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FINANCIAL ASSISTANCE BY OECD MEMBERS FOR INDUSTRIAL  
DEVELOPMENT IN DEVELOPING COUNTRIES

Presented by the Secretariat of the  
Organisation for Economic Co-operation and Development

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FINANCIAL ASSISTANCE BY OECD MEMBERS FOR INDUSTRIAL DEVELOPMENT  
IN DEVELOPING COUNTRIES

Corrigendum

Paragraph 10, insert the following after the last sentence: "Through its general import programmes the United States makes available to developing countries materials and machinery necessary to sustain and modernize existing industrial facilities and to increase industrial capacity. Assistance for high priority capital projects contributes to industrial development both directly and indirectly. A major share of officially financed project assistance has been for expanding and improving the basic infrastructure essential for industrial development. Part of the local currency generated by the sale of agricultural commodities to developing countries is loaned to financial institutions providing working, medium-term and long-term capital for industrial enterprise. Since the beginning of the foreign aid programme in 1948, the United States has provided on a bilateral basis over .65 billion in economic assistance, most of which contributes to industrialization, either directly or indirectly."

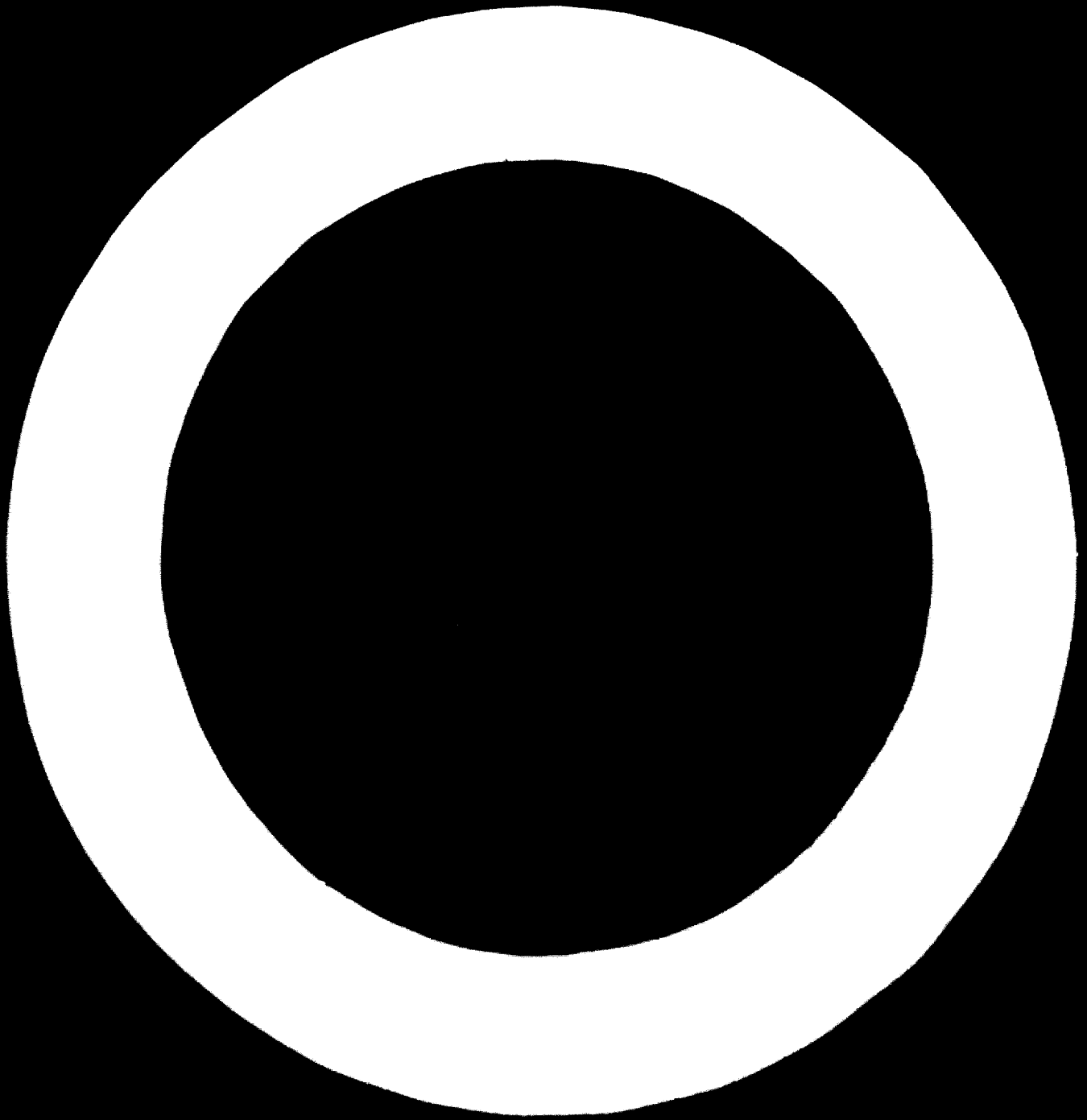
Paragraph 15, delete the last sentence and replace it by the following: "The terms of lending for industrial projects vary according to the policy on terms of lending of the particular donor. That policy might take account of the over-all economic situation of the recipient country as well as of the anticipated cost/benefit of the project itself."

