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INTERNATIONAL SYMPOSIUM ON  
INDUSTRIAL DEVELOPMENT

Athens, 29 November-20 December 1967  
Item 4 (d) of the provisional agenda

OFFICIAL BILATERAL FINANCIAL ASSISTANCE FOR THE MANUFACTURING  
INDUSTRY OF THE DEVELOPING COUNTRIES

Document prepared for the International Symposium  
on Industrial Development

Presented by the Executive Director of the United Nations  
Industrial Development Organization

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Corrigendum

Cover page, upper left corner: Change Item 4 (d) of the provisional agenda  
to Item 4 (b) of the provisional agenda.

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PART I

GENERAL

Introduction

1. Official bilateral financial assistance has in the last few years been an important source of external financing available to the developing countries for the development of their manufacturing industry. The importance of these credits is due to two factors. The first factor is that in the post-war period such credits made up for a certain shortage of external private investment in the manufacturing industries of newly-independent countries. The second is that the industrialized countries themselves favour this type of credit, since it both enables them to fulfil their self-appointed mission of assistance and serves to promote their interests as exporters of capital goods.
2. In the industrialized countries, government intervention in the granting of such credits takes three main forms: participation in insurance funds guaranteeing private export credits; facilities for refinancing such credits with the Central Bank or specialized agencies; and, still more directly, making loans available from public funds to purchasers of capital goods in the developing countries. In some cases, the State exercises relatively little influence on the terms of credits, particularly where State intervention is limited to the management of private credit insurance funds. On the other hand, where the Government facilitates refinancing with the Central Bank or lends the necessary sums direct to the purchasers of capital goods, the authorities of the industrialized countries have a decisive influence on the terms of such financial assistance. This study is essentially concerned with those forms of credit which wholly or partly come out of public funds and on whose terms the donor country has some influence.
3. For planned-economy countries, bilateral financial assistance is indistinguishable from soft export credits. In most developed countries with free economies, private export credits are supplemented by other kinds of credits, issued out of public funds on easier terms to make allowances for the special

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difficulties of the developing countries. In the United States, for example, export credits are granted by a government agency, the Export-Import Bank, and other "soft" loans are granted by the Agency for International Development (AID). In Canada, a single agency - the Export Credit Insurance Corporation - not only insures private credits but grants export credits on more liberal terms to the developing countries. In the United Kingdom, the Export Credit Guaranty Department provides financial assistance out of public funds on terms combining those of assistance credits and of export credits. In France, the State combines private export credits with assistance credits from public funds, in the form of so-called "mixed" loans. It would thus be somewhat arbitrary to draw a sharp distinction between private and public export credits and assistance credits, more frequently called "soft loans".

#### Estimation of amount and principal donor countries

4. Study of the amount of bilateral financial assistance going to the manufacturing industry is impeded by the lack of statistics, for the majority of donor countries do not publish regular and specific figures concerning the amount of financial assistance granted for the acquisition of capital goods and services in the manufacturing industry sector. This is probably because until a few years ago the essential purpose of bilateral financial assistance was to develop the infra-structure of the developing countries and the traditional sector of agriculture, leaving only negligible amounts for the manufacturing industry.
5. Moreover, the authorities in many developed free-economy countries probably considered that investment in the manufacturing industries of the developing countries could be financed by the private sector, either by direct investment in companies, or by the granting of guaranteed private export credits. This idea arose from the view that since manufacturing industries in the developing countries offer a high rate of return they have less need of external financial assistance and could therefore bear the harder terms associated with private investment and the higher interest rates of export credits.
6. The relatively small amount of public financial assistance for the manufacturing industry, and the view that this sector could be financed by the foreign private sector, to some extent explain why the statistics have been



neglected. Generally, as for example in the OECD report<sup>1/</sup> on the transfer of capital from developed to developing countries, the "manufacturing industry" sector is included in the general category "industry" which, in addition to the manufacturing industry, also comprises such other elements as, for example, mining equipment.

7. Bearing in mind the lack of exact figures, a rather rough estimate puts the total amount of bilateral financial assistance granted for the manufacturing industry by the industrialized countries as a whole at about \$3,500 million for the four-year period 1960-1963. This figure includes \$1,600 million from the planned-economy countries and about \$1,500 million from the three main donor countries of OECD: the United States, the United Kingdom and the Federal Republic of Germany. For purposes of comparison, it may be pointed out that during the same period (1960-1963) the net flow of bilateral financial assistance from the OECD countries was about \$20,600 million,<sup>2/</sup> or more than ten times the amount those same countries devoted to the manufacturing industry (a little less than \$2,000 million).

8. Unlike the industrialized countries of OECD, whose assistance for the manufacturing industry in the developing countries represented less than 10 per cent of the total flow of financial assistance, the planned-economy countries gave priority to financial assistance for that sector. Those countries' commitments for the manufacturing industry sector represented about 53 per cent of their total financial assistance to the developing countries.

9. The official assistance given by the United States has been the highest, in absolute terms, of all the free-economy countries - \$771.2 million over the period 1960-1963. On the other hand, the proportion of United States assistance for the manufacturing industry has been small compared with the total flow of its financial assistance, representing about 6.1 per cent.

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<sup>1/</sup> OECD, "The flow of financial resources to less-developed countries 1956-1963", Paris, 1964.

<sup>2/</sup> Idem.

10. The United Kingdom has granted almost \$500 million and, of all the free-economy industrialized countries, has devoted the largest proportion of its assistance to the manufacturing industry sector - some 30 to 35 per cent of its total bilateral financial assistance. Nevertheless, it must be borne in mind that the statistics available for the United Kingdom are not always detailed enough for an exact assessment. Numerous loans have been granted for "general capital goods imports"; consequently, the real figure for official bilateral financial assistance for the manufacturing industry is probably below \$500 million.

11. The Federal Republic of Germany has considerably increased its official assistance to the manufacturing industry sector in recent years. In 1960, the amount was negligible, whereas in 1963 it reached \$142.2 million.

12. On the other hand, France - which in general is one of the main donor nations - has devoted little financial assistance to the development of the manufacturing industry. Nevertheless, in 1962-1963 a new system was introduced, combining export credits and public loans. Under this new system, assistance equivalent to some \$70 million was granted in 1963-1964.

13. It is difficult to estimate with any accuracy what Japan has contributed for the manufacturing industry in the developing countries. The amounts granted by the Export-Import Bank of Japan are global figures which include substantial loans for the purchase of shipping.

14. By the end of 1962, Italy had granted \$102 million in the form of various financial loans for the acquisition of capital goods for the manufacturing and other industries.

15. It must be noted that in recent years most free-economy industrialized countries have shown a definite tendency to expand their bilateral financial assistance for the development of the manufacturing industry sector. This interest is reflected in a number of initiatives; thus, Canada started such a programme in 1961, Denmark in 1963 and Belgium in 1964.

Table 1

COMPARISON BETWEEN THE TOTAL NET AMOUNT OF OFFICIAL  
 BILATERAL FINANCIAL ASSISTANCE AND ASSISTANCE ALLOCATED  
 TO THE MANUFACTURING INDUSTRY <sup>3/</sup>

Federal Republic of Germany, United Kingdom, United States and  
 planned-economy countries

1960-1963

(in millions of dollars)

Source	Official loans to developing countries for the manufac- turing industries*	Total net bilateral assistance**	Percentage of assistance for the manufac- turing industry in the total of bilateral assistance
Federal Republic of Germany	228.9	1,317.0	17.4%
United Kingdom	499.4	1,478.0	33.8%
United States of America	<u>771.2</u>	<u>12,637.0</u>	<u>6.1%</u>
TOTAL	1,499.5	15,432.0	9.7%
Planned-economy countries***	1,562.0	2,948.0	53.0%

3/ Sources:

- \* UNIDO figures.
- \*\* OECD, "The flow of financial resources to less-developed countries, 1956-1963", Paris, 1964.
- \*\*\* Development Centre of OECD, "Foreign aid policies reconsidered", Goran Ohlin, Paris, 1966.

Table 2

OFFICIAL BILATERAL FINANCIAL ASSISTANCE FOR THE MANUFACTURING  
 INDUSTRY COMPARED TO THE NET OFFICIAL BILATERAL TRANSFER OF  
 CAPITAL TO THE DEVELOPING COUNTRIES

Federal Republic of Germany, United Kingdom, United States of America

1960-1961-1962-1963<sup>4/</sup>

(in millions of dollars)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	TOTAL
<u>Federal Republic of Germany</u>					
Official bilateral financial assistance for the manufacturing industry	6	18.7	62	142.2	228.9
Net official bilateral financial assistance in the developing countries	241.6	329.1	347.4	398.9	1,317.0
Percentage of the manufacturing industry in the total	2.5%	5.7%	17.8%	35.6%	17.4%
<u>United Kingdom</u>					
Net official bilateral financial assistance in the developing countries	311.5	416.5	380.2	369.8	1,478.0
ECGD, Section 3	89.6	126.0	207.4	76.4	499.4
Percentage of the manufacturing industry in the total	28.8%	30.3%	54.5%	20.6%	33.8%
<u>United States of America</u>					
AID	54.3	72.2	207.1	67.3	400.9
Export-Import Bank	<u>104.5</u>	<u>120.5</u>	<u>96.4</u>	<u>48.9</u>	<u>370.3</u>
Total	158.8	192.7	303.5	116.2	771.2
Net official bilateral financial assistance in the developing countries	2,545.0	3,203.0	3,349.0	3,540.0	12,637.0
Percentage of the manufacturing industry in the total	6.2%	6.0%	9.0%	3.3%	6.1%

<sup>4/</sup> Sources: see table 1.

