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FINANCING OF ECONOMIC DEVELOPMENT OF YUGOSLAVIA
FROM FOREIGN SOURCES

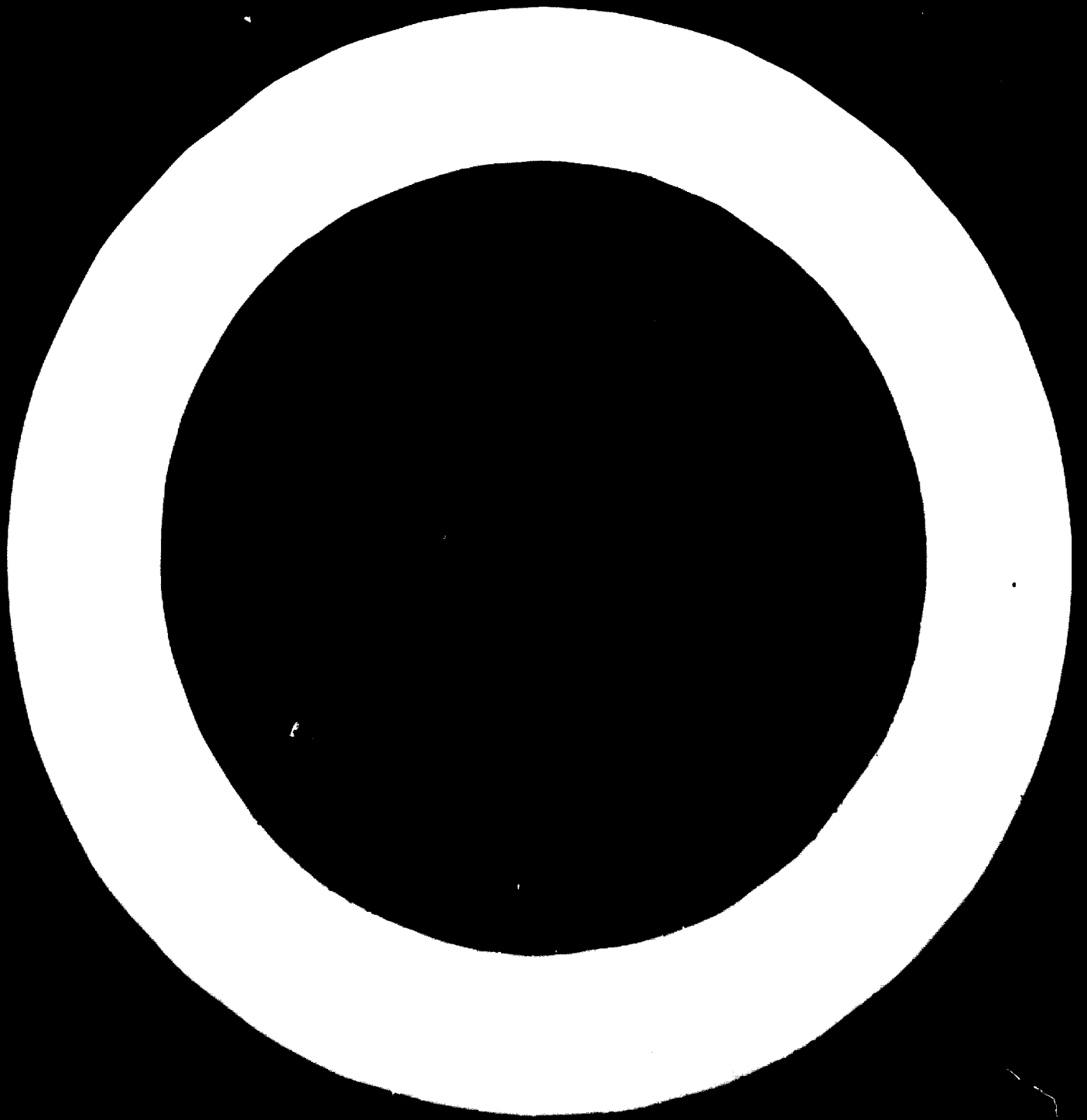
by

Dr. Stevan Klagejevic
Director of the Institute for Economics of Investments, Belgrade

Submitted by the Government of Yugoslavia

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1. Foreign additional funds played an appropriate role in the process of industrialisation of Yugoslavia, particularly after 1952 when Yugoslavia made ample use of various credit arrangements in order to utilize these resources.
 2. In the same way as other developing countries, Yugoslavia, too concentrated all its efforts, during the post-war period, towards extracting the economy from its state of underdevelopment as soon as possible (the national per capita income in Yugoslavia amounted, on the eve of World War II, to approximately 180 dollars). The new institutional frameworks based on socialist social forces rendered possible, first of all, a maximum utilization of all available domestic material and human resources and a planned orientation of these resources towards a rapid industrialization of the country, as a basic prerequisite for ensuring a dynamic economic development and the improvement of the living standards of the population.
- The unforeseen difficulties that the Yugoslav economy encountered as early as the 1948-1952 period (unfavourable international relations, catastrophic drought in agriculture) could not but affect adversely to a considerable extent both its development policy and its economic relations with foreign countries. The problem of the foreign trade deficit was getting worse and worse and these unfavourable developments limited the possibilities for expanding the sources of international accumulation and made it indispensable to resort to a more extensive use of additional foreign

funds in order to achieve development targets.