Paragraph 16, delete the phrase beginning "but since that date" in the last sentence and add after "between 6 and 7 per cent," the following words: "with waivers of interest in selected cases which reduced the effective rate; since mid-1965 most of the official loans have been interest free."

Paragraph 18, penultimate line, delete "5.5" and replace it by "6.0".

Paragraph 23, first line, insert "official" after "all". Add the following at the end of the sentence "or through existing loans under section 3 of the Export Guarantees Acts, 1949-67".

Paragraph 24, line 2, insert period after "Bank", delete "since most" and begin the new sentence with "A large share".



### Introduction:

1. Economic development has often been identified with progress in the industrial sector, which in turn has been considered a relatively straightforward matter, requiring only large financial inputs. Experience has shown, however, that the real situation is much more complex. The creation of large projects is not by itself sufficient to speed sustainable economic growth. Sound industrial development depends on many other factors, such as the availability of infrastructure, skills, technological possibilities, production requisites, etc., as well as more general factors in a country's overall economic situation, including, e.g. price policies designed to foster industrial outputs.

2. These considerations have a direct bearing on aid for industrial development. Even though aid suppliers have often preferred to provide support for capital projects - since, among other things, they simplify the effectiveness of control over the use of aid funds a good deal of financial assistance of a "non-project" nature designed to help finance current import requirements is extended which makes a direct and significant impact on the industrialization process.

"Concentration on capital projects, large or small, is not appropriate to all the needs of the less-developed countries. Other forms of support, leaving greater flexibility and freedom to the recipient, are sometimes essential if development is to be achieved. Apart from support to meet the cost of programmes whose individual projects cannot be specified at the outset, there may be a need to provide funds for the import of raw materials, semi-manufactured goods and spare parts to enable the new investment to be fully productive. In some cases, even these needs cannot be defined in advance with any precision and some donor countries provide assistance to cover a general list of imports to countries which they can expect to use such assistance wisely."

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✓ Willard L. Thorp, Chairman of the Development Assistance Committee (DAC):  
"Development Assistance Efforts and Policies", 1964 Review, OECD, p. 60.

3. It can be seen then that a discussion of financial assistance to industrial development cannot be limited to the narrow concept of industrial capital projects, but must consider the subject against the background of total financial flows.<sup>2/</sup>

Volume of assistance

4. Development Assistance Committee (DAC) member Governments report annually to the Organization for Economic Cooperation and Development (OECD) Secretariat the volume of official commitments made in the preceding year for various purposes as outlined by government-to-government agreements. Commitments may be disbursed over a number of succeeding years and thus do not correspond to the actual flow of resources in any given year. However, taken over a number of years, commitments will give a fairly realistic picture as to the distribution of financial aid by purpose (cf. Tables 1 and 2).