Recipient countries

16. Since the terms of bilateral financial assistance are easier than those of other sources of financing, particularly private export credits, donor countries tend to accord such assistance to those developing countries with which they have special political or economic ties.<sup>5/</sup> The United Kingdom has granted almost the entirety of its financial assistance for the manufacturing industry to India, Pakistan and the African members of the Commonwealth. Similarly, France has mainly financed the industrial development of the African countries formerly under its administration. It was not until 1963-1964 that France extended bilateral assistance to some Asian and Latin American countries.

17. By contrast, the United States has granted financial assistance for the manufacturing industry to a great many countries. Until 1962 the bulk of such assistance went to Asia and the Far East, but recently the share of the Latin American countries has substantially increased. Italy has provided assistance for industrialization in some Latin American countries. The Federal Republic of Germany has concentrated its aid on the development of manufacturing industries in India and Pakistan, and it only recently included certain African countries in its list of recipients. Canada has supplied financial assistance for industrialization in Chile, Pakistan, India and Mexico.

18. The country which has received the most financial assistance for industrial development is India, followed immediately by Pakistan. In Latin America, Brazil and Chile have been among the main recipients of official bilateral assistance for industrialization. In Africa, Ghana, the United Arab Republic and Nigeria are among the main recipients.

Terms of financial assistance

19. Bilateral financial assistance for the manufacturing industry differs from export credits in that it is extended on easier terms. These official loans are "softened" in various ways: the repayment periods are longer and the interest rates lower, although the terms are not as favourable as in the case of loans granted for the infra-structure. This is because of the very nature of industrial investment;

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<sup>5/</sup> ECAFE, "Industrial credit and financing issues in the financing of industrial development", Bangkok, 1965.

even if a plant neither makes nor loses money, it builds up the assets necessary for the amortization of its debts in a shorter time than does an infra-structural project.

20. Such considerations are important when evaluating the terms on which an industrial project is financed. This is one of the ways in which official bilateral financial assistance differs from the usual export credits in which relatively little allowance is made for the particular features of an industrial project. This is because export credits are regulated and to some extent limited by the agreements of the Union des assureurs des crédits internationaux de Berne. For example, the agreements limit to five years the repayment periods for the import of heavy capital goods, although it is true that this period is now frequently extended to seven or eight years.<sup>6/</sup>

21. Industrial projects in different sectors differ widely in their ability to pay their debts. These variations further depend on what is sometimes called the "project repayment period", so that the repayment terms of a loan to finance an ironworks should not necessarily be the same as in the case of an oil refinery. Many donor countries are aware of these problems and in their financial assistance make allowances for the particular features of each industrial project. The Kreditanstalt fuer Wiederaufbau in Germany has made this a matter of policy, by specifying that "the terms of their loans are always adapted to the project and vary considerably with the absorbing capacity of these projects."<sup>7/</sup>

22. Compared with private export credits, bilateral financial assistance is not only tailored to the needs of individual industrial projects, but imposes less of a burden on the developing countries' balance of payments. This of course is a consequence of easier repayment terms.<sup>8/</sup>

23. Among such easier terms mention should be made of periods of grace before repayment and even, in certain cases, the option to repay the loan in local currency. The United Kingdom has considerably extended the period of grace, both

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<sup>6/</sup> United Nations, "Financing of economic development export credit for the financing of capital goods requirements of developing countries", document E/4189, New York, 1966.

<sup>7/</sup> Kreditanstalt fuer Wiederaufbau, "Annual Report, 1962", Frankfurt, 1963.

<sup>8/</sup> UNCTAD, Proceedings of the United Nations Conference on Trade and Development, Vol. V, Sales No. 65.II.B.65, New York, 1965.

for interest and for the repayment of principal. United States loans granted through AID may in some cases be repaid in local currencies, which is obviously even more advantageous than periods of grace. In 1963, Denmark made a loan to India repayable in local currency. Although the loan was small - about \$2 million - and intended for the purchase of Danish equipment for the manufacturing industry, it shows that even the small industrialized nations are aware of some of the problems encountered by the developing countries.

24. There are relatively wide variations in the terms specified by the different donor countries, but the disparities between the terms of bilateral financial assistance for the manufacturing industry and guaranteed private export credits are even greater, as is shown in Table 3. The differences between these two sources of financing are noteworthy, because those are the two basic sources of external credits for the financing of industrial investment. Guaranteed private export credits are more onerous, since they depend considerably on the current interest rates in the capital markets of the donor countries. In addition to these interest rates, the recipient country must also pay insurance premiums and, very often, a commission to the banks administering the credits.

25. Frequently the terms of the loan allocated to an industrial project are not identical with the terms of the original loan made by the donor country. A large part of external financial assistance is granted directly to the Government of the developing country or one of its official agencies such as an industrial development financing agency. In that case, the terms on which a particular industrial project is financed through an official external loan are determined by the recipient Government or the developing country's agency and not by the donor country. Most of the time, the terms of sub-loans made under a general external loan are much harder than the terms on which the original loan was granted. The Government or agency of the developing country is inclined to base the interest rates for the sub-loans it grants on the prevailing conditions on the local financial market.

26. In the case of larger projects, external financial assistance is negotiated almost project by project, so that the terms on which the loan is granted to the developing country are also the terms on which a major industrial project is financed. For medium-sized industrial projects, financed under general loans granted to a development agency of the recipient country, the terms of the original loan may differ from those of the sub-loans in varying degree. For example,

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Table 3. COMPARISON BETWEEN THE TERMS OF BILATERAL ASSISTANCE FROM DIFFERENT SOURCES<sup>2/</sup>

Country	Financial assistance for the manufacturing industry		Private guaranteed export credits		Bilateral financial assistance for sectors other than the manufacturing industry	
	Rate of interest	Repayment period	Rate of interest	Repayment period	Rate of interest	Repayment period
CANADA	6 per cent	5 to 15 years with grace periods	-	-	0.75 per cent	Up to 50 years, with a maximum grace period of 10 years
DENMARK	4 per cent (where repayment is in convertible currency); 5 per cent (repayment in local currency)	10 to 20 years, with grace periods	6 per cent plus insurance premiums and bank commission	5 years	Identical with those for the manufacturing industry	
FEDERAL REPUBLIC OF GERMANY	About 5 per cent	Up to 15 years	6 to 6.5 per cent plus insurance premiums and bank commission	Up to 7 years	3 to 3.5 per cent	20 years
FRANCE	Combination of official loans and export credits ("mixed credits")		5 to 7 per cent plus insurance premiums and bank commission	Up to 10 years	3 to 5 per cent	20 years
ITALY	About 5.5 per cent	8 years	6 to 7.5 per cent plus insurance premiums and bank commission	5 years	-	In one case (Nigerian Dam) 25 years plus grace periods
JAPAN	4.5 to 7 per cent	Up to 15 years	-	-	4.5 to 7 per cent	Up to 15 years
UNITED KINGDOM	5.5 to 7 per cent	Up to 25 years, with grace period	6 to 7 per cent plus insurance premiums and bank commission	5 years	4 to 6 per cent, but with long grace periods for payment of interest	25 years, with grace periods of up to 10 years
UNITED STATES OF AMERICA						
(a) AID *	4 to 5 per cent	15 to 20 years (in some cases repayable in local currency)	-	-	0.75 to 2.75 per cent	Up to 30 years, with grace periods and option to repay in local currency
(b) Export-Import Bank **	5.5 per cent	10 to 15 years	-	-	-	-
PLANNED-ECONOMY COUNTRIES	2.5 per cent	15 years with repayment through "clearing accounts" under trade agreements				

<sup>2/</sup> Sources: Replies of Governments to a UNIDO questionnaire.

\* Department of State, Agency for Industrial Development; "Quarterly operating reports", Washington, D.C.

\*\* Export-Import Bank, "Annual report", Washington, D.C.



