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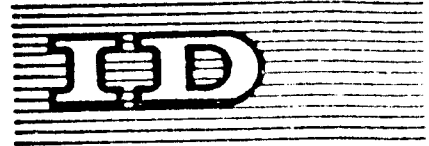
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**Meeting on Co-operation between Industrial Development  
Financing Institutions in Developing Countries and  
in Industrialized Countries**

**Paris, France, 16-19 March 1970**

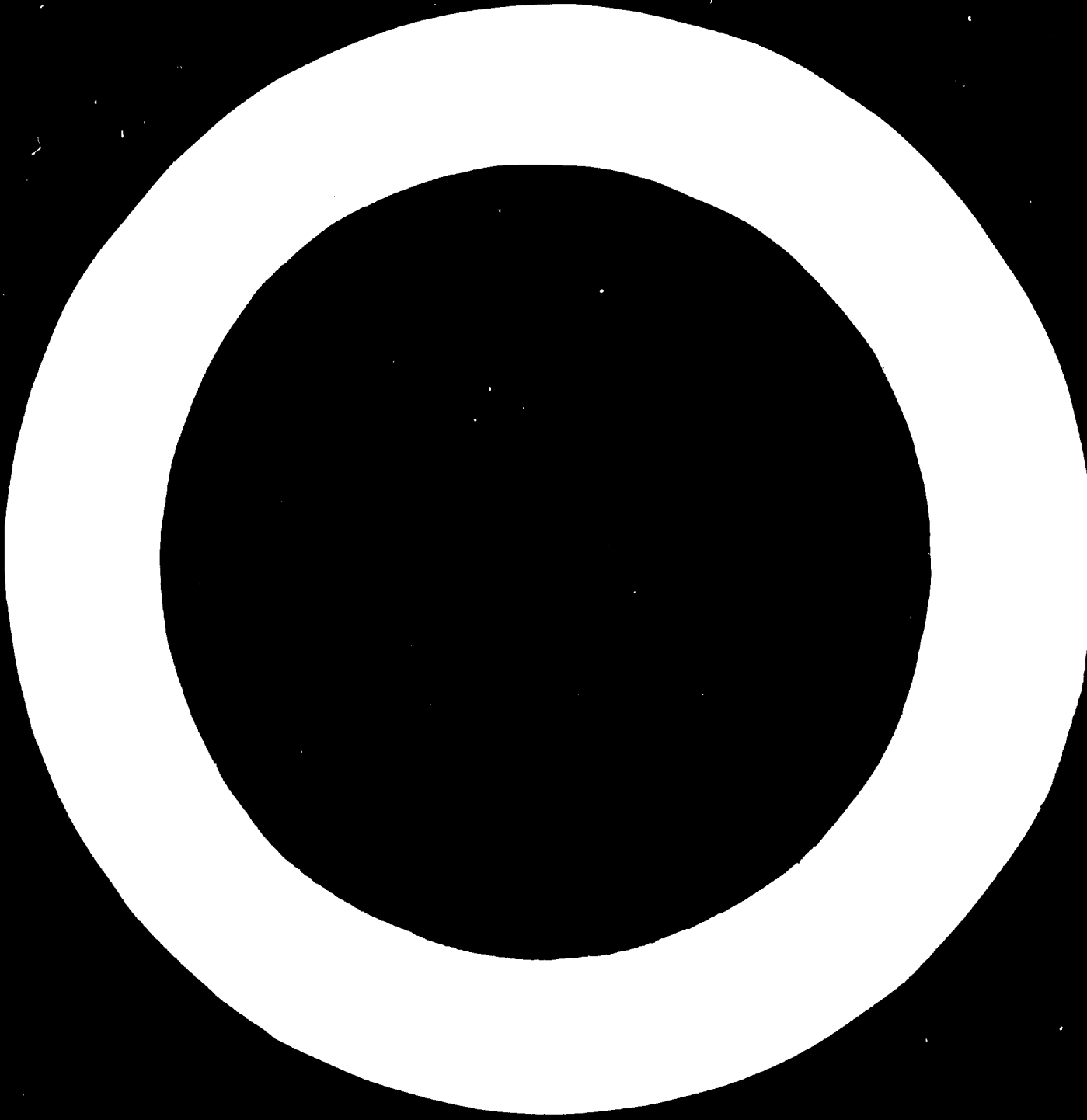
**DISCUSSION PAPER**

**QUESTIONS RAISED BY THE CO-OPERATION  
BETWEEN INDUSTRIAL DEVELOPMENT FINANCING INSTITUTIONS<sup>1/</sup>**

**Prepared by UNIDO**

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## I. INTRODUCTION

1. Co-operation between development banks is not a new idea. Such co-operation has been promoted and developed by the banks themselves on their own initiative. The World Bank, regional development banks and other international and regional organizations have stimulated and are continuing to stimulate this co-operation. The initiative taken by the UNIDO in organizing this meeting has as its goal to complement and to contribute to the efforts which have already been started and pursued in this area, by discussing in particular co-operation between development banks in promoting the industrialization of developing countries.
2. It is generally recognized that the financing of industrial development has specific characteristics and needs. This explains why specialized institutions have been created for industrial financing in many countries, both industrialized and developing countries. These institutions play an important role in the promotion of industrialization. Their activities are not limited to the financing of new enterprises or the expansion of existing ones; they also take the initiative in promoting new industrial investment by making pre-investment studies, by finding suitable partners for the setting up of joint ventures, and by identifying sources of external financing, etc.
3. The aim of this meeting is to discuss (a) the concrete opportunities for co-operation between development banks in promoting industrialization in developing countries, (b) the mechanism and practical ways and means needed to implement this co-operation, and (c) the role which UNIDO could play, in co-operation with other organizations (particularly the World Bank and the regional development banks), in stimulating and promoting this co-operation.
4. The UNIDO is conscious of the importance of direct and personal contacts between the managers of these banks in fostering practical arrangements for co-operation between their institutions. Therefore to obtain the best possible practical results from this meeting, the UNIDO has allotted two days for the participating managers of banks to discuss concrete proposals of co-operation between their banks. However, concrete proposals of co-operation between two or more banks cannot be isolated from a discussion of the general problems which are

common to co-operation between development banks. It is therefore suggested that the examination of concrete proposals, which will be made in the course of individual meetings, be supplemented and complemented by a general discussion of these common problems.

5. It is in this spirit and to facilitate discussion that the secretariat of the UNIDO has drafted this paper with a view to ensuring that a practical and concrete approach is developed at the Meeting. It is suggested that the discussion concentrate on specific questions and avoids meaningless generalizations. The questions might be discussed under the following headings listed in the agenda:

- (a) Co-operation in the financing of industries in developing countries;
- (b) Co-operation in the field of technical assistance, sharing experience and exchanging information;
- (c) The role which UNIDO could play in fostering this co-operation separately and jointly with other international organizations (particularly the World Bank and regional development banks).

6. The possible areas of co-operation are numerous and the above list is not exhaustive; therefore it is up to the participants to suggest other forms of co-operation. It is thus suggested that in the first part of the discussion participants should identify possible forms of co-operation. Then participants could determine more precise fields of co-operation which, in their view, have a high priority and the promotion of which is useful and possible. Finally, it would be desirable that participants make suggestions concerning the mechanism and the ways and means which can be applied to make this co-operation mutually advantageous.

7. It may be useful to start by indicating between which banks these types of co-operation can and should be encouraged. A general assessment might bring out the following three points.

- (a) Co-operation seems to have developed more between development banks of developing countries and similar institutions in industrialized countries than between banks in the developing countries themselves.
- (b) Co-operation between banks of developing countries and those of industrialized countries has been more active where non-specialized development banks were involved;

Industrial development banks in some developing countries seem to maintain only a limited range of business contacts with financing institutions in industrialized countries.

- (c) Despite the initiative and efforts undertaken to foster a triangular co-operation between national development banks, regional banks and financing institutions of industrialized countries, this form of co-operation has remained limited (both horizontally and vertically.)

If this assessment is a fair one, participants could consider the following issues:

- Q.A. : Why has co-operation remained limited in each of the three above-mentioned cases and what action could be suggested to develop it?
- Q.B. : Are there any fields and forms of co-operation which could be usefully developed in each of the enumerated cases and what are they?
- Q.C. : What fields of co-operation other than those enumerated above could be considered?

II. CO-OPERATION IN THE FINANCING OF INDUSTRIES IN DEVELOPING COUNTRIES - Agenda item 5

8. This first form of co-operation must be considered within the context of the promotion of the transfer of capital from industrialized to developing countries. It is an important part of the co-operation between industrial development banks located in developing countries and similar financing institutions in industrialized countries, but one should not exclude such possible co-operation among banks of developing countries. This co-operation faces the same obstacles as those which check the flow of capital from industrialized to developing countries and it is confronted with the same problems, particularly those associated with certain non-commercial risks. However, the participation of a national or regional bank (individually or in association with a national bank) could bring about or contribute to the finding of at least ad hoc solutions to these problems, though probably not general solutions.