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<sup>2/</sup> This paper deals solely with official contributions. The development of many of the activities which further the growth of industry are largely in private hands in OECD/DAC countries. The following table shows the relative importance of public and private sectors in the total flow of financial resources to developing countries from OECD/DAC(\*) members:

Disbursements in billion U. S. dollars

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Total official and private, net	7.60	8.95	8.30	8.34	8.88	10.12
Total official, net	4.85	5.99	5.95	6.11	5.98	6.34
Total private, net	2.94	2.96	2.35	2.22	2.89	3.78

(\*) The list of countries covered by the term OECD/DAC is Australia, Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland (which is not a member of the DAC), the United Kingdom and the United States, together with the Commission of the European Economic Community. Australia is not a member of OECD.

Table 1

Official bilateral commitments of OECD/DAC  
member countries combined to industrial projects  
1962-1965

	(US billion)			
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
(a) Total official bilateral commitments	7.2	6.6	8.2	6.8
(b) Total capital projects financing	2.3	2.3	2.4	2.1
(c) Industrial project financing	0.6	0.5	0.6	0.6
as percentage of:				
(a)	8.7	7.7	7.2	9.2
(b)	27.2	22.1	24.2	29.3

5. Over 40 per cent of total bilateral commitments consist of non-project assistance. Such assistance is employed generally at the discretion of the recipient Government, except insofar as the major item in this category is assistance conducted for the financing of current imports. It is probable that a substantial share of this assistance is employed by recipient Governments for purposes connected with industrial development. One of the major donor countries has estimated that, in a recent year, industrial development had about the same share of non-project assistance as it had of capital projects.

6. Nearly two-thirds of the \$619 million committed by member countries in 1965 to industrial projects were directed to manufacturing industries. Mining and quarrying accounted for a little over 9 per cent. Other industries, including tourism, accounted for about 8 per cent. Commitments made to industrial development banks represented a further 18 per cent (104 million dollars). It is also estimated that, during the period 1962-1965, OECD/DAC countries contributed approximately \$350 million for investment in industries producing agricultural production requisites in less developed countries - i.e. about 15 per cent of total commitments for industrial capital projects during the same period.



Table 2

Distribution by purpose of total O.E.C.D./D.A.C. Bilateral  
 Commitments 1962-1963, 1964 and 1965

	Percentages		
	1962-1963	1964	1965
I. Capital project financing	33.2	29.7	31.2
1. Agriculture forestry and fishing	3.6	3.1	2.7
2. Transport and communication	6.9	6.5	5.6
3. Development of energy resources	6.9	5.8	6.9
4. Indus Basin Fund	0.7	0.6	0.7
5. Industry	8.2	7.2	9.2
6. Social infrastructure	6.6	5.2	4.5
7. Type of project not specified at time of agreement	0.4	1.3	1.6
II. Non-project assistance to finance current imports (a)	39.1	46.3	33.3
III. Non-project assistance not directly linked with imports (cash transfers)	5.5	5.1	9.0
IV. Technical co-operation	12.5	13.4	17.5
V. Consolidation and re-financing loans	1.3	1.4	4.3
VI. Other (b)	8.4	4.2	4.7
TOTAL BILATERAL COMMITMENTS	100.0	100.0	100.0

(a) Including food and commodity aid.

(b) Including current project financing.

/...

Member countries' assistance programmes

7. Member countries' aid policies and programmes for industrial development differ from each other in certain respects. France, for example, unlike most other OECD countries, extends a large portion of its assistance - three quarters in 1965 - in the form of grants. The relationship of France to other Franc Area countries has considerable influence on its aid to the industrial sector, e.g. industrialization in Algeria is an objective of long standing in French aid programmes. In African countries South of the Sahara and in Madagascar, France provides support for productive enterprises, especially small industries and artisans.

8. The Federal Republic of Germany has taken the view that industrial projects, like other profit-making ventures, should primarily be the object of private investment, while official assistance should be concentrated on infrastructural projects. Priority is given to projects involving participation of private investors, as well as to development banks in view of their promotion of small and medium-sized private enterprises in less-developed countries. In 1965 about 45 per cent of German assistance to industrial projects was extended through industrial development banks. All German assistance to industrial projects is extended on a loan basis.

9. Assistance to the industrial sector is an important factor in the United Kingdom programme, although it is not necessarily classified in terms of specific projects. A large part of commitments are of the non-project type, made to finance imports of industrial raw materials, equipment and services for projects already under construction or in operation. This has been particularly true recently in the case of two of the largest recipients of United Kingdom aid, India and Pakistan, which have requested increased financing to rebuild industrial input inventories.

