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FINANCING OF SMALL-SCALE INDUSTRY IN THE DEVELOPING COUNTRIES:

THE SITUATION IN LATIN AMERICA

(Argentina, Brazil, Chile,
Colombia, Mexico and
Venezuela) ^{1/}

by

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^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO.

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THE FINANCING OF SMALL AND MEDIUM-SCALE INDUSTRY IN LATIN AMERICA

A. INSTITUTIONAL MEASURES

I. THE CENTRAL BANKS AND SMALL-SCALE INDUSTRY

"The Central Banks of Latin America came into being immediately after the First World War. Throughout their infancy in the twenties, these institutions enjoyed conditions of stability and confidence which have never since been repeated,^{1/} except in certain countries. The depression of the thirties, the Second World War in the forties, the striving to expand in the fifties, and the endeavour to achieve stability in the present period form a long series of difficult experiences culminating in the present concern with maintaining balance between internal and external factors in order to achieve monetary stability and constant economic growth.^{2/}

Initially, the central banks were authorized to deal directly with the public, but because of the requirements of the economy, they have almost all taken on the features which are characteristic of this type of institution and act as sole issuing banks, bankers and international financial agents for the government, regulators of money in circulation and of foreign exchange transactions, bankers for other banks, credit regulators, and reserve banks.

In addition to this, the Latin American central banks have taken on the task of helping to speed up the processes of economic development.

"The contribution to economic development made by the central banks, as monetary policy bodies and as intermediaries in the financial field between the public sector and private concerns, may be considered from three points of view, namely:

1. The influence on the formation and availability of savings exerted by policies and measures designed to maintain monetary stability and confidence in the national currency.

^{1/} Frank Tomason "The Central Banks in Latin America", C.I.E.L.A., Mexico, 1963, page 17.

^{2/} Op. cit., 18.

2. The effect produced by the regulation of credit and the supervision of financial institutions - whether for "monetary" purposes or for reasons of "banking solvency" - on the distribution of funds by sectors, activities and transactions, and
3. The way in which the existing financial system can react to the policies and directions of the authorities by developing new types of institutions and practices outside their control, and the attitude which the authorities may take regarding the evolution of the market.^{3/}

Most Latin American governments have taken a direct initiative over the promotion and financing of economic development, and have entrusted this task to the central banks or other specific bodies.

Among the various promotion and financial programmes, those designed to promote small and medium-scale industry, which forms the basis for the developing industrial structure, are of particular importance and prominence in Latin American countries.

An example of this is provided by the Central Bank of Chile, which established in 1966 "lines of promotion credit" for small and medium scale enterprises.

Finance is obtained through the commercial banks, which, in their turn, discount these operations with the Central Bank. This line of credit is restricted, however, both as regards the application of the credit (which must be exclusively for operating capital) and as regards the length of loan (one year at the most).

II. INSTITUTIONS DEALING SPECIFICALLY WITH THE FINANCING OF MEDIUM AND SMALL-SCALE INDUSTRY

In Latin America, specific institutions for the financing of small and medium-scale industry were only set up a few years ago and only exist in certain countries, although institutions do exist, within the banking systems of all countries, for dealing with the financing of industrial activities of unspecified scale.

^{3/} Op. cit., 414, 415.

The specific institutions existing at present for the support of small and medium-scale industry through the granting of credit facilities are as follows:

Argentina

Industrial Bank of the Argentine Republic

Brasil

National Bank for Economic Development. Programme for Financing Small and Medium-Scale Enterprises (FIPEME) of the Bank of Brasil. Industrial Development Fund of CRIEAI.

Chile

Central Bank of Chile. Lines of promotion credit. Production Development Corporation (CORFO). Technical Co-operation Service (SCT).

Colombia

Bank of the Republic. Fund for Private Investments (FIP). Banco Popular. Corporación Financiera Popular (National Finance Corporation). Industrial Development Institute (IFI). Agricultural, Industrial and Mining Credit Fund. "Programme of Guided Industrial Credit".

Mexico

Nacional Financiera, S.A. Medium and Small-Scale Industry Guarantee and Development Fund. National Bank for Co-operative Development. Craft Industries Development Fund.

Venezuela

National Commission for Financing Small and Medium-Scale Industry. Venezuelan Development Corporation. Industrial Bank of Venezuela.

The majority of the institutions and bodies mentioned above are official bodies which are partly financed, controlled and partially administered by governments.

1. GENERAL POLICY

ARGENTINA

Industrial Bank of the Argentine Republic

This bank is a "national bank" set up by the Government in 1944 and responsible for the medium and long-term financing of industrial and mining development needs.

At present, one of the functions of this bank under the regulations of 1959 is that of promoting industrial expansion in the interior of the country by channelling resources to support plans designed to increase the supply of goods and services needed for the development of area economies, particularly in the less developed areas.

The Small-scale production unit is taken as the basis of this programme

The Industrial Bank of the Argentine Republic finances only investments in fixed assets.

BRAZIL

Industrial Development Fund

This is a financial assistance programme designed to help in the reorganization, extension or establishment of medium or small-scale industries. It operates under a body called the "Department of Agricultural and Industrial Credit" (CREAI).

Programme for Financing Small and Medium-Scale Enterprises (FINEPE)

This Programme, which operates at the national level, was set up in 1965. Since its establishment, it has taken its place as a body specializing in the provision of loans (mainly for financing the acquisition of fixed assets) to small and medium-scale enterprises which are already operating or are planned to be set up.

The Federal Government of Brazil considered that Brazilian industries, especially those in the mechanical sectors, had no chance of competing with foreign industries because of the lack of a national system of medium and long-term credit. Likewise, the Brazilian Government considered that it was necessary

that Brazilian entrepreneurs should have at their disposal credit facilities which were more or less equal to those available in countries with a higher level of development.

It was also considered that the industrial enterprises which suffered most by their very nature, were the small and medium-scale enterprises, which represent the majority of enterprises in the Brazilian industrial structure.

FIPEME was envisaged as a revolving fund designed to stimulate and provide funds for the development of small and medium-scale enterprises. It gives financial assistance in the form of fixed investments intended for the establishment and/or expansion of small and medium-scale industrial establishments, for financing the acquisition of Brazilian or foreign-made production equipment, for construction work, and for covering expenses incurred in connexion with the installation of equipment purchased.

FIPEME can also devote part of its resources to helping to pay for technical services required in connexion with the preparation of industrial projects as well as technical assistance services for increasing the productivity of the enterprises seeking loans.

It is considered that FIPEME cannot restrict its activities exclusively to the financing of fixed assets, and it will be necessary in the near future to give assistance in respect of the working capital requirements of small and medium-scale enterprises.

Consideration is also being given to the possibility of FIPEME providing endorsements in financial transactions involving foreign institutions.

FIPEME has a special feature in that it can operate either directly with the industrial enterprise or else through financial institutions: that is to say, it works simultaneously as a first- and second-line bank, as in the case of the Small Business Administration in the United States.

The complexity of a national programme for financing small and medium-scale enterprises, in view of the great area of Brazil, the different economic problems prevailing in each area, and the need to divide up the value of the loans made in

such a way as to cover the largest possible number of enterprises scattered all over the country, oblige the National Development Bank to use the various area financial institutions concerned with economic development as its financial agents.

As we shall see below, in Mexico the Medium and Small-Scale Industry Guarantee and Development Fund has likewise been operating since 1953 as a second-line bank, except that its intermediaries are private banks in general, and not only financial institutions.

Initially, the national credit institutions, which had some experience of medium and long-term financing, were the agents for FIPEME, but the network of agents has now been expanded because of the specialization of the operations of the national financial institutions, and the National Bank for Economic Development and FIPEME in particular, with the aim of training personnel and stimulating their agents, have sent technical missions all over the territory of Brazil in order to give banks guidance.

FIPEME has followed certain priority criteria concerning the granting of loans. The following factors are taken into account in establishing priorities:

- (a) The development of the area economy;
- (b) The contribution to the domestic product;
- (c) Improvement of the supply of general consumer goods;
- (d) Complementation of specific branches of industrial activity;
- (e) The continuity of the process of economic development of the country;
- (f) Raising the levels of internal demand to secure better utilization or expansion of installed capacity in the sectors of industry producing manufactured goods, and
- (g) Stimulation of exports.

FIPEME, as already stated, was set up in order to take care of the requirements for the financing of small and medium-scale enterprises, but it has made every effort to help the largest possible number of economic activities. Because of the relative scarcity of resources and the vast dimensions of the problem to be solved,

however, FIPEME has been obliged to limit its areas of activity. Up to the beginning of 1967, its activities were limited to 13 sectors of industry, activities of little or no importance or activities defined as vague being excluded from its field of action.

The sectors of industry given priority are the following: mechanical engineering, textiles, food stuffs, metal industries, wood and timber industries, chemicals, plastics, leather and skins, printing, electrical equipment, minerals and paper and other vegetable fibres.

FIPEME and CREAM are the most important national sources of finance. There are other banks of a local or area nature, however, which also attend to the loan requirements of small and medium-scale industry, the principal of these being the Banco del Nordeste of Brazil, which, through its industrial department, operates over a large under-developed area comprising nine of the States of the Federation, in which small and medium-scale enterprises prevail.

The Bank's loans are restricted to a maximum of 50 per cent of the total investments in an enterprise, and the average repayment period for such loans is five years.

The rate of interest levied is 12 per cent per year, without any charges in respect of opening commissions or rates of monetary correction. The low cost of such financing is in itself a form of subsidy, if the inflationary spiral besetting Brazil is taken into account.

CHILE

The Production Development Corporation (CORFO) was set up in 1969. This agency is responsible for planning, promoting and bringing into operation activities aimed at assisting economic development. CORFO is an autonomous State agency whose objectives cover the basic aspects of economic development. In 1963 its field of operations was extended and a programme of assistance to small-scale and craft industry, based on a national development programme, was initiated.

The functions and activities of assisting small-scale industry and craft industries were placed by the Production Development Corporation in the hands of its subsidiary, the Technical Co-operation Service (SCT).

The Technical Co-operation Service originated in 1951 as the result of an agreement between Chile and the United States, and in 1952 an agreement regarding co-operation in technical assistance, under which the Technical Co-operation Service was set up, was signed between the Production Development Corporation and the Institute for Inter-American Affairs.

In 1960 the Technical Co-operation Service was converted into an autonomous subsidiary of the Production Development Corporation, handling assistance from the United Nations and other international bodies.

Since 1963, a department dealing exclusively with assistance to small-scale industry and craft industries has been functioning within the Technical Co-operation Service.

The Technical Co-operation Service has four assistance programmes designed to help small-scale industry in Chile:

- (a) Technico-administrative and technological assistance;
- (b) Financial assistance;
- (c) Investigation and planning, and
- (d) Information and co-operation.

The work of the Technical Co-operation Service consists of promoting and studying projects and advising the Production Development Corporation regarding the approval and granting of credits. Supervision of the utilisation of the money thus granted is left to the Technical Co-operation Service.

