

The Political Economy of Industrial Promotion: the Colombian Institute for Industrial Development, 1940-64¹

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Abstract

This paper explores the politics and economics of state-led industrialisation. Focussing on Colombia, it analyses the role of the Instituto de Fomento Industrial (IFI), a government agency, to challenge assumptions in the conventional historiography. First, that the Colombian experience can be categorised as import-substituting industrialisation; secondly, that IFI promoted industrial growth effectively. The conventional literature claims that IFI fulfilled its fundamental mission of promoting industrial enterprise. The paper demonstrates that it did not do so for several reasons. In part, this was due to the funding model: the agency was inadequately funded. Further, IFI lacked institutional autonomy over its promotional ventures. Based on an examination of IFI board memoranda, balance sheets and annual reports, the paper shows how undermining the autonomy of IFI resulted in poor returns from flawed investments that consumed its capital and prevented it from generating a stream of new resources. Although minor investments were allocated according to criteria set out in the agency's charter, large investments were subject to regional, nationalistic and sector-specific special pleading. Political interventions by state and private actors often prevailed over technical and financial considerations, compromising the overall performance of the Institute and its capacity to deliver support for industry.

Introduction

Colombia's Industrial Development Institute (Instituto de Fomento Industrial - henceforth IFI), is regarded as having been a decisive player in the country's state-led industrialisation strategy. Since its foundation IFI was the only state agency in charge of assisting manufacturing firms, thus it can be said to epitomise the commitment of the Colombian state to the industrialising project. An examination of IFI's role is important

¹ This paper is a preliminary draft of the third chapter of a PhD thesis that investigates the political economy of late industrialisation in mid-twentieth century Colombia. It is intended as background paper for the International Society for New Institutional Economics (ISNIE) meeting held on 18-20 June 2009 at UC Berkeley. Comments are very welcome.

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because it sheds light on the broader issue of the role of the state in late development. More precisely, by analysing and assessing the trajectory and contribution of the institute during its life as direct industrial promoter new interpretations can be drawn regarding the effective commitment, nature and capacity of the Colombian state to advance industrialisation. The existing literature on IFI and its contribution to late industrialisation is unsatisfactory for three reasons. First, previous works have failed to distinguish between IFI as direct industrial promoter (1940-64) and IFI as development bank (1965-2002). Moreover, the vast majority of the literature has focused on IFI as lender, neglecting its entrepreneurial and risk-taking activities. Secondly, a serious shortfall is the lack of substantive primary-evidence supporting the conventional interpretations about IFI. Corollary of previous problems is a resultant historiographical vacuum in terms of an assessment of IFI as direct industrial promoter; and concomitantly, of the effective commitment of the Colombian state to the industrial endeavour. This chapter addresses these problems. Based on solid empirical evidence it is argued, contrary to the existing literature, that the contribution of IFI towards Colombia's industrialisation was not important, at least when the institute acted as a direct provider of equity capital to industrial firms (1940-64). Board memoranda, balance sheets and annual reports offer a picture of the institute from "within" that reveals a chronically precarious financial situation and also allow for the construction of basic time series to assess and issue new judgements on its impact throughout the period of study. A hypothesis to account for the rather discreet performance/contribution of the institute along the following lines is advanced: IFI's funding model was inappropriate and made the institute overwhelmingly dependent on government. Such dependency translated into lack of autonomy when taking large investment decisions; which in turn led to poor investments worsening further its already fragile financial position and diminishing its potential contribution to the industrialising project.

The chapter is organised in nine sections. Section one reviews the literature on IFI and challenges some of the traditional views. Section two introduces the reader to IFI: foundation, mission, instruments for promotion of industrial firms. The next section explores the finances of IFI from "within" and puts in evidence its fragile financial position. A preliminary assessment of the contribution of the institute to the Colombian industrialisation process is the subject of section four. Sections five and six attempt to explain the pattern of investments of the institute considering as key factors: the funding

sources of IFI and the level of autonomy in investment decision-making; respectively. Section seven illustrates with a case study the points made in sections five and six. Section eight supports through previously unknown historical evidence claims of government intervention on IFI's decision-making processes. Last section concludes.

1. Historiography on IFI

The historiography on the financing of Colombia's substitutive industrialisation process is narrow.³ Even narrower, however, is that on the country's most emblematic agency for its industrial development: IFI. The existing literature can be divided into two categories: first; those broad works on Colombia's 20th century economic history in which discussions about IFI are included and, second; a small number of articles in books, and papers primarily concerned with IFI.⁴ The historiography may be characterised as being comprised by two groups. On one side are IFI's staff, collaborators, the institute's official historians, and independent researchers offering, in general terms, a very sanguine history of the institute, stressing its achievements, often neglecting its failures, and failing to assess its performance rigorously.⁵ On the other side are a handful of IFI's critics arguing for a more balanced assessment of its overall proceedings, and prominently among them those advancing functionalist-Marxist perspectives contending that IFI was an instrument of the ruling bourgeoisie.⁶

Assessments from the general literature on the role of IFI in Colombia's industrialization start with Berry.⁷ He points at the significant function IFI played in the technical and financial support given toward the development of specific basic industries,

³ Bejarano, J. "La Historiografía Económica sobre los Siglos XIX y XX en Colombia" (1988) especially pp. 133-35 and 229-89

⁴ The only book dedicated to IFI by authors other than IFI is Lopera, M.T., López, R. and Peláez, S. *Política de Fomento, Industrialización e Internacionalización del Capital: un Estudio Crítico del Instituto de Fomento Industrial (IFI)* (1979)

⁵ For IFI and IFI's staff and collaborators literature see Lleras, C. "El IFI ante el Desarrollo Colombiano"; Restrepo, A. "Desarrollo Financiero del IFI" in *Simposio. El IFI y el Desarrollo Industrial, 1940-80* (1980); IFI. "IFI: 40 Años de Desarrollo Industrial" (1980); Durana, C. "Realizaciones y Perspectivas del Instituto de Fomento Industrial" in *Colombia en Cifras* (1944)

⁶ See Lopera, M. T. et. al *Política...*

⁷ Berry, A. "A Descriptive History of Colombian Industrial Development in the Twentieth Century" in Berry, A. (Ed) *Essays on Industrialization in Colombia* (1983) pp. 37-9

such as cement, steel and chemicals.⁸ Ocampo et al. have gone further highlighting IFI's direct investments as one of the three pillars by which the strategy of industrial modernisation via import substitution took off after 1945 – the two other pillars were, according to them, increasing protectionism and the channelling of growing amounts of credit to industry.⁹ They emphasise the diversity of enterprises IFI fostered in intermediate and late industries as much as its ability to associate with both foreign and domestic partners. Ocampo et al. also underscore the rapid growth of the institute's assets up until 1958 and the then ensuing “spectacular expansion during the Frente Nacional years”, presumably, as signals indicating the financial and economic strength of the entity.¹⁰

From a slightly more political angle, Revéz has taken the evolution of IFI from 1940 to 1985 to illustrate how changes in the country's development strategy caused concomitant alterations in state institutions.¹¹ Under his view, “the institute's early years (1940-64) characterised by large scale direct investments in industries where the country had no antecedents (chemical, metallurgy, non-metallic minerals), and its actions directed toward the production of intermediate goods; so as to subsidise the sectors consuming IFI products”.¹² This interpretation fits neatly the economic model of import substitution, state-led or state-sponsored industrialization, indicative planning and deep and broad state intervention in the economy up to the 1960s. From 1964 the nature of the promotional activities of IFI shifted from direct investments via capital contributions to financial intermediation in long-term capital markets; suggesting a move away from subsidies and close to real prices and more efficient allocation of resources.¹³ This change would mark the beginning of a new paradigm typified by financial liberalisation, reduced state intervention and market-driven development. Within his politics-based approach toward IFI's historical evolution, Revéz also conceives IFI as a propeller of industrialisation thanks to the scale and diversity of the enterprises it promotes. A similar political approach has been taken by Wright, arguing that: “the closest the Liberals came to establishing an embryo for more extensive state intervention was the founding of IFI in

⁸ Ibid; pp. 35-9

⁹ Ocampo, J.A., Bernal, J. Avella, M. and Errazuriz, M. “La Consolidación del Capitalismo Moderno, 1945-86” in Ocampo, J. A. (Ed) *Historia Economía de Colombia* (1987) pp. 260-61

¹⁰ Ibid; p. 277

¹¹ Revéz, E. “Evolución de las Formas de Intervención del Estado en la Economía en América Latina: el Caso Colombiano” in Bejarano, J.A. (Ed) *Lecturas sobre Economía Colombiana* (1985)

¹² Ibid; p. 257. An argument shared by Isaza; see Isaza, J. F. “La Empresa Mixta y el IFI” in IFI. *IFI: 40 Años de Desarrollo Industrial* (1980) p. 76

¹³ Reveiz, E. op. cit; p. 257

1941”.¹⁴ For him, IFI is one of the few, if not the only, exception by which the Colombian state intervenes through a publicly-formed organisation in the economy to pull industrial progress amidst a wider political context that is hostile to state meddling in economic issues.¹⁵ Mora, for his part, has related the strengthening of Colombia’s state capitalism of the II World War years with the foundation of IFI under the leadership of President Eduardo Santos and his Finance Minister Carlos Lleras.¹⁶ He also stresses the post-war era as one which sees the beginnings of the Colombian state as entrepreneur, and points out the involvement of IFI in the production of chemical and steel plants as illustrations of this.¹⁷

This chapter challenges these interpretations. Though at first glance they offer different angles on IFI a closer look reveals a fundamental and flawed denominator. Ocampo et. al and Berry privilege the functions and apparently great impact of IFI on the economy; Revéiz and Wright emphasise IFI politically as standard-bearer of an interventionist and possibly developmentalist state, so does Mora identifying IFI’s actions as traits of state capitalism. However, there is a basic underlying assumption to all, namely, that IFI became a key agent in a Colombian state-led ISI strategy. The former observe this in the contributions of IFI toward such strategy; the latter presume that the ISI strategy was, effectively, state-led; thus IFI came to represent it. This study will argue that for both strands of the literature their initial premise - that there was a state-led ISI strategy- does not hold, as it came to be seen through IFI and its contribution to it.

The technological perspective of IFI’s impact on the industrialisation of Colombia drive is the subject of Poveda’s study.¹⁸ This author is concerned with the key contributions IFI made in terms of technological innovations and the introduction of new industrial processes and products. Poveda states: “up to these days [1976] the management and actions of IFI had been one of the factors that considered on its own have contributed the most toward the implantation of new technological innovations in the country”.¹⁹ He singles out the integrated steel plant with Thomas converter of Paz del Río steel works, the electrolysis of salt for chlorine production of the “Compañía Nacional de Cloro”, and the

¹⁴ Wright, P. “The Role of the State and the Politics of Capital Accumulation in Colombia” in *Development and Change* (1980) Vol. 11 p. 244

¹⁵ *Ibid*; p. 231

¹⁶ Mora, A. “Historia de la Industria Colombiana. 1930-68” in Tirado, A. (Ed) *Nueva Historia de Colombia* Vol. 5 p. 341

¹⁷ *Ibid*; p. 345

¹⁸ Poveda, R. “Políticas Económicas, Desarrollo Industrial y Tecnología en Colombia, 1927-75” (1976)

¹⁹ *Ibid*: p. 64

extraction of tannins from mangrove trees of “Industrias del Mangle”, amongst others.²⁰ It is worth noting that this way to assess the performance of the institute in the industrialisation effort is not unique to Poveda. Lopera et. al adopted these technology-based criteria when determining whether or not IFI had fulfilled its foundational duties.²¹ In this chapter no effort is made to address the validity of the assessments and conclusions based on technological criteria. To do so requires an examination of the learning effects and technological spillovers that IFI encouraged, which falls beyond the scope of this study.

The literature on IFI by IFI is, not surprisingly, more partisan. Forero, for instance, is keen on retrieving from history IFI’s early prolific times at breeding enterprise.²² She draws attention to the number of firms that IFI promoted through foundation and/or restructuring in the immediate years following the economic disruptions caused by the World War. The emphasis placed by her on the great productivity of IFI at firm breeding since 1940 “entering into its fourth year IFI had helped founding 25 companies”²³; contrasts strikingly with the longer and highly unfertile period that followed it, and of which Forero says nothing. Others like Prieto attach to IFI unique attributions.²⁴ According to this author: “the presence of IFI in the national development was of special importance because it identified domestic production opportunities, supported them either financially or with its own capital, and not infrequently assumed the risks entirely on its own in a time, when practically the spirit of association did not exist”.²⁵ This is certainly not the case. By 1940 the comptroller’s office reported over a thousand public limited corporations in Colombia. Furthermore, the one occasion in which IFI alone faced the entirety of the risks and financing of an industrial venture was in 1941 when it supplied all of the capital for the *Compañía Colombiana de Levaduras*; however this intervention did not start from scratch, since this company was the outgrowth of an already existing firm.

In similar fashion, Isaza contends that: “in the near-total absence of an urban bourgeoisie with investment capacity in basic industries, such as tires, steel, and iron; it was

²⁰ Ibid; p. 64

²¹ Lopera, M.T., López, R. and Peláez, S. *Política ...* pp. 16-20

²² Forero, C. “El IFI. La Fuerza de un País” in IFI. “IFI: Desarrollo Empresarial para Todos” (1995)

²³ Ibid; p. 42

²⁴ Prieto, L. “Proyección del IFI y Desarrollo en Colombia” in IFI. *IFI: Desarrollo Empresarial para Todos* (1995) pp. 71-73

²⁵ Ibid; p. 72

only natural for IFI to concentrate its actions in these sectors”.²⁶ Again, the statement is plagued with problems. For instance, steel and iron producers existed long before IFI’s foundation; the most important plants were located in Tabio, Samacá, and Pacho.²⁷ As for the derisive size and role of the Colombian bourgeoisie Isaza insists on, he seems to ignore not only the acknowledged impetus of entrepreneurial *Antioqueños* in commerce, manufactures and mining in the early 20th century and before,²⁸ but also the appearance of groups of industrialists in urban centres like the capital city of Bogotá, and also in smaller cities, such as Barranquilla, Cali and Bucaramanga.²⁹

Thus, the key question concerning the current historiography is whether or not the authors cited above have given an accurate vision of both the magnitude and the significance of the actions of IFI in Colombia’s industrialisation process. In other words, has IFI’s role been misconstrued? Did IFI become the supreme agency for industrial progress the literature claims it was? This chapter will argue that at least from the time IFI was founded up to the year it turned into a development bank (1964) IFI did not play such decisive role. This challenging view will be supported by compelling evidence. The working hypothesis divides into two parts. First part: the magnitude of the financial resources IFI handled during its first 25 years of existence did not allow it to play the critical role that the conventional historiography states it did. A perspective on IFI’s funds is offered through the eyes of IFI’s directives, who, contrary to what is often implied, suggests a picture of “fund starvation” rather than abundance. Second part: an analysis of IFI resources by origin permits this author to advance the complementary assertion: given the origins of IFI’s resources the institute failed to govern its investment decisions by purely technical, financial, and economic principles. Instead, decision-making was dominated by governmental, conjunctural and political concerns, that prevented IFI to operate autonomously. This was particularly so, in the cases of large industrial investments, as will be seen later.