3. The construction of electric power stations, industrial, communications and other projects required the maintaining of a high rate of investment throughout the first period of building the industrial base of the Yugoslav economy. For this reason it became imperative to have recourse in the fifties - when Yugoslavia encountered the aforementioned difficulties - to the utilization of additional foreign funds. In the period following 1952, the net inflow of foreign funds into Yugoslavia ranged annually, in order to magnitude, from 2.5 percent to 10 percent of national income¹⁾. The policy of maximal utilization of internal funds for purposes of capital construction, together with the utilization of additional foreign funds, has made it possible to maintain a high rate of gross fixed investments throughout the post-war period (see Table 1).

Table 1

Trends in the rate of gross fixed global and
productive investments²⁾

| | <u>1947/63</u> | <u>1947/52</u> | <u>1953/63</u> |
|---|----------------|----------------|----------------|
| 1. Ratio between total fixed investments and social product (domestic concept ³⁾), in 1956 prices | 30.8 | 30.3 | 30.7 |

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- 1) The net foreign funds are defined here as the value of the deficit in goods and services, calculated at the effective average import rate of goods and services.
 - 2) Dr S. Blagojević, Dr. I. Vinski and S. Stajić: "Comparative Study on the Efficiency of Investments in the SFR and some West European Countries", Institute for the Economics of Investments, Belgrade, July 1966.
 - 3) The calculation of the social product and national product is based, in Yugoslavia, on the concept of material production and does not englobe non-productive services (health, education, public administration, utilisation of apartments, crafts, etc.).

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| | <u>1947/63</u> | <u>1947/52</u> | <u>1953/63</u> |
|--|----------------|----------------|----------------|
| 2. Ratio under 1) on the basis of the United Nations concept ⁴⁾ , in 1956 prices | 27.1 | 27.2 | 27.1 |
| 3. Ratio between gross <u>productive</u> fixed investments and social product (domestic concept), in 1956 prices | 21.6 | 23.2 | 21.1 |
| 4. Ratio under 3) on the basis of the United Nations concept, in 1956 prices | 19.0 | 20.3 | 18.6 |

4. Yugoslavia paid particular attention in order to ensure that foreign funds should be used for the construction of the most important industrial and economic projects within the framework of consistently elaborated plans of economic development (as rule medium-term plans). The introduction of workers self-management after 1952, as well as the system of financing investments on the basis of credit relationships, accompanied by constant efforts to improve criteria for the selection of investment priorities, including an analysis of effects both on the internal and the external plane, have considerably improved the efficiency of investments since 1953.

These moments rendered possible the forming, at the end of the fifties, on new relations in the methods of utilization of foreign funds as well, in view of the fact that the economic organizations and banks were becoming to an increasing extent the decisive factor with regard to the conclusion of foreign loans. Nevertheless, the state continued to play a significant role in this respect until the economic reform of 1965.

4) The concept of the calculation of the social product, national income and other aggregates, as recommended in the methodology of the Statistical Office of the United Nations, has been applied here (non-productive services are included).

5. The data on changes in relations between individual sectors in the forming of the national income illustrate best the extent to which Yugoslavia's intensive industrialisation, accompanied by the utilisation of additional foreign funds, had brought about major structural changes and raised the Yugoslav economy to a higher productive level in relatively short space of time (Table 2).

Table 2

Structure of national income by basic sectors of economic activity⁵⁾

(1962 prices in percentage)

| | <u>1947</u> | <u>1956</u> | <u>1960</u> | <u>1964</u> |
|----------------------|-------------|-------------|-------------|-------------|
| Total | 100 | 100 | 100 | 100 |
| Primary activities | 44.8 | 31.9 | 29.5 | 23.1 |
| - agriculture | 40.8 | 29.8 | 28.1 | 21.8 |
| Secondary activities | 39.6 | 47.5 | 49.1 | 53.9 |
| - industry | 24.9 | 35.6 | 37.9 | 42.0 |
| Tertiary activities | 15.6 | 20.6 | 21.4 | 23.0 |
| - transport | 5.0 | 6.7 | 7.1 | 6.7 |

It should be added to the above that an average annual growth rate of industrial production of over 10 percent was registered during the period under review.

