



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



DO 1206

Distribution
LIMITED

ID/WG.22/11
13 August 1968

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Meeting on Industrial Investment Promotion Services
Vienna, Austria, 23 - 26 September 1968

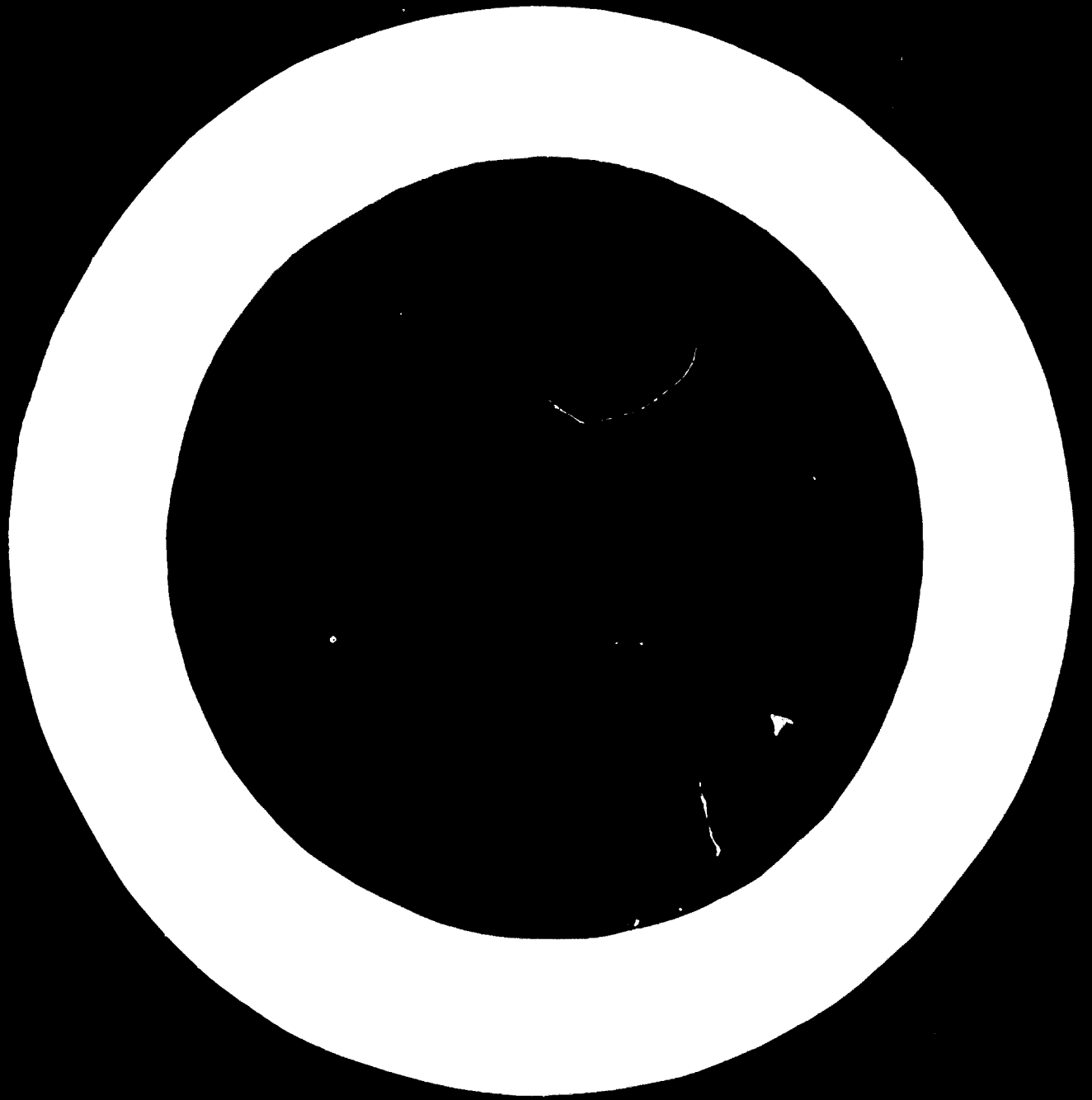
CAPITAL SOURCES AND FINANCE:

WHAT THE BANKERS WILL WANT TO KNOW ✓

Prepared for the
UNIDO/UNITAR Training Programme
May 1968

✓ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



Company To Be Financed

Description of company or proposed company and nature of its activities, its capital structure and location, its principal stockholders, directors, managers and domestic and foreign banking connections and credit facilities.

If the project is based on an existing company, audited current balance sheet and profit and loss statement for the past three years.

