each state has its own system. In the state of San Paulo we have the "ICM" (Imposto sobre a Circulação de Mercadorias), a tax on goods similar to the VAT (value added tax). When in 1996 all exports were exempted by a famous law, the "Candir" law, a problem was left partially unsolved: the internal transit of goods, when they go from one state to another, they do not pay the CMS; they pay 12 per cent. For example, when goods go from the state of Goias to the state of Sao Paulo, then, since the products are exported, this fiscal credit implies an additional cost because it is very difficult to recover it. This has been neutralized in a certain way because there are also some fiscal incentives in the originating states, such as Goias, Mato Grosso, etc.

Mr. Gert Jan Mulder: Mr. Ferres, if you could please summarize. The states in Brazil are so many that if we start to explain the differences between each of them, we'll lose sight of everything. Besides, I'm looking at the bankers' faces, and in these intellectual gymnastics between Argentinians and Brazilians, we, European bankers, are already lost.

Mr. Juan Diego Ferrés: Ok, I'll round it up. So, that problem was partially neutralized by some fiscal incentives, but in fact this will perhaps be changed in the future to better adjust it and streamline it in a certain way.

Mr. Miguel Acevedo: I wanted to ask the speaker a question, but before that, in order to close the issue of subsidies, in Argentina we call them "differentials". I think that in Brazil, Argentina and Uruguay, we do not have to discuss or argue over this issue. We're not arguing over it. It was not our idea to discuss it either. It is true what you said, that there is a differential. In the 80's, that differential between grains and manufactured products in Argentina was nearly 12.5 per cent, and it gradually declined until it reached the 3.5 per cent differential that we have today. Brazil also had it, but then eliminated it. And you showed how the sales of grains increased and how Brazil became a grain exporter, after not being one. Subsidies exist somewhere else. As we all know, subsidies exist in Europe and the United States, not in our countries. We are the ones who suffer as a consequence of those subsidies. But it is true that Argentina defends to some extent its industry with that differential. The Argentinian industry is basically an exporting industry, whereas, as you also explained in your presentation, the Brazilian industry also has a large domestic consumption, which Argentina doesn't have. So perhaps that differential is more justified in Argentina. But again, subsidies are not located in the Southern Cone countries but in the leading countries. Going to my question, I found your presentation very interesting, I think you touched upon all the topics, but there's one topic about which I would like to know some more. I would like to know how you perceive the infrastructure issue. In 1995, while I was in Rio at a conference organized by Rabobank, Brazilians said that they were awaiting for infrastructure investments, especially in ports, by the Brazilian government, and in your presentation today you mentioned that private companies are now investing themselves. Is that similar to what happened in Argentina?

Mr. Juan Diego Ferrés: Yes, in fact the Brazilian government has made virtually no investments in infrastructure. In the last few months, this issue has been discussed a lot, and a bill has already been passed by the lower chamber but it still has to be approved by the senate. It is a law on PPPs (public-private partnerships) that could allow the participation of the Brazilian government through private resources, but through concession contracts with the government and investments linked to the services provided under those concessions. But there is a significant need for investments, and some investments have actually been made, mainly by multinational companies. And to show also that I speak well of our competitors, Caramuru is a national company that has also made large investments, by bringing locomotives, wagons and other items from abroad, and the entire sector is really trying to find spaces, which is not easy, because it's not only a matter of money. Investments are also a matter of regulations, regulations that govern investments aimed at improving logistics.

Mr. Miguel Acevedo: Thank you.

Mr. Gert Jan Mulder: Well, then I would like to propose a 10-minute break, and we will continue thereafter for another 45 minutes. Please come back in 10 minutes. Thank you.

(COFFEE BREAK)

Mr. Gert Jan Mulder: We'll continue now with the last part of our meeting, and I have the pleasure of inviting Mr. Hans Hanegraaf to give a presentation.

3.5. 300 years of commodities in culture

Mr. Hans Hanegraaf, Director, Global Head Soft Commodities, FORTIS Bank

Mr. Hans Hanegraaf: Thank you, Gert Jan. Thanks for hosting this conference. I think it has been a very worthwhile experience for me and also very pleasant to be here the past three days, and I also thank you for giving me the opportunity to speak here. Although it's the last presentation, and I remember when I was in high-school, the last class was always the toughest: you wanted to go home, so you never paid any attention any more. But I won't keep it too long.

For those who do not know me, my name is Hans Hanegraaf, and I'm responsible for the Agri/Soft Commodities part of the Commodities Group. I'm here together with Barbara Stam, who most of you know, and actually I would have preferred that Gert Jan had asked me to tell something about FORTIS Bank, our strengths and our capabilities, and what we do right and what we do wrong, because that would have been relatively easy, but Gert Jan asked me, probably because we are a Dutch-Belgian institution, to tell something about culture and cultural differences.

I'm not an expert in culture, but for you maybe the Dutch and the Belgian are very similar. I can assure you that we have faced some cultural issues after the merger and actually we had, right after the merger, a sort of workshop, where we were taught how to deal with cultural differences. And that was actually very useful, and maybe for some of you, when you are expanding your capacities or your business into the value chain, maybe integrate and acquire companies, it may be useful to know a little bit about culture. And also for your banking counterpart.

If you look at the European market, it's still very fragmented, and since 1996 there have been many mergers but all of them have been within domestic borders, or within countries with close cultural ties, let's say The Netherlands, Belgium, Luxembourg or Scandinavia. It's also known that, according to a study by KPMG, that 65 per cent of all mergers don't provide an above average return, if you compare to the stock market. So, in interviews with executives, it's been shown that most of that has to do with cultural differences. Also if you think that one year after a merger 47 per cent of all senior staff is leaving. So, again, for companies like yourselves, if you want to acquire companies or grow, it may be very important to do some kind of cultural due diligence, which is really part of most of the M&A (mergers and acquisitions) transactions right now.

Well, I have 16 slides for 20 minutes, and that's - say - 1 minute and 15 seconds per slide, and I have already spent 3 minutes with this one, so I'll have to speed up.