Medium or long-term credits are granted for the purchase of machinery and equipment and/or raw materials.

In the allocation of these credits, certain fields take priority, in accordance with its standards laid down by the Production Development Corporation. These fields are the following: the foodstuffs industry (food preservation), woodworking (doors

and windows), bookbinding, leather and leather products, chemical products (salts, fertilisers, essential oils), earthenware, china, porcelain and ceramic products, concrete, gypsum, plaster and similar products, metal products (locks, doors and windows, tinware, wire, nails, galvanising, and forged work), machines and parts, manufacture of transport equipment, tools and workshops, and contractors specialising in construction work.

The location of enterprises is also taken into account. If an enterprise is located outside Santiago and is also of economic importance to its area because it uses local raw materials, it can receive credit if it belongs to one of the fields listed above or to one of the following fields: textiles, clothing, wooden containers, furniture and fittings, trunks, wall and roofing tiles, etc., electrical workshops and vehicle repair.

COLOMBIA

The Bank of the Republic - i.e., the Central Bank of Colombia - set up in 1963 the Private Investment Fund. The activities of this Fund consist of discounting credits granted by banks and financial corporations to industry, with special reference to credit for small and medium-scale industry. This Fund has not operated very much, however, because industrialists have not prepared their applications properly and have failed to give all the information and documents required by the Fund.

The Corporación Financiera Popular was organised in 1967 by the Banco Popular, but has not yet begun operations. Its objective is to stimulate the establishment and development of craft industry and small and medium-scale industry.

Among the functions for which it is responsible, mention may be made of the following:

- (a) Provision of loans or working capital for existing enterprises or for the formation of new enterprises, in accordance with an order of priorities agreed with the Administrative Department of National Planning (the Planning Department).

- (b) Productivity loans for the execution of administrative or technical studies, market research, training of personnel, hiring of experts, and any other purpose aimed at securing better productivity figures.
- (c) Provision of technical assistance on a paying basis to the owners of small and medium-scale enterprises.
- (d) Provision of capital for enterprises which already exist or are in the course of establishment, subject to the obligation to sell or re-sell in favour of the promoters or proprietors of the enterprise when the enterprise comes into normal operation.
- (e) Organisation of a market research department.
- (f) Organisation of a machinery and equipment exchange.
- (g) Financing, either directly or in co-operation with other bodies, of industrial estates, by agreement with the Administrative Department of National Planning, in order to help industrial decentralization.

We consider that these plans are a little ambitious, but small and medium-scale Colombian industries nevertheless have at their disposal, since 1967, a specialised body which will give assistance in the establishment and development of small and medium-scale industry and thus bring about benefits for the whole economy.

The Industrial Development Institute (IFI) is another financial organisation which sets aside part of its resources for the purpose of providing credit for small and medium-scale enterprises. The IFI, an official body with its own resources and an independent legal and administrative status, is a financial corporation set up to promote the various industrial activities of the country.

The IFI's resources consist partly of 40 per cent of the reserves of the Colombian Social Security Institute, which provides disablement, old age and death insurance. The funds received in respect of such insurance are channelled into small and medium-scale industry; the IFI also has other types of resources intended for other industrial sectors.

According to its statutory rules and to the policies adopted by its Board of Management, the IFI grants loans to or makes investments in the following branches of production:

- (a) Industries and enterprises whose operations are responsible for an increase in exports or import substitution;
- (b) Industries and enterprises engaged in developing basic resources;
- (c) Enterprises whose operations give rise to the creation of new sources of employment, and
- (d) Enterprises engaged in the development of mining activity.

The IFI finances projects in the following fields: construction, importation of machinery and equipment, acquisition of foreign machinery within Colombia, acquisition of Colombian-made machinery, installation of services, purchase of land, and provision of working capital.

The Agricultural, Industrial and Mining Credit Bank of Colombia assists small and medium-scale enterprises which process agricultural, animal and mining products and which are located in rural areas. It was set up with the assistance of the Agency for International Development (AID), which collaborated in the organization of a "Programme of Guided Industrial Credit" to assist small and medium-scale industry, which was initiated in August 1963.

The Programme of Guided Industrial Credit has the following objectives:

- (a) Increasing rural productivity by achieving better utilization of agricultural and stock-raising products.
- (b) Encouraging rural workers to stay on the land by presenting them with new opportunities for employment and a permanent and remunerative occupation.
- (c) Assisting industrial decentralization by seeking to further the economic development of the most backward areas of the national territory.

Fourteen centres of operations have been set up in Colombia, with the central office in Bogotá.

The regulations governing the Programme of Guided Industrial credit of the Agricultural, Industrial and Mining Credit Bank are as follows:

Financing may be provided for programmes for obtaining, processing and preserving agricultural, stock-raising and mining products, including fishery and forestry products, in rural areas and towns of up to 100,000 inhabitants.

In towns of more than 100,000 inhabitants, industries must satisfy one or more of the following conditions in order to be eligible:

1. They must use raw materials, at the primary processing stage, which are of agricultural or stock-raising origin, such as grain, wool and hides.
2. In the case of the iron and steel industry, they must use more than 60 per cent of nationally produced raw material.
3. In the case of the chemical, timber, paper, rubber and metal-working industries, production must be intended for agricultural or stock-raising purposes.
4. Minerals must be destined for agricultural or stock-raising purposes or for construction.

Such enterprises can apply for short or medium-term loans for the acquisition of capital goods and/or for working capital.

Applicants for Guided Industrial Credit must undertake to:

(a) Accept the guidance and the directions of the Bank regarding the utilization of the credit and heed the suggestions made to them regarding the management and organization of their enterprises.

(b) Keep accounts which will enable a check to be made of the execution of investments, the development of the enterprise, and its financial position.

MEXICO

In Mexico the banking system is made up of the official banks and the private banks. Among the institutions of the official banking system are the Bank of Mexico S.A., which is the Central Bank, and the Nacional Financiera S.A., which, among other functions, is responsible for establishing and supporting basic industrial enterprises.

The private banks are made up of commercial or deposit banks and investment banks. Among the latter there are also the various finance companies, which are responsible for the promotion and development of all productive activities and which are authorized to grant medium and long-term loans.

The Medium and Small-Scale Industry Guarantee and Development Fund is an institution set up specifically for assisting small and medium-scale industry. It was established by the Federal Government under the law passed in December 1953.

In the statement of the reasons for passing the law under which this fund was established, it was stated that it was considered necessary to set up within the Mexican banking system a source of adequate and timely loan assistance for small and medium industry, and that before the fund was set up, the major efforts of the official banks were concentrated on the promotion of large industrial projects.

Through this institution, the Federal Government has now largely solved the long-standing problem of the lack of financial resources for medium and small-scale industry in Mexico.

This institution is called a Fund because it is a body of financial resources provided by the Government with the specific objective of granting credit to small and medium-scale enterprises.

The Fund does not have the status of a juridical person, as it operates as a trust under the supervision of the Nacional Financiera S.A.

The Fund is managed by a Technical Committee, which is a mixed collegiate body made up of six representatives with their respective alternates, namely, two members

from the Federal Government (from the office of the Secretary for Economic Affairs and Public Credit and from the office of the Secretary for Industry and Commerce), two from the official credit institutions (Bank of Mexico S.A. and Nacional Financiera S.A.), and two from organizations of industrialists. (The Confederation of Industrial Chambers and the National Chamber for Manufacturing Industry).

In view of the size of the banking system, the Government considered it desirable that the Fund should operate as a second-line institution to which private banks could turn with requests for additional or supplementary resources to be channelled into the development of medium and small-scale industry.

The objective of the Fund, according to the law under which it was established, is to provide small and medium-scale industrial enterprises, through the private banks, with credit which must be:

- (a) adequate and timely;
- (b) at a low rate of interest, and
- (c) repayable over suitably chosen and adequate periods.

The credit is adequate inasmuch as the resources of the Fund supplement the resources of private institutions available for meeting loan applications by medium and small-scale industrial enterprises, and the loans granted are in proportion to the economic capacity of each enterprise and in accordance with the possibilities of development which the enterprise can achieve with the credit in question.

The credit is timely because once the owner of an enterprise has complied with the minimal necessary formalities, his application can be processed in the relatively short time of one or two weeks as a rule.

The credit is available at a low rate of interest because the resources come from the State and a rate of interest lower than that prevailing on the normal market can therefore be charged for loans.

Suitable and adequate periods of repayment can be given both because the resources of the Fund come from the State and because of the nature of the credits granted. Industrialists can therefore benefit from medium or long repayment periods which are suitable and adequate for the conditions of each enterprise, subject, of course, to the maximum repayment periods laid down in the Banking Law in force.

The law authorizes the Fund to carry out the following operations:

1. Providing guarantees to deposit banks, financial companies and industrial credit unions for the repayment of loans applied for by small and medium-scale enterprises. The maximum guarantee in respect of each loan is 200,000 pesos (US\$16,000).
2. Guaranteeing or acquiring mortgage bonds issued by small or medium-scale industrial enterprises up to a maximum of 1 million pesos (US\$80,000) in any single case.
3. Acquiring bonds issued by financial institutions.
4. Discounting the following three types of loans for private institutions:
Loans for working capital;
Loans for the acquisition of fixed assets;
Industrial mortgages for the consolidation of debts (without prejudice, however, to the possibility of using such loans partially for expansion or improvement of machinery, equipment, buildings and installation).

The main lines of the loan policy laid down by the Technical Committee are as follows:

- (a) The loans are considered as though they were being negotiated directly between the Fund and the owners of the enterprises;
- (b) Applications for loans must comply with the Law governing the Fund, with the Fund's operating regulations, and with the banking legislation in force;
- (c) In analysing applications, preference is given to investment programmes designed to ensure that loans are adequate and suitable for the development of the enterprises;
- (d) Loan applications must be justified and must satisfy certain requirements regarding security and possibility of recovery of the money;
- (e) Every effort must be made to secure the best possible allocation of the Fund's resources over the largest possible number of enterprises;

- (f) The operations of the Fund must cover every area of Mexico.
- (g) Loans from the Fund should preferably benefit economically weak enterprises, enterprises located in the provinces, enterprises which are 100 per cent Mexican, and enterprises which are of importance to their local or area economy.

Subject to these regulations, the Fund grants adequate, timely and low-cost credit, thus fulfilling the socio-economic function which was assigned to it when it was set up.

Many medium and small-scale industrial enterprises have received financial help from the Fund and have been able to obtain banking credit, and it can be stated that almost all these enterprises have responded favourably to the stimulus given by these good credit arrangements.

The Fund does not limit itself to providing financial resources, however: it often meets with industrialists from the provinces to give them guidance regarding credit arrangements and to provide them, albeit in a limited form, with technical, management and accounting advice.

The National Co-operative Development S.A. - concentrates its activities on the promotion and development of co-operative societies.