6. The high degree of unevenness in the inflow of foreign funds (see Table 3), accompanied by inadequate methods of financing and frequently heavy burdens due to costs and terms of repayment (to which reference will be made below) as well as a lagging behind

5) Data from the Social Plan of Development of Yugoslavia, 1966-1970. In the case of tertiary activities, only productive services are englobed. Owing to price relations in 1962, the share of the industry is relatively larger than would be the case with 1966 prices (after the reform). The latter are approaching world relations.

of agricultural production, a rapid and extensive transfer of population from rural to urban areas, all led - in spite of the above mentioned significant results in structural changes and growth rates of industrial production - to serious difficulties in the Yugoslav foreign trade balance, to a greater use of deficit financing and to a high degree of economic fluctuations in relations between fixed funds and production as well as to periodic instabilities in the market.

Table 3

Indices of inflow of foreign funds into the Yugoslav economy⁶⁾

| | <u>Indices</u> |
|------|----------------|
| 1952 | 100 |
| 1953 | 140 |
| 1954 | 58 |
| 1955 | 96 |
| 1956 | 65 |
| 1957 | 97 |
| 1958 | 81 |
| 1959 | 63 |
| 1960 | 76 |
| 1961 | 95 |
| 1962 | 31 |
| 1963 | 40 |
| 1964 | 69 |

7. The well known phenomenon of adverse balance of payments, which accompanies as rule any accelerated development, was particularly marked in the Yugoslav economy after 1948, i.e. when the Yugoslav economy encountered unforeseen difficulties as a result of the

6) All data on foreign funds have been taken from the appropriate publications of the National Bank of the SPKJ.

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economic blockade and exceptionally unfavourable weather conditions in agriculture. These difficulties were a chronic companion of the further development of the Yugoslav economy until the most recent improvements in the economic system (reform).

The imbalance between exports and imports in various periods was rather marked. This was due to a considerable extent to capital construction as well as to uneven international financing. The ratio between exports and imports expressed in indices is shown in Table 4.

Table 4

Ratio of exports to imports in percentages

| | |
|-------------|-----------|
| 1947 | 99 |
| 1948 | 91 |
| 1949 | 67 |
| 1950 | 67 |
| 1951 | 76 |
| 1952 | 70 |
| 1953 | 52 |
| 1954 | 77 |
| 1955 | 66 |
| 1956 | 79 |
| 1957 | 72 |
| 1958 | 77 |
| 1959 | 79 |
| 1960 | 76 |
| 1961 | 74 |
| 1962 | 91 |
| <u>1963</u> | <u>89</u> |

1...

8. In Yugoslavia, and this is probably also the case of other similar countries in a phase of accelerated development, it is precisely the young industrial branches which are characterized by a high foreign trade coefficient, i.e. large share in the import of industrial materials. The foreign trade coefficients in various industrial branches were the following in Yugoslavia in 1959:

Percentage of imports of industrial materials in the social product

| | |
|---|------|
| Oil industry | 34.1 |
| Iron and steel industry | 18.5 |
| Metal-processing industry ⁷⁾ | 32.7 |
| Electrical engineering ⁷⁾ | 28.6 |
| Chemical industry | 47.8 |
| Textile industry | 38.4 |
| Leather industry | 54.9 |

In addition to imports of industrial materials, attention should also be drawn to the constantly ascending trend in the import of capital equipment. Thus, in the period 1953-1963, the index of growth of imports of capital equipment amounted to 209; actually, the import of equipment accounted for almost 20 percent of total commodity imports.

9. Difficulties encountered in connection with the utilisation of additional foreign funds, as well as the economic and non-economic barriers impeding Yugoslavia's international trade, have led, among other things, to a high degree of fluctuation in relations between fixed funds and production in the Yugoslav economy. Re-

7) Without rolled products.

search into the level of these fluctuations has given the following results for the sector of industry.⁸⁾

| | <u>Relative coefficient of variation (in percentages)</u> |
|--------------------------|---|
| <u>Yugoslav industry</u> | |
| 1947/50 | 3.32 |
| 1950/53 | 13.91 |
| 1953/56 | 10.01 |
| 1957/60 | 12.12 |

Fluctuations in relations between fixed funds and production in the Yugoslav industry were particularly high in engineering, electrical engineering, industry of non-metallic minerals, chemical industry, industry of construction materials as well as in the food industry. With the exception of the latter which was functionally dependent on trends in agricultural production, all the other industrial branches were concerned precisely with those fields of industry where the construction of capacities and links with the outside world were the most intensive.

10. The above analytical considerations indicate without any doubt, although in a very simplified form, that Yugoslav industry has been considerably conditioned during its dynamic post-war development by the possibility to use additional foreign funds of accumulation, through the inflow of such funds, and by the development of foreign trade. In this respect, development trends in Yugoslav industry were greatly influenced by the methods of international financing of economic development, the conditions under which foreign funds were obtained as well as by the structure and rate of inflow of these funds. These questions will be briefly examined in the next part of this survey.