10. The United States Government has sought not only to promote industrial development as much as possible through private investment, but also to direct its official funds as far as possible to private enterprises in the less-developed countries themselves. The latter objective is often achieved through the intermediary of local development banks.

11. Italian assistance to industry is extended on a loan basis. Italy and Japan have become important sources of assistance for industrial projects, although a major share of these operations is represented by export financing. However, the Japanese Government has concentrated most of its capital project financing on industrial projects, all of it in the form of loans. Sixty per cent of Canada's assistance to industrial projects in 1965 was to manufacturing, while most of the remainder went to mining. Nearly all of Canada's assistance to industrial projects takes the form of loans, whereas less than 60 per cent of that extended for infrastructural and agriculture projects is in loan form.

12. Most other OECD/DAC member countries do not normally finance specific industrial projects. Some countries are strongly oriented towards bilateral technical assistance and contributions to multilateral agencies. Others choose, as a matter of policy, infrastructural projects or non-project assistance.

13. The emphasis placed by a number of aid suppliers on projects involving participation of private investors should be noted. Official bilateral aid commitments made in 1965 by OECD/DAC countries to industrial capital projects were, in fact, one-fourth as large as external private direct investments made in less-developed countries for the same year. However, the level of such investment has shown large fluctuations; it reached a peak in 1965 of around \$2.3 billion (including reinvested earnings), averaging \$1.8 billion for the period 1962-1965.

14. The official bilateral flow was mostly concentrated on manufacturing industries, while a relatively small share went to the extractive industries. Because of statistical difficulties, the distribution of total private direct investments by type of industry can only be roughly estimated. However, the allocation of about three-fourths of these investments is known for 1965: more than half of the identifiable total took place in extractive industries and another third in manufacturing.

#### Financing of industrial capital projects

15. Nearly all industrial projects are financed on a loan basis (cf. Table 3) whereas infrastructural and agricultural projects are financed three-quarters

by loans and one-quarter by grants. The terms of lending for industrial projects vary widely from aid supplier to aid supplier and are determined in accordance with the overall economic situation of the recipient country as well as by the anticipated cost/benefit of the project itself.

16. Interest rates in 1965 on loans to industrial projects varied from zero to more than seven per cent and maturities mostly from 10 to 40 years. Thus France extends 20 year loans under the Algerian Petroleum Agreement at three per cent interest, while her loans to industrial enterprises in African countries south of the Sahara and in Madagascar average four to five per cent and are for 10 years. Germany's loans to industry carried on average an interest rate of 3.7 per cent in 1965 and an average maturity of a little over 19 years, including a grace period averaging a little over five years. The Commonwealth Development Corporation (CDC) financed about one third of the United Kingdom's loans to industry at interest rates of seven per cent or more; other United Kingdom loans to individual projects up to mid-1965 were usually under rate interest rates of between six and seven per cent, but since that date interest waivers have been possible in selected cases.

17. The terms of United States Agency for International Development (AID) lending to industrial projects are, in principle, a maturity of 40 years, including ten years' grace period, and interest of one per cent during the grace period, and 2.5 per cent thereafter. AID lending to industrial projects is frequently made through a "two-step lending" procedure, involving different sets of terms for the recipient Government as opposed to the ultimate borrower. The local currency proceeds of the loan are lent to local industry on relatively hard terms, in accordance with conditions prevailing within the recipient country and within the specific industry. This secondary loan is repaid to the recipient Government in local currency, the dollar obligation being repaid in turn by the recipient Government on AID terms. The latter provision is designed to avoid undue pressure on the recipient country's foreign exchange reserves.

Table 3

Grant and loan commitments for industrial projects  
 and other major assistance categories financed by  
 OECD member countries combined in 1965

(in \$ US million)

	Grants	Loans
A. Total industrial projects	9.5	549.2
of which:		
- Mining and quarrying	0.1	51.9
- Manufacturing	5.2	353.0
- Industrial Development Banks	-	104.3
- Other (incl. services)	4.2	40.0
B. Total capital projects	408.3	1,606.5
Non-project assistance	1,740.7	1,025.3
Other*	1,348.4	286.7
<b>TOTAL BILATERAL COMMITMENTS</b>	<b>3,497.4</b>	<b>2,918.4</b>

\* Includes reparations and indemnification payments, technical co-operation, consolidation aid, refinancing loans, contributions for specific current expenditure, including operational costs in recipient countries, etc.