Project To Be Financed

Is project an expansion, modernization or new undertaking?

Description of existing plant and of costs of new land, plant, machinery and equipment, each classified as to whether locally available or not.

Will project be welcome in and contribute to the host country?

Will it save or earn foreign exchange, use local raw materials and labor?

Management

What firms will construct and operate the plant?

Description in detail of their competence and foreign experience.

What local professional services will be used (lawyers, accountants, etc.)?

Raw Materials and Labor

List sources and costs of raw materials needed for production.

Are they readily available, will they be in continuing supply, do they face import controls?

What are the local and expatriate skilled and unskilled labor requirements?

What provisions are there for training and advancing local employees?

Market

State and substantiate projected demand and sales for next five years, with separate figures for export sales.

What will be domestic and foreign competition in the market?

Description of import restrictions, duties, other government regulations that may affect sales or exports.

Does company have any long-term sales contracts?

Capital Requirements

Give detailed statement of fixed assets and working capital requirements, sources and amounts of capital already available, approaches made to other prospective lenders.

Operation and Financial Results

Estimate output, costs, revenues, taxes and profits for at least five years or for period when foreign debt will be outstanding, i.e. prepare projected P & L statement. Cost estimates should be broken down into raw materials, labor, power, administrative and sales expenses, depreciation.

Prepare cash flow statements showing source and disposition of funds during construction and first five years or period during which loan will be outstanding. State construction and start-up time and what provision is made for delays in start-up.

Government Relations

What relation will project have with government?

State incentives offered, policy on repatriation of capital, remittance of profits, interest, entrance and residence of foreign technicians and other factors affecting project.

Taxation

What is effective tax rate? Show in detail how this figure was reached.

Independent Studies

If any independent technical, cost, market or other studies have been made, submit them. Will any such studies be made in the future?

THIRTY WAYS AND WINDOWS TO CAPITAL FOR INVESTMENT IN WORLD MARKETS

In the following checklist, 30 sources of money -- dollars and local currencies -- are briefly described. In choosing among them, the most obvious consideration is the relative cost. But a realistic appraisal requires more than a mere comparison of interest rates, repayment terms and collateral requirements. Equally important are such factors as the ease of securing the funds, convertibility of the notes, subordination of the debt and the like. Furthermore, the exchange risk may make local currency borrowing, at what appear to be usurious rates, actually considerably cheaper than are lower rates for a dollar debt. Devaluation raises the cost of both interest and repayment, if the loan is in (or tied to) dollars.

Dollar Sources

1. The Export-Import Bank of Washington is one of the world's best sources for long-term loans for productive projects in developing countries; loans to private borrowers require host government guarantee. Exim's medium-term export credits can finance US-made machinery for a new plant abroad.

2. The U. S. Agency for International Development (AID), through its Office of Development Finance (the successor to the Development Loan fund), is authorized to lend \$7.2 billion for up to 50 years to private and public investors in "less developed" areas.

3. The World Bank makes the bulk of its loans to governments, but has upon occasion lent to private enterprise for basic industrial projects (several have included US participation). Host government guarantees are required.

4. The International Finance Corp. (IFC), a World Bank affiliate, is the only international institution exclusively devoted to financing private investors. Each deal is custom-made and often involves convertible notes, stock options and profit-sharing over and above interest payments. IFC concentrates on underdeveloped areas and has granted loans to a number of wholly-owned US ventures.

5. The Inter-American Development Bank (IDB), though primarily interested in basic economic and social development, has already financed a number of US affiliates in Latin America. Interest rates are at a standard 5.75% and repayment terms are highly flexible. No government guarantee is necessary.

6. About 50 foreign development banks currently have hard-currency funds from the World Bank, IDB, European banks and AID for relending to private enterprise. Rates vary with the interest structure of the country, but are generally around 8%.

7. Private investment bankers (such as Chase International Investment Corp., Transoceanic AOFEC Ltd., Philadelphia International Investment Corp.) are growing more numerous and more active. Their lending generally echoes IFC--in demanding contingent profits, convertible debentures, etc.

8. US commercial banks may lend prime customers on a term basis (rarely over five years) for overseas use. But laws, regulations and commercial banking policy limit most overseas loans to shorter periods.

9. The US parent or its foreign base company may make direct loans to operating affiliates. Such loans could be funds borrowed by the parent from a US commercial bank at the prime rate. The foreign affiliate is usually requested to protect itself against currency fluctuations.

10. Prolongation of payment terms on merchandise sold by the parent or foreign base company to an operating affiliate is another source.