United States AID loans to development financing agencies carry a 3 to 4 per cent interest rate and are repayable over periods of five to twenty years. On the other hand, the sub-loans made by the development financing agencies in the framework of the general AID loan will carry an interest rate of 6 to 6.5 per cent and be repayable within four to seven years. Where the intermediary between the original loan and the sub-loans is the Government, the profit resulting from the difference in terms will go into the general budget. On the other hand, when the intermediary is an industrial development financing agency, that same profit will be made more directly available to industrial development.

#### Tied aid

27. Bilateral financial assistance for the manufacturing industry is nearly always tied. It is tied to a specific project, and sometimes to specific categories of capital goods. Furthermore, this form of assistance is tied in the sense that it must be used in the donor country. The developing countries obviously prefer untied aid but, very frequently, as Mr. Ohlin<sup>10/</sup> remarks, untied aid is not an alternative to tied aid. The real choice is not between tied and untied aid, but between tied aid and no aid at all.

28. There are many reasons why donor countries tie their bilateral assistance, but the one most frequently mentioned is that such assistance upsets the donor country's balance of payments. For example, before 1959-1960 United States assistance was much less tied than it is today. But because of the deterioration in the United States' balance of payments in 1961, the terms governing the use of aid have become stricter. "In December 1960, the International Co-operation Administration was instructed 'to effect an orderly cessation of commodity procurement' in most of the developed market economies. The result was a rapid rise in the proportion of AID commodity expenditure effected in the United States: before 1961, it was less than half the total whereas by 1964-1965 it accounted for over 90 per cent."<sup>11/</sup>

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<sup>10/</sup> Development Centre of OECD, "Foreign aid policies reconsidered", Goran Ohlin, Paris, 1966.

<sup>11/</sup> United Nations, World Economic Survey, "Some problems of external finance" document E/4187, New York, 1966.

29. In other cases tied aid is the consequence of deliberate national policy where financial assistance is a means of promoting exports, developing markets and utilizing the surplus production capacity of the donor country.<sup>12/</sup> Official bilateral financial assistance for the manufacturing industry is, of course, a way of helping producers of capital goods in the donor country to obtain orders they could not obtain if the financing took the form, say, of an export credit.

30. In the case of certain major industrial projects, such as ironworks and fertilizer factories, there is keen competition between suppliers in different industrialized countries. The criteria adopted by the developing countries in selecting the supplier of capital goods are not solely technical or based on prices; very often it is the terms of long-term financing that determine the choice of supplier. Consequently, producers of capital goods try to induce the national agencies granting financial assistance to the developing countries to help them by issuing credit on terms which will enable them to satisfy the requirements of the purchaser in the developing country.

#### Limits of investment costs covered by financial assistance

31. Industrial investment has a number of component elements and each of them is so essential that if any one should be missing the very operation of a factory could be compromised. While this is entirely logical, it is frequently overlooked by the donor countries. During the construction stage, an industrial project requires not only external assistance to finance the import of capital goods but also local financial resources to pay for the local goods and services required. When the plant is finished and operating, spare parts, raw materials and other renewable items have to be imported. In certain industrial categories, such items may represent a larger sum of money than the fixed assets.

32. Bilateral assistance is rarely used for purposes other than to finance imported capital goods or services relating to the initial stage of construction. As pointed out by the Danish Board of Technical Co-operation, "In several developing countries public and private savings are so small that loans which can only be used for

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<sup>12/</sup> Idem, item 10.

imports of capital goods would be of no use because capital cannot be procured for the local currency expenditure required in connexion with such investments.

Furthermore, every investment creates new demand which will be directed in part towards imported goods and consequently strains the balance of payments."<sup>13/</sup> The difficulties encountered by some developing countries are such that in some cases the bilateral financial assistance available is used only in part.

33. Many AID industrial loans are only half used during the period over which they were supposed to be used fully. There is a similar delay in the utilization of loans granted by the planned-economy countries, whose terms are particularly favourable - 2.5 per cent interest and the principal repayable over fifteen years through the export of goods produced by the recipient country. This is shown in the following table.

Table 4

Total financial assistance (1) of the planned-economy countries to the developing countries, 1954-1963  
(in millions of dollars) <sup>14/</sup>

(1) Excluding military assistance

<u>Year</u>	<u>Pledges</u>	<u>Expenditures</u>
1954	11	1
1955	149	3
1956	608	107
1957	227	87
1958	556	205
1959	894	161
1960	1,165	186
1961	957	294
1962	507	391
1963	319	(425)
Cumulative total 1954-1963	5,393	1,860

<sup>13/</sup> Ministry of Foreign Affairs, "Denmark's co-operation with developing countries 1962-1965", Board of Technical Co-operation with Developing Countries, Copenhagen, 1966.

<sup>14/</sup> Development Centre of OECD, "Foreign aid policies reconsidered", Goran Ohlin, Paris, 1966.

34. In a report prepared at the request of ECAFE,<sup>15/</sup> a group of industrial credit and financing experts emphasized the difficulties encountered by the developing countries because of restrictions on investment costs covered by bilateral financial assistance. The report says in particular that "Most of the project assistances normally cover only the direct import requirements. In such cases, the recipients may be faced with the problem of finding supplementary foreign exchange reserves to meet the additional import requirements arising from the increased income generated by domestic investment. In this event, the recipient countries may have to abandon the project or may be obliged to resort to short-term external credits to meet the import demand generated by domestic expenditure. The practice of limiting project assistance to direct import requirement has tended to encourage the developing countries to execute projects with a relatively large import component at the expense of many important projects which involve relatively large local expenditure".

35. Details of the costs which may be covered by bilateral financial assistance vary depending on the donor country. Most industrialized countries have now extended the definition of "capital goods" to include engineering services. However, most of these countries finance engineering services only if they are tied to the purchase of such goods from the donor country are generally not financed. tied to purchase of such goods from the donor country are generally not financed. Other costs, such as those of feasibility studies or the salaries of foreign technicians, may not in general be financed. This can be a great disadvantage, since such costs often represent 10 per cent of the total investment and 15 to 20 per cent of the imported goods and services necessitated by such investment.

36. Sometimes these difficulties are avoided by acquiring a factory under a "turnkey" contract. In the developing countries which produce goods locally that can be used for industrial investment, this type of contract is not favoured by the authorities. They frequently prefer to risk a "cost plus profit" type of

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<sup>15/</sup> United Nations, ECAFE, "Industrial credit and financing issues in the financing of industrial development", report prepared by a group of experts, 1 and NR/Ind. Conf. 57, Bangkok, 1965.

contract or even to hire a "general contractor" who will himself sub-contract parts of the project locally.

37. An effort has been made by donor countries to extend the list of goods that may be financed with bilateral assistance. The United Kingdom and the Federal Republic of Germany, for example, have agreed to finance part of the local investment costs in the case of very large projects. Italy too, has extended its financial commitments to include part of the local costs of investment. This mainly applies to oil refineries in which an Italian company has a direct holding and for which it also serves as "general contractor".

38. Some countries - India, Pakistan and Turkey, for example - where many manufacturing industries work below capacity for want of spare parts or raw materials, have recently received bilateral assistance to ease these shortages. This shows that the developed countries, as well as the developing countries, are becoming aware of the consequences which some of the restrictions of tied aid have for the manufacturing industry. Financial assistance cannot be limited solely to the industrial investment stage, but, to be effective, must sometimes be extended to the operation of existing industries.

#### Country in which assistance is to be spent

39. The purchase restrictions in bilateral financial assistance contracts are probably the best known aspect of tied aid. An essential difference between multilateral and bilateral assistance is the stipulation concerning "the country in which assistance is to be spent". As a general rule, official bilateral assistance must today be spent in the donor country, whereas multilateral aid may be used to acquire goods and services wherever the terms are most advantageous.

40. The obligation to purchase in the donor country has become stricter in recent years. Because many donor countries have felt obliged to adopt such a rule in order to reduce their balance-of-payments difficulties, other donor countries which do not have such acute balance-of-payments problems have nevertheless adopted this basic principle of tied aid.

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41. Nevertheless, there are some exceptions. For example, the Federal Republic of Germany and the United Kingdom have in certain cases granted untied aid for assistance to manufacturing industries. Sub-loans of less than \$100,000 made under the general loans granted by the United States Agency for International Development to a development bank may be used in other western countries if it can be shown that the United States prices are higher. Counterpart funds created by United States assistance and accumulated in certain developing countries may be used to finance purchases from another developing country receiving bilateral financial assistance from the United States.
42. Where aid is tied to purchase in the donor country, the essential problem encountered by the developing countries is the higher cost of capital goods and, more particularly, the big difference between the CIF price of such goods purchased in the donor country and of the same goods in other countries. Even when the FOB price of a specific item is roughly comparable in the United States, Western Europe and Japan, the cost of transport and insurance may make a difference in the CIF prices.
43. Another difficulty raised by the developing countries is purely technical. Commercial traditions between some developed and developing countries have often led to the establishment of "after-sale and maintenance services" in the latter. If capital goods are purchased in a donor country where the supplier is not prepared to provide these "after-sale services" in the recipient country, difficulties will arise and it will certainly cost more to operate the factory.
44. A comparative analysis of the prices of capital goods purchased with tied credits and of internationally competitive prices for the same goods shows<sup>16/</sup> that, in the case of Pakistan, the differences may be considerable. For some

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<sup>16/</sup> International Economic Association - Round Table Conference on Capital Movements and Economic Development - "Tied credits - A quantitative analysis", by Mahbub ul Haq, Washington, D.C., July 1965.

twenty projects requiring about \$15 million, differences between tied aid and internationally competitive prices are as high as 51 per cent in certain cases. The author concludes that out of the \$600 million financial assistance which Pakistan received in 1965, almost \$60 million could have been economized if the credits had not been tied.