18. A major instrument for United States assistance to industrial projects is the Export-Import Bank of Washington. Export-Import Bank loans are made to projects in countries where concessional AID assistance is no longer required, or they may be extended together with other types of financing as part of an overall "package". The normal rate of interest on Export-Import Bank lending, including that to industrial projects, is 5.5 per cent. Maturity periods are frequently ten years or less, but may go up to 20 years.

19. Most of Italy's industrial project financing is in the form of export credits. There are, however, also financial loans from special budgetary appropriations, whose maturity periods ranged from four to twelve years in 1965 and interest rates from 4.4 to 8.0 per cent. These terms compare with those of Japanese official lending; most Japanese loans carried in recent years maturity periods of 15 to 18 years including five years' grace, and an interest rate of 5.75 per cent. Canada's principal source of official loans is on very soft terms - 50 years' maturity, including ten years' grace, and an interest rate of .75 per cent.

#### Financing institutions

20. The financial terms for industrial capital projects depend to a certain extent on the kind of institution which donor countries choose for the implementation of these operations, i.e. loans on soft terms are usually extended from budgetary funds by government departments, while loans on harder terms are often negotiated by credit institutions which finance capital projects with funds borrowed wholly or partly on the domestic capital market.

21. France's obligations under the special industrial agreement with Algeria are met out of the state budget. The use of funds is determined by the Ministries of Foreign Affairs, Economic Affairs and Finance as well as the Caisse d'équipement pour le développement de l'Algérie (CEDA). A major instrument for French assistance to industrial projects in the African States south of the Sahara and in Madagascar is the Fonds d'Aide et de Coopération (FAC) under the supervision of the Ministry of Co-operation which operates in conjunction with a number of other public institutions.

22. In Germany industrial projects are financed from funds of the Ministry for Economic Co-operation which are appropriated under the Federal Budget, and from the funds of the Kreditanstalt für Wiederaufbau, partly borrowed on the domestic capital market. A special role in industrial financing is played by the German Company for Economic Co-operation (DEG) which acts as a channel for some official funds to stimulate small private enterprises to invest in the industrial sector in less-developed countries.
23. Apart from the operations of the Commonwealth Development Corporation, all United Kingdom assistance to industrial projects is extended through the Ministry for Overseas Development.
24. As previously indicated, in the United States the financing of industrial projects is largely provided by the Export-Import Bank since most of the grants and soft loans funds of the Agency for International Development (AID) are reserved for infrastructure projects, agriculture and general programme financing.
25. Apart from the financial loans from budget appropriations, most of Italy's industrial projects for developing countries are financed by the Mediocredito Centrale, which currently participates to a maximum of 80 per cent in export credits issued by private medium-term financing institutions.
26. Japanese aid to industrial development consists mostly of export financing by the Export-Import Bank of Japan. Government loans have recently been extended through the Overseas Economic Co-ordination Fund (OECF), the Japanese Government's soft-loan fund. The funds of both the Export-Import Bank and the OECF are derived in part from Government borrowings and in part through budgetary subsidies.
27. The principal instrument for Canadian assistance to industrial projects is the External Aid Office (EAO), all of whose funds are appropriated out of budgetary resources. Canada's second major instrument for industrial financing is the Export Credit Insurance Corporation (ECIC). While the EAO's terms are very soft, the ECIC terms vary widely and include loans at conditions approaching commercial terms.