11. In free markets, borrowing dollars or other convertible currencies from foreign banks for use in third markets can be a useful source. Exchange risk is usually hedged through forward purchase of the face amount. Such loans are usually for a year or less, but are frequently renewable.

Foreign Currency Sources

12. Local development banks, in addition to their hard-currency loans, are also sources of local funds on easier terms. They often tie in with foreign government incentives in offering loans to new or expanding firms.

13. Foreign commercial banks, with or without parent guarantee, ordinarily lend on a one-year, over-draft basis, almost always renewable; the proceeds may be treated as long-term funds.

14. Cooley funds, generated in local currencies by US sales of surplus agricultural products, are available to US investors abroad. At present, the local currency equivalent of \$157 million is available through AID in 14 countries.

15. The International Development Association (IDA), a "soft loan window" at the World Bank, lends to basic projects that cannot meet the Bank's stiff requirements. It has made no loans to private industrial ventures so far, but is expected to do so through the intermediary of local development banks.

16. The European Investment Bank (EIB), an autonomous agency of the FEC, is a major source for investments in the Common Market, particularly in its less developed regions. Two US-Italian joint ventures have secured loans from this source.

17. Export credit on machinery purchased from third countries (mainly European and for five years) can cover a major part of the initial capital requirements of a new venture or an expansion.

18. Swap transactions, in which the parent or foreign base company opens a dollar account in a foreign bank in return for a local-currency loan to an affiliate. The rate of exchange is usually arbitrary; at maturity, the affiliate repays the bank and the bank repays the dollars.

19. Sale of non-equity securities, such as bonds and debentures, is possible in many markets, but usually impossible in inflation-ridden countries. Underwriting costs are frequently very high.

20. Sale of callable, non-voting preferred stock is a similar device.

21. Local insurance companies and pension funds, against mortgage collateral, are also sources; placing the insurance business with the lender is a normal quid pro quo.

22. Self-financing pension and other benefit reserves offer opportunities where local law does not forbid this form of funding.

23. Local wealthy families, trusts, colleges and churches have been used by a number of US firms.

24. Blocked currencies form a pool of local funds in many countries; often an affiliate of one US firm lends to the affiliate of another.

25. Government or regional investment incentives are in reality a capital source -- in the form of grants or as loans at subsidized rates. These are offered even in some parts of Europe, as well as underdeveloped countries.

26. Finance companies in developed countries will finance installment sales of machinery and equipment and discount notes at going market rates. Financing of accounts receivable is also increasing abroad.

27. Leasing, whereby a plant is built to order and leased to a manufacturer, often with an option to credit rental payments as purchase payments, is a helpful arrangement. Lease-back is another route, under which the firm builds its own plant, sells it to a leasing firm, and leases it back. Leasing of equipment is spreading rapidly throughout Europe and Australia.

28. Delayed payment terms from local suppliers.

29. Use of tax reserves where tax payments are annual -- in effect, a short-term, but revolving non-interest bearing loan from the local government.

30. Discounting, or using as collateral, foreign government contracts.

OWENS-ILLINOIS, INC.

APPLICATION FOR EXPORT-IMPORT BANK LOAN
FOR BAHAMA SUGAR PROJECTSUMMARY OF CONTENTS

- A. Letter containing specific application request**
- B. Attachments**
 - I. Owens-Illinois, Inc. Annual Report**
 - II. List of Officers and Directors of Owens-Illinois of the Bahamas, Limited**
 - III. Summary of Proposed Sugar Project**
 - a. Extent of Operations**
 - b. Considerations for the Investment**
 - c. Investment**
 - d. Financing Proposed**
 - e. World Sugar Market**
 - f. Consultants**
 - IV. Sugar Project Profit Projections**
 - V. Source and Application of Funds Projection**
 - VI. Summary Breakdown of Estimated Total Project Cost**
 - VII. U. S. Exports Required for the Project - Summary, and Detail Equipment Lists**
 - VIII. Excerpts from Arthur G. Keller (report of the consulting firm of sugar experts which had determined the economic feasibility of the project and provided the engineering data).**
 - IX. Audited Balance Sheet and Profit & Loss Statements Of Owens-Illinois of the Bahamas, Limited**

OWENS-ILLINOIS INTERNATIONAL, S. A.