²⁶ Isaza, J. “La Empresa Mixta y el IFI” in IFI. “IFI: Desarrollo Empresarial para Todos” (1995) pp. 75-78

²⁷ See for example Wiesner, E. *Paz del Río* (1963) specially pp. 1-6

²⁸ See Brew, R. *El Desarrollo Económico de Antioquia desde la Independencia hasta 1820* (2000)

²⁹ See Sáenz-Rovner, E. *La Ofensiva Empresarial* (1992) especially Ch. 2

2. IFI: Mission and Modus Operandi

As indicated by its organic law IFI was created in September 1940 to fulfil a major task: to promote the foundation and enlargement of enterprises that exploit basic industries and the primary-transformation of domestic raw materials that the initiative and capital of the private sector have not been able to developing satisfactorily.³⁰ As established by law these industries were:³¹

Steel	Tannin Extract
Metallurgy	Pita and Ramie
Coal	Oily Nuts
Ceramics	<i>Tagua</i> wood
Soda	Coffee Vellum
Sulphuric Acid and Chemical Products	Maize
Fertilizers	Canned Fruits and Vegetables
Salt for Cattle	Fishing
Animal Feed	Wool
Insecticides and Fungicides	Hides
Cellulose	Milk Pasteurisation

In addition to these twenty-two industries Government had a right to include any other industry, basic or of primary-transformation, whenever it saw fit.³² Another article allowed for the participation of IFI in secondary-transformation industries, if it was deemed necessary to create the consumption required to guarantee the economic viability of basic and first-transformation businesses.³³ In other words, IFI could promote any of the twenty-two industries listed above at will, but could also provide assistance to firms outside these sectors if governments so wanted it. In this way its mandate had been made broader and flexible, so as to enable it to switch on to any industrial sector promising rapid growth, but at the same time it made the institute prone to state patronage-driven needs. It is unclear, either from the indicative listed sectors or from the actual investments of IFI, whether the

³⁰ IFI. *Estatutos Orgánicos del Instituto de Fomento Industrial* (1942) p. 5

³¹ Decree 1439 of July 18th 1940, Article No. 1 in IFI. *Estatutos...* p. 28

³² Decree 1439 of July 18th 1940, Article No. 2.1 in IFI. *Estatutos...* p. 32

³³ Decree 1439 of July 18th 1940, Article No. 2.2 in IFI. *Estatutos...* p. 32

institute had been expressly created to promote industry through import-substitution, as some have suggested.³⁴ For certain, there was no such claim in IFI's foundational charter and a brief review of its intended and actual investments does not support that view either. The exploitation of coal (Valle & Cauca Plant) and *tagua* wood, like the processing of coffee vellum projects were all geared toward exporting purposes. That is not to say, however, that there were no intentions to substitute imports. This was indeed the case for steel products with steelworks Paz del Río plc, cellulose through Propal, and soda ash by means of the Zipaquira Soda Plant, amongst others. It is also the case that IFI involved in ventures where there were hardly any grounds for it to do so, such as its incursion in the tourism business with Hotel San Diego in Bogota, and its shares in the river transport company, Union Industrial de Astilleros de Barranquilla. That investments like these were clearly out of line with its mission and foundational objectives was so evident, that the directorship of IFI itself recognised it in private.³⁵

It is worth noting three distinctive features of IFI, which reveal the nature and limits of state interventionism. The first is the condition of complementarity that the institute was to hold in the industrialising project. As stated earlier, IFI will only promote industries that “the initiative and capital of the private sector have not been able to develop satisfactorily.”³⁶ What constituted the “satisfactory development” of an industrial sector was never established, but with the benefit of hindsight, it is possible to sustain, that the purpose of this private initiative clause in the mandate of IFI aimed at keeping the institute's role - and that of the state- in check; in addition to avoiding public crowding out effects and official competition. To maintain the state as junior partner a second condition was included: the temporary nature of IFI's ownership in the industrial firms it promoted.³⁷ According to the organic law that governed the institute, IFI was in the obligation of selling to the private sector the shares in the firms it fostered at the earliest possible opportunity. There are two interesting points to make of this requirement. First, by forcing IFI to sell its stakes the size and influence of the state in would-be state-owned enterprises was severed. Secondly, the requirement to transfer to the private sector successfully-promoted

³⁴ Garay, L. J. *Colombia: Estructura Industrial e Internacionalización* (1998) cited in Rettberg, A. “The Political Preferences of Diversified Business Groups: Lessons from Colombia” in *Business and Politics* (2001) Vol. 3, Issue 1, p. 58

³⁵ Actas de la Junta Directiva, Act No. 369, October 14th 1948, Microfilm No. 3472, unmarked page; IFI, Bogota

³⁶ Decree 1439 of July 18th 1940, Article No. 22 in IFI. *Estatutos...* p. 41

³⁷ IFI. *Estatutos...* p. 8

enterprises amounted to the privatisation of public gains. Whether IFI might have benefited more from keeping and running these successfully-promoted ventures than from selling them remains to be established; however the issue is important and the fact that the state had forsaken such opportunity is telling of its position vis-à-vis private enterprise. The third point refers to the fact that IFI was the one and only official agency with the task of industrial development. As the Institute's "founder", Carlos Lleras, noted, before the creation of IFI and until the arrival of development banks in 1960, Colombia lacked a specialised entity that dealt with medium-and-long term industrial financing.³⁸ Thus, IFI faced a monumental assignment in terms of both the diversity of the expertise and technical knowledge it would have to count on to promote those industries, but above all, in terms of the financial muscle it would have to develop to realising them. Summarising, IFI had a broad and at times ambiguous mandate subject to sudden governmental modifications, which in practice promoted both import substitution and export diversification, and whose scope from the start became circumscribed to the deeds and behaviour of private initiative.

IFI could assist in the foundation of new companies or in the restructuring of existing ones through various mechanisms; capital contributions, that is, through the subscription of shares in publicly limited corporations, which was the most common form of promotion. It also acted as lender advancing short-term loans to firms that found access to finance from banks closed; however, its credit activities were small during this period. Underwriting was permitted but not much practiced.³⁹ As for the financing of IFI itself, several mechanisms were attempted. The start-up capital came mainly from government and the Banco Central Hipotecario (BCH), a state-owned mortgage agency.⁴⁰ Thereafter, irregular capital contributions from governments accounted for most of IFI's resources. Furthermore, IFI was authorised to obtain credit both at home and abroad; from the former it borrowed if not heavily at least regularly, whilst from the latter no attempts were made until the early 1960s. IFI also resorted to the capital markets during its initial years, particularly when looking for funds for the steelworks project; however, even these early placements met sceptical private investors and such financing option was discarded subsequently. IFI, unlike other similar industrial-development agencies in the region, does not seem to have aimed at the twin objective of promoting industry and fostering the

³⁸ Lleras, C. "El IFI..." p. 46

³⁹ See IFI *Estatutos* ... p. 8 and IFI. *Balance e Informe* (1941) p. 7

⁴⁰ See IFI. *Balance e Informes* (1943) pp.5-6. Of an initial social capital of \$4,000,000 government subscribed \$3,000,000 and BCH the rest.

development of capital markets through the introduction and widespread use of financial instruments: which might also help to explain its lack of concern with the capital markets.

What does the literature say on the magnitude and origins of IFI's financial resources when operating as direct investor? Given the above-reviewed statements, surprisingly little. The pattern found is one limited to the enumeration of the industrial sectors and/or the companies in which IFI partook. No systematic efforts have been done either to calculate the share of IFI in each sector or company or to estimate the total of its investments, guarantees and credits as percentages of aggregate indicators.⁴¹ For Ocampo et al suffice to say that IFI's investments were diversified, that it partnered up with domestic and foreign entrepreneurs, that despite having started activities right after its foundation in 1940 it had accumulated assets worth \$34.9 million pesos by 1958, and that underwent its most spectacular growth during the Frente Nacional (1958-74).⁴² Similarly, Mora offers no data to support his argument that the arrival of IFI strengthened Colombia's state capitalism; instead he describes some of the industries IFI promoted: steel, tyres, and chemical products.⁴³ Revéiz's emphasis on the unprecedented scale of large investments in non-metallic minerals and chemicals, for instance, is not illustrated with a comparison of investments in these areas prior to 1940. The deepest he delves into IFI's resource analysis is through a breakdown of its investments by industrial sectors, as allocated to number of firms in each field.⁴⁴ Though this constitutes an improvement it is ambiguous, since obviously such allocation of investments was not symmetrical for all ventures. In short, the literature that has so much celebrated the realisations of IFI's investments and has heightened the role and status of this institution in the Colombian substitutive-industrialisation process has failed to indorse its arguments with empirical evidence.

3. IFI's Finances

What was the real state of IFI's finances? A glance at the annual and half-yearly annual balance sheets and reports from IFI offer first-hand and reliable sources to explore the matter. According to the evolution of nominal assets in Figure 1, not only do IFI's

⁴¹ Partial exceptions discussed below are Lopera, M. et al. *Política...*; and Contraloría General de la Republica. "Aporte del IFI al Proceso de Desarrollo Industrial" in *Informe Financiero* (1986) Vol. November, pp. 69-84

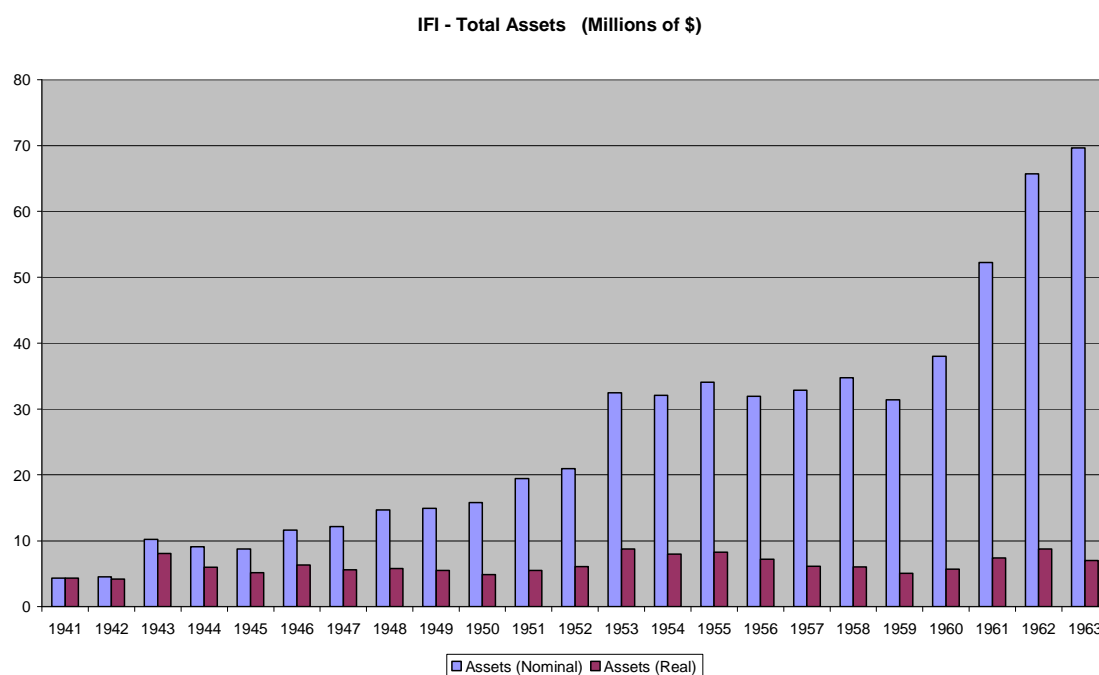
⁴² Ocampo, J. et. al "Historia..." p. 277

⁴³ Mora, A. "Historia..." p. 341

⁴⁴ Revéiz, E. "Evolución..." pp. 258-61

assets show a clear increasing trend from 1940 to 1964 (exception years 1944/45, 1956, and 1959), but also exhibit three periods of remarkable growth: 1942/43, 1952/53, and 1959/61, detailed in Figure 2. The spurt in total assets during the first period is accounted for by a

FIGURE 1



Sources: IFI Annual/Semi-Annual Reports for all years, except 1940-47 for which Superintendencia Bancaria. "Informe" are consulted. doubling of IFI's industrial shares and investments in various negotiable securities; and to an increase of \$3,000,000 in its social capital.⁴⁵ The leap during 1952-53 is mostly explained by the doubling of the institute's capital from \$10,000,000 to \$20,000,000⁴⁶ The last soar, again, is mainly the result of substantial increases in paid capital.⁴⁷ Despite marked differences in year-to-year increases the average for the entire period 1940-64 is a respectable 15.6 %. Assets multiplied nearly twenty-fold throughout the whole period. At first sight, the review of IFI's total assets evolution hints that its financial position was sound. By the same token, it suggests that the general literature on IFI, and the study by Ocampo et. al in particular were right in pointing at this indicator to shore up the critical function of IFI in the industrialisation of the country. However, once the nominal series is deflated the picture is bleaker. The yearly average growth of assets drops by a third to less

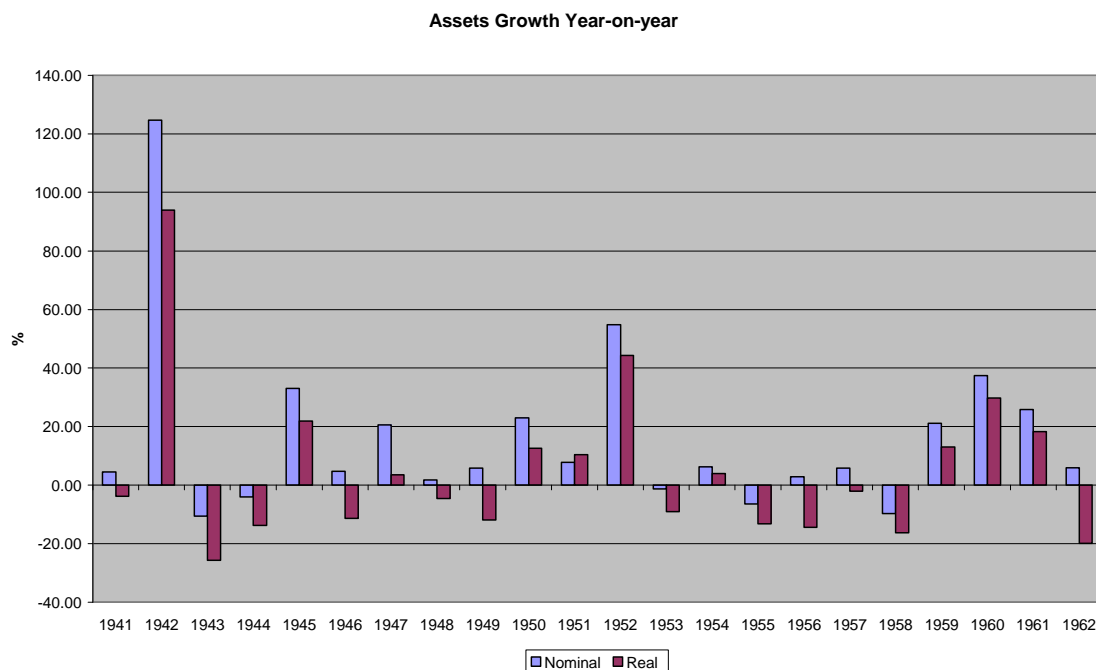
⁴⁵ See IFI. *Balance e Informe* for years 1942 and 1943

⁴⁶ See IFI. *Informe del Gerente* for years 1952 and 1953

⁴⁷ See IFI Microfilm No. 481 Consolidated Balance December 31st 1959 and IFI Microfilm No. 482 Consolidated Balance December 31st 1961. "Differed accounts" stands for Unpaid capital 1961.

than 5%, when measured in real terms, and the number of years in which growth is negative is larger than those in which there is positive growth. The trend in real terms reflects much more accurately the actual state of IFI's finances and coincides with the contemporary views of its staff, as will be shown below.