45. Experience with tied credits is not always as discouraging as in the case of Pakistan. Frequently, the sponsor of an industrial project in a developing country selects in advance the most appropriate supplier of capital goods and then starts talks, with the assistance of the competent authorities in his country and the supplier of the capital goods, on the possible availability of financial assistance. When this happens, the credit, while appearing to be tied, is in fact to some extent the result of international competition.

46. In the case of major industrial projects, competition is frequently international although it eventually results in bilateral financial assistance. For such projects, the offer includes not only technical and price conditions but also financing terms. Hence the final price of the capital goods amounts to the cash price as modified by the financial terms. For industrial projects that are to be financed in large part by ten to fifteen-year credits, the difference in cash prices as between different suppliers, even if it is as high as 15 or 20 per cent, may be largely compensated by softening of the credit terms, such as a 2 or 3 per cent difference in the interest rate between the different possible sources of financing.

47. Proposals to untie bilateral assistance credits must take into account the reasons why the donor countries have tied their aid, particularly when the reasons mentioned have to do with the balance of payments. A group of financing experts, for example, suggested at a meeting organized by UNCTAD in March 1966 that "where aid to the developing countries is tied to the purchase of capital goods in the donor country, the recipient country should be authorized to use such aid to make purchases in other developing countries".<sup>17/</sup>

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<sup>17/</sup> United Nations Conference on Trade and Development, "Report of the Group of Experts on International Monetary Issues", (TD/B/67-TAD/B/142), New York, March 1966.

48. Such a suggestion obviously presupposes that the other developing countries, whose exports are financed by bilateral assistance, will be in a position themselves to use the funds thus obtained to make purchases in the original donor country. Otherwise, the funds obtained by the developing countries might be spent in other industrialized countries and create for the original donor country the very balance of payments problem it was trying to avoid. If this formula is accepted, part of the bilateral assistance credits would circulate freely among the developing countries and eventually be spent in the original donor country. For the manufacturing industry such an arrangement would have relatively limited application, since the less industrialized countries are not, with a few exceptions, major producers of capital goods. Nevertheless, the arrangement would be worth applying to the purchase of raw materials.

49. The main objection advanced by the developing countries in regard to the obligation to spend aid money in the donor country is the higher cost of capital goods. It is difficult for a country with little industry to compare objectively the costs of acquiring capital goods from different possible sources. It has been suggested<sup>18/</sup> that an international service should be made available to help such countries to compare, on an international basis, the prices of the goods offered them. In order to be really useful, such a service would, of course, have to be totally international and thus able to compare the prices of capital goods from both planned-economy and free-economy countries.

#### Project aid

50. Financial assistance for the manufacturing industry is always granted for one or more individual projects and often even for specific items of industrial equipment. Since these loans are tied to the purchase of goods in the donor country, it is obvious that the way they are to be used will be clearly defined at the time of their negotiation, since financial assistance is in any case given in the light of the donor country's capacity to supply capital goods.

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<sup>18/</sup> United Nations - "Some problems of external finance", World Economic Survey, document E/4187/Add.3, New York, June 1966.



51. Some general loans for the manufacturing industry, granted for example to industrial development financing agencies, give the impression at first sight of not being tied to a specific project. But in most cases the sub-loans made under the general loan may not be granted until after the donor country has approved the project submitted for financing.
52. There has been much discussion<sup>19/</sup> about "ostensibly tied" aid versus the project "really financed" by such aid. Obviously, if a donor country agrees to finance a particular project, its assistance will release financial resources in the recipient country which can be used for another project, one which the donor country may have refused to finance. It is therefore difficult to make a clear distinction between project aid and programme aid in the field of industrial development.
53. Project aid has many advantages from the donor country's point of view. In many cases, it is a way of promoting the donor country's capital exports. It is also a way of helping to establish subsidiary branches of the donor country's industrial concerns. For example, some fertilizer factories in India are financed with assistance from the United States and are closely associated with fertilizer companies in the United States. Oil refineries in the African countries are built with the assistance of official Italian credits and are part of a large Italian petroleum group. In all such cases, financial assistance can hardly be regarded as anything other than project aid.
54. The industrialized and the developing countries hold long discussions on the terms of assistance before it is granted, and the discussions generally concern the choice of manufacturing industry projects which are to benefit from the aid. It may be concluded that both donor and recipient countries have accepted the fact of "project aid" as far as financial assistance for the manufacturing industry is concerned.

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<sup>19/</sup> The Economic Journal, "External aid for plans or projects", H.W. Singer, London, September 1965.

Utilization

55. One problem which is sometimes regarded as minor by the donor countries but is frequently mentioned by the recipient countries<sup>20/</sup> is the difficulty and complexity of the procedures governing financial assistance, which may be one cause of delay in the utilization of aid. The General Confederation of Italian Industries was asked by eighteen European industrial federations to study official financial assistance to the developing countries; among the conclusions in its report, it mentions that "The differences between pledges and expenditures (of bilateral financial assistance) could be considerably reduced by simplifying the procedures used to give effect to the pledges of financial assistance".<sup>21/</sup>

56. Where financial assistance is "project aid", which is the case for the manufacturing industry, it is granted initially in the form of a pledge or even of a line of credit made available to the developing **country** or its financial agency. In order to use the pledge or line of credit, the developing country's authorities must prepare certain documents and comply with a number of more or less stringent administrative rules. The purpose of this procedure is to see to it that the assistance is actually used for the purposes for which it was granted. There are almost as many kinds of procedure as there are sources of financing.

57. It may be recognized that the regulations and the administrative structures of the developed countries oblige them to take certain precautions in order to ensure that the funds they make available to the developing countries are put to good use. On the other hand, it must also be recognized that it is not very rewarding for the developing countries, with their shortage of qualified personnel, to have their administrators kept busy meeting the varied and complicated requirements of the different sources of financial assistance. Aware of the difficulties arising from administrative procedures, France decided in 1964 to simplify its administration of financial assistance in order both to facilitate matters for officials in the developing countries and to speed up the utilization of the assistance it had undertaken to supply.

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<sup>20/</sup> Columbia University Press, "International financial aid", by Wolfgang G. George Kalmanoff, Robert F. Meagher, New York, 1966.

<sup>21/</sup> General Confederation of Italian Industries, "Public financial aid to developing countries", Rome 1961.

58. It would be a long step forward if the procedures for granting and actually supplying financial assistance to the developing countries could be somewhat streamlined. This is particularly important for the manufacturing industry, where the time factor has considerable repercussions on good project management. There is need for a detailed study of the procedures used by different donor countries. Such a study could serve as a basis for the work of a committee of financial assistance administration experts, from both developing and developed countries; such a committee might be asked to suggest simplified and, so far as possible, uniform procedures which would take account of both the concerns of the donor countries and the administrative problems of the recipient countries.

PART II

NOTES ON THE PROGRAMMES OF SOME DEVELOPED COUNTRIES

59. In the absence of accurate statistical data on the amount of official financial assistance for the manufacturing sector, this examination of the programmes of the few donor countries can only be rather superficial. Nevertheless, these notes give a general idea of what proportion of total bilateral financial assistance goes into the manufacturing industry. In addition, most of the notes on these donor countries give some information on the terms on which loans are made. The donor countries concerned are Canada, France, the Federal Republic of Germany, the Union of Soviet Socialist Republics, the United Kingdom and the United States of America and Yugoslavia.

CANADA

60. In 1961, the Canadian Export Credit Insurance Corporation (ECIC), which derives its resources from public funds, was authorized to grant financial assistance for the development of the manufacturing industry in the developing countries. The methods employed by this agency for granting financial assistance are different from those applied to export credits. For instance, after agreement has been reached between a firm in the developing country which is initiating an industrial project and the Canadian supplier, ECIC opens a credit in favour of the importer and not, as is the case of export credit, in favour of the exporter of the equipment, as these operations are classified as "financial".

61. The interest rate applied was 6 per cent and the repayment period varied from twelve to sixteen years, with grace periods of from two to three years in some cases. The funds made available to ECIC for the granting of financial assistance to developing countries were increased from 300 million Canadian dollars in 1964 to 400 million and, more recently, to 600 million. It is to be noted, therefore, that Canadian assistance for the manufacturing industry was very small compared with the total amount of assistance provided.