APPLICATION FOR PL 480 (COOLEY AMENDMENT) LOCAL CURRENCY LOAN
IN COLOMBIASUMMARY OF CONTENTS

1. Name and Address
2. Amount of Loan Requested and Desired Repayment Period
3. Nature of Business Organization
4. Nature of Business
5. General Objectives of Proposed Financing
6. Specific Use of the Loan
7. Benefits to Colombia
8. Engineering Studies, Economic Data, Marketing Surveys
9. Other Financing Obtained or Contemplated
10. Security Offered for PL 480 (Cooley Amendment) Loan
11. Balance Sheets and P&L Statements
12. Proposed Loan Repayment Schedule
13. Officers and Directors of Applicant
14. Banking References
15. Appendices

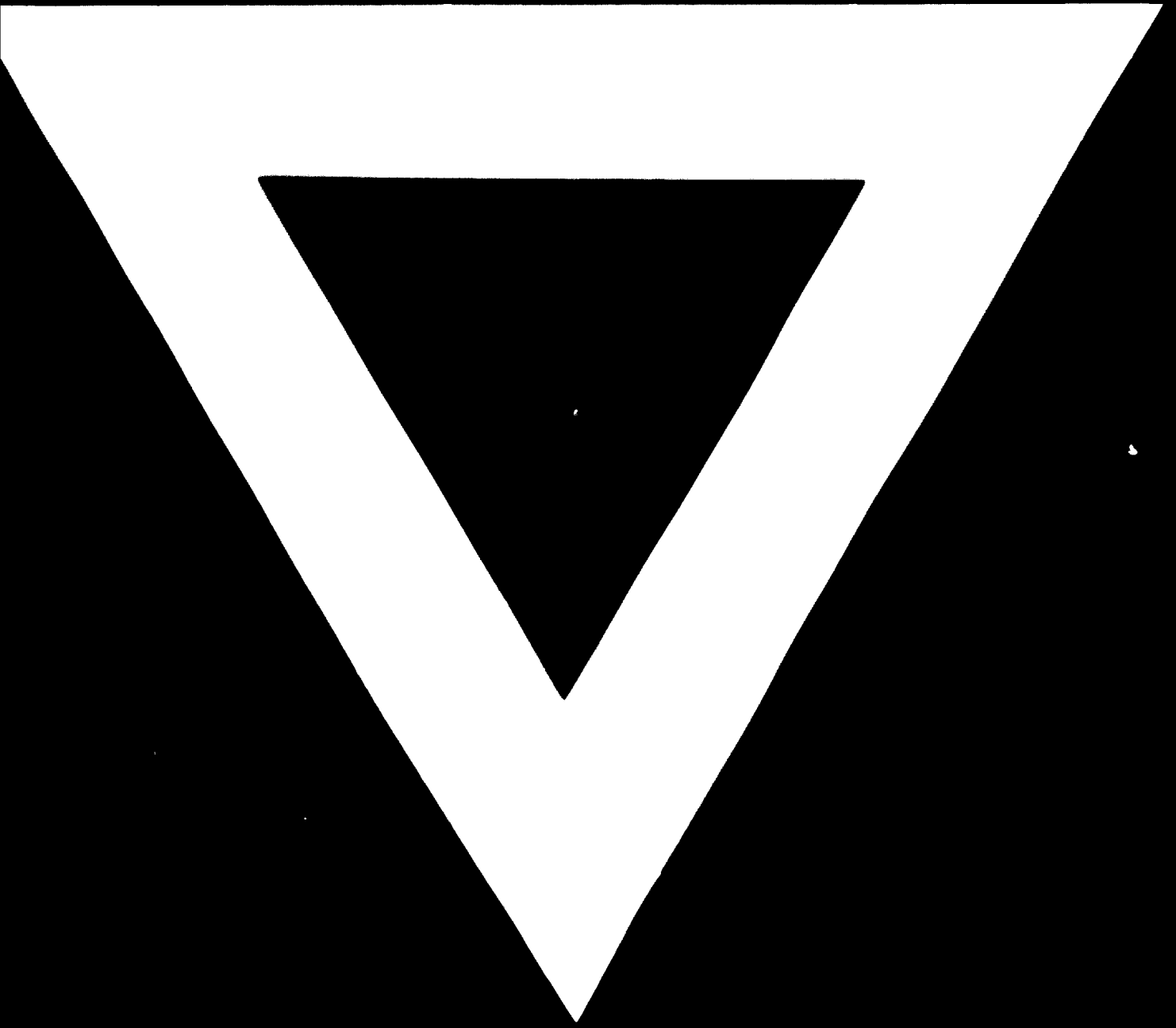
Summary of economic study, including background data and
Earnings projections

Proposed usage of investment funds

Financing plan showing sources of funds

Balance sheet of Owens Illinois International, S. A. with comments

Balance sheet of Colombia Division of Owens-Illinois International, S. A.



5 . 4 . 74