FIGURE 2



Sources: Calculated by the author from IFI Annual/Semi-Annual Reports for all years, except 1940-47 for which Superintendencia Bancaria. "Informe" are consulted.

A comparative exercise between the arguments the contemporary literature has advanced regarding the magnitude of IFI's financial strength and the great scope of its actions, on the one hand; and the statements and actual position of IFI's finances as declared by its own directives, on the other; offers strikingly different views. A survey through the institute's minutes of the Board of Directors and the prose of the annual reports provide the best first-hand historical evidence against the former view.

First signs of financial problems at IFI were recorded in the minutes of the board of directors meeting celebrated in early March 1945. General manager, Gabriel Durana Camacho, explained: "the lack of immediate liquidity of the bulk of assets will produce a

shortage of funds for ordinary expenses that is already being felt”.⁴⁸ A few months later, there was a similar pronouncement: “available funds for the most urgent expenses of the institute have been petering out and it has become necessary to think of selling securities of the portfolio.”⁴⁹ The point here is that the selling of stock was more the result of financial necessity rather than business sense. By 1950 the institute acknowledged failure at paying out dividends to its shareholders. “At the present time it is not possible to guarantee the BCH the 5% annual payment over its capital contribution to IFI... [] since the institute is not yielding any profits”⁵⁰ Liquidity problems in the mid 1940s partly had their origins in the nature of the investments IFI undertook, particularly, the long maturation of projects such as the development of metallurgy of Tolima, the Industrial Consortium of Santander, the contributions of capital and credit advances made to the pasteurisation of milk plant in Bogota. Slow returns to capital investments forced IFI to sell its most valuable securities at times when the quotations were not best; thus, preventing more optimal realisations. The joint effects of these situations in addition to the large number of liquidations of companies it promoted in its early years thwarted IFI’s efforts at meeting obligations with its shareholders, as noted above.

And yet, not only did IFI fail to pay out its shareholders, but it also failed to meet its credit-based obligations. A petition to cancel the debt requested by IFI in 1961 was register in the board’s minutes: “as a consequence of a contract celebrated in 1946 between IFI and the Nation, which authorised the institute to issue \$10,000,000 in Bonds for Industrial Development at 6% [annual] and 20 year gradual amortisation, IFI has a liability that will reach \$10,500,000... [] In order to clean up the balance sheets IFI asks for the sum owed to the Nation to be written off”.⁵¹ It has not been possible to establish whether or not the debt was written off; but as of June 30th 1964 the requirement neared \$9,000,000.⁵² The important issue here is that for nearly twenty years IFI failed to service this obligation and this should have stained its reputation undermining any later efforts to capturing resources in capital markets.

⁴⁸ Actas de la Junta Directiva, Act No. 223, March 8th 1945, Microfilm No. 3472, p. 346; IFI, Bogota

⁴⁹ Actas de la Junta Directiva, Act No. 258, January 17th 1946, Microfilm No. 3472, p. 399; IFI, Bogota

⁵⁰ Actas de la Junta Directiva, Act No. 197 of the Advisory Committee to the Board of Directors, June 13th 1950, Microfilm No. 3472, unmarked page; IFI, Bogotá

⁵¹ Actas de la Junta Directiva, Act No. 803 February 8th 1961, Microfilm No. 3474, p. 1606

⁵² IFI Microfilm No. 482 Consolidated Balance June 30th 1964

In 1951 the future economic viability of IFI was being pondered for the first time. Juan de Dios Ceballos, general manager, stated: “liquid assets in easily realisable bonds and stocks hardly suffice to cover the institute’s commitments of the second semester... [] it is considered that if IFI is not granted an immediate and significant support it will be forced to reduce its activities a great deal; and it would not be worth keeping it to attend duties of a purely administrative nature”.⁵³ Four months later, Ceballos manifested that no reply had been received from the government to his request for \$ 3,000,000 for the institute; and that given the urgency imposed by pressing expenses, he was authorised to sell securities of Icollantas – IFI’s most valuable stock.⁵⁴ By January 1952 drastic measures were put forward. The manager expressed his view “that if the government did not increase the capital of the institute IFI would have to continue selling its most tradeable stocks to meet its obligations, and in that case it would be better to liquidate the institute”.⁵⁵

Dire financial conditions did not lessen in 1954; on the contrary, that year led the general manager to wind up the annual report with these words: “ a cold-headed analysis of the economic situation of the institute yields three main conclusions: 1- Paid up capital is insufficient to accomplish the vast industrial-promotion task assigned to IFI. 2- The total amount of IFI’s resources are at present committed to enterprises of which IFI cannot rid of. Hence, with its own resources the institute cannot undertake any new ventures. 3- For an organisation such as IFI to fully perform one of its principal functions, that of industrial research, it needs to count on a fixed annual allotment from the national government. Otherwise, the large costs involved in this activity gradually deplete the available capital”.⁵⁶

In the following three years IFI received enough capital contributions as to continue its operations, but around 1957 its own existence as an entity seemed to come to an end. A customary request for urgent funds by the deputy manager to the government met a disquieting reply, as the manager manifested: “it was not possible to obtain resources from government because the Finance Minister considers it’s not the case to fix IFI’s situation in

⁵³ Actas de la Junta Directiva, Act No. 441, July 26th 1951, Microfilm No. 3472, p. 908; IFI, Bogota

⁵⁴ Actas de la Junta Directiva, Act No. 208 of the Advisory Committee to the Board of Directors, November 28th 1951, Microfilm No. 3472, p. 930

⁵⁵ Actas de la Junta Directiva, Act No. 451, January 17th 1952, Microfilm No. 3472, p. 934; IFI, Bogota

⁵⁶ IFI. “Informe del Gerente” (1954) pp. 25-26

view of the establishment of the *Corporación Nacional de Producción*”⁵⁷ Two months later, a discussion among the directors of the institute revealed IFI had no resources with which to pay its own staff: “the serious economic position of the institute and the necessity of funds to pay the personnel and meet its obligations, forces to decide if under the current circumstances IFI is sumptuary, useful or necessary; in the first case it must be shut down, in the second case, must be sustained; in the last, must be financed by government”.⁵⁸

Fortunately for IFI, the project concerning the *Corporación Nacional de Producción* vanished and a new source of income was designed to alleviate the institute’s chronic economic troubles. The mechanism consisted of granting the institute the right to authorise exports, other than coffee and bananas, and charge for this service a fee equivalent to 2% of the value of the exported item. Forecasts by IFI on the revenues this will generate in 1959 rounded \$1,200,000.⁵⁹ Though the percentage to be charged turned out to be lower than originally thought, the export-fee generated income alleviating some of the most urgent financial troubles. However, it did not solve its long-standing economic requirements. In the following years, directors and annual reports continued to register the lack of adequate funds for IFI to achieve its goals.⁶⁰

The empirical evidence gathered from the board of directors’ minutes and the annual reports of IFI demonstrate that the financial position of the institute during most of its life as direct investor in industrial ventures was precarious. Contrary to the pictures offered by most of the literature IFI did not enjoy a comfortable financial situation. This was so to the extent that the institute failed to meet obligations both with its shareholders and its creditors. Furthermore, dire financial straits led both IFI’s own staff and state officials to consider the liquidation of the institute in various opportunities, as shown above, in 1951, 1952, 1957, and the early 1960s. Finally, efforts to clean up the finances of the institute in the late 1950s and early 1960s via an export-fee to non traditional exports and the allocation of a yearly item from the national budget alleviated but not solved IFI’s

⁵⁷ Actas de la Junta Directiva, Act No. 645, April 3rd 1957, Microfilm 3474, unmarked page

⁵⁸ Actas de la Junta Directiva, Act No. 653, July 8th 1957, Microfilm 3474, pp. 1323-24

⁵⁹ Actas de la Junta Directiva, Act No. 715, February 9th 1959, Microfilm No. 3474, p. 1455

⁶⁰ See for example IFI. “Informe del Gerente” (1959) and “Informe” (1961). And Actas de la Junta Directiva, Acta No. 884, 30th July 1962, Act No. 884; 18th October 1962; and Acta No. 907, June 10th 1963; all in Microfilm No. 3474; respectively p. 1840, 1848, and 1892

long standing problems. To sum up, from its foundation in 1940 up to its transformation into a development bank in 1964, the financial position of IFI was fragile. Constant liquidity problems, claims about insufficient capital to operate, frequent doubts on its economic viability, and failure to honour its contracts are clear-cut illustrations of this. Given all of this, it is reasonable to argue that the financial position of IFI has been misconstrued by the conventional literature.

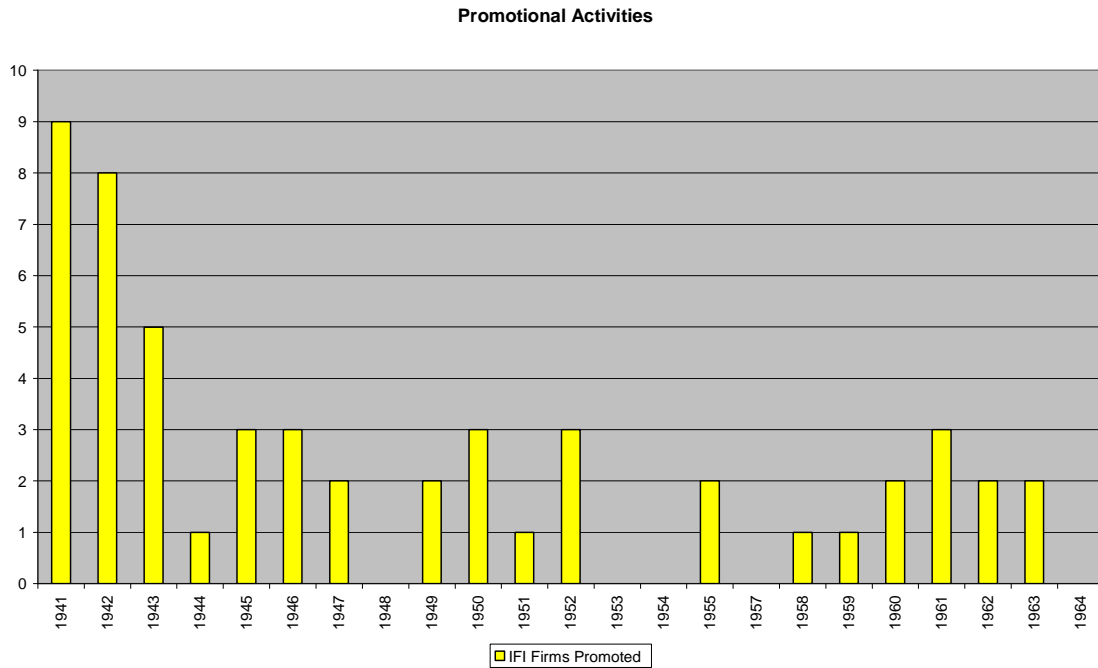
So far, the quantitative evidence put forward in the first section to illustrate the economic healthiness of IFI consisted of a review of IFI's growth of total assets over time. The qualitative evidence offered against its financial soundness based on statements and discussions recorded in the minutes of the board of directors and fragments of the annual reports. It is time to scrutinise IFI's performance more closely.

4. Towards a Preliminary Assessment of IFI:

How does the record of IFI at industrial promotion look like? As can be seen from Figure 3 the institute's promotional history can be broken into two distinctive periods. A first phase starting from its foundation in 1941 up to 1952 characterised by hyper-activism in the creation and nurturing of industrial firms. In these years a total 40 ventures were promoted out of which 29 companies were founded and 11 existing ones received injections of equity capital. Within this period the first 5 years right after IFI's creation proved the more dynamic. From 1953 to 1964 the record is more lacklustre. In 4 occasions (1953/54, 1957 and 1964) firms were neither founded nor funded and only 16 ventures obtained support of which 13 were newly constituted firms and 3 existing ones. Throughout the whole period IFI promoted a total of 56 companies or an average of 2.2 firms per year.⁶¹ Naturally, to assess clearly the role of the institute in harnessing industrial development via its actions on these firms a distinction need be made between "successful" and "failed" ventures.