8) Research was concerned with determining departure in annual coefficients as against a 14-year capital coefficient (departures presented in the form of standard deviation). The relative standard deviation, i.e. $V = \frac{\sigma}{\bar{x}} \cdot 100$ is called relative coefficient of variation. (Dr.S.Biogojević: "Relations of Fixed Funds and Production in the Yugoslav Economy", Economic Institute, Zagreb, 1967.).

Structure, rate of inflow and conditions of utilization
of foreign financial resources for the development
of the Yugoslav economy

11. Investment loans and credits accounted, at the end of 1964, for only 55.3 percent of Yugoslav liabilities abroad. This provides the best illustration of the burden assumed by Yugoslavia as a result of utilization of foreign funds for solving the problem of the balance of payments. The structure of Yugoslavia's liabilities abroad, at the end of 1964, is shown in Table 5.

Table 5

Structure of Yugoslavia's indebtedness abroad

(In percentages)

Situation of the nominal
amount on December 31, 1964⁹⁾

I. State liabilities

| | |
|---|------|
| 1. Financial loans and credits | 14.6 |
| 2. Investments loans | 19.6 |
| 3. Investment credits | 30.1 |
| 4. Commodity loans and credits | 15.2 |
| 5. Credits for the repayment of clearing swing credits | 0.4 |
| 6. Nationalized property | 1.3 |
| 7. Pre-war and other liabilities | 0.9 |

Total 1 - 7 82.1

| | |
|---|-----|
| 8. Investment loans and credits to be repaid in dinars | 5.6 |
|---|-----|

II. Bankers' liabilities

| | |
|---|------|
| 9. Bankers' short-term and revolving credits | 12.3 |
|---|------|

Total 100.0

9) Under the nominal amount of indebtedness is understood the ceiling of possible indebtedness in relation to loans and credits at the moment of entry into force of agreements.

In connection with the above it is necessary to stress that, throughout the post-war financing of economic development of Yugoslavia, foreign funds have had the form of assistance (which practically ceased in 1957), of loans and credits. There was no investment of capital, either direct or portfolio investment. On the other hand, Yugoslavia obtained most of the foreign funds through bilateral arrangements, although such arrangements have a number of shortcomings in comparison with multilateral arrangements. It should be emphasized, however, that this is not a specific case applying to Yugoslavia only, in view of the fact that the following two tendencies can be observed on a world scale: first, the increase of public funds in the financing of the economic development of developing countries and, secondly, the maintenance of a rather high level of financing based on bilateral arrangements (tables 6 and 7).

Table 6

Relationship between public and private funds for financing the development of the developing countries¹⁰⁾

(In percentages)

| | <u>Public</u> | <u>Private</u> |
|------|---------------|----------------|
| 1956 | 53 | 47 |
| 1957 | 51 | 49 |
| 1958 | 60 | 40 |
| 1959 | 61 | 39 |
| 1960 | 64 | 36 |
| 1961 | 69 | 31 |
| 1962 | 75 | 25 |
| 1963 | 77 | 23 |
| 1964 | 73 | 27 |

10) "World Economic Survey", 1965; UN, New York, (1966), p.47.

Table 7

Relationship between bilateral and multilateral
forms of public financing¹¹⁾

(In percentages)

| | <u>Bilateral</u> | <u>Multilateral</u> |
|------|------------------|---------------------|
| 1956 | 94 | 6 |
| 1957 | 92 | 8 |
| 1958 | 94 | 6 |
| 1959 | 94 | 6 |
| 1960 | 87 | 13 |
| 1961 | 86 | 14 |
| 1962 | 89 | 11 |
| 1963 | 93 | 7 |
| 1964 | 93 | 7 |

12. In addition to the negative aspects of bilateral arrangements, which could not be coordinated to a sufficient extent - in spite all the efforts of the Yugoslav Government - with the objectives and dynamics of the programme of development of the Yugoslav economy and of its individual sectors, the Yugoslav practice and economy were faced with the further problem of predominant orientation of credits towards convertible currency areas.

13. The dynamics of utilization of foreign funds found particular expression in the Yugoslav economy at the beginning of the sixties when the highest rate of industrial growth was achieved in Yugoslavia, so that - taking the year 1959 as 100 - the nominal amount of foreign loans showed the following annual growth: 1960 - index 120; 1961 - 176; 1962 - 188; 1963 - 238; 1964 - 296; and 1965 - 393. Such a trend of indebtedness abroad, accompanied by unfavourable terms and repayment of earlier debts, resulted, in the course of several years, in a high degree of concentration in the matur-

11) "World Economic Survey, 1965", UN, New York, (1966), p. 47.

ing of repayments of foreign debts. Thus, in the period 1966-1970, 61 percent of debts owed at the end 1965 will mature, whereas 39 percent is to be repaid from 1970 onwards. The high degree of indebtedness abroad and simultaneous high level of repayments appear, therefore, in a period when the Yugoslav economy is beginning to enter a phase of economic development characterized by a completed matrix of inter-industrial links, i.e. when objective conditions have emerged for the integration of the Yugoslav economy into the international division of labour along a rather broad front. This shows that there is need for additional foreign funds in this phase as well.