(Slide # 2). I would like to start with a little cultural quiz, to test your cultural awareness. Let's suppose you are the trainer of the national football team and have been asked to form a new national team with players from different clubs. In which country do you think you can create a workable national team most quickly? For some of you probably in Argentina. It doesn't matter which are the other four countries because we're still the best anyway. But if you look at it in terms of culture, you'd probably say that in Austria and Japan there's a high aspiration for achievement, so typically these nations cannot, from a cultural point of view, establish a very cohesive team very soon. In Guatemala, apart that they are not great football players, there's a high level of uncertainty avoidance within the people, so people want to get an agreement first, before they take certain steps. So, the answer is Sweden, because in Sweden there's a high strive for consensus, that's their focus, so for this question they would probably be the best equipped.

(Slide # 3) Another question, and that's the final one. This is basically the same question, but in which of these countries do you think you could create the most cohesive national team in the long run? And in the long run, it might be surprising, but in terms of culture, the answer is Guatemala, because the level of individualism in Guatemala is low, the people score very high on the "we" feeling, and they are conscious and willing to fulfill obligations to a group relationship.

(Slide # 4). So, when you talk about cultural awareness in banking, for us as a commodities group, we have also in total 200 people, a worldwide presence, within the agri-team we have around 30 account managers, and nationalities ranging from Dutch, German, UK, US, Croatia, Moldavia, India, Singapore Chinese, Hong-Kong Chinese and Mainland Chinese. And for many of you, you may think: "These people they all look alike, so for me they are similar", but I can assure you that's not the case. And we've had the experience of putting a Singapore Chinese in a place in Hong Kong and giving him the lead of a team, that's very difficult, and people don't just accept that. So, again, if you want to expand into China and you see a relationship there, it's very important to make a good assessment of who do you think would fit in there for you. And cultural differences mainly become apparent when things don't develop as you want or expect, because then you really want to have an answer quickly, you say "I want to do this and that this way", because you're under stress and people react very differently. So, challenging but sometimes also useful.

(Slide # 5). If you look at culture, how do you describe culture? There are basically four dimensions which determine the culture of a nation, its values, norms or beliefs. Like I said, there are four dimensions:

- One is the power distance. That really says to the extent that people accept that there are people within an organization who are more powerful than others, or that power is distributed unequally. Then we made a comparison on how this is viewed in South America and The Netherlands. You see the score, that the power distance in The Netherlands, for instance, and this is based on a survey done by Hofstede I think, and I got some information about this from 'cultural management consultants', so it's not really matters of fact but it should give an indication that The Netherlands score relatively low on power distance. So, what does it mean? That we don't typically accept power as a rule. When our boss says something we have a tendency to say: O.K., that's nicely said, but we don't agree. That's typically the Dutch way. That's why we cannot play soccer that well because we never agree with the coach.

- The next topic is the level of individualism, when people tend to take care of themselves and their near family. Or collectivism, when people like to be part of "in-groups" where they take care of each other in exchange for loyalty. If you look at the score between our nations, you see that, again, you have to decide. Argentina is for both (power distance and individualism) a little bit in the middle, but individualism in Holland is quite high, which is sort of a surprise to me, I must say. The highest score in the world, if you look at individualism, is the United States. But It shows again how the values of people are perceived.
- The third topic in terms of how do we determine culture or values is masculinity. In a masculine environment, the dominant values in society are achievement and success, versus femininity, where the dominant values are caring for others and quality of life. If you then see how the nations score, we as Dutch are of course a very female nation. It shows that, you know, it's typical in Holland to say that "when your head is above the grass, people chop it off", so we like to be seen as people who care for others, and I think that, if you look at the number of holidays we have in Holland, we have more, on average, than anywhere else, I think.

Mr.Gert Jan Mulder: Germany scores higher.

Mr. Hans Hanegraaf: OK.

- So the last topic is the level of uncertainty avoidance. What does it say? If you have a low uncertainty avoidance, you need structure, you need rules, and you accept that very easily. Apparently Uruguay has a high level of uncertainty avoidance. You tell me whether it's wrong, but you have a high need for structure and rules. On this topic, also in Europe this is different. If you think, in Germany everything is forbidden unless it's allowed, whereas in the UK they say everything is allowed unless it's forbidden. And of course the French say everything is allowed even if it's forbidden.

(Slide # 6). So, what does this mean when you have to deal with a bank in The Netherlands, or what does this means for an organizational structure? In South America you have more of a pyramid kind of structure, and in Holland you have more of a network organization, and of course in Holland we have a boss as well, and a boss ultimately is responsible and determines the strategy. So don't get me wrong. But in the Netherlands there is a high level of delegation to the people, and the involvement of executives is not always that visible for clients. Of course we like to show our executives around in this area, to show what we are doing, but to a certain extent. They say: "That's your job, you come up with your proposals, make sure they are good, and we'll decide". That shows a little bit how people think, and that can be sometimes frustrating because we obviously every now and then think they don't understand it well. But that's part of our organization and it also is a huge difference compared to Belgium. When communicating with each other, in Belgium there's typically a high power distance, a high level of hierarchy, and we had to get used to that, and when you are in a meeting the Dutch like to get a solution in the meeting, everybody says his opinion, you tumble a little bit and then something comes out. When we have to go into meetings, we have to make sure that we already did our pre-work and that the decision is almost already made. So when something changes in the meeting, people feel a little bit uncomfortable because, you know, they already had their alliances to say: OK, we are going to go in that direction. If something new comes up, Belgians – and I'm not saying that's wrong – but they typically want to stop the meeting and go out first and then get everybody's ideas. We face cultural differences really everyday, although Belgium and The Netherlands have been part of each other, well, 150 years ago.