At this point, participants could consider the following issues:

Q.A. : Could the financial participation of a national or regional development bank - or both associated - in co-operation with financing institutions of industrialized countries, contribute to a solution of the problems raised and to reduce the difficulties which at present have to be faced in the whole problem of financing the industrialization of developing countries?

Q.B. : If so, how and to what extent could co-operation between development banks in industrialized countries and those in the developing countries contribute to promoting the financing of industrialization in these countries?

9. Co-operation in the field of industrial financing can take many forms. It may be appropriate to make a distinction between participation in the capital of a national industrial development bank and the granting of credit to the latter in various different forms. As concerns participation of a financing institution of an industrialized country in the capital of an industrial development bank in a developing country, experience shows that this form of co-operation seems to spread more in favour of private sector institutions than in favour of public sector institutions. This participation is not always a majority participation; in many cases it is in fact a minority participation. This makes its extension possible to institutions belonging to the public sector. The main objective of this formula is to reinforce and activate co-operation between institutions which have adopted this form of financial association.

Q.A. : What opinions does the meeting have on participation in the capital of financing institutions of developing countries? What are the motivations for such participation? Do the motivations differ for private or public institutions, for minority and majority participations?

10. To the knowledge of the UNIDO, there are not many cases where industrial development banks in developing countries have participated in each other's capital. One could therefore ask whether it could be useful to extend such "inter-bank participations" between financing



institutions of developing countries? Some developing countries are producers of capital equipment which could find a market in other developing countries if financing conditions were as favourable as those granted by developed countries. Industrial development banks are one of the best sources of information on the needs for capital equipment of the country. After having identified this need, it is conceivable that industrial financing institutions which are closely associated through participation in each other's capital are particularly well adapted to consider ad hoc financing formulas.

Q.A. : What are the views of participants on "inter-bank participations" of this type? Does this raise special problems? Between which type of institutions would such participation be most profitable?

11. The form which co-operation in the field of financing and, more particularly for the granting of credits, can take, ranges from a simple commercial operation (e.g. the granting of export credit) to the formation of a consortium to finance a specific industrial project. It is not necessary to enumerate here these various activities to a meeting where all the participants are professional bankers and financiers. However, it might be useful to mention certain forms of financing as follows:

- (a) granting of a line of credit to a bank in a developing country for the financing of investments in industrial projects in that country;
- (b) granting of a special loan to a bank in a developing country for the financing of one or more specific industrial projects in that country;
- (c) joint financing of an industrial project in a developing country with a bank from an industrial country;
- (d) the setting up of a financing consortium in favour of a bank in a developing country, or in co-operation with it;
- (e) taking shares in the equity capital of industrial enterprises financed by a bank in a developing country.

It would also be interesting to know whether some financial institutions from developed and developing countries have set up novel financing schemes whose character is different from the more classical formulas described above.

Q.A. : What are the advantages and disadvantages of these various forms of co-operation in the field of financing?

Q.B. : In the experience of participants, what are the methods of financial co-operation between institutions of developing and developed countries which differ from the classical formulas and are better adapted to the needs of developing countries for external financing of industrial projects?

12. In the financing of industrial investments in developing countries, the financial participation of a bank in an industrialized country is largely made through industrial enterprises in that country. Although both types of formula (financing through an industrial enterprise in the lending country, or through the intermediary of a development bank in the recipient country) can be complementary, it is worth asking:

Q.A. : What are the advantages and disadvantages of these two financing formulas and how will they develop in the future?

13. Co-operation in the field of financing with a national bank for industrial development raises a certain number of issues, especially as concerns the utilization of funds loaned to the local bank for the financing of industrial investments.

Q.A. : Do participants consider that the local bank should be entirely free in the utilization of funds which it is loaned or are they in favour of the lending institution maintaining a certain control over this utilization?

Q.B. : In the same situation should the right of control be exercised on the occasion of the financing of each individual operation, or should certain general criteria be mutually agreed as the rules and conditions for the utilizing of financial resources granted to the local bank?

14. It is often considered that the industrial development banks of developing countries could contribute to the promotion of external financing by offering their guarantee to supplement their own limited financial resources and thereby contribute indirectly to the financing of industrialization in their countries.

Q.A. : What are the views of participants on this form of co-operation, and what are the possibilities and advantages of this development?