In addition, it manages a fund set up by the Federal Government for the development of craft industries. The objectives of this fund are as follows:

- (a) Granting credit to craftsmen to permit them to acquire the goods, machinery and raw materials necessary to develop their activities;
- (b) Providing finance for the promotion of new markets both inside and outside the country and for the establishment of premises for the display and sale of the products of craft industries;
- (c) Providing craftsmen with technical and management assistance and arranging courses in order to raise the quality of the products and to maintain their special aesthetic features.

This Fund's activities have been directed towards the development of craft industries of a folkloric nature, where handwork predominates and traditional techniques are used.

VENEZUELA

There are three national bodies for developing and assisting small and medium-scale industry in this country: the National Commission for Financing Small and Medium-Scale Industry, the Venezuelan Development Corporation (CVF), and the Industrial Bank of Venezuela.

The National Commission for Financing Small and Medium-Scale Industry was set up in October 1959 and through it are channelled the resources made available for small and medium-scale industry under the credit programme of the Ministry of Development. The National Commission operates in conjunction with the governing bodies of the various federal provinces, the Industrial Bank of Venezuela and private banks.

The basic objectives of the development programme are:

1. The provision of credit assistance to craftsmen and small and medium-scale enterprises for the purchase of production equipment, installations, working capital, raw materials and other items necessary for the manufacture of their products;
2. The provision of the technical assistance needed to raise indices of productivity and output;
3. The creation of favourable conditions for the economic and social improvement of the country and for ensuring permanent sources of employment;
4. Assistance in the training of entrepreneurs and industrial workers.

The National Commission provides three types of credit:

(a) Craft industry and small-scale industry

The credit programme for craft industry and small-scale industry operates on a decentralized system over the whole country: in each federal province there is an area commission responsible for receiving and transmitting requests from craft industries and small-scale industrial enterprises and sending these applications to the central office, whose decisions are communicated back to the area commission for transmission to the applicant.

The applications are analysed in the light of the following considerations: management and technical capability of the applicant, production costs, availability of specialized labour, and facilities for acquiring raw materials.

(b) Medium-scale industry

The Ministry of Development, through the National Commission, can designate the sectors of industry in which it is most desirable for the National Commission to operate in the light of the economic conditions in the sector in question and the sector's significance for the economic development of the country.

The credit granted to medium-scale industrial enterprises may be direct or indirect, as described below:

Direct credit

This is negotiated directly between the industrialist and the National Commission, but the credit is actually provided through the Industrial Bank of Venezuela in instalments agreed upon in the negotiation of the credit. Where machinery or raw materials are to be acquired, the instalments are paid on presentation of the appropriate bills.

Credit can also be granted for investments in fixed assets and for working capital.

Indirect credit

This credit is handled through private banks which have entered into a contract with the National Commission and with the Industrial Bank of Venezuela. These private banks prepare a suitably detailed report for submission to the National Commission, which is responsible, in the final reckoning, for approving or rejecting applications for credit.

When necessary, in the case of credits for investments in fixed assets and working capital, the National Commission can give the private banks additional guarantees by providing endorsements or bonds for the financing of working capital, equipment and installations for medium-scale industries.

The repayment period is slightly shorter when a loan is indirect.

(c) Special industrial construction programmes

In conjunction with its work of supplying funds for furthering the development of small-scale industry, the National Commission has initiated a programme of establishing industrial estates so as to bring a number of small units together on specially-planned sites in order that they may enjoy the benefits of being close to large industries, being near markets for the sale of their products and the supply of raw materials, taking advantage of the possibility of establishing service and production co-operatives, having technical assistance, industrial services (electricity, water, gas, telephones), facilities for forming associations or guilds, and other facilities available, and so forth.

The establishment of industrial nuclei made up of small and medium-scale enterprises, located in State capitals or in cities of intense area development, is a stimulus for decentralized national development. By the same token that their location in centres where there is a shortage of jobs helps to check the exodus of the population, such centres need to be developed into training nuclei for training workers and transforming them into semi-skilled and skilled staff.

These industrial estates are established with the collaboration of area authorities and municipal councils.

So far, five estates have been planned: in Cumaná, Coro, San Cristóbal, Maracaibo and Barquisimeto.

In Valencia, 80 industrial buildings have been completed, and all the urban services required have been installed.

These 80 buildings are of two standard types: there are 16 buildings each 800 sq. m. in area on plots of approximately 1,500 sq. m. and 64 buildings each 651 sq. m. in area on plots of 1,250 sq. m.

The repayment period for these buildings is ten years, with an annual interest rate of 6 per cent and a period of grace of four months. Interest and capital are paid off monthly.

So far, 52 enterprises have been set up in the Valencia industrial park: 16 metal-working enterprises, 9 chemical firms, 6 printing concerns and 21 enterprises engaged in small-scale traditional industry.

The Venezuelan Development Corporation (CVF), set up in 1946, is the main financial institution for development purposes in Venezuela, and its activities bring out strikingly its importance as a body for stimulating industrial development.

The CVF grants credit to industrialists on a medium and long-term basis at a low rate of interest, but it does not have a credit programme specifically for small-scale industry.

The Venezuelan Development Corporation is authorized to grant short or long-term credit, give endorsements, subscribe to shares, give financial assistance for the export of manufactured products, and provide technical and management advice in order to help firms receiving loans to make more effective use of their financial resources.

The CVF runs a programme called "Leasing Plan for Fixed Assets With Option to Buy", which is designed to assist in the establishment of small and medium-scale plants and forms a kind of long-term credit.

Under this Plan, the CVF finances the acquisition of fixed assets, on condition that the entrepreneurs benefiting from this provide the working capital. Thus, the CVF offers the entrepreneur the plants he needs on a long-term leasing basis with option to buy. The CVF acquires the ground, constructs the factory buildings and buys the machinery and equipment, requiring the entrepreneur only to provide the money to be used as working capital.

Despite the obvious advantages of this plan for leasing fixed assets, only a relatively small number of entrepreneurs have taken advantage of it.

The Industrial Bank of Venezuela is the bank responsible for carrying out the programme for the direct financing of medium-scale enterprises carried on under the auspices of the Ministry of Development or, more specifically, those of the National Commission for the Financing of Small and Medium-Scale Industry.

In addition, the Industrial Bank holds the resources of the National Commission which are intended to be used in the programme for craft industries and small-scale industries, and it is responsible for the payment and collection of money under this programme.

2. SOURCE OF AVAILABLE FUNDS

The institutions dealt with in this paper use not only funds which they have received from Governments or Central Banks, but also, in many cases, externally provided funds. In the case of the Industrial Development Institute of Colombia, part of the funds of the Colombian Institute of Social Security are channelled into this field. Securities are also made available for this purpose, and the Industrial Bank of Venezuela operates as a deposit bank, like the Banco Popular of Colombia.

In each case, however, the major part of the funds is contributed by the Government of the country. A more detailed description of the type of resources which each of the institutions mentioned has at its disposal is given below:

ARGENTINA

The Industrial Bank of Argentina has its own resources and funds of internal origin, supplied by the Central Bank, as well as external funds from international financial agencies.

In 1957 the Central Bank transferred 50 per cent of its profits to the Industrial Bank and also contributed part of its accumulated reserves.

BRAZIL

The funds for the FIPEME programme came initially from the Inter-American Development Bank and amounted to US\$27 million. Of this sum, the equivalent of US\$15 million was to meet expenditures in national currency; of the remaining US\$12 million, US\$6 million was to be used for the importation of machinery and equipment and the remaining US\$6 million could be spent as desired on the acquisition of equipment outside the country or to meet local expenditures in national currency.

The second source of funds was the Kreditanstalt für Wiederaufbau of West Germany, which in August 1965 granted the National Economic Development Bank a credit equivalent to US\$7 million for assistance to small and medium-scale enterprises. Sixty per cent of this credit was to be used for the importation of equipment and machinery, and the remaining 40 per cent for local expenditures in Brazil.

The above sources of funds are also supplemented by the following sources:

- (a) Contributions by the financial agents of FIPEDCE;
- (b) The amounts of at least 20 per cent of the value of investments in fixed assets which must be contributed by the borrower;
- (c) Any amounts supplied by the National Economic Development Bank;
- (d) Financial assistance made available by suppliers of equipment.

It is estimated that FIPEDCE began operations with resources totalling US\$68 million: US\$34 million from foreign credits and the remaining US\$34 million from national resources.

The Agricultural and Industrial Credit Fund of the Bank of Brazil was limited in its operations, since its resources, which came entirely from the rediscounting of rural contracts with a maximum term of one year, could only be used for the acquisition of raw materials, over a very short repayment period (one year).

After the establishment by CREA I of the Industrial Development Fund, a US\$25.5 million loan was made available in 1963 by the Agency for International Development (AID) for the purpose of granting medium and long-term loans to medium and small scale industrialists.

In 1965 the AID granted a further credit of US\$10.7 million.

CH'LE

The Production Development Corporation (CORFO), among other functions, grants loans to medium and small-scale industry after studies conducted by the Technical Co-operation Service (SCT), which supplies technical assistance to such industry.

CORFO handles internal funds and has external financing lines with the Inter-American Development Bank and the Kreditanstalt für Wiederaufbau (Western Germany).

The foreign credits are dollar loans for machinery. The loans to small industrialists and craftsmen approved by CORFO to 31 August 1966 amounted to 6 million escudos, of which 3.8 million came from its own funds and the remainder from foreign credits.

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COLOMBIA

The Private Investment Fund (FIP) handles assets of the State Bank consisting of the equivalent in Colombian currency of external loans and of foreign currency from external credits and from other sources which the State Bank accepts or decides to link to the banking system. In particular it handles transfers of profits arising from exchange of foreign currencies into the national currency.

The Industrial Development Institute (IFI) has an authorized capital of 200 million and a paid-up capital of 75 million pesos. It also has the following assets:

1. 40 per cent of the reserves of the Colombian Social Security Institute set aside to cover risks of sickness, old age and death. This part of the reserves is channelled strictly towards medium and small-scale industry, represents approximately US\$6.3 million, and is likely to increase in future years.
2. A line with the FIP: acting as a finance corporation and broker, the IFI places assets of the Private Investment Fund of the State Bank.
3. Rediscounts and direct credit from the State Bank up to US\$2 million.
4. Government loans: under an agreement between the Government and the IFI, repayments of loans with counterpart funds of AID loans remain in the hands of the IFI as loan capital and thus give it another financing line.
5. Credit balances from compensation agreements, amounting on 31 August 1967 to US\$30 million.
6. Imports of capital goods by AID. Under a US\$10 million fiduciary contract concluded with the Government, the Institute had US\$4.1 million in credit on 31 August 1967.

At the end of 1967 the Institute was negotiating with the IEB a loan of US\$10 million for the development of small and medium-scale industry.

The People's Finance Corporation will start in business with funds of the Banco Popular (People's Bank).