(Slide #7). Now a little bit about FORTIS, and I won't take too long on this, but it's really an insurance banking group. It was merged in 1990 and, of course, the oldest part of the Dutch side was Mees Pierson, while in the commodities part of the group we have the Generale Bank, really the biggest bank in Belgium. If you look at our activities, then I think that the focus of FORTIS is really Benelux, plus Europe and European focus, with 3 global activities, and that's commodities (our shipping finance unit) , and that's export finance. So, that's how we view the world right now. We have constantly been the subject of discussions about mergers or acquisitions. We apparently have around 5 billion of cash sitting on our balance sheet. So, I expect that we will do something in the Asian area, that we will acquire something on the retail side. That's my expectation, but a European expansion as well. So, what has been the result of the merger? I think, coming from the Mees Pierson background, where we had our specializations, that they are still there. We have received the bigger balance sheet, which was very important because, as you know, facilities have become larger and larger in size every year, so we needed the power. The other thing is that, of course, the decision-making process has been changed, it takes longer on average to make a quick decision, because that's typically needed in commodities, and in the past we would go to one of our board members and, say, he would sign off to say within 2 minutes, and right now that's different. But, again, I think in total it's not that bad.

(Slides # 8 and 9). Talking about cross-border banking within commodities, I actually have one question left for you, because if you look at cross border banking, we're dealing obviously with many different clients from Asia to South America, and here's the question: In which of the following cultures would it be considered rude to have the sole of your shoe facing another person? And I'll give you the answer right away: that's Thailand. So, sitting on your chair a little bit backwards, with one knee over the other and your shoe facing your client, that's not considered to be very polite. So, you have to take all those things into account when you're marketing your services worldwide. And of course you don't take your shoes off, that's probably not a good idea either, Gert Jan.

(Slide # 10). I'll speak about our global focus on commodities very shortly. Traditionally, we have focused on the trading segment of the whole chain – right there in the middle – but in the past 5 to 10 years, the market has changed quite dramatically. We have seen an ongoing concentration, a vertical integration in the value chain and scale enlargement. More of our clients have become sizeable, with many different activities in the process. So, it's very difficult to assess whether this is now really a commodity type of financing. Probably not, if you look at the flow of goods. But it is part, I think, of our portfolio, that we like to provide to manufacturers, we like to provide finance to offtakers, basically from origin to destination, that's our role, and in this respect, I think, given that many of your commodities flow into the Asian market, China in particular, that we could add some value. I have heard in earlier presentations the post-finance type of desire. We have a big network in Asia, with offices in Singapore, Hong Kong and Shanghai, and we take a lot of risks away through our network there.

(Slide # 11) I spoke a little bit about differences in cultures but, of course, that's easy to have some acquaintances of the various cultures, but as a global commodity group you have to deal not only with differences in cultures, but you have to deal with crises all the time. And if you look at this summary, I think I also heard this in other presentations this week, we shouldn't underestimate the power of credit agencies and stock markets and capital markets. When a crisis happens, or for example something like the events of 9/11 in New York happens, and we were quite big in aviation finance, then you have to accept that when you are an account manager of that, and you have to honour relationships, of course, it's not easy for a bank like FORTIS to say: We have expanded our aviation portfolio by 500 million in the last couple of months. That's not how it works, because the credit agencies will say: This probably won't look good. And if they say that, then the stock markets will immediately have an influence. So, if you are like FORTIS and you want to acquire, you are on expansion mode, then for the stock players obviously this is very important, and one notch down will do a lot, whether you have to pay cash or pay in stock. So we have to deal with credit agencies – unfortunately, I think, and we all have our opinion on that -, and their role is very important. Paul also mentioned it: in ING the commodities group was 200 people in an organization of 120,000 people. So, we all know how many banks have lost money in Argentina, and if we would have lost, say, 5 per cent of what HSBC lost ..., then of course you are very vulnerable as a commodity group, and you are one fingertip away of saying: OK, guys, you've lost a couple of hundred million, this is not worthwhile, we have to put our capital somewhere else. And I think it's nice to talk about relationships and of course it's our immediate goal, but just like yourselves, when you have to close down a certain factory or plant, you also have to take into account your suppliers, but ultimately, if it doesn't work out, you probably make decisions which conflict with the relationship.

(Slide # 12) Despite of all the crises, I think we have built quite a big portfolio in commodities, around 9 billion – in total – of facility commitments, of which around 2.5 billion are in agricommodities, and 25 per cent still have a link to the South American commodities flow. In Brazil we do a lot of soybeans, sugar, coffee, meat, poultry, tobacco, and orange juice. In Argentina soybeans, grains and wool. So far, in perfect time side, we reduced our commitments, that's no secret, when the crisis started, in perfect time side, we were wrong, of course, because all the companies managed to honour their obligations, and right now it is still very successful. Well, enough said about, that I think.

(Slide # 15) The last part of my presentation is something about our view on relationship banking. If I were sitting on your chair, what would you expect from my bank?

- Of course, you expect a dedicated staff. You want to have good ideas, better than from anybody else, that's what you want.
- You want support in good and bad times, commitment to the industry, and I can tell you that at FORTIS we have clients, who have been clients of us for about 20 years or even more, up to 100 years, and we have gone with them through bear markets to bull markets, mergers, de-mergers, management buy-outs, chain integrations, so, in such an environment it's natural that a variety of financial structures are offered. Sometimes we have gone from insecure landing to secure landing, and vice versa, when they develop. And I think that's also one of our strengths, but that is necessary for a client.
- Services. When you are dealing with an account manager, you want to be sure that whatever you agree, he makes that happen internally. And, of course, we, like everybody in the world, have a boss, and you have to go to credit committees and we have to honour their opinion, and as long as it is fair, I've no problem with that.
- Also, access to other funding sources. Maybe, some of you might develop a little bit further and you've looked into the capital markets already, and that may be important for your banking spread as well, and you see that's already happening. As Paul was mentioning, banks are coming back into the commodity market again, and I don't have the feeling that they do that because of the commodity business, but because they want to think one step further. By supporting you now, they know that, whenever there's a bond issue coming up, they will be first in line for you to consider as well. So, everybody has his own basis on how to see this industry.

When does a long-term relationship add value to a bank?

- Of course, risk assessment and management. The level of comfort is extremely important, how management is viewed. Again, referring to (what) Paul (said), most of the money lost is on fraud, so it's very important for you that you are known to the people with the bank, and that you can explain your risk management capabilities in terms of foreign exchange, in terms of hedging, how you deal with all that. It's very important.
- Mutual commitment. That is important for us as well. We cannot always be probably the low-cost funding bank, but on the other hand the market is the market and I don't expect you to take more expensive bets over cheap bets. I can explain that as well. The margins are thin.
- The third is also important for us: relationships should be economically profitable, of course. I could say that relationships are more important than profits, but that's not how it works. We have shareholders; they need returns and they have a return requirement. And we also have our Board. So, ultimately, when you have a long-term client you're willing to do something additional, but that should come up in another product again.