14. The above structure of Yugoslavia's indebtedness abroad and the predominantly bilateral characteristic of arrangements have brought about extremely unfavourable conditions in the case of the major part of Yugoslavia's foreign liabilities (high interest rate and short repayment periods). In relation to the total inflow of foreign exchange, the repayment burden of foreign debts was, in the last few years, was as follows:

Percentage of the share of repayments
of foreign debts in the total inflow
of foreign exchange

| | |
|------|------|
| 1962 | 25.1 |
| 1963 | 25.6 |
| 1964 | 24.0 |
| 1965 | 27.8 |

State financial loans and credits were realized at the rate of interest and other costs ranging, in order of magnitude, from 4 to 7.25 percent (the only exception is the USSR with an interest rate of 2 percent). In the case of investment loans, the most frequent rate of interest is 5-6 percent, but it attains also 7.25 percent. The same applies to investment credits, in the case of which, together with costs, the rate of interest amounts to ap-

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proximately 6 percent and reaches sometimes also 7.5 percent. The analyses of the terms of utilization of foreign loans and credits concluded in 1965 have shown that the repayment period in the case of financial loans and credits is very short, amounting to 1 to 5 years. In the case of investment loans the repayment periods range from 7 to 15 years, and in the case of investment credits most frequently from 2 to 5 years. In the case of investment loans and credits, repayment usually starts in the first or second year after the conclusions of the contract. In this respect, the most favourable terms for loans and credits are offered by the International Bank and its affiliations. However, throughout the post-war period, Yugoslavia has received from the International Banks funds amounting to only about 17 percent of the total foreign funds used for investment purposes. It is in this relation that one should look for an answer for the problems that Yugoslavia has been facing in connection with the utilization of additional foreign funds of accumulation as well as the heavy burden that these liabilities constitute for its economy and balance of payments.

Crediting of foreign countries

15. The development of economic relations is one of the basic instruments of young economies for their intensive integration into the international division of labour and expansion of their commodity exchange with foreign countries. Within this context, one should not underestimate the significance of the expanding of economic relations and trade links among the developing countries. From the moment it had achieved the first results in its policy of industrial development, i.e. at the beginning of the fifties, Yugoslavia established intensive links with the developing countries. The development of industrial branches manufacturing capital goods and means of transport made it possible for Yugoslavia to grant investment credits to developing countries and

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to undertake, through its enterprises, the construction of various investment projects. Of particular importance was the technical assistance extended by Yugoslavia through the sending of its technicians to the developing countries and training of personnel from these countries in Yugoslavia.

At the end of 1965, the nominal amount of arrangements and credits granted by Yugoslavia to foreign countries amounted approximately to 27 percent of the nominal amount of Yugoslavia's liabilities abroad. Out of the approved loans and credits to foreign countries, inter-state loans accounted for 68 percent and commercial credits to 32 percent. Most of these credits were granted to developing countries: the share of developing countries in the total value of exported equipment or investment projects constructed abroad was approximately 79 percent.

16. Yugoslavia paid special attention to the need for granting credits to developing countries under the most favourable terms. Investment credits amounted, as a rule, to approximately 90 percent of the value of total investments or 80 percent of the value of delivered equipment. The terms of repayment of credits varied, amounting on the average to 10 years. The repayment of credits started, as a rule, after the completion of the investment project or delivery of equipment or installations. The rate of interest was below the conventional rates of Western countries; it amounted in most cases to 3 percent and only exceptionally to 5 or 6 percent.

Necessity to improve and adapt the
system of foreign financing to new
developmental processes

17. The above considerations of the role of foreign funds in the post-war economic development of Yugoslavia show, on the one hand, that these additional resources have been a significant factor in the attainment of development targets but they also show, on the

other hand, that the methods and conditions of financing have also had a number of negative effects with regard to the continual and stable course of the developmental process of the Yugoslav economy. In this connection, one should bear in mind three qualitatively different phases of development of the Yugoslav economy (which is probably also the case of other developing countries) having the following characteristics:

a) The first phase covers the building of the infrastructural base (transport, power, key personnel) and building of industry for the purpose of liquidating the monocultural character of the underdeveloped economy. In Yugoslavia this phase was completed relatively rapidly, but through strenuous efforts, in the period between 1947 and 1956.