MEXICO

The Securities and Development Fund for Medium and Small-Scale Industry, administered in trust by the National Finance Corporation, had control on 30 June 1967 of the following assets:

Owned by the Fund:

(a) Grants from the Federal Government	130,000,000.00 pesos
(b) Profits from previous financial years	48,107,928.86 pesos
(c) Profits from the financial year 1966-67	3,333,352.00 pesos
	<hr/>
Total	181,441,280.86 pesos
	<hr/>

Other assets

The other assets controlled by the Fund consist of three loans totalling US\$16 million (200 million pesos) from the Inter-American Development Bank.

By the same date the Fund had placed approximately US\$12 million; after deduction of repayments to the IEB its balance was US\$10.9 million.

The IEB has granted these loans for terms of 10 and 15 years, part in national currency and the remainder in foreign exchange, to cover domestic expenditure or importation of machinery.

The statute establishing the Fund lays down that States of the Federation may provide resources to be invested for the benefit of owners of medium and small-scale industry domiciled within their territory.

The Fund may raise capital by issuing bonds.

When the demand for loans exceeds the available assets, loans are granted by the National Finance Corporation to the Fund to enable it to meet its operating expenses.

VENEZUELA

The National Commission for Financing Medium and Small-Scale Industry draws on a fund made up of contributions from the Ministry of Development and the Venezuelan Development Corporation and of sums specially appropriated by the Governments of members of the Federation to support the Programme of Credit for Handicrafts and Small-Scale Industry.

Medium-scale industry controls a fund composed of contributions made by the National Executive through the Ministry of Development. To channel more funds into medium-scale industry, the National Commission concluded with a private bank an agreement under which it undertook to grant from its own funds up to 50 per cent of the loans made in the metropolitan area of Caracas, and 75 per cent elsewhere in the country.

3. DEFINITION OF MEDIUM AND SMALL-SCALE INDUSTRY

Definitions of medium- and small-scale industry vary with the economic and social conditions of each country, each branch of industry and even each period.

Classification criteria may be divided into two groups, one composed of quantitative factors such as invested capital, value of sales, number of workers and energy consumption, and the other of qualitative factors such as the organisation and administration of undertakings, production methods, influence on the market, etc.

The following are the different definitions of small and medium-scale industry adopted by the various institutions examined in this survey:

ARGENTINA

The Industrial Bank of the Argentine Republic regards as a small-scale industrial undertaking one whose capital does not exceed US\$35,000 or the annual value of its sales US\$100,000 and which employs not more than 15 workers.

BRAZIL

The Programme for Financing Medium and Small-scale Undertakings (FIPEME), which operates within the National Bank for Economic Development, makes no distinction between medium and small-sized undertakings. Any undertaking may deal with FIPEME if it has capital not exceeding US\$3.6 million and falls within an industrial sector given priority by the National Bank for Economic Development and described in sections I and II.

The Industrial Development Fund (CREAI) of the Bank of Brazil in 1966 regarded as a medium or small-scale undertaking one with an annual production not exceeding in value 1.2 thousand million cruzeiros (12 million new cruzeiros).

The Bank of North-East Brazil includes in its Programme of Assistance to Medium and Small-Scale Industrial Undertakings any undertaking with fixed assets not exceeding one million new cruzeiros.

The Sao Paulo State Bank lays down that a medium or small-scale undertaking is one employing up to 250 workers and having a fixed capital not exceeding 2 million new cruzeiros.

Clearly several classification criteria exist in Brazil, owing to the hugeness of its territory and the difference in its degrees of regional development.

CHILE

Chile has no legal definition yet of a small industrial enterprise or a handicraft workshop; but for the practical purpose of implementing the plans and programmes of governmental bodies some definitions have been agreed upon. Those used by the Production Development Corporation (CORFO) at November 1967 are outlined below:

Small-scale industrial undertakings

1. The unit may not have more than 50 permanent employees.
2. The capital invested in machinery and equipment may not exceed US\$43,200 (60 annual living wages). For new undertakings this figure may be increased to US\$54,000 (75 annual living wages).

3. At least two-thirds of its sales or gross income should accrue from its industrial activity.
4. It should produce goods and/or industrial services.

Furthermore, a small-scale industrial undertaking must fulfil one or more of the following economic functions:

Work auxiliary to large-scale industry (sub-contracting);

Production of individual articles or small series of goods to special order;

Production of high-quality or fashionable goods;

Absorption of manpower, especially in rural areas.

COLUMBIA

The People's Bank uses the following classification:

A small-scale unit is one employing between 10 and 49 persons and having a fixed capital not exceeding US\$31,250;

A medium-scale unit is one employing between 50 and 99 persons and having a fixed capital not exceeding US\$125,000.

The Agricultural, Industrial and Mining Credit Bank may not grant loans to undertakings whose assets do not exceed US\$100,000 and which are not engaged in rural industry.

MEXICO

Since the establishment of the Guarantee and Development Fund for Medium and Small-Scale Industry in Mexico, a quantitative criterion has been adopted for classifying the size of an undertaking.

More specifically, note is taken of its net worth (assets minus liabilities). This criterion has proved appropriate, easily applied and, furthermore, necessary in respect of credit, since the net worth is an important guide to the amount of credit that can be granted.

In 1954, when the Fund came into operation, it considered as a medium or small-scale undertaking any unit with a net worth not less than 50,000 pesos (US\$4,000) and not exceeding 2,500,000 pesos (US\$200,000). This concept, however, has now developed: it has had to be changed to adapt it to changing conditions and more sophisticated undertakings needing larger capital and credit resources.

The initial limits have been altered on several occasions: the maximum figure has been raised, first to 3,500,000 pesos (US\$280,000) and then again in September 1965 to 15,000,000 pesos (US\$1,200,000).

On the other hand, the minimum figure was reduced for undertakings situated outside industrial agglomeration areas.

VENEZUELA

In Venezuela only the National Commission for Financing Medium and Small-scale Industry has a clear definition of this important industrial sector. Like the Guarantee and Development Fund for Medium and Small-Scale Industry (Mexico), the Commission uses the concept of net worth to define medium and small-scale industry, but distinguishes between the two sectors in the following manner:

Small-scale industry

In this group are included undertakings whose net worth does not exceed an upper limit of US\$22,000.

Medium-scale industry

For the purpose of seeking credit from the Commission, a medium-scale undertaking is considered to be a unit of net worth between US\$22,000 and US\$220,000.

B. THE SYSTEMS, MECHANISMS AND CONDITIONS FOR PROVIDING CREDIT

Systems, machinery and terms of credit vary with each country, each financial institution, each area or region of the country, and at times with the type of credit, since in some the terms are more flexible than in others. The degree of development of each country, its experience of banking and its concern to develop small-scale industry have also influenced and shaped the systems and machinery of credit in general, and credit for medium and small-scale industry in particular.

In some countries which have no special institutions for financing medium and small-scale industry, the systems and terms of credit for this sector are identical with those employed for granting loans for other purposes, with perhaps a few differences which do not intrinsically alter the system. On the other hand, in countries in which support for small-scale industry has evolved further and where specialized institutions exist, as in Mexico, Brazil, Venezuela and Colombia, the systems and machinery of credit for small-scale industry are improving steadily.

Moreover, the organizations which support medium and small-scale industry are not purely credit institutions, which are rather rare. Most of them provide both credit and technical assistance, although the latter has not evolved so rapidly. As a general rule technical assistance is supplied simultaneously with credit on a small scale and consists mostly of financial guidance. Only rarely is it given first and independently. There are also institutions which not only provide credit and technical assistance but whose encouragement of small-scale industry also extends to the promotion of new undertakings, which they establish at their own expense and risk, and administer or sell. Only one country in Latin America - Venezuela - has adopted a "leasing arrangement with purchase option" for machinery, equipment, or industrial premises situated in industrial agglomerations, instead of granting credits for their purchase or construction.

With regard to types of credit transactions, it may be observed that in the countries selected for this report loans are widely granted for the purchase of fixed assets and for working capital, but preference is given to the former. These types of loans vary in form, procedure and title. In Mexico they are called "refaccionarios"

(equipment loans) when issued for the acquisition of fixed assets, and "de habilitación de avío" when issued as working capital. The use to which they may be put may also be defined more broadly or more narrowly: accordingly some institutions grant loans for new projects and others do so for the extension or modification of existing undertakings. Some institutions issue credit solely for the acquisition of capital goods, and, furthermore, may give priority to an individual industry or an industry in a certain locality.

Other forms of financing, such as the purchase of shares, have not been developed, although provided for in the law or in the regulations of some of the institutions giving support to small-scale industry.

The terms of repayment in the selected countries vary with the type of credit: thus, if the credit is for the purchase of fixed assets, the term of repayment is longer than in the case of credit for the acquisition of raw materials and supplies. It should also be noted that, within each type of credit, the terms of repayment are flexible and periods of grace are almost always given in the case of loans for fixed assets. Periods of grace are usually included in the term agreed but are sometimes counted separately. Repayments are not always monthly: they may sometimes be made at longer intervals.

The rates of interest borne by loans also vary with individual countries and institutions, but the trend followed in each country is in keeping with the conditions and features of that country. Thus, for any type of loan there may be a fixed rate of interest, the rates of interest may vary between fixed limits, it may vary according to the type of loan, it may decrease as the loan is repaid, sometimes the rate varies according to the type of industry, its location, the destination of its products, etc., and where credit is extended for the purchase of machinery and equipment, the rate of interest varies depending on whether the machinery is new or used, domestic or foreign. Finally, in countries like Brazil, where the value of the currency fluctuates violently, both a fixed interest rate and an additional rate for the purpose of currency adjustment are charged.

The guarantees required for credits are also of various kinds. There are institutions which ask borrowers for the usual guarantees attaching to commercial loans,

some vary the guarantee requirements according to the type of credit, making the requirements "softer" when the loan is for working capital, while others demand no guarantee when the enterprise is likely to be successful, so as not to encumber the borrower's fixed assets, and only require guarantees where they are absolutely essential.

There may be still other features of credit arrangements, such as the following. The amount of the loan does not always cover the whole project: it may only cover part of it and may vary with the type of loan, the amount advanced being usually greater if it is for the acquisition of fixed assets. In the case of partial loans, the institutions fix a percentage for each participant in the financing of the project, including the borrower.

The policies followed in respect of the acceptance of loan applications, their processing, study and analysis, the taking of decisions on applications, the granting of loans, and the repayment procedure are very varied. Some institutions accept applications on the basis of only a minimum of information, so that the costs of investigation are kept as low as possible.

The processing of applications may take several forms. In some cases the financing institution itself carries out the analysis and study and comes to a decision at its own risk; in other cases it uses the commercial banks as intermediaries; and in yet others, separate departments or institutions are established to analyse and study loan applications and recommend to the financial institution the action to be taken in each case. There are also institutions which examine applications and take decisions independently and at their own risk, but do not handle any money; in such cases it is the responsibility of another organisation to pay out the sum requested and collect the repayments.

A more specific account of credit systems, procedures and conditions in the countries included in this survey is given below.