15. The financial co-operation between banks of industrialized countries and those of developing countries can sometimes be enlarged by associating a regional development bank in the financing plan. Also on its own incentive, the regional development bank could promote the financing of industries in a country in its region in co-operation with a bank of that country and one or more banks from industrialized countries.

Q.A. : What are, in the experience of participants, the possibilities of promoting such triangular co-operation and how should it be developed?

16. Co-operation in financing between industrial development banks of developing countries (separately or in association with a regional development bank) is particularly applicable in the case of joint or regional industrial projects.

Q.A. : What is the experience of participants in this field? How can this form of co-operation be developed?

### III. TECHNICAL ASSISTANCE, SHARING EXPERIENCE AND EXCHANGING INFORMATION Agenda: Item 6

17. Institutions specializing in the financing of industrial development acquire in the process of their operations useful and varied experience. This permits co-operation between banks with a long experience and those which have been created more recently (where the basis is different levels of experience), and co-operation between banks with the same level of experience (where the basis is the variety of experience). Technical assistance, sharing experience and the exchange of information need not be envisaged only between institutions in the industrialized countries and those in the developing countries; co-operation may also develop between different banks in the developing countries themselves. In

fact, certain banks in developing countries may have acquired a particular type of experience which could be of interest for a similar bank which has been established for a long period. One could for example, imagine a development bank which had introduced a successful scheme for mobilizing domestic savings or external financial resources; in this case a bank which would like to benefit from this experience could usefully obtain information from the other bank which already has experience in this matter.

18. The area for possible co-operation on technical assistance, exchanging experience and exchanging information is as wide and as varied as the banking activity itself. It is not possible to examine here all the forms of co-operation but it may be useful to mention some of them:

- (a) Assistance in the organization and operation of an industrial financing institution;
- (b) Assistance in the training of its staff;
- (c) An exchange of experience of the development of techniques to mobilize domestic and external sources of financing;
- (d) An exchange of particular types of information, for example on economic and technical studies of specific projects, or more general information on the subject of industrial development.

19. With both potential sources and potential recipients of this type of assistance represented at this meeting, it should be possible to better identify the need for this type of co-operation and ways and means of satisfying them.

Q.A. : Can the participants, particularly the representatives of banks from developing countries, identify for consideration by the meeting their specific needs in these areas?

Q.B. : Can those institutions who are in a position to offer assistance or an exchange of information indicate the practical possibilities of responding to these identified needs?

**Q.C. :** What methods and procedures do the participants suggest for promoting this co-operation in each of the four areas cited above?

20. The study, the finance and the realization of industrial projects are without doubt some of the most important activities performed by industrial development banks. Mistakes which are made in this area are costly not only for the institutions themselves but equally for the economy of the country. Frequently despite pre-investment studies which are often conscientious, they do not in reality correspond to the expectations of the feasibility studies made before the project was realized. The experience acquired in the implementation of these projects can be taken into account when preparing preliminary studies of a similar project in another country. It would be regrettable if the body of practical knowledge built up in this way remained unused.

21. If it is difficult to conceive how one could completely transfer the experience of one financing institution in studying, financing and implementing a specific industrial project to another institution, it is surely possible to envisage a partial exchange of information where the confidential nature of the information transferred was respected.

**Q.A. :** Do the participants believe that the exchange of information on specific industrial projects, initiated or financed by the institutions which they represent, constitutes a useful form of co-operation?

**Q.B. :** What would be the best means to obtain and disseminate this information on specific industrial projects?

**Q.C. :** Do the participants consider that it would be useful if a "clearing" organization was established on a permanent and systematic basis to handle these requests and replies?

**IV. POSSIBLE ACTION BY THE UNIDO Agenda : Item 7**

22. In terms of the mandate given by the General Assembly of the United Nations, the UNIDO was asked in particular to undertake: "assistance, at the request of governments of developing countries, in obtaining external financing for specific industrial projects, by giving guidance in the preparation of requests, by providing information on the terms and conditions of the various financing agencies and by advising the financing agencies of the technical and economic soundness of the projects submitted for financing".