Table 5

CANADA

Financial assistance extended by the Export Credit Insurance Corporation for the manufacturing industry <sup>22/</sup>

(in millions of Canadian dollars)

COUNTRY	1961	1962	1963	1964	TOTAL
<u>Latin America</u>					
Chile	13.50	0.70	8.50	-	22.70
Mexico	-	-	-	2.97	2.97
<u>Asia and Near East</u>					
India	-	-	2.60	2.90	5.50
Pakistan	-	6.35	-	-	6.35
Total	13.50	7.05	11.10	5.87	37.52

62. Most of the loans granted have been used to purchase equipment for the paper and pulp industries, the aluminium industry, zinc smelting and blast furnaces for the iron and steel industry.

UNITED STATES OF AMERICA

63. Although, in absolute terms, the United States has granted more financial assistance for the manufacturing industry than the other industrialized countries, the amount nevertheless represents only a small percentage of the whole United States bilateral programme. From 1958 to 1964, financial assistance for the manufacturing industry varied from 5 to 10 per cent of the total bilateral financial assistance provided by the United States.

<sup>22/</sup> Source: Export Credit Insurance Corporation, Annual Report and Financial Statement, Ottawa.

Agency for International Development

64. The Agency for International Development (AID) is the United States government agency responsible for granting "soft" loans to the manufacturing industry. As is shown in table 6, during the period under consideration, there were changes in the regions receiving United States financial assistance for the manufacturing industry. Up to 1962, the principal recipients were in Asia but thereafter Latin America took precedence. In 1964, loans were granted to thirteen Latin American countries, two African countries, one Asian country and one European country.
65. The major recipient of United States assistance for the manufacturing industry is India, which received nearly 30 per cent of the total loans. There was a steady flow of assistance to India, except in 1963. Turkey received about 17 per cent of the total financial assistance for the manufacturing industry, but it was a recipient only from time to time. The total loans to Turkey - \$152.9 million - include one very large loan (\$129.6 million) made in 1958 for the Ereğli Iron and Steel Works.
66. With the exception of the industrial development agencies financing the major sectors for which assistance has been granted are the metallurgical industry, the manufacture of transport equipment, and the chemical and fertilizer industries (see table 7). Nearly all the aid to the metallurgy sector went to Turkey, however. The total amount of the loans for the food and non-alcoholic beverage industries was relatively small, but this is due to the fact that in each specific case, the investment is usually small. In addition, some of these factories have probably received financing through sub-loans granted out of the general loans to the development banks. The item "Miscellaneous" in table 7 - \$203.6 million - includes different commitments for the preparation of feasibility and engineering studies.
67. Since the establishment of the Development Loan Fund Agency in 1957, many loans have been made to industrial development financing agencies. During the first year of operation, about one quarter of the commitments were for development banks, and this proportion subsequently increased to 30 per cent. The purpose of such general loans is to enable these institutions to grant sub-loans to finance the outlay in foreign exchange necessitated by investment in small and medium-sized industrial projects. Another important condition of these loans is that they must be used for the financing of investment in the private sector.

Table 6

UNITED STATES OF AMERICA

Financial assistance, by recipient country (pledges) granted by the Agency for International Development for the manufacturing industry of the developing countries (1958-1964)

(in millions of dollars)

COUNTRIES	1958	1959	1960	1961	1962	1963	1964	TOTAL
<b>AFRICA</b>								
Ethiopia	-	-	-	2.00	-	-	-	2.00
Ghana	-	-	-	-	55.00	-	-	55.00
Ivory Coast	-	-	-	-	-	-	5.00	5.00
Liberia	0.19	-	-	-	-	-	-	0.19
Nigeria	-	-	-	-	-	0.50	-	0.50
Somalia	2.00	-	-	-	-	-	-	2.00
Sudan	-	10.00	-	-	2.00	-	-	12.00
Tunisia	-	-	-	5.00	-	-	0.80	5.80
Uganda	-	-	-	-	-	2.00	-	2.00
United Arab Republic (Egypt)	-	-	9.40	-	3.00	5.70	-	18.10
<b>ASIA AND NEAR EAST</b>								
China (Taiwan)	10.25	3.83	11.60	-	-	-	-	25.68
India	90.00	5.00	20.00	42.20	54.80	-	49.85	261.85
Indonesia	-	-	2.47	-	-	-	-	2.47
Iran	-	5.20	-	-	-	-	-	5.20
Israel	-	30.00	-	10.00	45.00	25.60	-	110.60
Korea	2.14	10.60	-	3.20	4.25	-	-	20.19
Lebanon	-	5.00	0.37	-	-	-	-	5.37
Malaysia	10.00	-	-	-	-	-	-	10.00
Pakistan	4.20	-	10.00	7.50	-	17.05	-	38.75
Philippines	-	14.10	-	0.33	-	-	-	14.43
Syrian Arab Republic	-	0.70	0.50	-	-	-	-	1.20
Thailand	-	0.75	-	-	-	-	-	0.75

Table 6 (continued)

COUNTRIES	1958	1959	1960	1961	1962	1963	1964	TOTAL
<b>EUROPE</b>								
Turkey	10.00	132.40	-	-	-	3.00	7.50	152.90
<b>LATIN AMERICA</b>								
Bolivia	2.50	-	-	1.75	-	-	3.05	7.30
Brazil	-	-	-	-	-	7.50	22.70	30.20
Chile	-	-	-	-	40.00	-	3.00	43.00
Colombia	-	-	-	-	-	4.00	10.00	14.00
Costa Rica	-	-	-	-	-	-	5.00	5.00
Ecuador	-	-	-	-	-	2.00	-	2.00
El Salvador	-	-	-	-	-	-	5.20	5.20
Guatemala	-	5.40	-	-	-	-	2.00	7.40
Haiti	-	-	-	0.25	-	-	-	0.25
Honduras	-	-	-	-	-	-	5.00	5.00
Jamaica	-	-	-	-	-	-	1.30	1.30
Mexico	-	-	-	-	-	-	2.00	2.00
Panama	-	-	-	-	-	-	5.10	5.10
Paraguay	2.60	-	-	-	-	-	3.00	5.60
Peru	-	-	-	-	3.00	-	-	3.00
Uruguay	-	-	-	-	-	-	3.00	3.00
<b>TOTAL</b>	<b>133.88</b>	<b>222.98</b>	<b>54.34</b>	<b>72.23</b>	<b>207.05</b>	<b>67.35</b>	<b>133.50</b>	<b>891.33</b>

Source: Department of State - Agency for International Development, Quarterly Operating Reports, Washington, D.C.



Table 7

UNITED STATES OF AMERICA

Financial assistance, by industrial sector, granted by the  
 Agency for International Development (1958-1964)

(in millions of dollars)

INDUSTRIAL SECTORS	1958	1959	1960	1961	1962	1963	1964	TOTAL
Food	5.10	0.75	0.20	1.75	-	-	0.65	8.45
Paper and pulp	-	5.40	6.70	-	3.00	-	0.80	15.90
Chemicals and fertilizers	-	9.40	-	33.53	-	2.00	23.60	68.53
Basic metal products	-	1.35	0.37	-	55.00	4.40	-	61.12
Metal-transforming	-	-	1.60	-	-	2.00	-	3.60
Manufacture of transport equipment	6.50	-	2.47	7.20	34.30	-	37.30	87.77
Timber	0.19	-	-	-	-	7.90	-	8.09
Textiles and jute	-	11.10	-	0.25	-	-	-	11.35
Manufacture of construction equipment	4.89	8.70	-	-	4.25	-	1.40	19.24
Iron and steel	-	129.60	-	-	-	-	5.50	135.10
Miscellaneous	85.00	15.00	-	-	43.50	44.55	15.55	203.60
Industrial development financing agencies	32.20	41.68	43.00	29.50	67.00	6.50	48.70	268.58
<b>TOTAL</b>	<b>133.88</b>	<b>222.98</b>	<b>54.34</b>	<b>72.23</b>	<b>207.05</b>	<b>67.35</b>	<b>133.50</b>	<b>891.33</b>

Source: Agency for International Development, Washington, Operations Report.

68. The terms of United States financial assistance vary from project to project and also according to conditions on the money market of the recipient country. Some loans may be repayable in local currency, which increases the counterpart funds already existing in most of the countries receiving United States assistance. The repayment periods vary from ten to twenty years and the rates of interest from 3 to 6 per cent. The Agency for International Development lends on much easier terms than the Export-Import Bank.

69. Since 1961, balance-of-payment problems have forced the United States Government to insist on stricter compliance with the rule that the equipment to be obtained with its assistance must be purchased in the United States. In a few cases, particularly under the general loans granted to the industrial development financing agencies, it is still possible to purchase equipment in some convertible-currency countries provided that each sub-loan does not exceed \$100,000.