b) The second phase consists in the diversification of inter-industrial links and forming of a more developed matrix of reproduction relationships which make it possible to start the process of integration into the international division of labour. This process of diversification of industrial structure was accelerated in Yugoslavia after 1956 and lasted until quite recently. During this period, qualitative changes took place in the pattern of Yugoslavia's foreign trade. However, this period is still characterized by trade with foreign countries accompanied by negative effects for the developing countries, which are inherent in such trade, primarily owing to the relations of prices in world markets between prices of primary commodities and prices of industrial products.

c) The third phase constitutes a more intensive inclusion of the factor of technical progress into all the productive fields of developing countries, especially industry. This is a phase of rapid integration processes, forming of highly productive industrial capacities, changes in the structure of sources of energy, changes in the pattern of reproduction and personal consumption as well as a marked raising of the level of efficiency and harmo-

nization in the relations of the factors of production. Economic and productive cooperation with foreign partners and the replacement of conservative trade relations by a whole series of new methods of economic cooperation with foreign countries, primarily direct cooperation among economic subjects, become indispensable in this phase. Yugoslavia is just entering this phase and the purpose of the economic reform in the Yugoslav economy is to accelerate these processes.

18. Bearing in mind the aforementioned problems encountered by the Yugoslav economy in connection with the utilization of additional foreign funds for solving the development problems of its economy and removing periodic difficulties, it is necessary to underline, in the first place, that the methods, criteria and organizational forms of foreign financing of the economic development of insufficiently developed countries must respect the phases of development in which individual countries find themselves.

The basic shortcomings of the present system of international financing reside precisely in a schematic identification of the methods and criteria of financing and the maintenance of outdated traditional bankers' methods. The result of these methods is extremely drastic and instructive: the current account deficit of the developing countries amounted, in 1963, to 9,1 billion dollars; actually, more than half of this deficit was on the count of services, the major item being the burden of payment of interest and dividends to developed countries.¹²⁾

19. Not wishing to elaborate in greater detail, this time, the proposals aimed at improving the methods, criteria and organizational forms of foreign financing of the development of developing countries, we feel that the Yugoslav experience can point to some basic moments which call for adequate solutions in the near future.

12) A. Maddison: "The Balance of Payments of Developing Countries", Rome, 1966.

a) Respecting the phases of development in which individual underdeveloped countries find themselves, foreign financing can achieve the desired effects only if the methods, criteria and organization of the granting of financial assistance are adapted to the objective circumstances. Past experience shows that in the first phase of development, as defined above, adequate effects **have to be achieved** through the granting of resources in the form of grants-in-aid, without the obligation of repayment, but with the obligation to use the funds obtained in this way within the framework of an agreed programme of economic development. Such assistance can be **particularly effective if it is realized within the framework and direct participation of an international organization on the basis of multilateral arrangements.**

The second phase may allow a broader utilization of financial arrangements on the basis of credit relations, but with sufficiently long repayment periods. The rate of interest and costs must still be lower than the conventional ones. In this phase, financing should be effected predominantly on a multilateral basis. The repayment of loans should in no case begin before the setting of projects in operation. The direct linking up of already developed production units with their foreign partners takes place in the third phase. In this phase, the fundamental question is the organization of assistance for the transfer of new technology, for scientific collaboration, industrial cooperation on an equal footing, broader crediting of exports, intensive exchange of scientific and technical information, ensuring of free access by young countries to the markets of the developed countries, intensive cooperation of these young industrial countries with the other less developed countries, etc.

b) It is, therefore, indispensable to assist the developing countries, to a much greater extent than until now in the elaboration of more realistic and complex development programmes and, in particular, of detailed programmes for individual productive-investment complexes. Only thus will it be possible to form, in the

developing countries, at least basic criteria for optimums in the order of investments. The present experience of approving credits only on the basis of the analysis of individual investment projects does not correspond any more to the new relations in the dynamic development of the world economy and to the need for forming the productive characteristics of individual national economies as early as the initial phase of their development.

c) The financing of regional programmes of development (joint programmes of several neighbouring countries), accompanied by financial and technical assistance in the elaboration of preliminary plans and studies, can introduce new moments with regard to the attainment of effective development results on the basis of the complementary character of productive factors. In this regard, the regional economic commissions of the United Nations may play a significant role in the future.

d) The establishment of a more effective and flexible international financing mechanism for the financing of exports, additional financing as well as a system of ensuring export credits would contribute towards eliminating those fluctuations in fixed funds and production which have been mostly due to difficulties in the foreign trade balance of the majority of underdeveloped countries.

e) The processes of integration on the international plane will inevitably englobe the developing countries in their third phase of development, provided the economic and non-economic barriers set up to a considerable extent by the developed countries or individual blocs are removed. The forming of blocs and regional policies of withdrawing into oneself are the basic negative factor impeding the spontaneous process of development of the world economy and the indispensable need for a rapid development of insufficiently developed countries. The new elements of international financing must transcend all political and institutional artificial barriers.