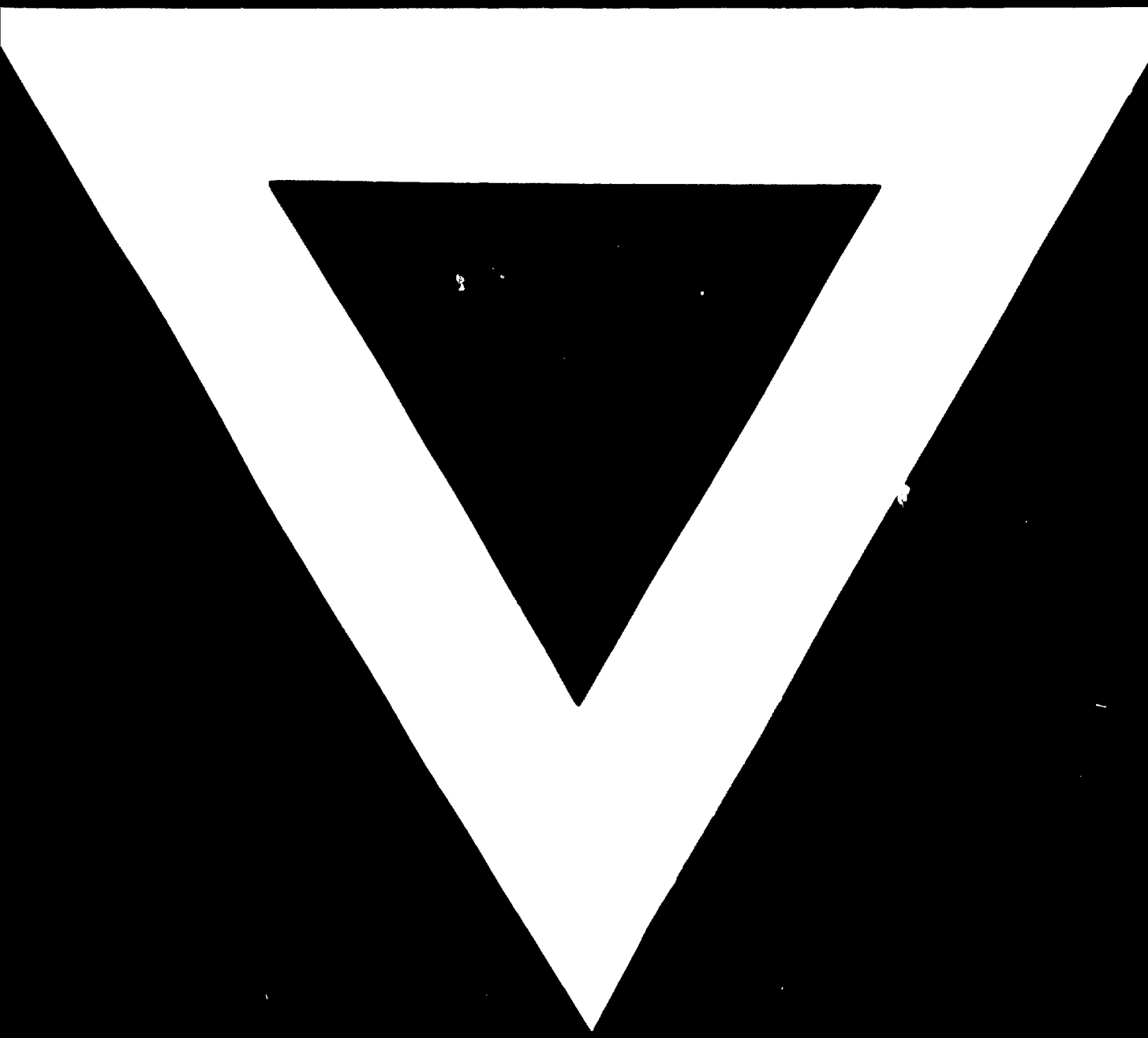
In accomplishing this task, the UNIDO attaches particular importance to the role of industrial financing institutions in the developing countries; that is why its programme of work foresees assistance to these countries in the creation of such institutions and in the strengthening of those institutions which already exist. As a complement to this assistance, the UNIDO also believes firmly in co-operation with the financing institutions of the industrialized countries, as well as recognizing the importance of stimulating co-operation between these institutions and similar institutions in the developing countries.

23. A wide range of opportunities for co-operation will be brought out and discussed by the participants. Certain forms of co-operation will certainly receive more priority than some others. In many cases it will be indispensable to envisage a permanent mechanism for putting certain forms of co-operation in a concrete form. The UNIDO could participate in the promotion of certain forms of co-operation between these institutions. The views of participants could contribute to a better definition of possible action of the UNIDO in this area separately or in co-operation with other international organizations.

**Q.A.** : What are, in the opinion of the participants, the priority areas of co-operation between industrial financing institutions where the action of the UNIDO would be desirable?

**Q.B.** : What should be, according to the participants, the role of the UNIDO to stimulate this co-operation?





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