70. The terms of the loans granted by AID are flexible and they take into account not only the specific needs of the project but also conditions in the recipient countries. Nevertheless, financial assistance is granted basically under a project-assistance policy. The loans are made for individual projects and they must be used for the purchase of equipment specifically agreed upon in advance. A constant and direct check on the use of the loans is kept by the Agency for International Development at Washington or by the AID missions in the recipient country.

#### Export-Import Bank

71. Besides receiving financial assistance from AID, the developing countries have received many loans from the Export-Import Bank, which obtains its funds from the United States Government. During 1958-1963, it granted about \$477 million worth of loans. The actual total lent to the manufacturing industry is probably higher than may appear from table 8. This is due to the fact that quite large general loans were made by the Export-Import Bank for the importation of different kinds of equipment, some of which was probably for the manufacturing industry. In addition, table 8 does not include individual loans of less than \$100,000.

Table 8

## UNITED STATES OF AMERICA

Financial assistance granted by the Export-Import Bank for the  
manufacturing industry of the developing countries

(in millions of dollars)

COUNTRY	1958	1959	1960	1961	1962	1963	TOTAL
<b>AFRICA</b>							
Congo, Republic of (Brazzaville)	-	-	-	-	0.25	-	0.25
Ghana	-	-	-	-	55.00	-	55.00
Nigeria	-	-	-	1.32	2.00	-	3.32
Senegal	-	-	-	-	-	0.30	0.30
United Arab Republic	3.50	-	-	-	-	-	3.50
<b>LATIN AMERICA</b>							
Argentina	5.50	33.00	23.10	6.90	3.50	-	72.00
Brazil	6.70	-	-	-	-	-	6.70
Chile	-	1.80	5.00	-	8.30	-	15.10
Colombia	5.70	-	1.50	-	3.40	-	10.60
Mexico	5.70	2.80	6.10	7.40	2.90	22.90	47.80
Panama	-	-	-	-	0.30	-	0.30
Paraguay	-	1.00	-	-	-	-	1.00
Peru	0.22	0.84	2.80	0.60	2.55	-	7.01
Uruguay	-	-	0.48	-	0.20	-	0.68
Venezuela	-	-	2.20	9.45	-	0.45	12.10
<b>ASIA AND NEAR EAST</b>							
India	-	-	13.65	18.50	-	21.25	53.40
Indonesia	-	7.70	33.20	-	-	-	40.90
Iran	4.00	0.50	-	-	-	-	4.50
Israel	3.00	-	-	-	7.15	-	10.15
Lebanon	-	-	0.12	-	-	-	0.12
Pakistan	-	-	6.40	-	0.80	4.00	11.20
Philippines	3.20	6.70	9.70	76.30	5.00	-	100.90
Thailand	-	-	0.24	-	5.00	-	5.24
<b>EUROPE</b>							
Turkey	-	15.00	-	-	-	-	15.00
<b>TOTAL</b>	<b>37.52</b>	<b>69.34</b>	<b>104.49</b>	<b>120.47</b>	<b>96.35</b>	<b>48.90</b>	<b>477.07</b>

Source: Export-Import Bank of Washington, Report to the Congress for the Twelve Months ending 30 June 1963 (Part II).

72. The Latin American countries have been the principal recipients, although table 8 does not show this directly, for countries like Argentina, Brazil and Mexico have received many loans for general imports of equipment. In Asia, the Philippines received the largest amount of financial assistance. Except for Ghana, where a large loan was granted for an aluminium project, Africa has made relatively little use of the Export-Import Bank's facilities.

73. In many cases the loans of the Export-Import Bank were used by United States investors to finance the installation of subsidiaries in the developing countries. This is due to the regulations governing the use of the facilities of AID, on the one hand, and of the Export-Import Bank, on the other. When the estimated viability on an industrial project rises beyond a certain point, it can receive loans from the Export-Import Bank, but not from AID.

74. The Export-Import Bank's terms have changed somewhat over the years; its rate of interest rose from 4 to 4.5 per cent in the 1950's to 5.75 per cent in more recent years. The repayment periods sometimes include grace periods and the repayments may sometimes be spread over fifteen or twenty years, but in most cases the period is from five to ten years.

#### FRANCE

75. Four groups of developing countries have been the main beneficiaries of French official financial assistance for the development of the manufacturing industry: (i) the French-speaking countries of Africa south of the Sahara (including Madagascar); (ii) Algeria; (iii) Morocco and Tunisia; (iv) other developing countries. The French-speaking countries south of the Sahara (including Madagascar) were the first to receive financial assistance for their manufacturing industry. The total amount of such assistance was \$80.9 million for the period 1946-1963. A breakdown by sectors is given below (table 9).

Table 9

FRANCE

Loans, by sector, for the manufacturing industry granted by the Caisse Centrale de Cooperation Economique to African countries south of the Sahara (including Madagascar) formerly under French administration

(in millions of United States dollars)<sup>23/</sup>

Production of building materials	7.9
Metal-transforming industries and metallurgy	39.3
Chemical industries	0.4
Timber industries	9.5
Agricultural and foodstuffs industries	18.4
Textiles	5.4
Total	80.9

76. To this sum of \$80.9 million should be added some sub-loans for the manufacturing industry granted by agencies financing the industrial development of African countries which had themselves received general loans from the Caisse Centrale de Coopération Economique. From 1949 to 1963, those agencies received some \$500 million in credits from the Caisse Centrale de Coopération Economique. Out of that amount, the development banks and financing agencies loaned about \$71 million for the sector "Handicrafts, Trade and Industry", but apparently few of those loans actually related to the manufacturing industry.

77. In the available information on the official loans issued in 1963 and 1964, the various categories of capital equipment are grouped together, and it is therefore difficult to tell how much of the financial assistance given for capital equipment was intended for the manufacturing industry. In the case of Algeria, financial commitments are made through the Caisse d'Equipement pour le Développement de l'Algérie, whereas financial assistance to other countries is granted by the Caisse Centrale de Coopération Economique. For a long time French financial

<sup>23/</sup> Les Opérations du F.A.C., du F.I.D.E.S., du F.I.D.O.M. et de la Caisse Centrale de Coopération Economique, Paris, 1965.

assistance was given in the form of programme aid, and while part of that aid was probably used for the manufacturing industry it is impossible to ascertain what share of the total went into that sector.

78. Morocco, Tunisia and several other developing countries (table 10) received financial assistance under a new policy laid down in 1963. Under this policy, the French treasury was authorized to grant long-term (five to twenty years) loans at higher interest rates (about 3.5 per cent) in conjunction with export credits. One interesting feature of this new policy is that, by means of parallel loans from one treasury to another, it is possible to finance some of the local expenses arising out of industrial investment. The parallel treasury-to-treasury credits were as follows:

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Table 10

FRANCE

Official loans, in particular for the manufacturing industry, granted in conjunction with export credits 24/

(in millions of dollars)

	<u>1963</u>	<u>1964</u>
Algeria	23.4	14.9
Morocco	8.1	12.2
Tunisia	7.1	11.1
Mexico	45.0	-
Turkey	-	11.6
Ethiopia	-	3.0
Cambodia	-	10.0
Total	<u>83.6</u>	<u>62.8</u>

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79. Another arrangement consists in easing the terms of export credits by granting subsidies to reduce the interest rates and allow the loans to be refinanced by the official financing agencies, thus extending the repayment period. Among the countries to which this arrangement has been applied are Iran, India and Pakistan.

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24/ Ministry of Finance, Statistics and Financial Studies, L'Aide Financière au Développement, Paris, December 1965.

80. French authorities were concerned because credits earmarked for industrial development were in some cases not utilized for some considerable time. Accordingly, in 1964 France adopted new procedures with a view to expediting financial assistance. Prior to 1964, the Caisse Centrale de Coopération Economique had been authorized only to reimburse expenditures made under the credits granted, whereas the new procedure allows it to pay the equipment-furnishing firm directly, on behalf of the recipient country. Another improvement in the administration of financial assistance was the appointment of a projects director for each investment approved under a loan.

#### KUWAIT

80a. For the past six years, Kuwait has been granting loans for economic development to the Arab countries. Although a very modest sum was allocated to the manufacturing industry, this source of financing of the industrial development of the Arab countries well deserves mention, because it is the policy of the dispensing agency to encourage particularly the development of the manufacturing industry. The agency allocating these loans is the Kuwait Fund for the Economic Development of the Arab Countries.

80b. From 1960 through 1966, the Kuwait Fund extended to various Arab countries loans totalling \$150 million, \$5 million of that sum going to a single industrial project, a sugar refinery in the Sudan. That loan is repayable in twelve years, at an interest rate of 4 per cent. The loans granted by the Kuwait Fund represent completely untied aid.