1. TYPES OF CREDIT

ARGENTINA

The Industrial Bank of the Argentine Republic The regulations of the Bank allow for two basic types of financing: loans for the purchase of fixed assets and loans for working capital.

Under its regulations, the Bank is authorized to extend finance for fixed assets in the following cases:

1. For the establishment or extension of industrial undertakings and for projects which will lead to an improvement of the plant, even though higher production may not necessarily result.
2. For the acquisition of new machinery, tools and equipment. The Bank may, in exceptional cases, provide finance for used equipment provided that it leads to greater efficiency.
3. For the construction and acquisition of buildings and the purchase of transport equipment.
4. Loans for working capital may only be made in connexion with the initial establishment or subsequent extension of an industrial plant.

BRAZIL

Programme for Financing Small and Medium-Scale Enterprises (FIPEME) This organisation was set up to provide loans for small and medium-scale enterprises which are already operating or are in the course of establishment. The type of credit granted is essentially for the acquisition of fixed assets and to cover costs arising in connexion with the installation of new machinery. However, the possibility that in the near future FIPEME may extend loans for working capital is being considered. The possibility of FIPEME guaranteeing financial transactions by industrial firms with foreign banks is also under review.

The Department of Agricultural and Industrial Credit
of the Bank of Brazil (CREAI)

This institution was set up solely to extend credits for the purchase of raw materials and consequently was concerned primarily with firms closely connected with agriculture, such as those in the food and textile industries.

With a view to extending the range of the Department's activities, the Industrial Development Fund was established: this Fund gives financial assistance to medium and small-scale industry for purposes of reconstruction, extension or the establishment of new undertakings, and may therefore be regarded as a body extending credit for the acquisition of fixed assets.

CHILE

The Technical Co-operation Service The Technical Co-operation Service (SCT) was entrusted by the Production Development Corporation (CORFO) with the task of helping small-scale industry and craft industries, for which CORFO created a special programme.

In order to be of real assistance to small-scale industry, the Corporation modified its traditional credit policy. It now grants loans for working capital and for the acquisition of fixed assets. The credits are in local currency and are not adjustable in respect of the exchange rate.

The credit programme began in 1963. The work of the SCT consists of reporting to CORFO the results of investigations of small industrial and handicraft undertakings seeking credit. The loans are administered and recovered by CORFO, and the SCT merely supervises the use of the funds loaned.

The Central Bank of Chile The Central Bank operates "lines of promotion credit" for medium and small-scale industry. This type of credit was agreed upon by the Board of Management of the Central Bank on 19 October 1966 and made known by circular letter to the commercial banks so that they might begin applying it.

The primary objective of this new credit system is to promote the development of medium and small-scale undertakings by providing the necessary operational or working

capital. The system is available to undertakings and firms engaged in industrial, commercial or agricultural activities which belong to individuals or to associations of persons, corporations or co-operatives, and whose yearly credit needs do not exceed 70 annual living wages.

COLOMBIA

Fund for Private Investments (FIP) FIP loans are exclusively for the acquisition of capital goods, for carrying out the building, fitting-out and installation work needed in order to begin or expand production, and for covering the cost of essential pre-investment technical studies. Under no circumstances are loans made for working capital.

The Corporación Financiera Popular was set up recently for the purpose of providing loans for the acquisition of fixed assets and for working capital for undertakings already in existence or about to be established. It is also authorized to grant "productivity" loans designed to cover the costs of relevant studies. It also contributes so-called risk capital to existing or nascent firms, but is required to conclude a sale or reversion agreement which will come into effect in favour of the promoters of the undertaking once the latter has started to operate.

Industrial Development Institute (IFI) The types of credit handled by the Institute, apart from its other development functions, are:

- (a) Loans, guarantees and capital contributions to industrial undertakings for the purpose of establishing, extending or merging such undertakings;
- (b) Credits for productivity studies;
- (c) Other credit or promotion functions for which a State economic development institution is fitted.

The Agricultural, Industrial and Mining Credit Fund The Fund began its "Guided Industrial Credit" programme in order to assist medium and small-scale industry. Its aims are as follows:

- (a) It lends money for working capital to medium and small-scale undertakings, which usually have difficulty in finding this type of financing;
- (b) It extends credits for fixed assets which are difficult to obtain owing to the sum involved or the terms of repayment.

MEXICO

Medium and Small-Scale Industry Guarantee and Development Fund. The Law authorizes the Fund to engage in the following activities:

- (a) It may guarantee the credits to be paid by deposit banks and finance companies to medium and small-scale industrialists. The guarantee for each credit can amount to a maximum of 200,000 pesos;
- (b) It may guarantee and acquire bonds issued by medium and small-scale industrialists, with an upper limit in each case of one million pesos;
- (c) It may also purchase bonds issued by financial institutions;
- (d) It is authorized to discount credits for re-equipment and working capital granted by banks and finance companies to medium and small-scale industrialists;
- (e) It has the authority to discount credits with mortgage or fiduciary guarantees extended by finance companies to medium and small-scale industrialists.

The first of the operations mentioned above, i.e., the guarantees which the Fund may give to credit institutions, affords some help to medium and small-scale industrialists seeking credit, especially those living in the provinces.

It means that Mexican credit institutions may grant medium and small-scale industrialists credits having the following advantages:

- (a) The credits may be granted from the Fund's own resources;
- (b) Up to 50 per cent of each credit may be guaranteed by the Fund, subject to a maximum guarantee of 200,000 pesos.

The second type of activity - the acquisition of bonds issued by medium and small-scale industrialists - represents an important type of assistance, because it means that industrialists have a certain buyer for their bonds, so that medium or small-scale industrialists need not worry about whether or not there will be a market for the bonds they issue, as the Fund can purchase up to one million pesos worth of such bonds.

The third type of operation - that is, the Fund's possibility of purchasing bonds - may be used by finance companies to swell the loans and credits available for medium and small-scale industrialists.

Discounting of Credits

The fourth type of operation mentioned above which the Fund may undertake consists of the discounting of working capital and equipment loans granted by deposit banks and finance companies to medium and small-scale industrialists.

Working capital loans have been specially established by Mexican banking legislation for the specific purpose of enabling industrialists to obtain the raw materials and supplies required over a specific period. With the aid of these loans, industrialists can stock their warehouses for one, two or three months and obtain funds to pay the wages of their workmen, with the advantage of repayment of these loans over a term of between one and three years - a concession which enables them gradually to build up their own working capital.

Their specific purpose and their repayment period make these loans particularly valuable for the development of undertakings.

Equipment loans may be requested by industrialists for one or more of the following purposes:

- (a) The acquisition and installation of machinery and equipment;
- (b) The acquisition, construction or extension of necessary buildings;
- (c) As a general rule, equipment loans are used to obtain goods which will increase production or improve the efficiency of undertakings.

Part of these credits may be used to pay off liabilities, provided that these are not more than one year old.

Industrialists may use equipment loans to extend or improve plant, working processes and production capacity. They may increase their volume of production, reduce costs and increase profit margins, add to their range of production by manufacturing new articles, and improve the presentation, quality and finish of the goods they manufacture.

By virtue of their objectives and their repayment period, which varies in practice between three and six years, these credits are especially suitable for aiding the development of industrial undertakings.

The Fund was recently authorized by the Ministry of Finance and Public Credit to discount loans with mortgage or fiduciary guarantees granted by finance companies to medium and small-scale industrialists.

These credits are primarily designed to consolidate the liabilities of medium or small-scale industrial undertakings, although they may also be used in part to extend or improve machinery, equipment, buildings and installations.

VENEZUELA

The Venezuelan Development Corporation (CVF) is not exclusively concerned with small-scale industry although it has met some of the needs of small and medium-scale undertakings.

It may provide the following types of assistance:

- (a) Long-term credit for expenditure on fixed assets in the promotion of new undertakings and the extension of existing ones. As a general rule, credits are used for the acquisition of machinery and equipment, plots and buildings, vehicles, working capital and repayment of mortgages;

- (b) There is another type of working capital loan called the current account credit system. The borrowers are well-established firms having large markets for their products, but lacking liquid assets at some particular time;
- (c) Another form of credit is leasing with option to purchase. This is an arrangement used for financing the fitting-out of medium and small-scale industrial plants: under it, long-term loans are made for the purchase of fixed assets. The arrangement is that the CVP (by means of a long-term lease with option to purchase) offers an entrepreneur the industrial plant he needs, the CVP acquiring the land, constructing the buildings, and buying the machinery and equipment, which the entrepreneur contributes the working capital;
- (d) The CVP underwrites shares only when it is necessary to ensure the successful establishment of an undertaking which is a particularly deserving case because of its importance to the economy. The CVP later sells the shares it thus buys, only keeping them if there are no buyers.
- (e) The CVP also extends financial assistance to exporting firms.

National Commission for Financing Small and Medium-Scale Industry

Under its statutes, the Commission makes loans to medium and small industrialists and handicraft workers for the purchase of machinery and equipment, for working capital, and to pay for raw materials and other items.

2. SIZE OF LOANS, REPAYMENT PERIODS, RATES OF INTEREST
AND OTHER CHARGES AND GUARANTEES

ARGENTINA

The loans granted by the Industrial Bank of the Argentine Republic amount to the following percentages of the value of the total capital investment, as estimated by the Bank; up to a loan maximum of US\$15,000 per undertaking:

- (a) For new fixed assets, if of domestic origin, 70 per cent, and if imported, 50 per cent.
- (b) For used fixed assets acquired in Argentina: 50 per cent.

These percentages may be increased by one-tenth when the loans are made in "development" areas.

The interest rate borne by this type of credit is 15 per cent per annum, but in the case of loans for undertakings in development zones, this rate is reduced to 12 per cent per annum.

The repayment periods are not fixed but are calculated separately for each financing project, according to the firm's ability to pay and the nature of its activities. The repayment term of loans to undertakings which have just begun to operate is arranged so that the necessary capital can be accumulated and repayment made without affecting the planned production levels.

There are no fixed repayment periods, but the regulations of the Bank lay down a maximum period of five years when the loans are for fixed assets and up to three years when they are for working capital.

Once loans have been granted, they cannot be extended, nor may an undertaking have a series of loans over a period of time.

BRAZIL

Programme for Financing Small and Medium-Scale Enterprises (FIPEME). The size of the loan is as follows:

(a) In the case of direct financial transactions between the National Bank for Economic Development or FIPEME and an industrial enterprise, the credit institutions supply only a maximum of 60 per cent of the sum required for the project. The borrower must contribute 20 per cent and the remaining 20 per cent may be met by the suppliers of equipment, credit institutions independent of the Programme, and/or the borrower himself when he is able to do so.

(b) When the financing arrangements are made through intermediary institutions, the following rules are observed:

1. FIPEME contributes 50 per cent of the total investments in the project;
2. The borrower must contribute 20 per cent from his own resources;
3. The remaining 30 per cent is supplied by the intermediary institutions, provided that the suppliers of equipment or the borrowers are unable to do so.