20. Industrialisation and a rapid development of the underdeveloped parts of the world can be achieved only by means of a widely coordinated action of developed and developing countries. Financial assistance extended by the industrially developed countries for the development of the underdeveloped parts of the world is becoming to an increasing extent the objective factor which will enable the developed countries themselves to develop even further in the future.

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FINANCING OF ECONOMIC DEVELOPMENT OF YUGOSLAVIA
FROM FOREIGN SOURCES

SUMMARY

by Dr. Stevan Blagojevic

Director of the Institute for Economics of Investments, Belgrade

Submitted by the Government of Yugoslavia

1. During the process of Yugoslavia's industrialization, foreign financial resources or means have also had a timely importance, particularly after 1952, when Yugoslavia made considerable use of various credit arrangements for the utilization of such resources.
 2. Yugoslavia has always sought to use foreign credits within the framework of consistently established development programmes, usually middle-term credits. In keeping with determined priorities on the national level, such financing arrangements were utilized for those industrial and other economic projects which were of primary importance for the execution of the key tasks of the nation's economic development policy. In this respect, Yugoslavia was successful particularly in the period after 1953, when the system of workers' self-management began to function more efficiently, greatly increasing the effectiveness of the investment expenditure.
 3. Although the utilization of foreign means has contributed to the realization of the basic aims of Yugoslavia's development policy, it cannot be overlooked that such financing has also had certain adverse effects. In the first place, it is pertinent to emphasize the great irregularity in the influx of foreign credits and investment, the huge oscillations from year to year, as a result of which it was impossible to achieve a steady financing. On the other hand, too, the Yugoslav economy became considerably burdened by the high interest rates and other costs, which it had to meet and also by the comparatively early repayment dates. Third, the inadequate methods of international financing were not enabling Yugoslavia to solve with foreign credits, timeously and rapidly, the problems of temporary balance of payments discrepancies, and of the uneven dynamism in the maturing of obligations.
- At the end of 1964, Yugoslavia's debt (nominal condition) under investment loans accounted for only 55.3 per cent of her total foreign obligations. This provides the best indication of the burden Yugoslavia incurred because of the need to engage supplementary foreign credits on

other accounts. On the other hand, during the whole period since the last war, Yugoslavia has obtained only about 17 per cent of her investment loans from the International Bank, while all the rest had to be obtained by way of bilateral arrangements on very unfavourable terms.

5. As a result of the unfavourable dynamism in engaging foreign financing, certain periods witnessed a high concentration of maturities. Thus, for example, 61 per cent of the amount of debt as at the end of 1965 is due for repayment during the 1966-70 period.

6. Yugoslav experiences in engaging foreign financing for the purpose of industrial development indicate that it is essential to proceed to a more comprehensive advancement of the methods, criteria and forms of foreign financing of the industrialization of undeveloped countries, especially because of the following:

- The methods, criteria and organizational forms of foreign financing of the industrial development of the undeveloped countries should have more regard for the phases of development in which particular countries find themselves and should be adapted thereto;

- The financing of integrated and consistent development programmes and of mutually co-ordinated programmes of several countries should be stimulated through foreign assistance;

- The methods of multilateral forms of credit arrangements should be developed and a more efficient and more flexible international financial mechanism established for financing exports and for supplementary financing, as well as a system for ensuring export credits.

7. Having regard to the phases of development in which particular undeveloped countries find themselves, foreign financing can have the desired effect only provided that its methods, criteria and organizational forms are adapted to the objective conditions. In this respect, practical experience has highlighted the following points:

- a) In the first phase of establishing an industrial base in the least developed countries, the desired effect can be achieved by giving

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precedence to the method of assistance without the obligation of repayment but with the obligation of a structurally specified function for which the foreign financing will be used and with the active assistance of experts of the appropriate international institutions; and