Because just offering money that provides a too low return, we have to look at all our clients.

- And, of course, cross-selling. That's another means to make your clients economically profitable. We can provide interest rates, hedging, brokerage, we do that for many industries. We provide "for-exp" services, that all helps in the risk management for your client, and also in our return, that goes hand in hand.

(Slide # 15). So I think what we offer clients is really that we understand the business, that's how we feel it, and ultimately relationship banking comes with tailored-made solutions for a company. You want to have the best for the best price, that's clear. And by building up a center of expertise, we hope that we can provide that. Again, I've spoken about our culture, but business fundamentals and track records are more important. When you have to put something on paper and assess your risk, the culture is the last part to consider. The other thing is that support and comfort at various levels within a bank are more important than applying cultural elements. And this is also something for our clients to consider. Like I said, there will be more mergers in the European bank market, definitely, and banks will become bigger, and you might have now a bank which is committed to commodities and in two months' time that may be different. So, it's important to spread your banking risks; that's very important. So, we have found a model so far whereby we centralize our knowledge as much as possible within certain centers, and we think we are successful in that, but of course we notice every now and then that you have to be close to your clients as well. We continuously weigh: Does it make up for the costs to be close to you, or can we find each other anyway, either by e-mail, by telephone, whatever? But you tell me: Should a relationship bank be around the corner, or should it be just there when you need it and when you pick up the phone?

(Slide # 16). I think I have one last slide for you, also on culture. It says: Heaven is where the police are British, cooks are French, mechanics are German, lovers are Italian ...

Mr. Gert Jan Mulder: I disagree! *[laughter]*

Mr. Hans Hanegraaf: Well, you said you had an Italian grandmother, Gert Jan ... But bankers, of course, are Swiss. I had a last slide, showing all the countries in a different order, but I wouldn't like to mention who would then be the lovers in Hell. But you can make that up by yourselves.
Thank you.

3.6. Panel Discussion chaired by Gert Jan Mulder

All speakers plus Mr. Robert Louzada (former Rabobank and Deutsche Bank) and Mr Heinz Schuermann (former director of Dresdner Bank, currently of Export Trade).

Mr. Gert Jan Mulder: I invite Nanno (Kleiterp) and Hendrik (Lühl) to come up, as well as my dear colleague and friend John (Beauvois). Just in the 15 minutes that I would like to consider as a closing session, there are two general remarks I would like to make following the speeches of the introduction of this morning, and that is that there are different ways of trying to measure cultural differences. Hans gave 4 of the 5 of Hofstede, and the fifth one I think is very relevant in relationship banking, and it's called "confusion dynamism". In some countries – and I'll exaggerate a little bit, as I often do – in some cultures it's only important and only relevant what you do, whereas in other cultures it's highly relevant what you say. It's not a joke, it's a serious aspect of culture. If you make a promise in Asia, in different Asian markets, if you promise someone a bonus at the end of the year if his work requires such, he won't take you up on that, he won't believe it, only when you actually do it, he will notice that. The other thing is that, in relationships, I remember a slide of Fred Arnold, where he said the considerations of relationships, or what he is looking for, or what he understands relationships to be about, and he started with interest, perseverance, and there was another one. In management literature, they add that, besides motivation, there needs to be confidence and commitment. There is another very important element in relationships, and it used to be a taboo, according to management literature. But in banking relationships it still is a taboo, and that is the dimension of power. In banks-clients relationship there is a very strong power element. Like the one you have with your mother-in-law, or with your children, or with your wife, there's a power balance. There needs to be a power balance. In the presentations we had this time, we hardly touched upon that. Perhaps we could do so on some other occasion.

Could I just ask, first of all, if there's anyone who wants to comment on the last speaker, on Hans Hanegraaf's presentation? Well, if there is none for the moment, I would like to invite Hendrik Lühl to make a few closing statements, on how he perceived these three days and whether he would consider them useful to DEG, and useful to clients like yourselves.

Mr. Hendrik Lühl: Gert Jan, thank you very much. First of all, I would like to extend our thanks for organizing this, and it is not just a floss to say this, but it comes deep from our heart, we are extremely thankful and grateful for this event. For us it's the first time that we've organized or co-sponsored such an event. We first of all thought whether it would work, three days, or two and a half days together with 60-70 people, but we are very pleased and very satisfied with the outcome, and we thank all of you who came from far-away distances to join us and have a couple of nice days (here), and I'm very confident that this will pay off for both of us.

Let me make one additional remark with respect to culture. I think it has been shown that we have a common background insofar as we have a European and Latin American gathering here. I've been in charge, for most of my professional career, not of Latin America but of Asia and I've visited a lot of countries like India, Korea, and Taiwan, and I can tell you from my experience that building up relationships in many Asian countries is much more difficult than building up relationships in Latin America. I think we have, to a certain extent, a common history; we have common religions, we have common convictions, even though we learned that in some respects we are different, but I think we are closer to each other than other nations and other continents. I think this is a good basis to continue our business and, again, thanks to both of you for organizing this, and I'm certain we'll see each other again pretty soon.

Mr. Gert Jan Mulder: Nanno, could I give you the floor just to give your perspective?