The Bank's share in any project of any one enterprise shall not exceed the equivalent of US\$2 million save in exceptional cases.

In respect of guarantees, the Bank's shall be limited to US\$500,000 per enterprise.

Term of Repayment

In view of the cost of money and the need to ensure a rapid turnover of loans, FIPEME had fixed the maximum period over which credits may be repaid at four years, starting from the signing of the contract. This period, in exceptional cases, may be extended to a maximum of six years. These terms incorporate a period of grace which is fixed separately to suit the individual conditions and features of each loan. Repayment of the principal is at six-monthly intervals after the period of grace.

Rate of interest and other charges

- (a) Rate of interest. FIPEME charges 12 per cent annually on unpaid balances when the loan is made in national currency and 8 per cent if it is in foreign currency.

Other charges

- (b) Opening commission: The institution makes a charge of 1 per cent of the total amount of the loan before the borrower begins to use the money.
- (c) A charge of 1 per cent per year is made as contract commission on that part of the loan not utilized by the undertaking. This charge is collected thirty days after the loan contract has been signed.
- (d) Supervision charge: FIPEME makes a charge of 0.25 per cent to meet the cost of supervising the project which is being carried out with the loan. This charge is collected on the unpaid balances every six months, simultaneously with the interest charges.
- (e) Monetary adjustment: To counteract the effects of inflation over the duration of the financing contract, FIPEME collects an annual charge of 14 per cent from the borrowers by way of monetary adjustment. This rate is based on the three-monthly coefficients fixed by the National Economic Council. When the loan is in foreign currency, FIPEME places the entire exchange rate fluctuation risk on the borrower.
- (f) Other aspects: Where the credit is handled by financial intermediaries, the annual rate of interest charged by FIPEME is 6 per cent, plus the opening commission already mentioned and a 0.75 per cent annual "commitment" charge on the unused portion of the loan. The same monetary adjustment charge is made by the intermediaries as when the loan is made directly.

GUARANTEES

In order to shield the National Economic Development Bank from risk, borrower enterprises must be able to give one or more of the following types of guarantees under the rules established by FIPEME:

1. Mortgage on the industrial complex,
2. Mortgage on buildings belonging to the borrower or third parties;
3. Industrial chattel mortgage on machinery, equipment and other industrial installations;
4. Fiduciary assignment, under guarantee, of real property;
5. Surety granted by the directors, partners or third parties and individuals or corporate bodies;
6. Pledge on the property of shareholders, other companies or third parties;
7. The issue of mortgage debentures in favour of the National Economic Development Bank.

The Department of Agricultural and Industrial Credit of the Bank of Brazil (CREAI)

Size of Loan: Initially, CREAI's share of a loan was limited to 60 per cent of the total, with a maximum of 300 million cruzeiros for each loan. However, as the Department's assets have grown, the percentage and upper limit have become more flexible and are adjusted in conformity with individual requirements.

Term of Repayment: The term of repayment of a loan is normally 4 years, including the period of grace. In exceptional cases, the maximum term may be 10 years.

Rate of Interest: The annual rate is 12 per cent on unpaid balances plus 2.5 per cent per annum to cover the cost of supervising the project. Both charges are collected every six months. The monetary adjustment rate is 14 per cent.

Guarantees: The guarantees are chattel mortgages or real estate mortgages. Whenever possible, however, mortgage guarantees are dispensed with, so as to leave the borrower unencumbered.

CHILE

Technical Co-operation Service (SCT): As already explained, the SCT operates as an auxiliary body of CORFO, investigating, supervising and assisting those undertakings which apply for credit. It operates on the following terms:

(a) Loans for craft industries: The loans are not adjustable.

Size of loan: The loan may represent up to 90 per cent of the value of the project.

Term of Repayment: The loans are granted for a period of five years and are for purchasing fixed assets. There are also loans with a minimum term of two years for working capital.

Rate of Interest: The interest charged varies between 70 per cent and 100 per cent of current bank interest charges. During the first and second years 70 per cent of the current bank interest rate is paid, in the third year 80 per cent, in the fourth year 90 per cent and in the fifth year 100 per cent.

(b) Loans to small-scale industry are granted on terms similar to those for craft industries, provided that the term of repayment does not exceed five years. If the term is longer, they are converted into adjustable loans and the annual rate is 6 per cent. Adjustment is made in accordance with the wholesale price index of domestic industrial products.

Term of Repayment: The term for working capital is one year and for fixed assets eight years.

Production Development Corporation (CORFO)

Size of Loans, Term of Repayment and Interest Rates: CORFO's loans are for a maximum of 60 annual living wages (US\$50,000), at an annual interest rate of 5-7.5 per cent. The maximum term is eight years. In addition, the loans are adjustable in accordance with the wholesale price index of domestic industrial products.

Smaller loans of 10 annual living wages (US\$7,200) are not adjustable. They bear an annual interest rate of 14 per cent and have a maximum repayment period of 3 years.

Promotion credit: The SCT and other institutions authorized by the Central Bank issue promotion certificates to enable the commercial banks to grant loans to small industrial undertakings.

The promotion certificate is a technical and economic report on the undertaking, with special emphasis on its liquid resources.

On the basis of these certificates, loans to meet small agricultural, industrial, and commercial undertakings' working capital requirements are granted by the commercial banks and refinanced by the Central Bank.

Maximum Credit: 70 annual living wages (US\$50,000).

Maximum Term: 12 months.

Interest: 28 per cent per year, including tax and commission.

People's Loans: These are loans handled and granted by the banks to handicraft workshops and production co-operatives, with refinancing by the Central Bank. They are granted on the basis of a report by the SCT.

The maximum amount is 20 annual living wages (US\$1,400) at an untaxed bank interest rate of 19 per cent and for a term of up to 2.5 years.

COLOMBIA

Bank of the Republic: Private Investment Fund.

Amount of Loans: The loans advanced are supplementary and the total may in no case amount to the whole cost of the project. Initially the maximum limit was 3,000,000 Colombian pesos for any one project, but in exceptional cases this limit may be exceeded.

Term of Loans: These must be adjusted to the estimate of the time required for recovery of the value of the investment, within the following limits: up to five years for farm loans and up to ten years for industrial loans. Longer periods may be allowed if the FIP considers them necessary, subject to the approval of the Bank of the Republic.

Interest Rates: (a) Bank of the Republic: 4 per cent whatever the term of the loan;

(b) Industrial loan intermediaries

1. up to 8 per cent on loans for a term of 3 years
2. up to 9 per cent on loans for a term of 3 to 5 years
3. up to 10 per cent on loans for terms over 5 years.

Intermediaries are not permitted to apply any other percentage, charge or commission.

Guarantees: Recipients provide the intermediary with the usual guarantees and such special guarantees as may be required by the Bank of the Republic. The intermediary guarantees to the Bank, with his signature, the payment of the loan and compliance with the conditions required of them by the FIP.

Popular Finance Corporation (Corporación Financiera Popular)

(We understand that this Corporation is about to begin operations).

Amount of Loans: According to the operating rules of the Corporation, the maximum amount of loan that may be advanced is 2,000,000 Colombian pesos.

In each case, the Corporation fixes a maximum amount, taking into consideration the needs of the undertaking and the security that it can offer.

Interest: Interest varies between 10 and 12 per cent a year, payable at the same time as the half-yearly repayments of capital. The fixed rate is determined for each case, according to the economic capacity of the applicant, and also in consideration of the term fixed for repayment of the loan.

Term of Loans: Up to ten years, according to the applicant's capacity; a period of grace for repayment may be allowed.

Guarantees: To ensure compliance with the obligations undertaken by the recipients, the Corporation requires security in the form of a property or chattel mortgage or personal guarantee.

A property mortgage must cover the loan in the proportion of 2:1; the value of a chattel mortgage for loans for a term of less than three years must be at least twice the amount of the loan, which for a longer term may be up to 40 per cent of the value of the chattel mortgage.

INDUSTRIAL DEVELOPMENT INSTITUTE (Instituto de Fomento Industrial)

Term of loans: The (IFI) allows a term of five years for the purchase of imported fixed assets and two years when the loan is to be used for the purchase of raw materials.

Interest: The loans are provided in pesos at the rate of exchange prevailing on the day when the credit is used.

Guarantees: Effective security is required: a property or chattel mortgage, mortgage of shares, bonds, etc. A mortgage on property should be up to 50 per cent of the commercial valuation made by the Institute and a chattel mortgage should be one third of the value of the equipment, and in estimating the value of a mortgage on stocks or shares consideration is given to market fluctuations.

These guarantees may be offered concurrently, so that taken together they add up to the full value of the loan, which must be 100 per cent covered.

AGRICULTURAL INDUSTRIAL AND MINING CREDIT FUND (Caja de Crédito Agrario, Industrial y Minero)

Amounts: The maximum amount of credit for any individual or body corporate is as follows:

- (a) For the purchase of capital goods and/or production equipment on a short or medium-term basis, up to 100,000 Colombian pesos, according to the nature of the investment;
- (b) An additional short-term loan, for the purchase of raw materials, up to 50,000 Colombian pesos;
- (c) Reinvestment of profits in the enterprise entitles the borrower, after one year, to apply for a further amount, in the proportion of 2 pesos for each peso invested, up to an amount of 50,000 Colombian pesos.

Term of loans and interest:

- (1) Up to one year if the loan is for working capital or raw materials;
- (2) Up to two years if the loan is for the purchase of spare parts and repairs to machinery;
- (3) Up to five years if for the purchase of machinery;

(4) Up to six years if for the purchase of land and construction of plant;

The interest required by the Credit Fund is:

- (a) Short-term, 9 per cent a year;
- (b) Medium-term, 11 per cent a year;
- (c) Plus one per cent in each case to cover technical assistance.

Guarantees: These may be personal guarantees or real or chattel mortgages, according to the term of the loan and the nature of the investment.

Loans can be made up to the following percentages of the assessed value of the tangible security offered:

- (a) Property mortgage: 60 per cent;
- (b) Chattel mortgage on new machinery, domestic or imported, whether or not the machinery suppliers are affiliated to the loan system of the Fund:
75 per cent;
- (c) New movable machinery, raw material and finished goods: 50 per cent;
- (d) Industrial debentures, pledges and quoted industrial or commercial company shares: 50 per cent;
- (e) Second-hand machinery, according to condition: up to 50 per cent.

MEXICO

Guarantees and Development Fund for Small and Medium-Scale Industry (FOGAIN)

Amount of loans: Loans for working capital may be up to 1,250,000 Mexican pesos (100,000 US dollars) and for the requisition of fixed assets up to 2,500,000 pesos (200,000 U.S. dollars). When both types of advance are allowed to the same industrialist, the total must not exceed 3,375,000 pesos (270,000 U.S. dollars).