⁶¹ This includes support to the Institute for Water and Electrical Energy Exploitation – an official agency

FIGURE 3



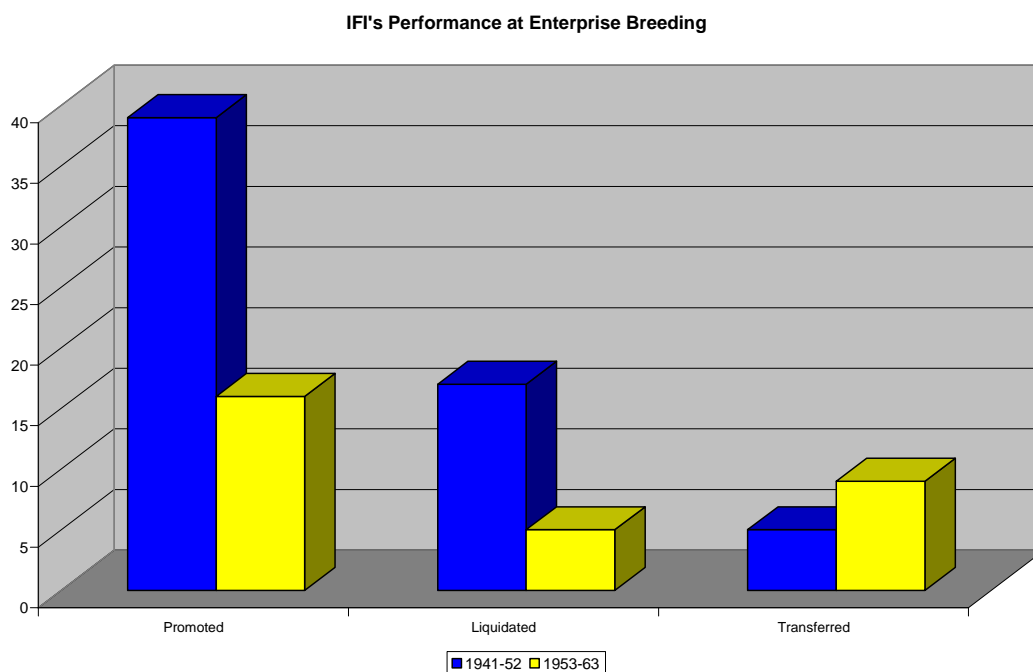
Sources: IFI. “Informe” various years

The first step is to examine the rate of “failure” among IFI-firms. That is, the incidence of liquidations among industrial companies promoted by the institute. As Figure 4 helps to illustrate from 55 firms sponsored by IFI 22 ended up in liquidation. In other words, 40% of IFI-firms did not stand competition in the market or were simply non-profitable ventures for other reasons. Specially during the first decade of operations the institute’s record of “firm survival” was relatively low, as 17 out of 39 of its investments went bust. For the second period the ratio improved somewhat and only 5 out of 16 followed the liquidation path. A high number of these “failed” firms (17) exited the market within 5 years of them being created or financially supported by IFI; thus, leaving little chances for long-lasting contribution towards Colombia’s industrialisation. Five remaining firms lived longer than 6 years, but none did for more than 10 years and it was often the case that liquidation processes were protracted due to bitter disputes among shareholders. Uncompromising positions between IFI, other shareholders and external creditors frequently led to court procedures that extended the life of some firms formally, even though these had ceased operating long before their legal demises.⁶²

⁶² Illustrations of this are the cases of the “Compañía Agrícola y Azucarera de Uraba” and “Industria Minera y Metalúrgica de Colombia”

It is in the “successful” cases – and measured by IFI’s own mandate-standards – that the contribution of IFI to Colombia’s industrialisation is best examined. As said earlier, according to the institute’s foundational charter IFI’s mission was to transfer to the private sector the firms it supported once these had matured and were proved to be financially sound. As shown in Figure 4, the number of firms that IFI promoted and later transferred was 5 between 1941 and 1953 and 12 for 1953-63, adding up to a total of 17. However, not all of these were “successful” transfers in the sense that its ownership passed from public to private hands, nor that this occurred on a permanent basis. In 1958 IFI’s shares in Hotel San Diego of Bogotá were bought up by another official agency, the army’s retirement fund.⁶³ Similarly, “Industrias Químicas de Paipa”, involved in the production of sodium sulphates, was acquired by the state of Boyacá in 1950.⁶⁴ Another firm recorded as being successfully transferred in 1959 is the National Company of Fertilizers,⁶⁵ but only to be recapitalised a year later with a massive injection of equity capital provided by IFI and further public funds, to be finally liquidated in 1965.⁶⁶ Summarising, only about a fourth of all of IFI’s ventures complied with the original IFI-charter’s trajectory of firm promotion, maturation and transfer to the private sector it had set out.

FIGURE 4



Sources: IFI. “Informe” various years; IFI. “Reseña del IFI” (1968); Lleras, C. “Desarrollo Financiero del IFI” (1980)

⁶³ Actas de la Junta Directiva, Act No. 691, 7th July 1958, Microfilm 3454, p. 1398

⁶⁴ Actas de la Junta Directiva, Act No. 421, 23rd November 1950, Microfilm 3454, p. 861

⁶⁵ Lleras, C. op. cit; p 13

⁶⁶ IFI. *Informe y Balance* (1965) pp. 29-30

Independently of the performances of industrial firms promoted by IFI, an idea of the role played by the institute is indicated by the financial resources IFI put into them, as measured by the share of equity capital it provided as part of the total of paid up capital of each firm. Table 1 offers interesting insights into this matter. First, early on IFI contravened the regulation that prevented it from taking up more than 50% of the shares of any promoted firm by subscribing more than half of total shares of “Industria Colombiana de Leches” and assuming full ownership of yeast business “Cia de Levaduras”, albeit this latter situation proved to be more of an exception than the rule. Secondly, IFI’s most important investments in the 1940s flowed to the rubber tyre and steel industries, as represented in the large portions of equity capital provided to “Industrial Colombiana de Llantas” and “Siderurgica Paz del Rio”, which made the institute owner of around 75% of these two corporations. For the 1950s the largest outlay of the institute constituted its stake in the Cauca & Valle Coal Plant (not on the table), and other heavy investments were made in the non-metallic and printing and paper sectors. During the early 1960s metal products became important for IFI through heavy involvement in “Forjas de Colombia”, though it did not make the institute a majoritarian shareholder. Throughout the period chemicals and agricultural industries were also well cared for. Finally, and perhaps more importantly, as seen from the large sample gathered on the table, on average, IFI’s shares in the firms it promoted represented around a fifth or 21,5% of their paid up capital.

TABLE 1

IFI's Participation in Industrial Firms				
		Initial Paid Up K \$ (000)	IFI's Share \$ (000)	%
1941	Industrias del Mangle	400.0	200.0	50.0
1941	Industria Colombiana de Leche	440.0	224.4	51.0
1941	Cia Agrícola y Azucarera de Urabá	300.0	60.0	20.0
1941	Cia de Productos Químicos "Sulfacido"	150.0	20.0	13.3
1941	Cia Colombiana de Taninos	250.0	75.0	30.0
1941	Cia de Alimentos "El Papagayo"	135.0	58.5	43.3
1941	Empresa Siderúrgica de Medellín	1,146.0	229.2	20.0
1941	Cia Colombiana de Levaduras	80.4	80.4	100.0
1941	Explotadora nacional de Grasas	150.0	40.0	26.7
1942	Fabrica Colombiana de Hilados de Lana	400.0	160.0	40.0

1942	Maderas "La Industria"	612.2	75.0	12.3
1942	Cia Nacional del Cloro y Derivados	200.0	100.0	50.0
1942	Industria Colombiana de Llantas	1,500.0	1,090.0	72.7
1942	Industria Colombiana de Vidrios	500.0	142.9	28.6
1942	Industria Fiquera de Colombia	176.1	50.0	28.4
1943	Central Metalúrgica de Colombia	350.0	150.0	42.9
1943	Unión Industrial de Astilleros Barranquilla	1,000.0	176.3	17.6
1943	Industria Minera y Metalúrgica	91.4	45.9	50.2
1943	Industria Colombiana de Alcaloides	49.0	40.0	81.6
1943	Cia Colombiana de Zinc	150.0	50.0	33.3
1944	Consortio Industrial de Santander	500.0	250.0	50.0
1945	Industria Colombiana de Abonos	500.0	250.0	50.0
1945	Cia Industrial de Caldas	100.0	50.0	50.0
1946	Industrias Químicas de Paipa	728.2	426.2	58.5
1946	Industria Colombiana de Pesca	1,020.0	150.0	14.7
1948	Empresa Siderúrgica de Paz del Río	8,499.1	6,516.0	76.7
1950	Matadero Frigorífico de Villavicencio	774.6	35.0	4.5
1950	Abastecedora de Maderas	105.1	36.0	34.3
1950	Corporación Carbonera Colombiana	298.6	100.0	33.5
1951	Asbestos Colombianos	1,000.0	240.0	24.0
1952	Industria Colombiana de Fertilizantes	2,150.0	30.0	1.4
1952	Granitos y Mármoles	500.0	150.0	30.0
1965	Forjas de Colombia	65,000.0	10,000.0	15.4
1965	Cia Nacional de Cables	4,700.0	2,540.0	54.0
1965	Sucroquímica	25,100.0	1,000.0	4.0
1965	Pulpapel	6,700.0	2,233.0	33.3
	Total	125,755.7	27,073.8	21.5
	Total (Without Paz del Río Steelworks)	117,256.6	20,557.8	17.5
	Total (Without Forjas Metalworks)	60,755.7	17,073.8	28.1

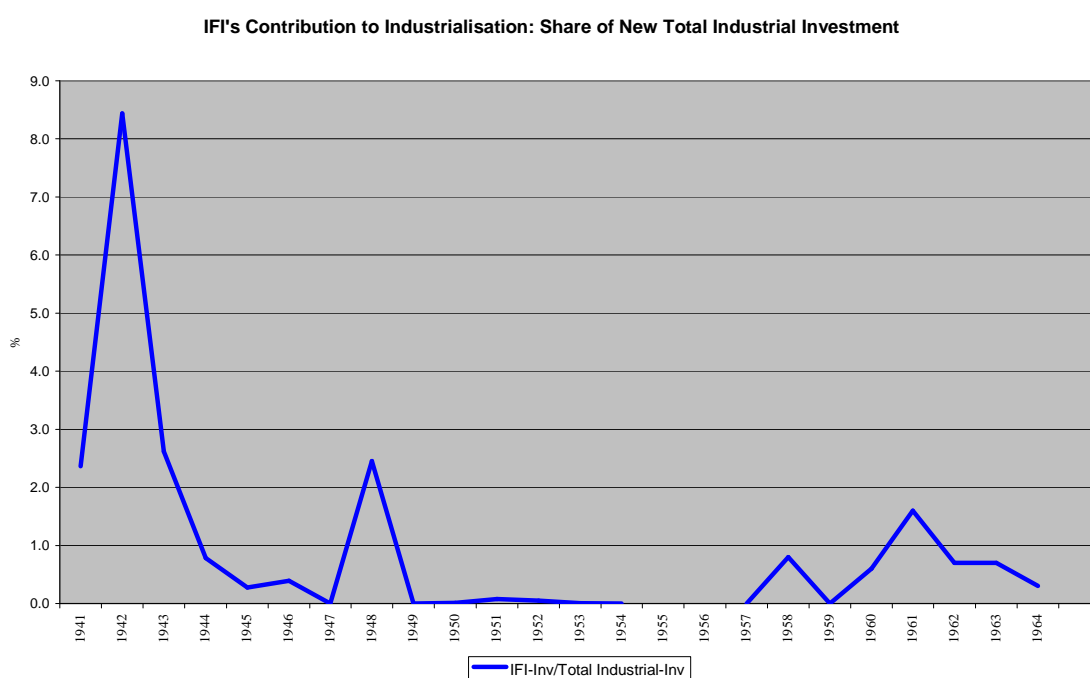
Sources: IFI. "Informe" various years; IFI. "Reseña del IFI" (1968)

The fact that IFI was more often than not the junior partner in the associations with private capital, helps in challenging the commonly spread view that assumes that IFI-firms producing intermediate and/or raw material goods ought to sell their output for prices that carried an implicit and important subsidised element in it.⁶⁷ The fact that IFI was on average a minor shareholder suggests the presence of two unlikely assumptions in such view. Firstly; that IFI was capable of imposing its will upon the management and

⁶⁷ See Isaza, J.F. op. cit; p 76; and Reveiz, E. op. cit; p. 247

ownership structures of the firms it supported, as to define their pricing policies. Secondly; that IFI itself was uninterested in making its firms profitable enough as to attract private buyers. Even though it is certain that IFI itself needed not be lucrative, such a view was not necessarily made extensive to its industrial ventures. Moreover, even if IFI were the major shareholder it is very difficult to believe that its associates, be it other official entities, foreign investors or domestic entrepreneurs, would have subdued to such non-sense attitude from a business point of view. Only more research into this issue can seriously confirm or reject the view in question; however, the fact that IFI's shares in the firms it promoted was far from majoritarian makes it scarcely plausible.

FIGURE 5



Sources: Author's own calculations from CEPAL. "El Desarrollo Económico de Colombia. Anexo Estadístico" (1957); Sardi, J. "Evolución de la Inversión en la Industria Manufacturera, 1958-75" (1976); and IFI. "Informe" various years

Probably the most direct way to assess the impact and contribution of IFI toward Colombia's industrialisation is to estimate the share of the institute's investments within the larger picture of total industrial investments. If the institute was becoming a tool of growing importance, as some authors claim, a tendency upwards of such share should be expected,

as IFI invests more financial resources in industrial ventures. However, as Figure 5 shows this was not the case. IFI's investments as percentage of total industrial investments were at its highest right after its foundation 1941-43; and an extraordinary year is 1942 when it represented more than 8% of total industrial investments, owed mainly to the large outlay made in the rubber tyre industry i.e.; Icollantas. From then on only in two years its investments share in the total went over 1%. As explained earlier, these years are 1947 and 1961 when the institute committed large sums to the integrated steelworks and metal works projects of Paz del Rio and Forjas de Colombia, respectively. For all other years investment levels account for hardly 1% of total new investments in the industrial sector combining years where there are no new investments at all with others where the amounts involved are so small they represented less than 0.1% of the total of industrial outlays.