Mr. Nanno Kleiterp: Well, because our cooperation with DEG is so good, I really have nothing to add. Hendrik took the words out of my mouth. So, you see how close you are, even with cultural differences. And I think that, for me, it was a quite unique meeting because there are not many meetings where development bankers and clients come together. Normally what we see in meetings is that it's all bankers, or it's all soy crushers, etc.; all is organized by sector. And I think that the idea of Gert Jan to bring people together in this way, made it a very special meeting. Of course, there was one motive behind, which I didn’t see in writing anywhere, that was that he has to finish his thesis, isn’t it? So I think we gave him a big support there. And I felt that in the questions that we had to answer, a part was already answered. The questions that were put on the table were not very objective. But we could support in that way the conclusions of his thesis. So I think that will reinforce this kind of meetings. I suppose that one of the conclusions which we can take here, was also reinforced by Gert Jan's thesis. But I think that, because he's so aware and so busy with these subjects, and put his personal power behind it, that also has made this meeting very fruitful and very good. I enjoyed it very much. I agree completely with Hendrik in that I think that for everybody here it will pay off: in relationships, in better relationships, in new business, in having had the possibility to get to know each other better in a business way and also in a personal way. So, once again, thank you very much Gert Jan, DBA, the ladies who organized it all, and all of you who came here and made this success possible.

Mr. Gert Jan Mulder: Thank you very much for the very friendly words. Obviously I have to react to that, it’s like an invitation. But first I would like to say that, to all presentators, all of you who have been here, more than anything else I appreciate the sincerity with which the presentations were given. I don’t think I could exclude anyone of you. They were very interesting, and frank positions were taken. Maybe not at all times things were that clear, or were said very openly, but the messages were there. And I think that those messages could only be given because people felt that the setting was such that they were among friends to whom you could say the things you usually say when you have a good relationship. And I think that, if something was shown during this last couple of days, is that we've made some progress there. And that couldn’t be otherwise, in my humble opinion, that it will increase and improve the relationships. So, in other words, in terms of: Did we reach our objectives? I would say yes. Thanks to you all. Thanks for the support we have received for this event: thanks to Maria and Nathalie, my friend John and my colleague Alfredo. Again, as I said in the introduction, most of you have come here with a great personal effort, whether you are working for a company and had to explain that you had to go 3 days to Punta del Este, or like some of you who came on your own initiative, paying for your own transportation, flying around the world to come here. We sincerely appreciate that effort. Mr. Hallqvist, thank you very much for gladly accepting our invitation to come here. To all the speakers, we have a typical Uruguayan gift prepared for you to bring home. It‘s a frame to put photos in. It’s flat, it will fit in any of your suitcases. We made sure it wasn’t going to be heavy, you’re not going to have problems in customs (it’s not that expensive). And to all the others who came here, in the last couple of days you’ve seen photographers running around and taking pictures of you, and we will make absolutely sure that every one of you gets a set of photos just to remember your presence here in Punta del Este. And we thank Uruguay, and in particular John Beauvois, for having arranged for this wonderful weather in the last three days.

- THE END -

Annex 2. Speakers at the seminar

SPEAKERS AT THE SEMINAR

	Speaker	Title & Organization	Topic
1	Kleiterp, Nanno	Chief Operating Officer, FMO	Introduction of the FMO
2	Lühl, Hendrik	First Vice President and Regional Head Latin America, DEG	Introduction of the DEG
3	Beauvois, John	Director DBA	Introduction of DBA
4	Mulder, Gert Jan	Director DBA	Introduction: Why do banks exist?
5	Bonta, Janos	Regional Manager Latin America, FMO	How FMO works
6	Bonasso, Rafael	Commercial Director, Rabobank Int'l Argentina	Banking, the Argentine market: Opportunities and Threats. Rabobank's case.
7	Weinfurner, Karl	First vicepresidente, DEG	DEG: More than a financial partner
8	Gazze, Roberto	CFO, Vicentin	A point of view on relationships with banks
9	Bertone, Osvaldo D.	ACA, Argentina	Banks, a necessary evil, or what?
10	Mulder, Gert Jan	Director DBA	Introduction to credit and credit rating
11	Hallqvist, Bengt	Independent Consultant	Corporate governance in family-owned companies
12	Zerbino, Ricardo	Chairman, Fanapel	Credit Rating: A necessary tool
13	Arnold, Fred	Vice President, KBC	Credit out of London to the world through relationships
14	Portegies, Jan	Senior Investment Officer, FMO	Corporate governance in practice - relation to credit (cases)
15	Mulder, Gert Jan	Director DBA	Introduction to culture (and differences)
16	van Heerde, Paul	Managing Director, Global Head Commodities Group, ING	Long-term investments in relationship banking: Does it pay?
17	Ferrés, Juan Diego	Director, Granol	And how about Brazil?
18	Hanegraaf, Hans	Director Global Head Soft Commodities, FORTIS Bank	300 years of commodity in cultures

ANNEX 3. SURVEY INSTRUMENT ENGLISH / SPANISH

SURVEY MARCH 2004

The future of relationship banking, conference – Punta del Este – Uruguay

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1.0 GENERAL DATA

1.1	Name of the participant	
1.2	Gender	MALE / FEMALE
1.3	Year of birth	19
1.4	Position	O President O Managing director / member of the board O Division or department head O Account manager / finance manager O Staff O Other function
1.5	Company or bank	BANK / COMPANY / OTHER
1.6	Active in the sector since	………… years
1.7	Country of residence	

2.0 Bank- client relationships

To what extent do you agree or disagree with each of the following statements (please circle one answer on each line across

1 = strongly agree
1 = agree
2 = undecided
3 = disagree
4 = strongly disagree

2.1	Banks are considered by most clients as a necessary evil	1	2	3	4	5
2.2	In general banks seem to be very competent with regard to understanding risks.	1	2	3	4	5
2.3	Clients of banks would be benefited if banks were rated in terms of clients satisfaction	1	2	3	4	5
2.4	The long history in banking and the lack of alternatives means that banks will continue to exist for many more years	1	2	3	4	5
2.5	With current supervision and regulation on banks one can be confident about low systemic risks	1	2	3	4	5
2.6	Banks play a crucial, mostly constructive role within the world economy	1	2	3	4	5
2.7	Most companies tend to act opportunistically in their bank-relations	1	2	3	4	5
2.8.	With increased knowledge and modern techniques in finance the role of relationship in bank -client relations will diminish	1	2	3	4	5

3.0 Bank credit and credit rating

The role of rating agencies such as Standard and Poor's, Moody' s and Fitch-IBCA has increased during the last decades. Both country credit ratings as well as company credit ratings have become indispensable tools in today' s finance