#### FEDERAL REPUBLIC OF GERMANY

81. The financial assistance given by the Federal Republic of Germany for the manufacturing industry of the developing countries has increased greatly in recent years, rising from some \$15 million in 1959 to \$142 million in 1963. During the period 1959-1963, such assistance totalled \$244 million.

82. The Government's executing agency for the granting and administration of such assistance is the Kreditanstalt fuer Wiederaufbau. It generally issues loans in the form of direct credits either to the Government or to the capital equipment importer of a developing country. In either case, assistance is completely tied to specific industrial projects. In some cases, this agency has granted loans for the purpose of the "working capital" of industrial projects, such as raw materials and spare parts.

83. Virtually all the loans have been granted for large industrial projects. Thus, Rourkela Metallurgical Works in India received \$14.8 million in 1959 and \$107.6 million in 1963, while Pakistan was given a loan of \$27.3 million in 1962 for a cement and caustic soda plant.

84. In 1962, the Kreditanstalt fuer Wiederaufbau adopted a policy of aiding small and medium-size enterprises through development banks. In pursuance of this policy, a loan of \$30.9 million was made to the Pakistan Industrial Development Corporation in 1962 while in 1963 the India Industrial Development Corporation received \$10.8 million, Pakistan \$9.6 million, Thailand \$2.6 million, and Cameroon \$2.4 million in loans. In 1962 and 1963, the agencies financing industrial development received loans totaling \$56.3 million, or over one fourth of the total amount of financial assistance granted by the Kreditanstalt fuer Wiederaufbau for the development of the manufacturing industry.

85. Official financial assistance of considerable magnitude has been extended to India and Pakistan for the development of the manufacturing industry, whereas aid to African countries has been largely for purposes of building up the infra-structure.

86. The Kreditanstalt fuer Wiederaufbau does not necessarily give financial aid on the same terms on which it itself obtains its financial resources. The interest rates, and especially the periods of repayment of its loans sometimes vary depending on the industrial project being financed, particular attention being paid by the agency to the "absorbing capacity" of each project.

#### UNITED KINGDOM

87. The Export Credit Guarantee Department (ECGD), section 3, and, to a lesser degree, the Commonwealth Development Corporation are the two agencies which provide financial assistance for the industrialization of developing countries. During the period 1958-1963, the United Kingdom granted a total of \$1,727 million worth of bilateral assistance, of which 41 per cent was for industrial development. This percentage increased considerably in more recent years, amounting to approximately 75 per cent in 1958-1963 (see table 11).

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Table 11

UNITED KINGDOM

FINANCIAL ASSISTANCE (PLEDGES) BY ECOD, SECTION 3, FOR THE MANUFACTURING INDUSTRY\*

(in millions of dollars)

COUNTRY	1958	1959	1960	1961	1962	1963	1964	TOTAL
India	120.4	53.2	42.0	126.0	140.0	39.2	28.0	548.8
Nigeria	-	-	33.6	-	-	-	-	33.6
Pakistan	-	28.0	14.0	-	47.6	5.6	17.6	112.8
Sierra Leone	-	-	-	-	9.8	-	-	9.8
Sudan	-	14.0	-	-	-	14.0	-	28.0
Tanzania	-	-	-	-	-	-	3.5	3.5
Turkey	-	-	-	-	-	10.8	8.4	19.2
Uganda	-	-	-	-	-	6.7	-	6.7
United Arab Republic	-	-	-	-	10.0	-	-	10.0
<b>TOTAL</b>	<b>120.4</b>	<b>95.2</b>	<b>89.6</b>	<b>126.0</b>	<b>207.4</b>	<b>76.3</b>	<b>57.5</b>	<b>772.4</b>

\* The majority of these loans were granted for specific manufacturing projects and, in some cases, for general import of equipment. Loans for power, transport and communications have been omitted.

25/ Overseas Department Institute, "British Aid", London (1965).

88. While the normal activity of ECGD is mainly designed to guarantee private credit for exports, in 1949 the Department was authorized to make direct loans to developing countries, but it was not till 1958 that real use of this facility began to be made. The first large bilateral credit was a loan of \$120 million for the Durgapur Steel Works, in India. Between 1958 and 1964, the average financial assistance to manufacturing amounted to more than \$100 million annually. India was the main beneficiary, receiving almost two thirds of the total, and the other beneficiaries were all members of the Commonwealth with two exceptions, Sudan and Egypt.

89. In recent years, the conditions for obtaining loans from ECGD, section 3, have been relaxed. At the present time, such financial assistance almost always allows periods of grace for as much as ten years in exceptional cases. The time fixed for repayment may be as long as twenty-five years.

90. Although the periods of grace and repayment for ECGD loans are generous, interest rates are among the highest for assistance loans, since they range between 5.5 and 7 per cent. ECGD bases its interest rates on what the United Kingdom Government must pay for borrowing on the money market, plus a commission of 1/4 per cent. In some loans, interest charges have been dropped for periods up to seven years. While this results in an average effective rate for the period of the loan that is less than the nominal rate, it does not solve the problem of long-term debt servicing by the recipient country.

91. The Commonwealth Development Corporation occupies a special place in the industrialization of developing countries. Although it is a government agency, it enjoys a great degree of financial independence in its operations and is often associated with private British or foreign groups in promoting joint ventures. The Corporation receives its funds from the United Kingdom Treasury and is also authorized to borrow on the market. It makes loans and owns shares in a number of industrial undertakings.

92. The functions of the Commonwealth Development Corporation often go beyond those of a financial agency, for it may provide assistance for the technical and economic management of the enterprises in which it participates. CDC may therefore

be regarded as a public development bank whose operations cover the whole of the Commonwealth (with the exception of the United Kingdom itself). Nearly all of its investments have been in Africa, with some in the Caribbean Islands and the Pacific area.

93. Up to 1963, of a total of \$257.6 million, only \$14 million went into manufacturing. However, the activities of CDC should not be judged solely by these resources invested in the promotion of industrial development, for in many cases it has encouraged, or participated in, joint ventures such as those with Courtaulds for the founding of the Swaziland Company, and with W.R. Grace, establishing Chemicals Federation Ltd. in Trinidad. In other cases, the participation of CDC has stimulated the investment of local capital in industrial projects, as in the case of the Nigerian Cement Company, which has more than 2,000 Nigerian shareholders.

#### UNION OF SOVIET SOCIALIST REPUBLICS<sup>26/</sup>

94. Out of total financial assistance amounting to approximately \$3,900 million, the USSR has provided 45 per cent, or \$1,750 million, for manufacturing. This has assisted 160 projects.

95. Soviet bilateral financial assistance for manufacturing is furnished in the form of long-term credits, repayable over a period of twelve to fifteen years at interest rates of 2.5 to 3 per cent. Repayment is made under a clearing agreement by the delivery of goods produced in the borrowing country.

96. In general, Soviet credits have been used for large-scale industrial projects, such as the Bhilai Iron and Steel Plant in India, which will have an annual capacity of 2.5 million tons. These credits have gone to the following industries and countries:

Oil refineries (India and United Arab Republic)

Iron and steel (Algeria, Ceylon, India, Indonesia, Iran, United Arab Republic)

Non-ferrous metal products (Indonesia, United Arab Republic)

Chemical and rubber industry (Afghanistan, Ceylon, Indonesia, Syria, United Arab Republic)

Metal and mechanical products (Afghanistan, Algeria, Guinea, India, Indonesia, Iran, Iraq, Mali, Nepal, Somalia, United Arab Republic, Yemen)

Pulp, paper and timber (Guinea)

Building materials (Afghanistan, Ceylon, Guinea, Iraq, Mali, Syria, Yemen)

Pharmaceutical products (India, Iraq, United Arab Republic)

Textiles (Ceylon, Iraq, Kenya, Somalia, Uganda, United Arab Republic)

Food industry (Algeria, Afghanistan, Ceylon, Guinea, Iraq, Iran, Kenya, Nepal, Senegal, Somalia, Sudan, Tanzania, Uganda, Yemen)

Soviet financial assistance has been furnished only to Asian and African countries.

97. Soviet financial assistance is provided for industrial projects rather than programmes. Credits cover only the imported part of goods and services; in some cases, they also make possible the purchase of certain elements of the working capital necessary for the operation of projects carried out with this assistance.

#### YUGOSLAVIA

98. During the last five years, Yugoslavia has granted a total of \$320 million in financial assistance including some \$34 million for manufacturing.<sup>27/</sup> However, the figure of \$34 million is probably less than the actual amount, owing to the fact that \$111 million was furnished for "general equipment", a heading that covers certain categories of manufacturing equipment. The \$34 million went to thirty-eight industrial projects.

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<sup>27/</sup> Reply of the Yugoslav Government to a questionnaire sent by UNIDO.

99. Repayment is made over a maximum period of eight years, the first instalment being due approximately six months after the delivery of equipment is completed. The rate of interest is 3 per cent. In general, the credits cover a minimum of 80 per cent of the value of the goods and services imported for the industrial project.