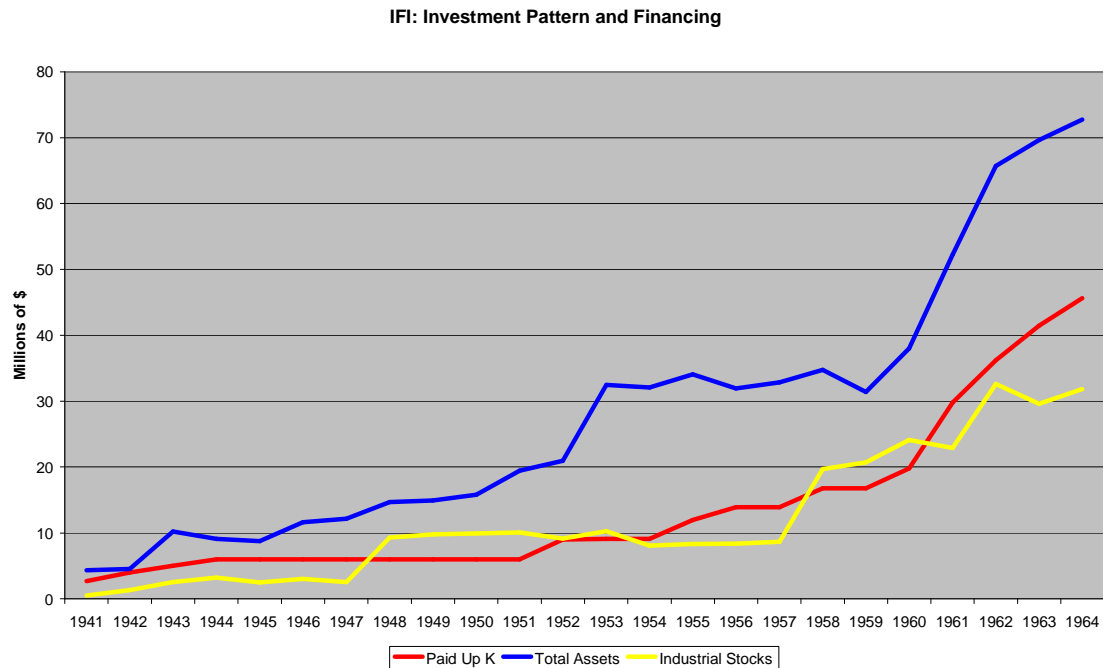
Summarising, a preliminary assessment of IFI's achievements and contributions to Colombia's industrialisation process was made through a brief overview of the total number of IFI's "successfully" promoted enterprises, its participation in a large sample of the firms it assisted, and the calculation of the institute's investments in the larger picture of the country's total industrial investments. The purpose of the first evaluation was to appraise the effectiveness of IFI at its chief task of industrial promotion by looking at the number of firms it transferred to the private sector. Not only is this "yardstick" the one IFI tacitly set itself in its foundational charter, but it is also one that evaluates the work done by IFI, as private business were most likely to purchase firms with black ink balance sheets and solid prospects of growth. In this respect, simply put, IFI transferred a total of 15 firms. The second exercise sought to gauge the "depth" of IFI's involvement in the ventures it promoted, as measured by the funds it invested in them. The outcome is a rather surprising average of 21% share. Given that IFI was the only public agency charged with industrial promotion this percentage can be seen as low and an interesting interpretative implication can be drawn from it. Namely, that IFI's role, as a potential breeder of industrial state-owned enterprises was modest. Nor is it the case that the firms it fostered were, on average, of majoritarian public-ownership. On the contrary, IFI seemed to have been the junior partner in the private-public associations. The third check aimed at measuring the scope of IFI's contribution to industrial development through the investment variable. On this front too, its contribution seemed small. On average, IFI's investments represented less than 1% of the industrial total. These preliminary ways of assessing IFI should suffice to challenge

the predominant views of the literature, that attached to it an all mighty role. And suggest there is a need to distinguish the history of the institute in before and after 1964, i.e.; when turned into a development bank. At the same time, however, this is not a sufficiently thorough survey to make hard statements about IFI's performances and some qualifications are in place. The first, is that some IFI firms that were not transferred to the private sector did remain in the market providing key basic and intermediates inputs for other industries, such as steelworks Paz del Rio. Individual enterprise histories need be written to define their precise contributions. Secondly, in a few instances, firms originally promoted by IFI and liquidated under its management made later "comebacks" under private/foreign ownership, such as metal works Forjas de Colombia. As with a few cases of IFI divestitures such contributions were not considered here and need be addressed in a more comprehensive assessment. The next sections look to explain the causes underlying IFI's modest contribution to industrialisation and its own performance.

5. Pattern of Investment: Funding

IFI's chief task was to promote industry and this was essentially done via investments in the form of capital contributions in specific public limited companies. Thus, the need to look at IFI's industrial stocks. As Figure 6 shows, the evolution of IFI's industrial stocks is far from being a duplicate of its total assets. Moderate growth after 1940 is followed by minor slips in 1945 for both items. But from then on they performed rather differently. Total assets undergo steady increase from 1945 until 1955, and then stabilise for the next four years. This item sees its value multiplies three-fold during this time. IFI's stocks grow steeply in 1948, but then stagnate for ten years until 1958. A wedge of more than \$20,000,000 between them starts to close as stocks began to recover in the early 1960s. A new gap widens thereafter. The point to make here is that industrial stocks have their own dynamic. Whilst total assets exhibit an overall rising tendency, industrial stocks show a stepped-like pattern. Obvious questions arise: what explains the difference? What determines stocks' behaviour? Regarding the first question, it has already been mentioned that unpaid capital inflated total asset numbers. Moreover, plants in installation phases along with large expenses in studies, which not necessarily always turned into realisable stocks and/or remained only paper firms, also added up to total assets. To explain the evolution of IFI's industrial stocks on its own merit one must explore the institute's funding sources.

FIGURE 6



Sources: For 1940-47 Superintendencia Bancaria. "Informe". For 1948-64 IFI. Consolidated Balance Sheets as of December 31; exceptions 1963-64, as of June 30

Obviously, the institute's investment capabilities depended on its funding sources. Figure 6 shows that there was a tight correlation between paid up capital, which was the institute's most important supply of financial resources, and IFI's investments, as represented by its industrial stocks. Both lines grew from 1941 to 1944 and then stagnated until 1947. That year, industrial stocks skyrocketed and then stabilised at around \$10,000,000 for nearly ten years until 1957. Were not for such a leap a close co-evolution between the two entries would have stretched until 1955. The sudden jump in stocks is explained by the constitution of the National Siderurgy of Paz del Río in 1947, of which IFI subscribed \$6,500,000, and for which the institute had resorted to a different funding source than capital contributions from government. Another steep rise in stocks occurred in 1958 when more than \$10,000,000 are represented in the coal company Carbones del Valle & Cauca, in which the institute had been investing for years with resources largely obtained via increases in its paid capital. A similar behaviour for the two items follows until 1962, when stocks start to lag behind the explosion of funds of the mid 1960s. Still, substantial increases in stocks took place as IFI invested heavily in cement, fertilisers and metal works companies. These numbers then beg the questions: What was the driving-force behind this

stepped-like pattern of investment; who supplied the paid up capital of the institute; who discounted its bonds and held its debts; how important were foreign loans; did it generate sufficient internal resources as to re-invest them? Table 2 helps to clarifying these queries.

TABLE 2

IFI's Resources Grouped by Origins (Selected Years 1941-64)								
Percentages								
Year	Total Resources Nominal Pesos (000)	K	IFI Bonds	Paz del Río Bonds	Domestic Credit	P. Note	Profits	Total
1941	2,703	98.6	0.0	0.0	0.0	0.0	1.4	100
1943	8,033	62.2	18.4	0.0	19.3	0.0	0.0	100
1946	9,070	66.2	0.0	33.1	0.8	0.0	0.0	100
1948	9,161	65.5	0.0	32.7	1.6	0.0	0.1	100
1951	6,862	87.4	0.0	0.0	10.2	0.0	2.3	100
1953	12,377	73.4	0.0	0.0	9.9	16.2	0.6	100
1958	17,753	78.5	0.0	0.0	21.5	0.0	0.0	100
1961	37,723	79.0	0.0	0.0	21.0	0.0	0.0	100
1964	55,920	81.6	0.0	0.0	18.4	0.0	0.0	100

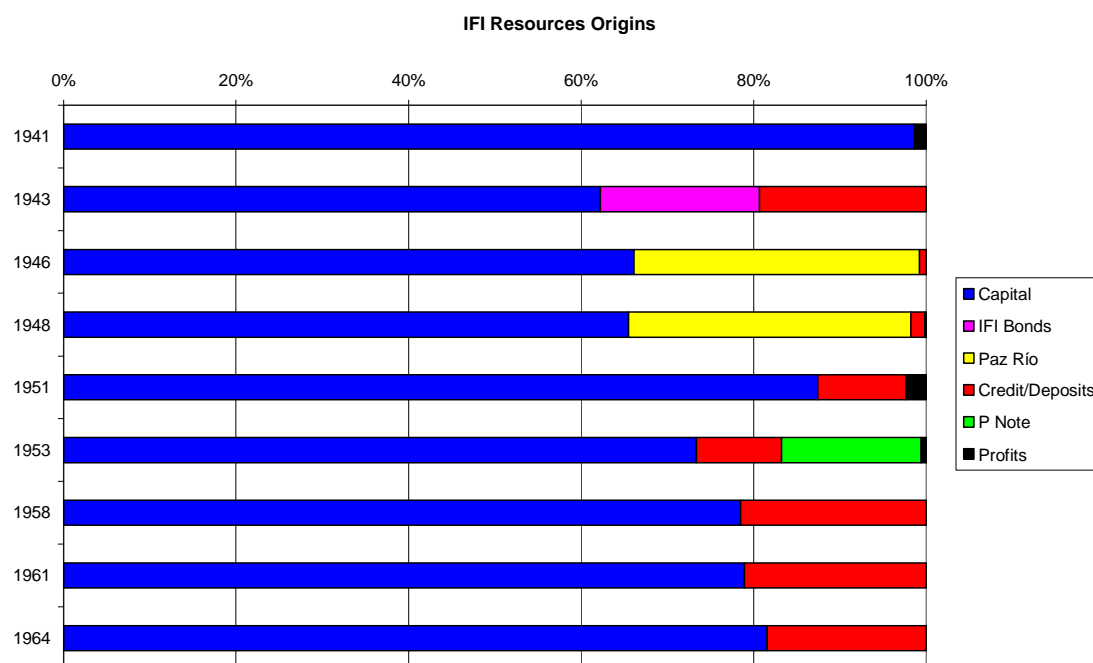
Sources: Calculated by the author from Superintendencia Bancaria. "Informe" years 1941, 1943, 1946; and IFI. Consolidated Balance Sheets all other years

Of the Institute's initial paid up capital of \$4,000,000 75% was subscribed by government and the rest by the BCH. Other official entities, private commercial banks, both foreign and domestic, and the general public were invited to partake in this and in all other capital increases IFI authorised throughout the years. To attract potential investors, seats on IFI's board of directors were offered. Private bankers were entitled to elect up to two representatives on the board; whilst the general public and other state agencies could appoint another, depending on who subscribed its shares.⁶⁸ However, these and other fiscal incentives worked to no avail; throughout IFI's life it was the national government who remained the major shareholder. There is no clear-cut evidence to explain this generalised

⁶⁸ IFI. *Estatutos...* (1942) pp. 6-8

apathy, but it is reasonable to sustain, that poor returns, low expectations, the long-maturation nature of its businesses, and customary reluctance to invest in public securities kept investors at bay. As registered in Table 2 and illustrated in Figure 7, the contributions of capital made by successive governments from 1941 until 1964 constituted the majority share of the institute’s resources. From an obvious peak of 98% at the time of foundation to a lowest of 62% two years later, capital contributions maintained an average for these selected years of over 75% of all financial means.

FIGURE 7



Sources: As of Table 1

The opportunity to raise funds through the issuance of bonds, “IFI Industrial Promotion Bonds” was an early realisation. In 1942 the directors conceived the idea and issued \$1,500,000 worth in 30-year bonds earning 4% interest annually, with the national government as guarantor and the central bank as fideicommissioner.⁶⁹ The bank seems to have acted too as the bond holder, by discounting the bonds. Indirectly, it was government

⁶⁹ See IFI. “Balance e Informe” (1942) p. 18; and Decree No. 1391 of 1942 in IFI. “Estatutos...” (1942) pp. 56-58

again, who via the central bank, funded IFI under the bonds modality. There is no doubt that these funds constituted an important share of total resources in the early 1940s,⁷⁰ see Figure above, helping IFI with the main projects of the time: Icollantas, Unión de Astilleros Industriales (shipyards), and the pasteurisation of milk project, among others. As indicated by its balance sheets, IFI made use of this method of financing only on this occasion. There is neither apparent reason nor evidence, as to why IFI relinquished such convenient form of financing, although an only qualified potential for successful placements might have acted as deterrent.

Bonds were also employed to build up funds for IFI's largest project: steelworks Paz del Rio. In 1945 the government of Alberto Lleras Camargo authorised IFI to issue up to \$10,000,000 in bonds at 6% amortisable in 20 years.⁷¹ IFI only realised two issuances worth \$3,000,000 each in 1946 and 1948.⁷² These placements were different from the previous one, however. The money raised was earmarked; that meant, it could only be destined to the financing of the initial expenses of Paz del Rio.⁷³ In other words, though important as they were in terms of the amount these resources represented for IFI (a third of total resources for 1946 and 1948), the exclusiveness of its use prevented IFI to dispose of them for other purposes. It is worth noting, that it was the national government who, once more, emerged as the bond holder.

The absence of foreign credit as a supply of finance in IFI's accounts is rather puzzling. Even after acknowledgement of the scarce possibilities of finding credit in good terms in international markets in the context of the war and the post-war years, IFI appeared to have done little to obtain any. Unlike IFI, industrial development corporations and banks of the region, such as the Nacional Financiera of Mexico, Corporación de Fomento de la Producción from Chile, and the Banco Nacional de Desenvolvimento Econômico from Brazil, got hold of generous amounts of credit from US and multilateral organisations in the 1940s and 1950s; and especially for the first two, these funds became a substantial share of their investable funds.⁷⁴ Not only did IFI fail to use credit from abroad

⁷⁰ See Lleras, C. "Memorias de Hacienda" (1942) Vol 2, p. 123

⁷¹ See Decree No. 2995 of 1945 in Wiesner, E. *Paz del Rio* (1963) pp. 13-15

⁷² Superintendencia Bancaria. "Informe" (1949) p. LV

⁷³ Wiesner, E. *op. cit.*; p. 14

⁷⁴ See for Chile Mamalakis, M. "An Analysis of the Financial Investments of the Chilean Development Corporation: 1939-64" in *Journal of Development Studies* (1967) especially pp. 122-26; for Mexico Blair, C. "Nacional Financiera. Entrepreneurship in a Mixed economy" in Vernon, R. (Ed) "Public Policy and

as a source of funds, but it also failed to apply for it until the early 1960s⁷⁵, despite legal authorisation allowing it to do so. The institute's own performance and its ways of doing business, as suggested by a member of the directorship, might have influenced this attitude. As, Hugo Ferreira, declared in a meeting of the board in 1961: "possible financing by international organisations is scared away with balance sheets where businesses such as that of the collieries of Timba and San Francisco where the institute has been making losses without obtaining any benefits justify continuity; or with ventures like that of Cementos Boyacá, where the directorship is only persuaded through official or regional intervention".⁷⁶ There is good reason to believe, that the first-hand statements of an "insider" of the highest rank accurately explain IFI's dearth of foreign borrowing.

Domestic credit became the sole source of funds that neither originated in the state (at least not exclusively) nor obeyed to the sponsoring of specifically targeted projects of ephemeral duration. Credit from private and public commercial banks, the BCH, the central bank, the Caja Agraria and from other entities of the financial sector turned into a growingly important and regular source of resources for IFI. Taking the years 1946 and 1948 as outliers, the proportion of total resources that the domestic money markets supply to IFI oscillated around 20%. Promissory notes, such as that pictured in Figure 7, occasionally entered the list of financiers and in no small amounts. The holders of these papers were likely to be the same entities that acted as creditors. Now, the fact that the banking system provided an important share of IFI's resources does not conflict with the view that the institute was still under-funded. Banking-originated funds were important, but within the low levels of overall financing of the institute.