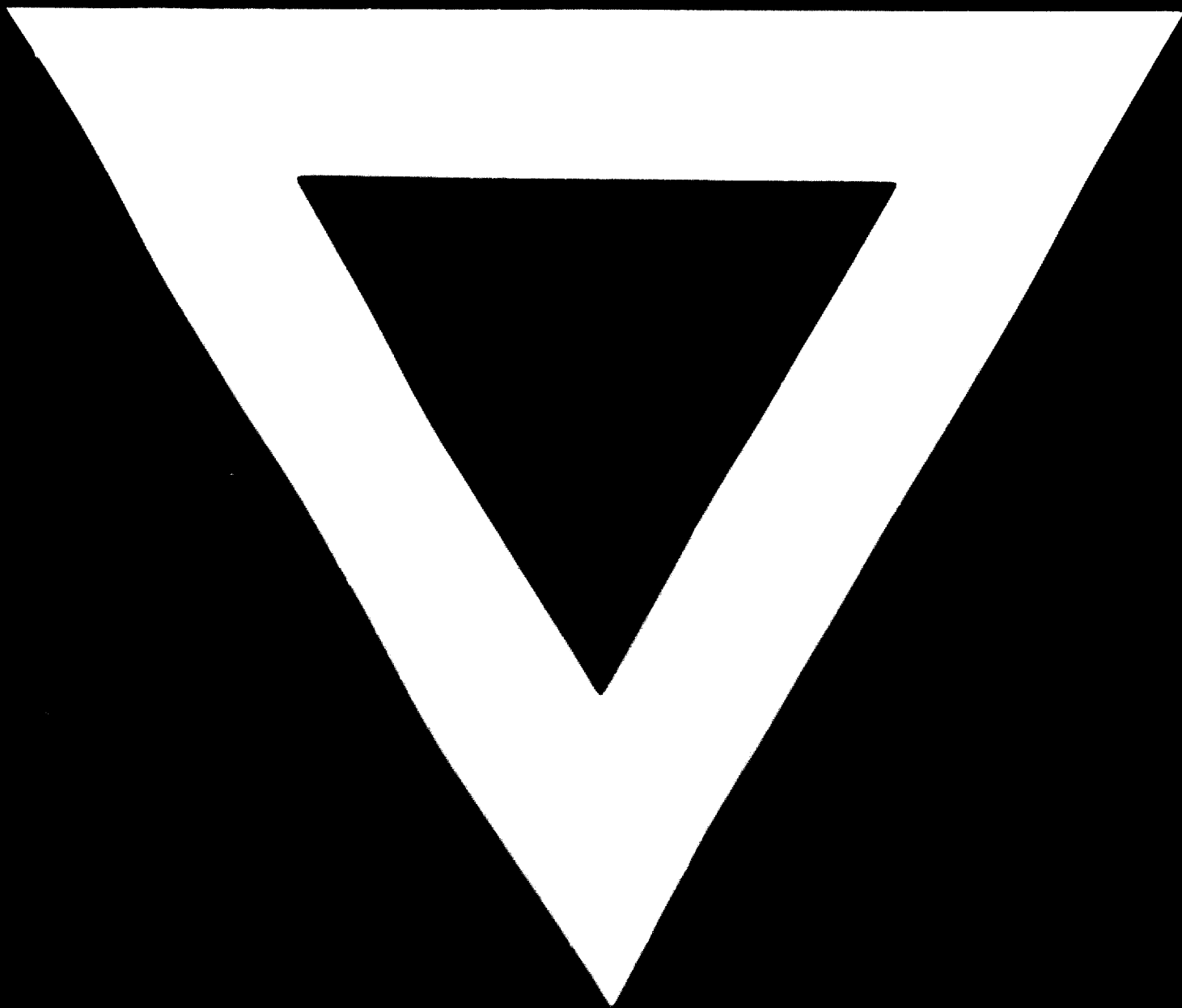
Summary conclusions

28. An appraisal of OECD/DAC members' financial assistance to industrial development in developing countries must be made within the framework of total financial assistance. Aid to industry is not restricted to capital projects. Much of the non-project assistance extended, directly or indirectly, also serves industrialization purposes. Official aid commitments for industrial capital projects of OECD/DAC members combined amounted to about \$600 million in each of the years 1962-1965. Roughly two-thirds of the sums were destined for use in manufacturing projects of which about one-quarter for the manufacture of production requisites for agricultural projects, while about one-fifth is channelled through industrial development banks. The promotion of small and medium-sized enterprises is a major concern of several member countries' aid programmes. Terms vary according to member countries' programme and policies. Generally speaking, the grant component is smaller, and loans to industry overall carry somewhat harder terms, compared with financial assistance to other sectors of economic assistance.

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