Loans provided against a mortgage or fiduciary guarantee, or the sum of one such loan, plus credit for the acquisition of fixed assets, granted to any one undertaking, must not exceed 2,500,000 Mexican pesos (200,000 U.S. dollars). The Fund may, in addition to these credits, discount working capital loans to the same enterprise, up to 875,000 pesos (70,000 U.S. dollars).

In exceptional cases, for enterprises engaged in work of economic importance, the Technical Committee managing the Fund may authorize the discount of loans exceeding the above figures, but the sum total of working capital loans, fixed asset loans and mortgage investment for any single enterprise must not exceed 5,000,000 pesos (400,000 U.S. dollars).

The above-mentioned amounts are the maximum that can be advanced by the Fund to any single enterprise; however, the minimum amount of credit that an industrialist may apply for has not been specified.

Nor has the Fund set any limit to the number or volume of operations that each intermediary agency may propose to it.

Term of loans: The maximum term for loans for the purchase of fixed assets is ten years; that for working capital loans is three years when they are submitted through a finance agency and two years when they are granted through a deposit bank.

Loans provided against a mortgage or fiduciary guarantee are for a maximum term of ten years. In these cases, and in the case of loans, for the purchase of fixed assets the first amortization payment may be deferred for one year.

Interest rates: The rate of interest paid by the industrialist is 10 per cent a year on the outstanding balance. Of this 10 per cent, 4 per cent is for the private bank acting as intermediary and 6 per cent for the Fund. Only in exceptional cases is the Fund authorized to charge a higher rate than 10 per cent in the case of undertakings capable of a high degree of productivity. The difference between the 10 per cent and the higher rate applied is payable solely to FOGAIN.

The interest rate is not affected either by the type of credit or by the term of repayment. All the loans carry an interest rate of 10 per cent, or a higher rate in the case of high-productivity enterprises, which may in no case exceed 12 per cent a year on outstanding balances.

Guarantees:

- (a) Under the banking laws, working capital loans must be guaranteed by the raw materials and supplies purchased and by the commodities, products or artefacts obtained with the help of the loan, even if future or pending;
- (b) Loans for the acquisition of fixed assets must be guaranteed by the real property, constructions, buildings, machinery, instruments, furnishings and fixtures and by the commodities or products, future, pending or already acquired by the enterprise promoted by means of the loan.

The law requires that property offered as security must be at least 25 per cent greater in value than the amount of the loan.

VENEZUELA

Venezuelan Development Corporation (Corporación Venezolana de Fomento - CVF)

Long-term credit advanced by this institution carries 6 per cent annual interest and is granted for terms of eight to ten years, including one year of grace.

Leasing Plan with Purchase Option

(a) For the purchase of lands and buildings the leasing term is ten years, at a monthly rental of 1 per cent of the value of the property, from which the corporation deducts the 6 per cent annual interest, plus 1.5 per cent to cover taxes and expenses of administration, collection, etc. The balance is credited to the undertaking exercising the purchase option as amortization of the price of the property;

(b) For the purchase of machinery and plant the term is five years and the monthly rental is 12.327 for each thousand bolivars of the total cost of the goods. The corporation deducts the 6 per cent annual interest on the investment and credits the balance to the undertaking exercising the budget option as amortization of the price of the equipment;

(c) Financial assistance for export: this type of credit is granted to finance the purchase of raw materials from abroad for export. Advances are for eight months and the annual interest is 6 per cent.

National Finance Commission

This institution handles two types of finance:

- A. For handicrafts and small-scale industry: a fund formed by contributions from the Ministry of Development, the Venezuelan Development Corporation and local authorities, deposited with the Industrial Bank of Venezuela.
- (1) The maximum amount of advance is 25,000 bolivars carrying annual interest at 6 per cent on the outstanding balance. For the examination and evaluation of each application for an advance, a commission of 0.5 per cent is charged on the total amount of the advance, deducted from its first instalment, and added to the interest on the fund's general reserve.
 - (2) The term is up to five years, within which a number of months of grace may be allowed; the accumulated interest for the months of grace is distributed equally over the instalments stipulated in the contract.
 - (3) Guarantees. The repayment of an advance is guaranteed to the National Commission by the executive of the regional authority. For this purpose the executive requires from the applicant such security as it considers adequate, which may be a recognizance, pledge or mortgage.
- B. Loans for medium-scale industry are provided from a fund set up by the National Executive through the Ministry of Development and granted through a private bank, which by agreement with the National Commission must participate 50 per cent in each loan granted within the metropolitan area, and 75 per cent elsewhere in the Republic.
- (1) The maximum amount which may be advanced to such undertakings is 250,000 bolivars, with interest at 7.5 per cent on the outstanding balance. Where the loan is guaranteed the National Commission charges one per cent of the amount of the security.

The Commission also charges a private bank operating within the medium-scale industry programme a commission of 0.5 per cent of the total amount of the loan for the credit survey.

- (2) The maximum term is for two years; only the Industrial Bank of Venezuela can make advances up to five years.
- (3) Guarantees: For advances negotiated through a private bank, the applicant must offer a mortgage or other security satisfactory to the bank transmitting the application.

C. Advances subject to guarantee or security. The Commission guarantees or underwrites advances for working capital, plant and equipment for medium-scale industries.

D. Direct loans are granted directly by the Commission for medium-scale industry only.

- (1) The maximum amount of these loans is 250,000 bolivars carrying annual interest at 7.5 per cent on the outstanding balance.

- (2) The term is up to six years if the loan is for the purchase of fixed assets, up to three years for working capital.

The loan is granted through the Industrial Bank of Venezuela, which also collects repayments, as of loans to small-scale or handicraft undertakings.

E. Industrial buildings: This form of credit is for the construction of industrial buildings complete with all services for sale by instalments to small-scale and medium-scale industrialists.

- (1) The amount of these loans is the value of the land and buildings, at an interest of 6 per cent per annum on the outstanding balance.

- (2) Term: The loans are for ten years with amortization by monthly instalments. Months of grace may be allowed during the term, but the interest must be paid monthly during a period of grace.

3. PRIORITIES OBSERVED IN THE ALLOCATION OF CREDIT FACILITIES

ARGENTINA

Industrial Bank of the Argentine Republic

The regulations of the Bank do not authorize the financing of small and medium-scale undertakings situated in large industrial centres and their surrounding regions, to avoid further concentration of manufacture; thus the Bank gives preference to loans to small and medium-scale undertakings in the provinces.

BRAZIL

Finance Programme for Small and Medium-Scale Undertakings (FIPEME)

The FIPEME does not grant loans indiscriminately but according to certain criteria such as the importance of the undertaking, its contribution to the domestic product, and a better supply of consumer goods.

Owing to the limitation of its resources, FIPEME has also been compelled to restrict the scope of its financial support. Until November 1966 it covered only thirteen sectors, which included some activities of little or no importance or vague description.

The preferred sectors are machinery, textiles, foodstuffs, metallurgy, timber, chemicals, plastics, leather and hides, printing, electrical equipment, minerals, paper and vegetable fibres.

Agricultural and Industrial Credit Portfolio of the Bank of Brazil (CIEAI)

In the Credit Portfolio's programme preference is given to industries producing consumer goods, including foodstuffs, clothing and housing.

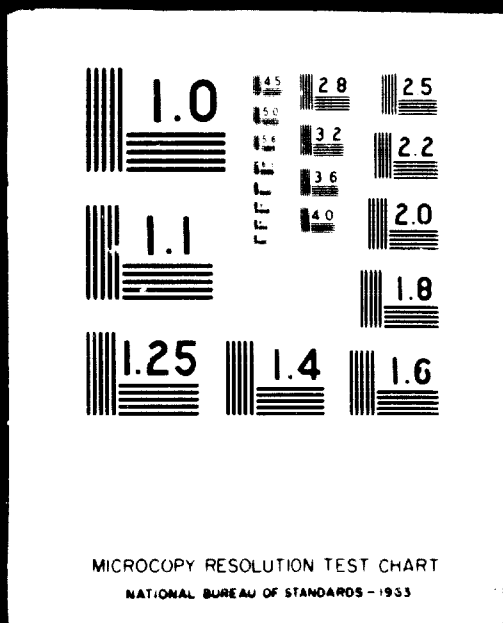


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We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

CHILE

Production Development Corporation (CORFO)

Under the rules of CORFO the following industries have priority for advances: foodstuffs, timber, book-binding, hides and leather products, chemicals, non-ferrous metals, metal articles, machinery and parts, instruments, workshops and building contractors. These groups receive higher preference when situated outside Santiago, and others may be added such as: textiles, clothing, furniture and fittings, building materials, electrical workshops and vehicle repair.

Preference for loans is also given to industries producing for export or for import substitution.

COLOMBIA

The People's Finance Corporation

Priority for loans ~~granted by the Corporation is governed by rules made by~~ the country's planning authorities, with regard to such factors as import substitution, export opportunities, employment growth and the social and economic betterment of certain regions.

Industrial Development Institute (IFI)

According to its rules and its board's policy, this Institute places investments or gives loans in preference to industries fulfilling one or more of the following requirements:

- (a) increase of exports or import substitution
- (b) development of basic resources
- (c) creation of new job opportunities
- (d) extension of mining.

Agricultural, Industrial and Mining Credit Fund "Planned Rural Industrialization Programme, 1967"

At the moment the Industrial Credit Fund's programme has covered the first stage of staff training for the service of technical assistance to small and medium-scale industry. The industrial advisers have been trained in the theoretical analysis of undertakings and in specific industrial problems.

They spend a large part of their time in technical and economic surveys of markets, costs, materials, quality of production, etc., and establish relationships with managers of industrial undertakings to determine the particular requirements of each.

In conformity with the objectives of the Fund, technical assistance should be concentrated on the sectors of industry most in need, such as rural industry.

MEXICO

Guarantee and Development Fund for Medium and Small-Scale Industry

This fund is concerned solely with undertakings in manufacturing or processing industries; however, for the benefit of the incipient industrial development in the provinces it has included some service undertakings such as engineering workshops, laundries and dry-cleaning establishments, gas supply and broadcasting, subject to the limitation that the last two may only obtain from the Fund equipment loans for the acquisition of fixed assets.

The Fund's operational rules give priority to small-scale undertakings in the provinces, which only need a minimum capital of 25,000 pesos to qualify for loans from the Fund. On the other hand, small-scale undertakings in highly-concentrated industrial areas, such as the Federal District and Monterrey, Nuevo Leon, must have a capital of at least \$50,000. The origin of this priority is the government policy for the decentralization of industry, together with the need to create or preserve job opportunities in regions where the principal activity has so far been agriculture.

The Fund gives preference to applications for advances from undertakings established in the provinces.

It also deals in priority with applications submitted by small-scale undertakings wherever situated. It decides on these within a week, as such loans are more urgent and smaller, mostly of about 200,000 pesos (16,000 U.S. dollars).

The Technical Committee in charge of the Fund has stated that its credit policy is to prefer undertakings that are economically weak, established in the provinces, 100 per cent national, and important to their local or regional economy.