The last item in the list are its own internally generated resources, as measured by IFI's profits. Any analysis or mere consideration of IFI's profitability faces an insurmountable problem: its promotional nature. The institute's take on profits seems to be resolved against it from the available evidence. Pedro Vicente Ortiz, general-manager in June 1955 wrote: "**...precisely, the characteristic of the institute is that it is not a lucrative organisation**, but instead, and as its statutory function dictates: "its objective is

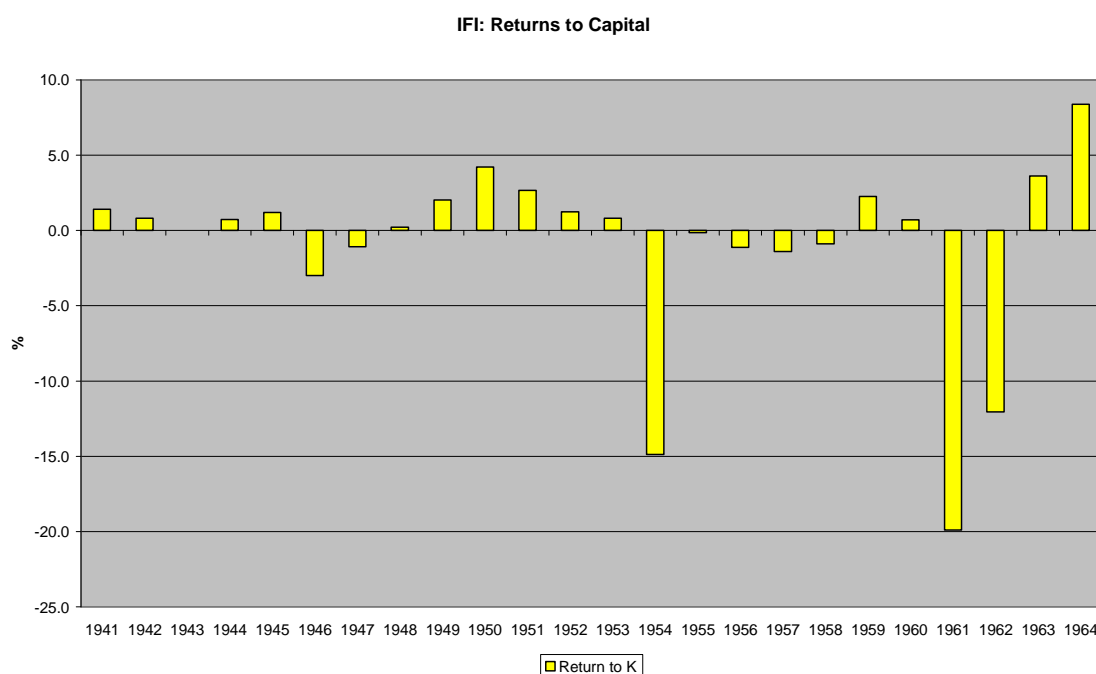
Private Enterprise in Mexico" (1964) especially pp. 201-04

⁷⁵ The first request for funds from abroad registered in the Acts of the Board of Directors dates May 30th 1962, when IFI starts negotiations over a loan for US\$10.000.000 with the Inter-American Bank of Development.

⁷⁶ Actas de la Junta Directiva, Acta No. 803, February 8th 1961, Microfilm No. 3474, p. 1668

to promote the foundation and enlargement of enterprises exploiting basic and primary-transformation of national raw materials industries...”⁷⁷ [bold in the original]. This is the standard and frequently cited viewpoint, not only of the institute, but also from the banking superintendence: “[IFI]... an institution destined to promote industrial ventures... [] should not take into consideration making large profits, but the encouragement of those sectors of industry not being exploited by private initiative”⁷⁸ The criteria also applied to IFI’s credit activities: “... regarding loans, IFI cannot impose a strictly banking criteria of rigidity in collections and so forth; loans are facilitated to assist companies in getting out of difficulties and not to obtain profits from the credit itself”.⁷⁹ Despite the unequivocal tendency toward a not-for profit IFI from its foundational charter, directorship, and its regulator; for the purpose of this section IFI’s profits had the potential capability of generating its own internal profits and turned into a source of funding. In turn, this could have enhanced its autonomy at decision-making.

FIGURE 8



Sources: As for Table 2

⁷⁷ IFI. *Informe del Gerente* (1955) p. 61

⁷⁸ Superintendencia Bancaria. *Informe* (1946) p. XXX

⁷⁹ Actas de la Junta Directiva, Act No. 12 of the Advisory Committee to the Board of Directors, April 3rd 1946, Microfilm No. 3472, p. 415

TABLE 3

IFI Income Statements and Returns to K			
1940-64			
Year	Paid Up K	P&L	Return to K
	Pesos (000)		(%)
1941	2,666	37,212	1.4
1942	4,000	32,661	0.8
1943	5,000		-
1944	6,000	42,830	0.7
1945	6,000	71,537	1.2
1946	6,000	-179,716	-3.0
1947	6,000	-64,885	-1.1
1948	6,000	13,250	0.2
1949	6,000	120,960	2.0
1950	6,000	253,301	4.2
1951	6,000	159,392	2.7
1952	9,000	111,131	1.2
1953	9,082	72,862	0.8
1954	9,082	-1,351,679	-14.9
1955	11,940	-15,759	-0.1
1956	13,931	-155,296	-1.1
1957	13,931	-195,231	-1.4
1958	16,786	-148,974	-0.9
1959	16,786	380,864	2.3
1960	19,786	138,493	0.7
1961	29,785	-5,924,967	-19.9
1962	36,211	-4,364,093	-12.1
1963	41,453	1,503,967	3.6
1964	45,620	3,821,521	8.4

Sources: For years 1940-47 Superintendencia Bancaria. "Informe",
and IFI Annual/Semi-annual Reports. For 1948-64 IFI Income Statements

As can be seen from Figure 8 and Table 3 in the first thirteen years of operations IFI yields very modest profits ranging from 0.1 to 4.2 percentage points, and went into the red in only three years.⁸⁰ A huge loss in 1954 nearing 15% of its paid up capital is the product of the liquidation of Industria Colombiana de Pesca, a fishery IFI had heavily committed to with more than \$1,200,000 in shares written down. The following years are marked with moderate losses and two profitable years. The years 1961-62 turned critical as the consecutive cumulative losses surpassed 30%. This time the poor performance is due to the joint effects of massive writing down – poor performances - of some of the institute’s industrial shares and heavy losses inflicted in the coal-mining operations of Carbones del Valle y del Cauca. The recovery of the ensuing years does not prevent IFI from obtaining an average return to capital represented in a loss of 1.1% throughout its twenty-five years of life as a direct industrial investor. In other words, as analysed from its income statements from 1940 to 1964, IFI was incapable of generating a sustained flow of profits that could have been reinvested in its own projects and might have empowered it with financial autonomy.

The outcome of the analysis of the structure of the origins of IFI’s resources points at an overwhelming dependence of the institute upon government. An average for the above selected years of the resources, which originated in government - capital contributions, IFI Industrial Development Bonds, and Paz del Rio debentures - shows that 86% of IFI’s funds came from state sources and only the remaining 14% could be said to pertain to the institute’s funds, as represented by its own obligations with other financial and banking entities, promissory notes, and eventually, minor profits in good years. This last item was negligible in practice, however. In short, IFI became over-dependent on government capital contributions for the running of many of its outstanding projects and for the provision of fresh funding for embarking on new ventures. Such condition, as will be seen in the following section, hindered the institute’s ability to take its investment decisions in autonomous fashion.

⁸⁰ The value for 1943 is unknown in its magnitude, but it is negative, as captured from the balance sheet of the “Informe” (1943) of the Superintendencia Bancaria.

6. Pattern of Investment: Autonomy

This section will argue that dependence on government funds undermined the capacity of IFI to take investment decisions in an autonomous fashion. But how exactly were successive governments capable of influencing IFI's decision-making process? The answer has a clear-cut relationship with the precarious financial situation of the institute above described. The relation was simple and direct: by making capital contributions to IFI, and by subscribing debentures from IFI, government opened up the opportunity to "attach strings" to its disbursements. Attaching strings meant that government channelled resources to IFI on condition that, for instance, the funds in question were spent exclusively on projects in which government had preferences for. By this means IFI's independent decision-making processes were hampered. A funds-starving entity like that of IFI in the mid 1940s and 1950s saw the direction of its activities being defined by government, as this ruled over the financial possibilities of IFI's investment plans. This is most visible in the selection and promotion of IFI's macro-projects. In other words, the overwhelming dependence of IFI on government funds combined with its chronic state of financial weakness rendered its decision-making process vulnerable to governmental will.

Framed as a question: would it be realistic to expect total independence for IFI? No. To expect absolute independence would be naïve, yet to attain some level of relative independence, as to enable the agency to carry out its investment decisions on technical and economic grounds, and free of official patronage needs and pressure from private interests prone to rent-seeking, was highly desirable. The fiscal empowerment of developmentalist agencies along with corresponding bureaucratic autonomy are often listed among the prerequisites for successful industrialisation of late-comers. For example, Johnson, emphasizes these in his account of the thriving industrial catch-up of Japan, South Korea and Taiwan.⁸¹ Yet, Colombia is not South Korea or Taiwan, let alone Japan. Closer, geographically, and most crucially, historically, are Brazil and Mexico. These two countries designed IFI-like developmentalist agencies. Though neither Mexico's NAFINSA nor Brazil's BNDE concerned exclusively with industry both promoted the sector in similar

⁸¹ See Johnson, C. "Political Institutions and Economic Performance: the Government-Business relationship in Japan South Korea and Taiwan" in Deyo, F. (Ed) *The Political Economy on the New Asian Industrialism* (1987). Also for South Korea see Amsden, A. "Asia's Next Giant: South Korea and Late Industrialisation" (1989)

ways to IFI, and to a larger extent, in relative financial terms.⁸² The point for bringing these cases here, is that, unlike IFI, NAFINSA and BNDE seemed to have attained such relative autonomy; and this impacted favourably on their performance and thus on their respective contributions to industrialisation. Empirical studies on both these agencies suggest this was the case. For instance, Blair makes reference to this point neatly: “Within limits, Nacional Financiera is a body of competent *técnicos* making microeconomic decisions on the basis of criteria familiar to any lending institution in the private sector: market potential, debt-service capacity, managerial talent, past performance [italics in the original].”⁸³ The case of Brazil’s BNDE has been so distinctive as to attract serious academic attention. Geddes⁸⁴, Sikkink,⁸⁵ and Willis⁸⁶ have all looked at BNDE’s “bureaucratic independence”, “insulation” and “institutional capacity” in different attempts to explain the bank’s relative effectiveness and contribution to state-sponsored developmentalism. In short, similar Latin American states to the Colombian, that have designed IFI-like agencies to assist and promote industrial development have gone further in attaining this goal, partly by granting these agencies the autonomy required to do so. IFI, in various instances, lacked such autonomy. This was more evidently in the cases of large projects.

A list of IFI’s largest ventures has been compiled based on the following criteria:

- 1) Share of resources of each venture on the total amount of IFI’s assets at the time of the constitution of the company or its reorganisation.
- 2) Amount of credit advanced, in addition to shares subscribed.
- 3) Time and effort dedicated to each project, as registered in the minutes of the Board of Directors, according to frequency and length of it being discussed.

⁸² For figures regarding this point see Amsden, A. *The Rise of the Rest* (2001); especially ch. 6

⁸³ Blair, C. “Nacional Financiera: Entrepreneurship in a Mixed Economy” in Vernon, R. *The Dilemma of Mexico’s Development: the Roles of the Private and Public Sectors* (1963) p. 198

⁸⁴ Geddes, B. “Building “State” Autonomy in Brazil, 1930-64” in *Comparative Politics* Vol. 22, No. 2. pp. 217-35

⁸⁵ Sikkink, K. “Brazil y Argentina: Un Enfoque Neoinstitucionalista” (1993) in *Desarrollo Económico* Vol 32 No. 128 pp. 545-573

⁸⁶ Willis, E. “Explaining Bureaucratic Independence in Brazil: The Experience of the National Economic Development Bank” in *Journal of Latin American Studies* (1995) Vol. 27, pp. 625-61

The more resources and time devoted to a large venture, the more likely it will make it into the top list. A plausible ranking looks like this:

- Steelworks Paz del Río (1948)
- Cauca & Valle Coal Plant (1958)
- Colombian Rubber Tyres (1942)
- Metal Works Forjas of Colombia (1962)
- Boyacá Cements (1955)
- Colombian Milk Industry (1945)

The standard procedure by which governments meddled in IFI's projects consisted of executive decrees. Presidential decrees, based on faculties given by the constitutional charter and extraordinary legal provisions⁸⁷, roughly followed this order. First, it described the considerations that impelled government to act; secondly, indicated the concrete industry or company to which assistance should flow to; thirdly, an exclusivity string was attached; and finally, a sum to be allocated to that industry or firm through IFI was provided. As will be seen, also through decree, IFI acquired or managed companies, usually beyond its initial remit. The following is an illustrative sample of the decrees, by no means exhaustive, by which consecutive governments set the pace and path IFI was to tag along.

Few words need be said about this list. First, as can easily be inferred from the numbers, when made effective, the amounts contained in the capital contributions and debentures of these various decrees were so large, that they defined the stepped-like patterns of investment of the institute as a whole, as represented in its industrial shares (seen above). Time-lags between inflows of money and these being displayed in the total of IFI's shares are due to the timing involved in the study, preparation, and execution of the projects in question. Secondly, the frequency with which presidential decrees mediated to carry out IFI's ventures is high: 1941, 1942, 1945, 1950, 1951, 1952, 1953, 1954, 1957, and 1958 are all years registering intervention. From 1958 onward, decrees are most likely to have played a similar role. Thirdly, governmental meddling was not confined to a specific venture or industry. As seen from the list, intervention occurred in sectors, such as

⁸⁷ See Article No. 121 of the National Constitutional Charter of 1886 and Law 54 of 1939.

TABLE 4

Presidential Decrees (1940-58)				
DATE	DECREE No.	FIRM/INDUSTRY.	VALUE \$	PURPOSE
17/05/41	923	Sautatá Sugar Mill		Plan Manufacturero
19/06/42	591	Barranquilla Shipyards		Acquisition
1945	2995	Steelworks Paz del Río	1,000,000	Financing
01/12/50	3580	Coal	3,000,000	Studies
06/02/51	248	Coal	3,000,000	Plant Installation
18/06/52	1414	Colombian Fertilizers	3,000,000	K Contribution
06/10/53	2600	Coal	5,000,000	Plant Installation
09/09/54	2674	Cements of Boyacá	2,000,000	K Contribution
09/09/54	2674	Pulp & Paper	1,500,000	Studies & Plant
09/09/54	2674	Coal	1,000,000	Plant Completion
11/11/57	364	Coal	1,000,000	Studies
28/05/58	168	Coal	7,000,000	K Contribution
27/06/58	227	Cements of Boyacá	1,090,000	Debt Equity Swap

Sources: IFI. "Estatutos Orgánicos del Instituto de Fomento Industrial" (1958)

diverse as cement, steel, fertilizers, sugar mills, paper, shipyards, and coal; this last item, receiving most attention, however. Lastly, with the exceptions of the sugar mill and the pulp and paper cases, all of the decrees listed supplied finance to the biggest of IFI's ventures. From all this, it is reasonable to conclude, that as far as IFI's largest projects is concerned, the institute enjoyed little autonomy to decide over their realisation because the agenda was set by government. This was particularly so due to IFI's financial vulnerability, as has been discussed and shown above.