To what extent do you agree or disagree with each of the following statements (please circle one answer on each line across)

1 = strongly agree
2 = agree
3 = undecided
4 = disagree
5 = strongly disagree

3.1.	The role of credit rating agencies generally can be described as constructive and a valuable complementary tool	1	2	3	4	5
3.2.	Credit rating agencies, despite their long history and expertise do not really possess competencies, which may prevent default risk	1	2	3	4	5
3.3.	The role of credit rating agencies should be more critically assessed and their influence (oligopoly) in finance should be reduced.	1	2	3	4	5
3.4.	The credit analysis process of a credit rating agency and those of a housebank are comparable in terms of depth and quality	1	2	3	4	5
3.5.	The new Basle II regulations, to be implemented in 2006, will further contribute to a better risk management and control of financial institutions and markets.	1	2	3	4	5
3.6.	The new Basle II regulations carry the risk of a further widening of the gap between high income and low income countries	1	2	3	4	5
3.7.	Housebanks play an important and largely positive role in the process of corporate control; and borrowers with a strong bank–borrower relationship receive more competitive credit on average.	1	2	3	4	5

4.0 Relationship banking – cultural differences

To what extent do you agree or disagree with each of the following statements (please circle one answer on each line across

1 = strongly agree
2 = agree
3 = undecided
4 = disagree
5 = strongly disagree

4.1.	The commitment of most relationship banks depends largely on the weather (Umbrella whilst the sun is out, requesting it back when clouds appear)	1	2	3	4	5
4.2	The quality of a bank should also be rated in accordance with client satisfaction	1	2	3	4	5
4.3	Cultural differences have played a role in there having been so many accidents (defaults) throughout history in international finance.	1	2	3	4	5
4.4	If the bank does not understand the cultural context of a particular country or region, it becomes highly doubtful it will understand the risks	1	2	3	4	5
4.5	Capabilities to make friends, combined with common sense ensure healthy bank-client relations	1	2	3	4	5

ENCUESTA MARZO 2004

El Futuro de "Relationship Banking", Conferencia – Punta del Este – Uruguay

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1.0 INFORMACION GENERAL

1.1 Nombre del participante

1.2 Sexo MASCULINO / FEMENINO

1.3 Año de nacimiento 19

1.4 Posición
- O Presidente
- O Gerente general/ miembro del directorio
- O Responsable de división o de departamento
- O Oficial de cuentas / gerente de finanzas
- O Funcionario
- O Otra función

1.5 Empresa / Banco BANCO / EMPRESA / OTRO

1.6 Activo en el sector hace ………… años

1.7 País de residencia

2.0 Relaciones entre bancos y clientes

Hasta qué punto está usted de acuerdo o en desacuerdo con cada una de las siguientes declaraciones (favor marque su respuesta con un círculo)

1 = totalmente de acuerdo
2 = de acuerdo
3 = indeciso
4 = en desacuerdo
5 = totalmente en desacuerdo

2.1	La mayoría de los clientes consideran que los bancos son un mal necesario.	1	2	3	4	5
2.2	En general, los bancos parecen ser muy competentes en la comprensión de riesgos.	1	2	3	4	5
2.3	Los clientes se beneficiarían si los bancos fueran calificados en función al grado de satisfacción del cliente.	1	2	3	4	5
2.4	La larga historia de los bancos y la falta de otras alternativas determina que los bancos sigan existiendo por muchos años más.	1	2	3	4	5
2.5	Con la supervisión y regulación de la actividad bancaria, uno se puede quedar tranquilo que los riesgos sistémicos son bajos.	1	2	3	4	5
2.6	Los bancos juegan un rol crucial y mayormente constructivo en la economía mundial.	1	2	3	4	5
2.7	La mayoría de las empresas tienden a comportarse en forma oportunista en su relación con los bancos.	1	2	3	4	5
2.8	El rol de las relaciones banco-cliente disminuirá con el desarrollo de las técnicas financieras modernas.	1	2	3	4	5

3.0 Crédito bancario y calificación de riesgos

Las calificadoras de riesgos como ser Standard and Poor's, Moody's y Fitch-IBCA han visto su rol incrementado en las últimas décadas. Tanto las calificaciones de riesgo país como las calificaciones de empresas se han convertido en herramientas indispensables en las finanzas modernas.

Hasta qué punto está usted de acuerdo o en desacuerdo con cada una de las siguientes declaraciones (favor marque su respuesta con un círculo)

1 = totalmente de acuerdo
2 = de acuerdo
3 = indeciso
4 = en desacuerdo
5 = totalmente en desacuerdo

3.1. Generalmente se puede decir que el rol de las agencias calificadoras de riesgos es constructivo y que conforma una herramienta complementaria valiosa. 1 2 3 4 5

3.2 A pesar de su larga historia y los conocimientos acumulados, las agencias calificadoras de riesgos no poseen competencias para poder prevenir el riesgo de default. 1 2 3 4 5

3.3 Se debería evaluar de forma más crítica el rol de las agencias calificadoras y se debería reducir la influencia de éstas en las finanzas. 1 2 3 4 5

3.4 El proceso de análisis de crédito de una agencia calificadora es comparable -en calidad y en profundidad- con el de un banco de cabecera. 1 2 3 4 5

3.5 El nuevo marco regulatorio de Basilea II que entrará en efecto en el 2006, contribuirá a una mejor gestión de riesgos y a un mayor control de instituciones y mercados financieros. 1 2 3 4 5

3.6 El nuevo marco regulatorio de Basilea II conlleva el riesgo de aumentar en mayor grado la disparidad entre los países de alto nivel adquisitivo y los de bajo nivel adquisitivo. 1 2 3 4 5

3.7 Los bancos de cabecera cumplen un rol importante y mayormente positivo en el proceso de control corporativo; y los prestatarios que tienen un fuerte vinculo con el banco generalmente reciben crédito en condiciones más favorables. 1 2 3 4 5

4.0 "Relationship banking" (banca relacional) – diferencias culturales

Hasta qué punto está usted de acuerdo o en desacuerdo con cada una de las siguientes declaraciones (favor marque su respuesta con un círculo)