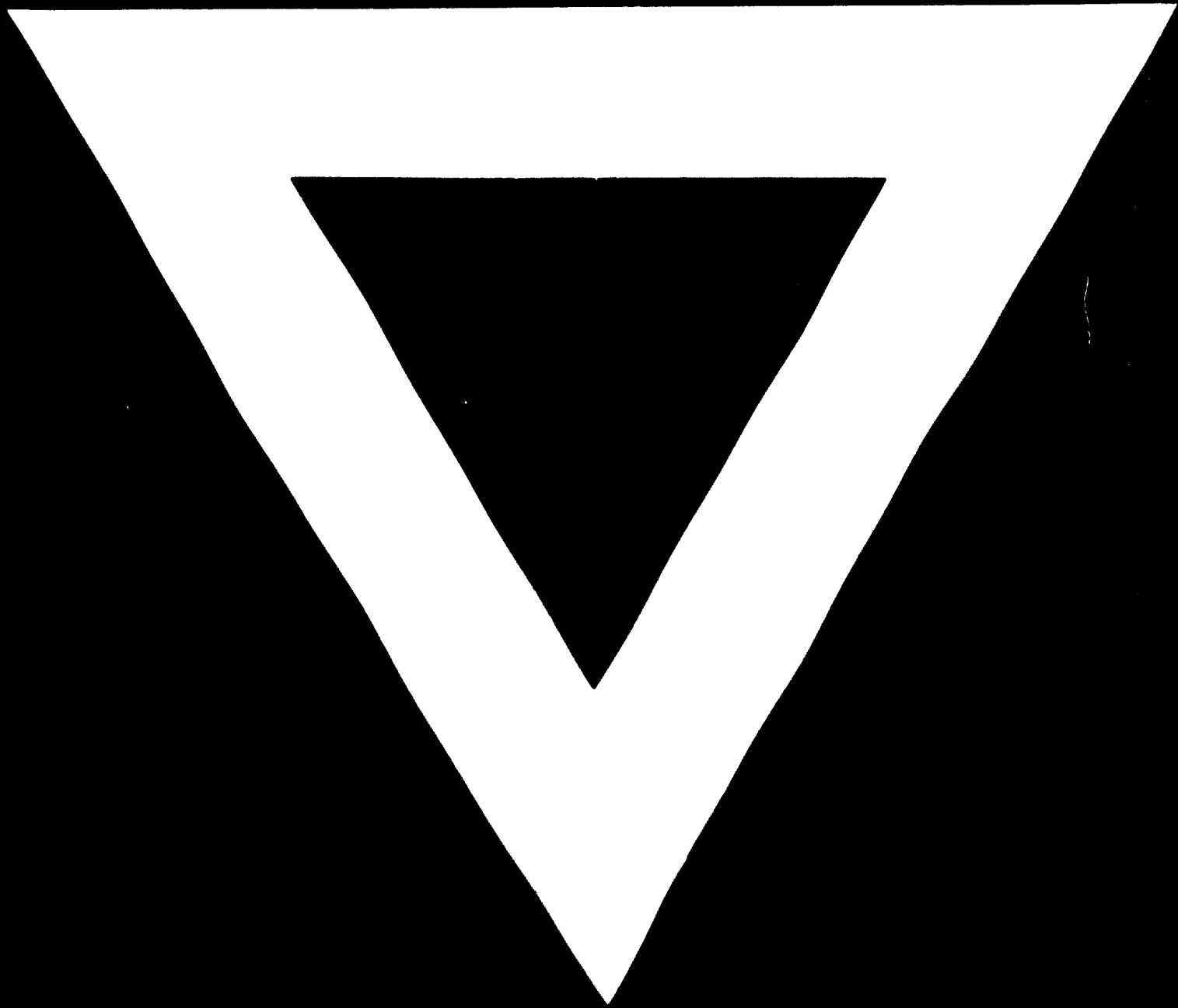
b) Already in the second phase of development, manifest in a certain diversification of industrial ties and the formation of a developed reproduction matrix of a given country, satisfactory effects can be achieved by using foreign financing on the basis of wider credit arrangements (with sufficiently long repayment periods and bearable interest rates and costs). Repayment of debts should not begin before a project has been put into operation; furthermore, the period of grace should be prolonged;

c) In the third phase, when the industrial enterprises of the developing countries have become capable of entering independently into business contacts with foreign parties, there appears to be a basic need to engage foreign financing arrangements for transferring new technology, for scientific co-operation, for promoting various forms of industrial co-operation, for a larger crediting of exports, and for intensifying the exchange with developed and other countries, etc. Especially in this phase it is necessary to ensure to the young countries a certain discrimination - free access to the markets of the developed countries.

8. The industrialization and quickening development of the undeveloped part of the world is only realizable by a large-scale co-ordinated action between the developed and the developing countries as regards the methods, the criteria and the organizational forms in extending financial assistance having regard to all the objective considerations. Financial assistance for development of the under-developed parts of the world on the part of industrialized countries increasingly appears as a multiple-effect factor for ensuring a quicker development of the undeveloped countries and the further development of industrialized ones.

9. Elimination of the political influences of the most highly industrialized countries and liquidation of their tendency to act as "distributors" of foreign financing would also provide room for an even more successful activating of the appropriate bodies and agencies of the United Nations in this sphere. On the other hand, it would also be useful to continue stimulating, by way of even more varied forms and methods, in accordance with the specific conditions of particular regions and countries, the formation of joint financial and other auxiliary organisms on a multilateral basis.





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