Two comments are in place. First, critics of the view – that IFI lacked institutional autonomy – might argue that the direction of the causality could have flown the other way around. That is, governments did not set the path for IFI to follow. Instead, state fund-supply was the result of effective IFI advocacy to “bringing government on board“, when embarking upon large ventures. The Institute’s successful fund-raising, thus, was nothing, but the outcome of full governmental support. Such reverse causation is plausible. However, three caveats arise from this perspective. One, evidence pointed at in an earlier section, highlights IFI’s constant liquidity problems, claims about capital insufficiency to operate, iterative doubts about its economic viability, and repeated failure to honour contracts, suggesting that what IFI lacked throughout these years was: government financial and political support. Secondly, even if such evidence is neglected, and the view of government support sustained, it has more sense to claim that government acted, not so much as full-time sponsor of IFI, but rather as the ultimate veto player. The denial, retention, and delaying of funding embodied ways to veto plans of IFI in which governments did not share up. And three, there is reason to believe that governments prefer to hold the last word in regards to the financial viability of the institute’s large projects. Counterfactual questions help clarifying this. How autonomous IFI would have become, had it been endowed with a permanent annually-based allowance of funds from the national budget? Or with a legal monopoly over foreign borrowing, as NAFINSA? Or with regular resource injections from earmarked taxes, as BNDE? Would have governments lost their veto power and sway upon the institute had IFI received a constant and ample flow of funds? IFI was only granted an entry from the national budget late in 1961, when plans to turn it into a development bank had already been put forward. So, why did this take so long? The answer, as suggested from the above evidence presented, is that it was not in governments’ interest to do so. Politicians, as will be shown below, preferred to count on a kind of IFI malleable to their interests, subject to their financial largesse.

As argued above, overwhelming fund-dependence of IFI on government implied the latter was capable of forcing or influencing projects . This was especially so with large investments. To illustrate how this took place an analysis of one of the institute’s most important ventures was done: the Valle & Cauca Coal Plant. It is an interesting case because there is empirical evidence around this project to illustrate and support claims about governmental pressure on IFI to promote the venture, and discharges from the institute on its responsibilities. Although illustrative of how political pressure was applied,

the study of Valle & Cauca is not meant to be representative of all of IFI's ventures nor is selected with a view to indicate a trend. It is due to its sole magnitude, in terms of financial resources and time and effort of IFI, that its study is justified.

7. Case Study: Valle & Cauca Coal Plant

That coal turned into one of IFI's major concerns is beyond doubt. In 1958, IFI possessed shares in Valle & Cauca worth \$10,220,140; which represented more than half of the Institute's total investments in industrial stocks in all companies⁸⁸; on top of at least another million being spent on coal studies. The means of financing differed from IFI's previous large projects, since this time most of the funds had been allocated by government via capital contributions, and not through IFI Industrial Bonds (as for Icollantas) nor by means of debentures (as for Paz del Rio). The concentration of resources was not only financial, however. To accomplish the coal project IFI implemented organisational changes creating a Coal Section to deal with all aspects related to this industry within IFI and engaging in collaboration with other agencies.⁸⁹ IFI's auditors recorded the effort: "at present, the institute is fully devoted to the establishment of the **washing plant of Carbones del Valle** [bold in the original]";⁹⁰ a statement corroborated by the frequency and length with which issues around coal are registered in the directors meetings. In other words, if Paz del Rio steelworks had been IFI's emblematic venture during the 1940s, for the 1950s the turn had come to Valle & Cauca coal plant.

It is not obvious, however, why IFI got involved in a coal plan in the first place. Coal exploitation, classification, transporting, and storage, when primarily aimed at export markets amounted to "basic industry" under the Plan de Fomento Manufacturero of 1940.⁹¹ As the Plan was indicative to IFI, and its directorship compelled to promote industries within the range of industries covered by it, the institute found no obstacles in this sense. Moreover, IFI had antecedents in the coal business. In 1943 it acquired a right to exploit the mines of San Jorge near Zipaquirá, with a view to integrate them in a soda plant, which

⁸⁸ IFI Microfilm No. 481 Consolidated Balance December 31st 1958

⁸⁹ Actas de la Junta Directiva, Act No. 196 of the Advisory Committee to the Board of Directors, May 9th 1950, Microfilm No. 3473, p. 834

⁹⁰ IFI. "Informe del Gerente" (1954) p. 61

⁹¹ IFI. *Estatutos...* (1942) p. 29

demanded important coal inputs. The sums involved were slight and the main project was not coal-based; instead, coal was incorporated as a component in the supply-chain of a larger plant. Thus, IFI only took coal seriously in the 1950s.

During this decade the country's public opinion and its political leadership began to look for alternatives to coffee exports. Contemporary official publications and press commentators offer insights into the increasing expectations and speculation that started to surround the production and export potential of coal around the 1950s. With this in mind, rather than with the purpose of assessing the accuracy of the content and forecasts back then, some illustrative evidence is brought forward. A message from the chamber of commerce of Cali (Valle) to the president Laureano Gómez, himself an advocate of coal, celebrated the enormous coal potential of the region and the facilities that the coal from Valle offered for its economic exploitation. There was no shortage of exaggeration in the missive: "Cali rests on a huge carboniferous deposit, well-known for its size and quality, as one of the richest on earth. This gigantic basin, of perturbing opulence, assures indefinite exports of this black gold. It is one of the most important reserves, if not the most important of all, for the world's future. A millenary enclosed treasure."⁹² Another coal-advocate referred to the layers present in Valle del Cauca, as "the Colombian Ruhr", pointing at the equivalency to northern Germany's massive deposits.⁹³ Similar tones described access facilities to coal seams and their economic capabilities. Alike, a vast potential of coal for exporting became a generalised phenomena among opinion makers, government, and coal entrepreneurs.

Amidst the euphoria international markets were said to spring up everywhere. Cali's chamber of commerce listed Argentina, Ecuador, Peru, Chile, Uruguay, Paraguay, Brazil and several Central American nations as firm clients.⁹⁴ Others added Japan.⁹⁵ IFI did seem to escape the frenzy at first. One of its directors requested: "more information on the studies that have verified the possible markets for Valle & Cauca; so far information is

⁹² Cámara de Comercio de Cali. *Mensaje de la Cámara de Comercio de Cali al Excelentísimo Sr. Dr. Laureano Gómez Presidente de la Republica* (1951) pp. 1-5

⁹³ De La Espriella, R. "Posibilidades del Carbón Colombiano" in *Economía Colombiana* (1957) Vol 15 No. 44, p. 530

⁹⁴ *Ibid*; p. 7

⁹⁵ Departamento de Investigaciones Económicas de Industria Colombiana. "El Carbón: Clave del Futuro Económico de Colombia" in *Industria Colombiana* (1954) No. 11 p. 26

based on general statistics, but there is no first-hand research... [] a situation might arise in which the plant is working and the production for exporting lacks markets".⁹⁶ Later however, IFI joined the optimistic trend including Germany, Italy, Mexico, Costa Rica, and many others to its exporting destinations.⁹⁷ The enumeration of buying-nations was often accompanied by concrete numbers in exporting incomes, coke and other coal-derived products tonnage, and potential and actual reserves in the billions. In short, a wave of expectations based on coal cropped up with a view to make the national economy less dependent on coffee, and to exploit a vast natural resource hitherto forgotten.

To be fair, expectations about bright prospects for coal in the post-war were not unjustified. First, Europe's and Japan's reconstruction efforts were deemed to require a strong demand for energy, which by the 1950s, essentially meant coal. According to Yergin's estimates, by 1955 coal provided 75% of total energy use in Western Europe, and more than half of that in Japan.⁹⁸ Secondly, energy-supply in Europe faced serious problems: not enough coal capacity, low productivity, and a disorganised and militant labour force.⁹⁹ In 1946, Europe suffered its first post-war energy crisis, as the result of the combined effects of roaring demand, a terrible shortage of coal, and a very cold winter. Thirdly, prospects of finding cheap coal-substitutes for industrial boilers and power plants along with hopes of converting the West's economies to oil faltered at first, as oil prices kept relatively high and ensuring supply from international supplies proved risky, as the Suez crisis of 1956 unfolded. In short, public and private optimism in regards to potential Colombian coal exports in the post-war years were well warranted. Export potential, however, was not sufficient to turn coal into a real and lasting alternative to coffee, as will be shown later.

It was within this international context of global energy crisis and a national-opinion climate willing to exploit the opportunities that emerged from it, that IFI received substantial funding from government for the coal venture. The first presidential decree in the series (see above) promoting coal dated December 1950. The measure provided funds to IFI and other entities to conduct studies on coal reserves and prospect the mines whose economic viability seemed promising, it authorised Caja Agraria to advance subsidised

⁹⁶ Actas de la Junta Directiva, Act No. 521, August 26th 1953, Microfilm No. 3473, pp. 1053-54

⁹⁷ IFI. *Informe del Gerente* (1956) p. 22

⁹⁸ Yergin, D. *The Prize: An Epic Quest for Oil, Money and Power* (1990) pp. 544-45

⁹⁹ *Ibid*; pp. 423-24

credit for purchase of machinery and equipment for coal exploitation, and made an explicit emphasis on the production of coal for exporting purposes.¹⁰⁰ The inflows, however, had “strings attached”. The resources could only be directed toward the exploitation and exportation of coal projects; more concretely, to the Valle & Cauca plan. Executive decrees throughout the 1950s transferred funds to IFI on condition that these were exclusively destined to the study, installation, construction, and conclusion of the coal washing plant and related matters.¹⁰¹ There is no evidence of fund diversion within IFI once funding for this purpose was received. On the contrary, IFI’s minutes of directors meetings often indicate clear-cut observance of the letter and spirit of those legal dispositions.¹⁰² By supplying IFI with earmarked funds only (or mostly) governments were effectively fixing the agenda of the institute. In this case it occurred with the development of the Valle & Cauca washing plant.

And yet, what was the Valle & Cauca venture about? As gathered from above, at its core was an effort to exploit a domestic natural resource in order to industrialise it and to export it. However, given the mineral characteristics of most of the coal deposits found in Valle and Cauca, for it to be exported the coal needed be washed, classified and blended.¹⁰³ It was out of this requirement that IFI entered the project. Its main task was to construct the washing plant that made coal exportable. As the project grew complex it encompassed three main parts: washing plant construction, mines’ mechanisation, and port railways facilities.¹⁰⁴ IFI executed the first in its entirety, acted as comptroller in the second, and left the third to the national railways company. A strong interest in IFI arose regarding the mechanisation of the mines for the plant to be economically viable it needed to operate under a certain minimum of its capacity, and to guaranteeing sufficient inputs, coal production had to increase.

¹⁰⁰ See Decree No. 3580 of 1950 in IFI. *Estatutos...* (1959) pp. 65-68

¹⁰¹ For full decree contents see Decree No. 3580 of 1950 pp. 63-65; Decree No. 248 of 1951 pp. 68-70; Decree No. 2600 of 1953 pp. 75-78; Decree No. 2674 of 1954 pp. 81-82; Decree No. 364 of 1957 pp. 90-92; Decree No. 163 of 1958 pp. 93-95 in IFI. *Estatutos...* (1959). In some of these decrees earmarked funds to other ventures were included, as was the case for Cementos Boyacá, and Industria Colombiana de Fertilizantes; and coal studies for the El Cerrejon deposits in Magdalena

¹⁰² See Actas de la Junta Directiva, Act No. 478, August 14th 1952, Microfilm No. 3473, p. 994; and Actas de la Junta Directiva, Act No. 439, June 14th 1951, Microfilm No. 439, pp. 900-01

¹⁰³ High contents of ash and sulphur made that coal very difficult to place in international markets. After washing and blending Valle & Cauca should be competitive, at least as far as its physical qualities concerned.

¹⁰⁴ IFI. *Informe...* (1956) p. 17

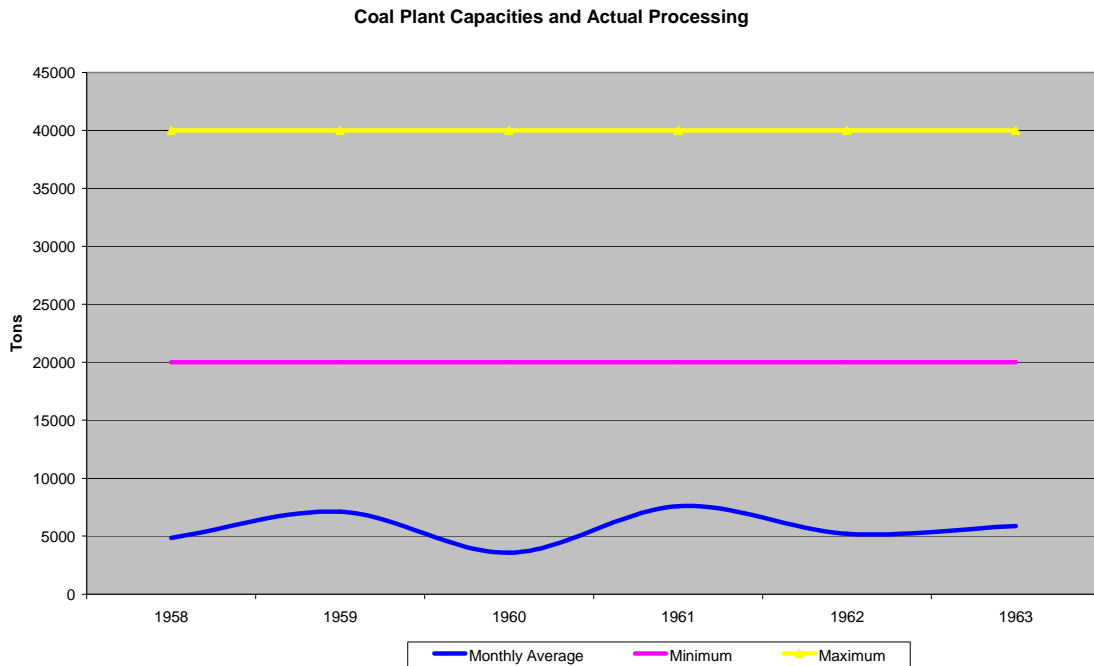
IFI ignored its own early warnings on the technical and economic feasibility of the coal project. A 1953 report by foreign expert and consultant Dr. Mehvirter noted: “Reserves: The quantities of reserves are sufficient, but the qualitative ones need be determined. As coke is one of the key points in the project the large investment of capital required is being based on a sample without confirmation and there is no available information as to whether or not other layers are susceptible of being coked. This is the scheme’s fundamental weakness. More coking trials are imperative. Production: Due to high financing costs it will not be profitable to operate the plant with production levels below 20,000 tons per month... [] Markets: It is not expected for the domestic market to grow strongly. The only additional market is to export. The quantities in which can be sold are unknown. The varieties of which can be sold are unknown. The sizes of which can be sold are unknown. Effectively, nothing is known about the possibilities or requirements of the market. Have the producers of coal understood that for two years they will have neither profits nor markets; but only expenses. I DOUBT IT. [Capitals in the original].”¹⁰⁵ In other words, given the fact that the whole edifice of the coal project was based on its production being exported, the Mehvirter report suggested, at least, structural negligence and demanded immediate action for the sake of the viability of the plant.