1 = totalmente de acuerdo
2 = de acuerdo
3 = indeciso
4 = en desacuerdo
5 = totalmente en desacuerdo

4.1	El compromiso de la mayoría de los "relationship banks" depende mucho del tiempo (prestan el paraguas cuando hay sol, lo piden de vuelta cuando se nubla)	1	2	3	4	5
4.2	Se debería calificar un banco también según el grado de satisfacción de los clientes.	1	2	3	4	5
4.3	Las diferencias culturales en la historia han jugado un rol en la cantidad de accidentes (defaults) en el escenario financiero internacional.	1	2	3	4	5
4.4	Si un banco no comprende el contexto cultural de un país o de una región, es dudoso que pueda comprender los riesgos involucrados.	1	2	3	4	5
4.5	La habilidad de entablar amistades y un buen sentido común, propician relaciones banco-cliente saludables.	1	2	3	4	5

ANNEX 4. MEMORANDUM TO SPEAKERS AT SEMINAR

MEMORANDUM

To: Persons invited to give a presentation

From: Gert Jan Mulder

Re: concept program and content for potential speakers

CC: FMO
DEG
DBA staff

Date: February 22, 2004

This memo is a personal invitation to you and your institution to make a 20 minutes contribution during our conference in the form of a presentation of a specific subject.

Please find below a broad outline for you and other colleagues who are invited to do so, during the conference to be held in Punta del Este on March 24-26, 2004. The idea of this memo is to give you an idea / suggestion with regard to which context and topics could be of your interest. I would like to discuss personally with you in the coming days which would be more convenient and or suitable.

I am also sending you enclosed a list of invitees. Allow me to comment that we expect a rather high calibre of persons to be present, which will make for an outstanding setting to do public relations – and ultimately business of course. This invitation to you and your company will be an outstanding opportunity to present the company to a very interesting group of people and institutions. Although all confirmations are on a preliminary basis, we anticipate around 80 people. Representatives of the financial institutions can assumed to be final. We will count with senior representations of FMO, DEG, Rabobank, ING, Fortis, KBC, IFC, Bladex, IIC, Moody's, Natexis, and yet to be confirmed West LB, Dresdner, Deutsche and HSBC CCF.

The topic of the conference: "the future of relationship banking":

(American) management in the past has been singularly blind to the needs of human beings. Management wants to eliminate the human equation from business….. That puts businessmen at a disadvantage overseas because so many businesses are based on human relations and friendship. They say, "How the hell could you do business by making a friend? What's that got to do with the bottom line?" As it turns out, it has everything to do with it….. We're impatient, But all over the world, if you have friends, you can do anything. That's how the system works.

Edward. T. Hall
Anthropologist
(Author of a/o. Beyond Culture, The Hidden Language, and The Dance of Life)

Obviously it is with this in mind that we are organising this conference. Contributions and the atmosphere in general are expected to be placed within this context.

Structure of the event:

The three days are divided into different parts, most consisting of a block of roughly 4 hours. One of these blocks will be reserved for leisure activities. The exact planning of these blocks will be given to you in the final invitation. which you will receive in a few days. We will reserve some flexibility, in case of adverse weather conditions.

Each block may have 4 to 5 presentations, consisting of one introduction by myself, short introduction of speakers and each presentation to be limited to 20-25 minutes, preferably using only slides.

Part 1: **General introduction, opening and welcome**

Wednesday morning, arrival and "inscription" of the guests

11.00 Opening (depending on arrival of guests, this could possibly be earlier), presumably special invitees, the Ambassadors of the Netherlands and Germany, followed by lunch. Outline of the program for attendees, introduction of speakers, formulation of structure etceteras. Introduction sponsors of the event.

Mr. Nanno Kleiterp, Deputy General Manager FMO

Mr. Hendrik Lühl, Director Latin America DEG

Mr. Alfredo Stirling, Manager DBA

Block 2: **Why banks exist?**
Wednesday afternoon: 14.30 – 17.00 (Total 4-5 presentations)
Introduction/presentation GJM will be linked to the following paper, final content to be made dependent on the different contributions.

http://www.dbacorporatefinance.com/gjmpage/DreamHC/Download/Management%20paper%201%20%202003.pdf

Presentations to be given by FMO and DEG, amongst others. Possible questions/issues;

- Why do (FMO/DEG) exist, origin – mission- strategy
- Major trends in the financial sector, consequences for banks, for clients, implications both in terms of opportunities as well as treats
- What do banks expect from clients (corporate governance, moral hazards, adverse selection, the role of accountants)
- What may clients expect from (FMO/DEG) (commitment, added value, pricing conditions aligned to risks)
- Risk measurement, role of external credit rating
- Country risk – so what? Theory and practice.
- Banks – a necessary evil, or what?
- The future of the European banking system.
- The role of local banks (Brazil, Argentina, Uruguay) – asset or liability?

Note suggested speakers: DEG, FMO, ACA (Argentina), and Brazilian company, Rabobank/Vereins

Block 3: **Credit and credit rating, consequences to banks and companies**
Thursday morning 9.30 – 12.30 (5 presentations)
Introduction/presentation GJM will be linked to the following paper;

http://www.dbacorporatefinance.com/gjmpage/DreamHC/Download/management%20report%202%20%202003.pdf

- Corporate Governance, Credit risks and Pricing: Mr. Janos Bonta Regional Manager Latin America FMO.
- Basle II outline – consequences for credit markets

- Rating Agencies – asset or liability?
- Company experience with rating process: positive aspects, negative aspects
- Comparison professionalism and approach – housebank and rating agency
- Credit risk measurement: how does it work? Does it?
- Credit risk measurement, moral hazard and adverse selection, how to design and apply appropriate tools.
- Default probability: theory and practice.
- Basle II and internal rating systems – will it work and if so, how?
- Country rating and consequences for our company? Consequences to average cost of capital.
- Financial innovation for a Latin American corporate (Vicentin)
- BIS, Credit rating and us (non OECD countries)
- Tier one capital (Germany 6,8%, Average OECD 13,4 and what's next)

Note suggested speakers: AGD (Acevedo/Urquia), (Brazilian company), ING Bank, Dresdner/WestLB, FANAPEL(Zerbino), Moody's, Vicentin.