100. The following are the industries and countries that have received financial assistance from Yugoslavia (table 12):

Table 12

YUGOSLAVIA

Financial assistance by country and by sector

COUNTRY	SECTOR	CREDITS FURNISHED (in thousands of dollars)
India	Cement	661.3
Pakistan	Abattoirs	1,192.2
	Abattoirs	233.0
	Milling	104.5
	Bricks	123.4
Indonesia	Shipyards	6,798.5
Algeria	Tanneries	787.5
	Fruit and vegetable processing	717.6
	Textiles	2,633.6
	Textiles	2,063.8
Ethiopia	Cement	1,662.0
Ghana	Fruit processing	485.1
	Fruit processing	535.0
	Abattoirs	524.3
	Vegetable processing	441.7
Guinea	Bricks and tiles	2,428.4
	Timber	1,365.3

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Table 12 (continued)

<b>COUNTRY</b>	<b>SECTOR</b>	<b>CREDITS FURNISHED</b> (in thousands of dollars)
Liberia	Abattoirs	513.6
Mali	Fruit processing	492.5
	Carpets	14.1
	Abattoirs	298.1
	Abattoirs	270.4
	Abattoirs	19.0
Sudan	Tannery	987.0
	Cardboard manufacturing	756.1
	Cement	4,128.2
Tunisia	Abattoirs	490.3
United Arab Republic	Cold-storage (10)	1,468.9
Uganda	Abattoirs	635.7
Burma	Shipyards	799.4

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PART III

CONCLUSIONS AND RECOMMENDATIONS

101. In absolute terms, there has been a slight increase in recent years in the bilateral financial assistance furnished by developed countries for manufacturing. For all of the free-economy industrialized countries, these official funds represented only a small part of their total financial assistance whereas for the planned-economy countries the proportion was high. It must be borne in mind, however, that the free-economy countries have also contributed to the development of manufacturing through guaranteed credits for private exports and through direct investment in industrial firms in developing countries.

102. With respect to the purchase of equipment, bilateral financial assistance is tied to the contributing countries on an increasing scale. Two of the most important of the latter countries - the United States and the United Kingdom - are becoming more and more strict in their policy, citing as the main reason their growing balance-of-payment difficulties. Another reason for this tying of assistance is that it is often an instrument for promoting the export of capital goods.

103. The requirement that the official funds provided should be spent in the contributing country results, in the opinion of the developing countries, in higher costs for equipment, as compared with internationally competitive prices. To deal with this problem, the United Nations Economic and Social Council asked the Secretary-General "to study the feasibility of setting up, within the United Nations Organization for Industrial Development or any other appropriate United Nations body, an advisory service which could provide information to the developing countries on the sources of supply, the cost and the quality of equipment needed for their development".<sup>28/</sup> It would be advisable to move as rapidly as possible from the study stage to the implementation of this resolution.

104. While industrial investment is composed in varying degrees of local and external elements, the official funds provided for assistance to manufacturing allow only for the financing of imported goods, and occasionally of imported

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<sup>28/</sup> United Nations, Economic and Social Council, "Resolutions", No. 1183 (XLI), paragraph 5, No. E/4264, New York (1966).

services. The developing countries, in which the level of public or private savings is low, find it very difficult to finance the local costs of industrial investment. Moreover, once an industrial project is completed, its operation entails imports of spare parts and raw materials. There are certain contributing countries which very rarely agree to finance local investment costs but are willing in some cases to finance the purchase of the spare parts and raw materials needed for operations. It would be desirable if all countries providing official assistance for the development of manufacturing assigned a greater share of their official assistance funds to the subsequent purchase of elements of operating capital such as the spare parts and raw materials required for the projects completed with their assistance.

105. Bilateral financial assistance for industrialization is always project assistance. This may encourage some developing countries to undertake industrial projects which have no real priority. Where developing countries have drawn up an industrial development programme, it would be desirable if the contributing countries took that fact into account and made their pledges to provide financial assistance on the basis of that programme.

106. One of the major problems encountered by the developing countries in the use of the financial assistance placed at their disposal is the procedure under which the assistance is furnished and mobilized. There are almost as many such procedures as there are sources of financing. Some of the procedures are so complex as to impede and even delay the utilization pledges of financial assistance. In the carrying out of industrial projects, the time factor has a very important bearing on the cost of industrial investment. Hence the ability of a recipient country to mobilize quickly funds pledged for a particular industrial project constitutes a major element in its completion of the project at the lowest cost.

107. At its forty-first session, the Economic and Social Council urged developed countries to make external resources more readily available "by simplifying the procedure for the granting and the effective and expeditious disbursement of aid".<sup>29/</sup> It is suggested that a detailed study should be made of the administrative procedures used by contributing countries. Such a study would serve as a basis for the work of a group of experts from both the developing and the developed

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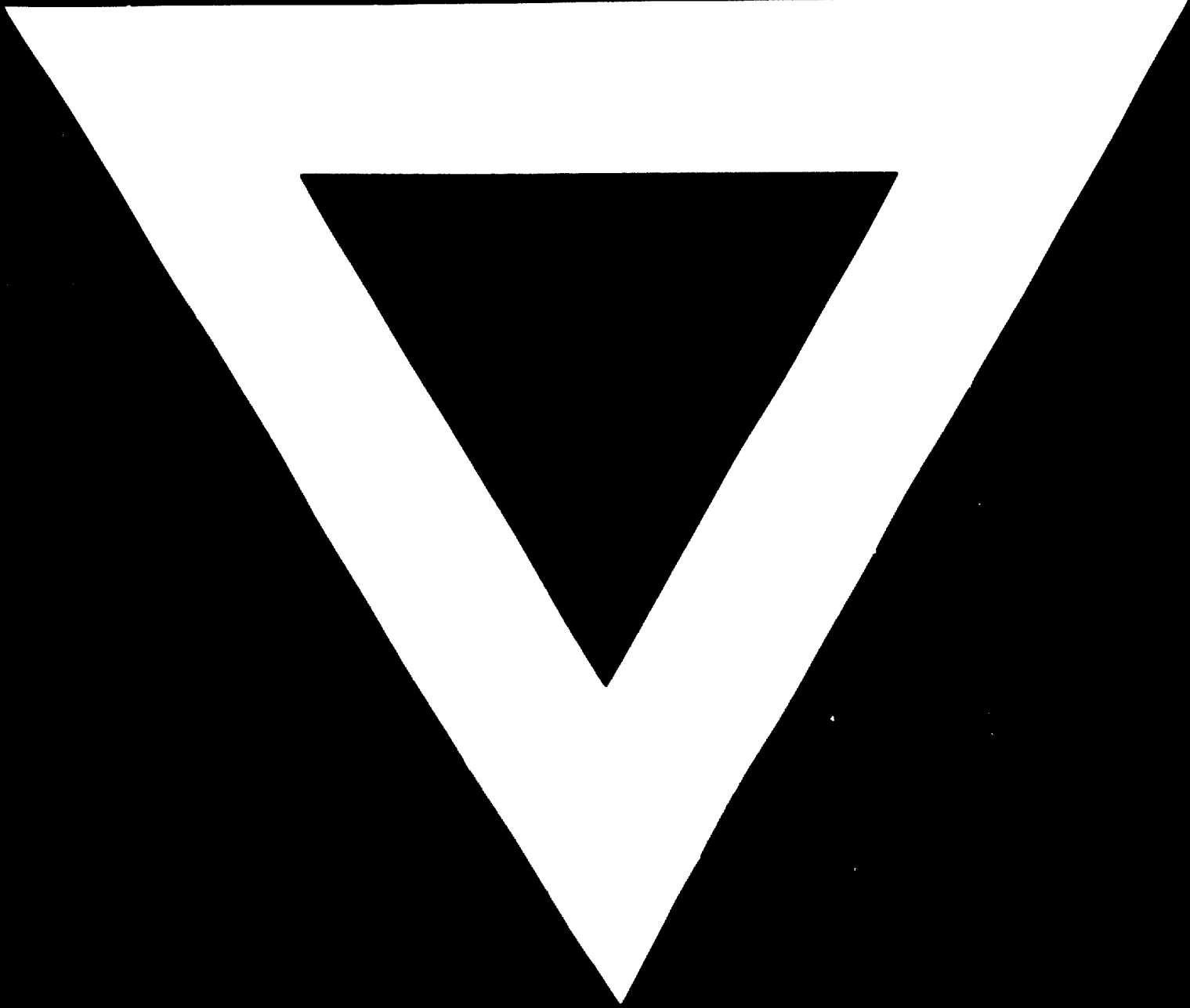
<sup>29/</sup> Economic and Social Council resolution 1183 (XLI), para. 3 (b) (i).



countries which would deal with the administration of financial assistance and suggest simplified and standardized procedures that take into account both the concerns of the contributing countries and the administrative problems encountered by the recipient countries.

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