Despite the serious recommendations noted above, Dr. Mauricio Archila, general-manager of IFI, on the very same day the report was published stated: “the project of the washing plant and the exploitation of coal for exporting had been exhaustively studied by IFI and other entities...[and that] the institute is prepared to verify the purchase of the equipments for the plant”¹⁰⁶ The investment on the coal venture went ahead and it is not possible to demonstrate with historical evidence that such a decision was, or was not, justified. An unsupported assertion is that total disregard of the expert advice hints that the criteria governing this particular project appeared to be other than technical, financial or economic.

¹⁰⁵ Actas de la Junta Directiva, Act No. 522, September 9th 1953, Microfilm No. 3473, p. 1056

¹⁰⁶ Actas de la Junta Directiva, Act No. 522, September 9th 1953, Microfilm No. 3473, p. 1056

FIGURE 9



Sources: Corporación Autónoma Regional del Cauca (1965) and IFI “Informes y Balance” various years

The Valle & Cauca business turned into failure early on. After more than a year of delays and significantly over budget the washing plant began making losses in 1957. A glance at its performance explains why. As seen from Figure 9, the plant never got close to processing the minimum of 20,000 thousand tonnes per month deemed necessary for it to achieve economic viability. Its peak was reached in 1961 when 7,588 tonnes went through, but the average in its short life-time was 5,704 tonnes. In this 6-year period it utilised only between 12% and 25% of its installed capacity. Thus, the plant sunk in losses from its onset and affected negatively IFI’s own financial accounts.

By the first semester of 1961, the institute recorded the largest accounting loss of its history. A total of \$10,261,604 loss was the balance of its income statement.¹⁰⁷ Around 90% of it due to industrial stocks devaluation i.e. the collapse of Valle & Cauca’s market value. This should have brought IFI to the brink of extinction. The loss represented 42% of the institute’s total capital and its organic law dictated automatic liquidation if losses reached 50%.¹⁰⁸ Losses on the ground were also important. For 1961 the annual report

¹⁰⁷ IFI Microfilm No. 482 Consolidated Balance and Income Statement, June 30th 1961

¹⁰⁸ IFI. *Estatutos...* (1942) p. 14

exhibited losses of \$1,139,994 for Valle & Cauca¹⁰⁹, and \$1,441,033 in the related development of the Timba and San Francisco collieries, which supplied feedstock to the washing plant.¹¹⁰ Faced with this situation a report by the Comptroller encouraged IFI to look for the termination of the contract celebrated between the collieries and the institute, ruling out real possibility to recover \$5,000,000 worth in investments¹¹¹; and hinting at the beginning of the end of the project, as this meant reducing further coal-processing levels. A couple of years later, IFI shut down the washing plant dismissing some 300 workers, and leaving several coal producers, which required their anthracite coal to be processed, in an uncertain situation.¹¹²

With the benefit of hindsight IFI and others have examined more closely what went wrong with Valle & Cauca. “The strong desire to supply the domestic coal market, and to open up a new exportation item, has not been accomplished due to the lack of complete studies about the characteristics of the deposits, the markets, and the economic conditions of its production, transportation, and distribution”, wrote the general-manager in 1961.¹¹³ A Belgian mission in the early 1960s arrived to Cali to look for the roots of the washing plant failure; and a study commissioned by Valle’s Regional Corporation prepared a report to establishing the causes of the crisis of the coal industry there, and the factors of main incidence behind the closure of the washing plant, and prospects toward its re-opening.¹¹⁴

The investigations concluded: first; markets for production were local, since it was not possible to compete either in the national markets or in the international ones. Secondly, most of the extractive processes are conducted in a rudimentary manner wasting valuable reserves and making the extraction non-economic. Thirdly, supply does not meet demand. Fourthly, the operation of the washing plant is anti-economic. This is due to the joint effect of producers’ unwillingness to process their coal and consumers’ resistance to buy washed coal, alleging high humidity levels. Processed coal is 25% higher in price than crude coal; hence it is not competitive. Fifth, the coal of the region is not exportable

¹⁰⁹ IFI. *Informe* (1961) pp. 41-43

¹¹⁰ *Ibid*; pp. 52-54

¹¹¹ Actas de la Junta Directiva, Act No. 808, March 6th 1961, Microfilm No. 3474, pp. 1680-81

¹¹² See Corporación Autónoma Regional del Cauca. *Investigación sobre la Industria del Carbón en el Valle del Cauca* (1965) pp. 1, 61

¹¹³ IFI. *Informe* (1961) p. 33

¹¹⁴ See Corporación Autónoma Regional del Cauca. p. cit “Investigación sobre la Industria del Carbón en el Valle del Cauca” (1965)

because of both its uncompetitive price and its failure to meet international standards of quality. Finally, the washing plant must definitively terminate its operations.¹¹⁵

As had been indicated by the timely Mehvirter report lack of accurate knowledge of the deposits proved a crucial deficiency. At least so, argued articles and studies by foreign experts, such as Edward Roesler, who stated, that: “among the most fundamental aspects of coal exploitation figure knowing seam thickness”.¹¹⁶ Mid-twentieth-century assessments prove to be right, as more contemporary studies, such as that of De la Pedraja, suggest. He sustains, that although there was plenty of coal reserves, as forecasted by everyone, seams were thin and irregular, widely scattered and often vertical.¹¹⁷ Summarising, the impossibility of realising economically productive extractions of the Valle & Cauca coal mines originated in the nature of the coal seams themselves. This vital aspect was left out on any considerations about the levels of output necessary for the washing plant to operate economically. This disregard determined to a large extent the ultimate fate of the plant. Is it possible that this neglect for the technical aspects in the conception of the project of Valle & Cauca was the consequence of political intervention in IFI’s investment decisions? The next section aims to answering this question on the basis of empirical evidence.

8. Government Intervention on IFI’s Decision-Making: Historical Evidence

Can be shown that it was government meddling in the Valle & Cauca project what led to its demise? The quest for hard evidence on political pressure and-or political criteria governing the viability of economic ventures is an elusive one. The following is probably the most clear-cut available historical evidence insofar as governmental intervention in the Institute’s selection and management of its investment projects is concerned. As mentioned in the introduction of this chapter, several of the directors’ remarks that originate in the minutes of the board -then confidential - hinted, that due to government meddling its financial performance had been damaged. In this respect, Álvaro Hernán Mejía, general-manager, wrote: “The financial problem of IFI has been aggravated in previous years due to

¹¹⁵ Ibid; pp. 4-18

¹¹⁶ Roesler, E. “La Economía Minera de la Industria del Carbón en la Región Caleña” in *Industria Colombiana* (1954) No. 11. pp. 29-30; and Banco de la Republica. “La Producción de Carbón en Colombia” in *Revista del Banco de la Republica* (1957) Vol XXXI, No. 365, especially pp. 285-86

¹¹⁷ De la Pedraja, R. *Petróleo, Electricidad, Carbón y Política en Colombia* (1993) pp. 350-51

the fact that to its care were trusted enterprises initiated by other official sectors, - which for lack of technical planning or fault in their financial system - came to constitute a heavy burden and with few chances of this situation being rectified.”¹¹⁸ This is a reference to the collieries of Timba and San Francisco, that were initially assisted by the Caja Agraria, and whose businesses were transferred to IFI, in view of the construction of the washing plant. More specific complaints were voiced by Jorge Miller in IFI’s meeting of directors in February 1959, who then stated: “it must be included in the memorandum the issue concerning the companies that the institute has been forced to continuing promoting, such as Cauca & Valle plant...”¹¹⁹ The quote is more telling because Miller himself, was one of two presidential appointed members in the board. The point to make here is that, as follows from these two pieces of evidence, IFI had both to enter into the project and to stay in it, for governmental rulings.

In similar fashion, Ángel Echeverri, representative of the BCH in the board of directors, raised questions about the overall purpose of IFI’s intervention in those ventures and about their role in the broader development strategy. He declared: “government must be notified that the capital contributions of IFI in these enterprises cannot exhibit any satisfactory outcomes, for these do not belong to any general plan that aims at a clear-cut objective.”¹²⁰ A similar opinion was expressed by the other government representative in the board, General Alfonso Ahumada, who declared: “the problems in the coal industry and Cementos Boyacá were not possible to foresee, as these were ventures that originally laid outside the institute’s action range.”¹²¹ Strictly speaking, and as noted earlier, contrary to Echeverri’s and Ahumada’s comments, coal was initial part to the developmental plans of IFI, as stated by its foundational charter. And cement may well have classified as basic industry. Nevertheless, their discharges seemed to suggest that governmental rulings that decreed that IFI had to promote these industries were not consistent with IFI’s plans at the time of their administration, and that were not considered thoroughly as immediate prospects.

¹¹⁸ IFI. “Informe del Gerente” (1959) p. 14

¹¹⁹ Actas de la Junta Directiva, Act No. 715, Microfilm No. 3474, pp. 1954-57

¹²⁰ Actas de la Junta Directiva, Act No. 715, Microfilm No. 3474, pp. 1954-57

¹²¹ Actas de la Junta Directiva, Act No. 723, Microfilm No. 3474, pp. 1480-81

A third director, Ernesto Vasco, added a dose of regional politics was present in the coal plant case, as he stated: “IFI’s actions regarding these companies [referring to Valle & Cauca and Timba and San Francisco collieries] have been surrounded by very complicated situations: in the case of Carbones del Valle, an offer [to purchase the company] by Dade Petroleum Company was presented to IFI; but Vallecaucanos manifested that neither the plant could be sold to Dade nor the mines transferred, because this represented a threat against the national sovereignty; thus they offered to financing the industry; however, at the time of reckoning no contributions were made toward its financing...”¹²² Effectively, what Vasco denounced was a palpable exercise in nationalistic politics, by which IFI was compelled to forsake a good opportunity to recover some of the inflicted losses in that company through its sale. Instead was tied to it and forced to delaying its exit from the market. In the collieries case, Vasco expressed his uneasiness about the fact, that the transferral of this business from Caja Agraria to IFI meant, and with them had also been transferred the obligations to attend their liabilities, troubling further IFI’s own finances.¹²³

The displayed evidence points, at the very least, to governmental co-responsibility in the failure of Cauca & Valle project. First, IFI seemed not to have enjoyed freedom to select and fund the entirety of the venture, as the Timba and San Francisco administrations were apportioned to IFI, with all the technical and financial inconveniences they entailed. Second, IFI was prevented from realising a seemingly advantageous sale of the company, when the opportunity arose, because of nationalistic waiving. Thus, IFI was forced to delaying the exit of this company from the market. Third, it is not clear that governmental support of the coal venture fitted in any cohesive and imminent manner within the wider goals of economic planning and development of the institute at the time. In sum, government set the target, brought IFI into the project and prevented the institute from exiting it. In other words, as far as Valle & Cauca is concerned the institute was unable to apply technical and economic criteria in the assessments of the viability of the investment. Instead, government did it on IFI’s behalf and the consequences of such interfering proved disastrous.

¹²² Actas de la Junta Directiva, Act No. 715, Microfilm No. 3474, pp. 1954-57

¹²³ Actas de la Junta Directiva, Act No. 715, Microfilm No. 3474, pp. 1954-57

9. Conclusion

The main sections of this chapter have offered a revisionist view on the role of IFI in the industrialisation of Colombia. The challenge to the conventional literature originates in two shortfalls of the historiography. The first consists of the treatment commonly given to IFI as an organisation that promoted industrial development through the same mechanisms and with same intensity throughout its life. Hitherto, the vast majority of the literature had failed to appraise IFI in its role as direct industrial promoter; that is, as entrepreneur and provider of venture capital. The period 1940-64, is a distinctive one for IFI and its contribution to industrialisation needs be assessed separately from that when acting as a development bank – post 1964. In this sense, an initial contribution of this study to the historiography is that of delineating a new periodisation in the history of the institute.

The second problem with the current literature relates to the frequently portrayed picture of IFI as a key player and contributor to industrial development. A preliminary assessment of the actual contribution of the institute suggests that such a view has been misconstrued, at least for the period 1940-64. In absolute terms, the number of firms successfully promoted and transferred to the private sector hardly passed the dozen, the share of IFI in the total of industrial investment, on average, did not even reach 1%, and the evidence on the participation of shares of IFI in publicly limited manufacturing companies indicates that the institute was more often than not the junior partner in these private-public joint ventures. Implications from this latter point hint, contrary what authors, such as Revéziz propose, that IFI must have faced difficulties in influencing the pricing policies of the firms it promoted, as for these to have sold their products – especially intermediate and basic inputs – at subsidised prices; thus having “contributed” indirectly to industrial expansion. In short, very modest financial contributions of IFI to its industrial firms, which constituted IFI’s chief mechanism to promote industry in this period, substantiate the claim proposed in this study, that IFI was not an increasingly important tool for industrialisation.

The underlying reason why IFI’s role was not that the literature claims, is that the strong financial muscle that it was assumed that IFI possessed was not so strong. On the contrary, and as demonstrated with primary-evidence from the directorship - or in other words, from “within”, the Institute suffered from chronic and severe financial problems. This financial

fragility combined with an overwhelming funding dependence upon government and its own inability to generate a regular stream of resources out of its investment projects undermined the capacity of IFI to perform a significant task in industrial development. Moreover, under these conditions IFI lost the ability take its investment decisions in an independent fashion. Successive public capital contributions to the institute with “strings attached”, meant that politics came into play when deciding upon the selection of large projects, as illustrated with Cauca & Valle coal plant. The largest of IFI’s projects often ended in company liquidations that caused massive losses on the institute, affecting further its own performance and the capacity to contribute more decisively to Colombia’s industrialisation.

A logical corollary of the revisionist role played by IFI necessarily has implications on broader explanations about Colombia’s economic development. More explicitly, a downgrade on the role played by IFI weakens interpretations that assume that industrialisation in Colombia took place under the guidance, leadership, or sponsoring role of the state. State-led and ISI-based interpretations that worked on the assumption that IFI had been an important pro-industrialising agent must be reconsidered on two grounds. First, on the obvious point, that the contribution was, and could have never been, as decisive as implied until now. Secondly, that the Colombian state actually committed itself wholeheartedly to the industrialising project via the political and financial support of developmentalist agencies, such as IFI. There is a new and persuasive need to question the effective “commitment” and “preferences” of the Colombian state towards industrialisation

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