Block 4: **Relationship banking – cultural differences**

Introduction/presentation GJM will be linked to the following paper;
http://www.dbacorporatefinance.com/gjmpage/DreamHC/Download/Management%20report%203%20June%202003.pdf

- DEG more than a financial partner, Mr. Karl Weinfurtner Head Agribusiness DEG / and SAMAN S.A. Uruguay.
- Relationship banking and good weather
- What may be expected from a relationship bank?
- Why do companies consider relationship with housebanks important?
- Does culture matter? Uncertainty avoidance, long and short term orientation.
- Being a banker and a friend: an impossible combination? (link to quote of Edward T. Hall)
- Relationship banking, how does it work for us? (case study)
- Long term investments in bank relations: will it pay?

Note suggested speakers: Tomas Hinrichsen (Hinrichsen S.A., Nidera, Fortis Bank, KBC, DEG

Thursday afternoon:

Part 5: We have looked at a number of alternatives at this stage, consisting of a number of options. We will give attendees the possibility to express their preference and depending on results we will make corresponding arrangements;

- Sailing with a large catamaran, capacity 50 persons
- Golf at the Club del Lago Golf, Punta del Este
- Fishing tour (small group – 20)
- Obviously both the hotel itself as well as the beach offer for a broad menu of leisure options

Guidelines for the presentations:

The objective is to provide the attendees with a balanced mix of views from both the banking side as well as the corporate site. We will try to achieve also a balanced representation through different countries, both for the banks as well as the companies (Brazil, Argentina and Uruguay).

Time:	20-25 minutes followed by possibility for questions/discussion
Structure of Presentation:	introduction of person and company (5 minutes) comments on the sector/background (5-10), 10 minutes special topic.
Language:	either English or Spanish, simultaneous translation available
Equipment:	standard modern equipment for visuals (special request to be made)

Dress code: casual, certainly no ties

ANNEX 5. REPLIES TO THE SURVEY

SURVEY, REPLIES SO FAR		
1	Allen, Craig M.	online
2	Annez de Taboada, Michel	online
3	anonymous - Holland	online
4	anonymous - Italy	online
5	Apel, Michel	online
6	Bacchetta, alessandro	online
7	Barbero, Diego	online
8	Bleeker, Klaas	online
9	Boerhof, Els	online
10	boot, Niek	online
11	Borsari, Alan	online
12	Bracht, Markus	online
13	Canali, Ivan	online
14	Castaneda, José	online
15	Cat, Santiago	online
16	Dani, Gabor	online
17	Davide	online
18	de Kruijf, Keesjan	online
19	Dreyer, Bertram	online
20	Duyverman, Steven	online
21	Eleod, Adam	online
22	Ensing, H.	online
23	Esnaola, Martin	online
24	Fernandez Besada, Ignacio	online
25	Fransen, Guy	online
26	Groot, Emile	online
27	Harmsen, Rik	online
28	Hinrichsen, J.J.	online
29	Hoffmann, Wolfram	online
30	Kessler, Hansjorg	online
31	Korper, Albert	online
32	Kourouvakalis, Stelios	online
33	Lang, Moritz	online
34	Luciani, Fernando	online
35	Madrid, Manuel	online
36	Martin, Enrique	online
37	Melis, Joan	online
38	Mello, Alberto	online
39	Mora, Renato	online

40	Neri, Marcello	online
41	Neumann, Rainer	online
42	Noort, Tim op ten	online
43	O'Gorman, Patricio	online
44	Patel, Neil	online
45	Porte, J.	online
46	Rovegno, Julio	online
47	Schmidt, Christoph	online
48	Schutyser, Marc	online
49	Sheard, Chris	online
50	Silverstein, Roberto	online
51	Sitjar, Pablo	online
52	Toren, W.L.	online
53	Ureta, Javier	online
54	van Jaarsveld, Peter	online
55	Veiga, Federico	online
56	Wanrooy, Natalia	online
57	Wanzeck, Robert	online
58	Wienk, Wim	online
59	Wong, Maria	online
60	Zapata, Benito	online
61	Zerbino, Ricardo	online
62	Acevedo, Miguel	seminar
63	Aranguren, Horacio	seminar
64	Arnold, Fred	seminar
65	Bertolé, Gustavo	seminar
66	Bertone, O. Daniel	seminar
67	Bonasso, Rafael	seminar
68	Bonavita, Cr. Alberto	seminar
69	Bonta, Janos	seminar
70	Cantone, Ricardo	seminar
71	Drot, Julio	seminar
72	Echeguia, Martín	seminar
73	Ferres, Juan Diego	seminar
74	Gazze, Roberto	seminar
75	Hallqvist, Bengt	seminar
76	Hanegraaf, Hans	seminar
77	Kessler, Thomas	seminar
78	Kleiterp, Nanno	seminar
79	Kolz, Karl-Heinz	seminar
80	Louzada, Robert	seminar
81	Lühl, Hendrik	seminar
82	Macua, Alberto	seminar
83	Maggioli, Eduardo	seminar
84	Martignone, Santiago	seminar

85	Niosi, Vicente	seminar
86	op ten Noort, Tim	seminar
87	Padoan, Maximiliano	seminar
88	Portegies, Jan	seminar
89	Rial, José Luis	seminar
90	Rios, Juan Manuel	seminar
91	Rippe, Christian	seminar
92	Romero, Manuel	seminar
93	Rubino, Mario	seminar
94	Rufener, Oscar	seminar
95	Schaaf, Günter	seminar
96	Schuermann, Heinz	seminar
97	Secco, Martín	seminar
98	Skinner, Lyndon	seminar
99	Stam, Barbara	seminar
100	Terevinto, Daniel	seminar
101	Tortella, Fabian	seminar
102	van der Heiden, Henk	seminar
103	van Heerde, Paul	seminar
104	van Iterson, Marnix	seminar
105	Viana Martorell, Luis	seminar
106	Weinfurtner, Karl	seminar

ANNEX 6. PARTICIPANTS AT SEMINAR

Participants Seminar: "The Future of Relationship Banking"

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