VENEZUELA

Venezuelan Development Corporation

The Corporation lends chiefly to undertakings connected in some way with Government programmes, using raw materials of national origin; employing unskilled manpower, or contributing to decentralization or regional integration.

National Finance Commission

In accordance with the aim of greater decentralization of industry, the Commission must prefer the provinces and distribute funds among all the Federal States in conformity with the priorities it has determined for the purpose, after considering their industrial development needs and economic and social pattern.

4. TECHNICAL ADVICE PROVIDED BY FINANCE INSTITUTIONS

ARGENTINA

The Bank advises entrepreneurs lacking industrial experience, or formulating new projects.

It also periodically organizes industrial promotion campaigns in areas chosen as deprived.

BRAZIL

National Economic Development Bank (FINEC)

The inadequate training of entrepreneurs shown by their projects calls for considerable technical assistance in redrafting undertakings' administrative data and accounts.

Before any project is approved, a study is made by a working group composed of an economist, an engineer, a lawyer and an accountant, who spend some time with the applicant entrepreneur and his problems. If the loan is granted, they remain with him for a time to guide and supervise his use of it.

The principal problems of the undertaking are diagnosed and discussed with the entrepreneur to find their best solution.

CHILE

Technical Co-operation Service

This service is a technical assistance branch of CORFO. It follows a programme of investigation and projects under two aspects, general and specific. The latter includes feasibility studies and the organisation of associations or co-operatives for small undertakings.

COLOMBIA

Private Investment Fund

This Fund works through intermediary bodies, on the understanding that these must furnish technical assistance as one of their duties besides granting loans as intermediaries.

It considers that they should guide the drafting of plans and projects, assess the national value of applications and investment proposals, and supervise the use of loans.

People's Finance Corporation

This corporation grants what are known as productivity loans, for the preparation of studies, market surveys, staff training at various levels, and engagement of technicians. It is planning the supply of technical assistance directly to all branches of industry.

Industrial Promotion Institute

The provision of technical assistance for undertakings requiring it is one of the functions of this body. However, this assistance extends to organizing and promoting undertakings for the exploration, mining, concentration or processing of ores, which are national property.

MEXICO

Guarantee and Development Fund for Medium and Small-Scale Industry

The Fund considers that undertakings seeking credit need technical assistance, and gives this to a limited extent through its own team of engineers, economists and accountants.

There are in Mexico specialized technical assistance bodies, such as the National Productivity Centre and the numerous industrial consultants' offices in the different regions.

The National Productivity Centre studies projects for expansion or for the establishment of new undertakings, investigates existing undertakings, prepares groups of consultant instructors, and is carrying out a national programme of staff training at various levels.

The Fund requests the National Productivity Centre to help in the study of some undertakings applying for loans. It requires some other applicants to refer beforehand to industrial consultants to investigate the organization, production and marketing sides of their undertakings.

The Fund assists and co-operates permanently with agent firms in the scrutiny of applications for advances. It has a programme of advice to industrialists concerning credit, and provides information on the various forms and sources of finance and on the requirements, procedures, etc., required in each case; at regular intervals it arranges meetings and lectures on its operations and advantages, especially in regard to investment programming, interest rates, and medium or long-term periods of repayment.

VENEZUELA

Venezuela Development Corporation (CVF)

In the light of its experience this Corporation has recently accepted the need to develop from a mere financial agent into an active force for the country's industrial development, accompanying its loans with technical assistance and industrial promotion.

National Finance Commission

One of the aims of the National Commission's finance programme is to provide enough technical assistance to raise the productivity indices of the country's medium and small-scale industry.

5. LOAN PROCEDURE

BRAZIL

Financing Programme for Small and Medium-Scale Undertakings (FIPEME)

An application for a loan under the Financing Programme (FIPEME) is processed in the following way.

The undertaking submits its project or basic questionnaire, which is first examined by a special adviser. If the application complies with the requirements of the questionnaire, the project is handed over to the Project Department. The Co-ordinator-General for Applications, assisted by a working group consisting of an engineer, a lawyer, an accountant and an economist, makes a preliminary analysis to check the information and supplement it if necessary.

After its examination the group draws up a report, in which it takes note of the information supplied by the special department of the National Bank for Economic Development (BNDE). It submits its recommendation to the Executive Group, which, after hearing the report and comments of the Co-ordinator-General of Applications, reports on the case at a plenary meeting.

The Executive Group's report is submitted for consideration to the management and the governing body of the BNDE, which makes the final decision on the application for finance.

If the financing is approved, the papers are sent to the legal department for contracts to be drafted.

The average time for processing an application for a loan is five weeks, including the time necessary for drafting contracts.

CHILE

Production Development Corporation: Technical Co-operation Service (SCT)

Procedure: When a small-scale or handicraft undertaking submits an application, a technical adviser from the SCT visits it, studies its balance-sheet, forms an opinion of the proprietor, sometimes visits his suppliers and/or customers, and presents his report with a recommendation for review by the departmental board of the SCT.

On that material an executive of CORFO approves or refuses the loan.

If he approves it, the contract is then drafted: as a public deed if there is a mortgage, or as a private contract if the security is a chattel lien.

A private contract is acceptable for loans up to US\$10,000. When the formalities have been completed, the file is reviewed so that the amount may be handed over or paid out.

The amount of the loan is paid directly in cash to the supplier of the machinery or plant. It is not paid to the proprietor, who receives the goods for which the loan was granted.

Foreign currency loans for the purchase of machinery and/or plant abroad are arranged by the Central Bank of Chile, because of the need to follow the procedure required for foreign trade.

In either case, once the loan has been granted the proprietor becomes a debtor of CORFO.

Cash advances to undertakings situated in the provinces are arranged through the regional offices of CORFO and the SCT, so that only advances in foreign currency or exceeding a certain amount need approval in the capital.

COLOMBIA

People's Finance Corporation

This concern produces a form explaining in detail the information that must be submitted by applicants so that their credit applications may be considered.

The application must be delivered to the offices of the Corporation or to the branch or agency of the People's Bank nearest to the applicant.

The Corporation completes its investigations for the approval or refusal of the application, or asks for further information. When an application is approved, the recipient proceeds in agreement with the Corporation to arrange the security.

The Corporation and the borrower sign a document setting out all the conditions relating to the grant and payment of the advance, and the duties and rights of each party.

Agricultural, Industrial and Mining Credit Bank

When an application is received, its contents are reviewed and an adviser visits the plant to make an investigation on the spot and obtain the statistical and economic information which will show the actual state of the undertaking.

With this material the adviser makes an analysis, reaches his conclusions and presents a recommendation to the manager or director of the office, who approves or refuses the loan.

To check the investment and supervise the development of the borrower's plan and his financial situation, and to safeguard the Bank's interests, the advisers make periodical supervisory visits and set down their findings in a formal report, copies of which are sent to the office arranging the loan and to the Industrial Credit Division.

Regional chiefs and industrial advisers send the Division monthly returns of the applications received in each office, amounts approved, amounts paid, and loans outstanding.

Industrial Development Institution

The applicant must present his application, with the required information and documents, on the form supplied by the credit department of the Institution, to the credit officer of the financial subdivision. When the file is complete, the application is submitted to the credit committee, which decides whether it should be accepted or not according to the Institution's credit policy. An accepted application is sent to the technical subdivision for a technical and economic inquiry, the results of which are put before the Credit Committee. The application, the evidence and the committee's report are submitted to the managing board for its decision.

The documents to be attached to the application are the following:

- (1) Estimate and plans of the construction;
- (2) Description of the machinery to be obtained either at home or abroad, its features and cost, the names of sellers and the import licence;
- (3) Sellers' tenders;
- (4) Details of each investment in services;
- (5) Quantity and price list of articles manufactured by the applicant;
- (6) Balance sheets with annexes, and statements of receipts and expenditure over the last three years, signed by the manager or proprietor and by a public accountant;
- (7) Forecast of balance sheets and receipts for the next three years.

MEXICO

Guarantee and Development Fund for Medium and Small-Scale Industry

The proprietor makes a study of his project, defining the need for finance and indicating the term, the form of payment, the security, etc.

When he has proved the soundness of his plans and the need for finance, he presents his application to a private bank, deposit bank, finance corporation or credit union (the Fund, to facilitate the submission of applications by proprietors, has circulated between them and the private bank a "guide sheet", with a model questionnaire and the directions necessary for the submission of information and documents).

The private bank receives the application from the proprietor, examines it and calls for any additional information it considers necessary on his solvency, integrity and experience, and proceeds to value the collateral.

It agrees with the applicant on the conditions of the advance, such as the term of repayment, form of payment, security, etc., before submitting the application for approval to its credit board or committee.

With this evidence the private bank requests the financial support of the Fund so that the applicant may benefit from the low rate of interest and a medium or long-term repayment period.

PROCESSING OF APPLICATIONS TO THE FUND

Applications submitted by the private bank are entered with date and serial number in a register, which can also be used to check the time spent in processing.

The management checks all applications and sends them in chronological order to the credit department, which has a team of analysts, engineers in various specialties, economists and accountants possessing ample experience in industry and in credit analysis. They study each application with reference to the following rules established by the technical committee that administers the Fund:

- (a) Loans should be examined as if they were made directly by the Fund to the applicants;
- (b) Applications for credit must comply with the statutes and regulations governing the Fund and with banking law;

- (c) The study should be directed chiefly to the investment programmes, to inquire whether the loans appear sufficient and appropriate for the expansion of the business;
- (d) Loans must be justified, properly secured and recoverable;
- (e) There should be a wider apportionment of the Fund's resources over a larger number of undertakings;
- (f) Its operations should cover all parts of the country.

The applicant's investment programme is examined and the likelihood of his fulfilling it is estimated in view of his experience, the place of his business, his clientele, his plant, the number and grade of his workers, market opportunities, etc. Special attention is paid to his accounts (balance sheet, profit and loss account, production costs account, etc.); and lastly an estimation of his capacity to repay is made in order to settle the term of repayment.

In many cases, when it seems necessary on account of the size, nature or special features of the loan, a visit is made to the undertaking to verify the information, examine the plant, obtain further data and investigate the details of the applicant's project.

From the results of the study and the visit, the credit department makes a report to the managing body of the Fund, which submits a summary of it to the technical committee for consideration.

The technical committee meets every Monday and examines and accepts or rejects each application. It often makes special or further conditions, such as -

- (a) that the shareholders or entrepreneurs shall supply funds to complete the project proposed in the application;
- (b) that they shall capitalize the profits and/or keep these in the business.

The Technical Committee consists of six persons with very full experience and training for their special task. They represent the following official and private bodies most concerned in the country's industrial development:

The Secretariat of Finance and Public Credit

The Secretariat of Industry and Commerce

The Bank of Mexico, S.A.

The National Finance Corporation (National Financiera), S.A.

The Confederation of Chambers of Industry

The National Chamber of the Processing Industry.

The Committee's decision is notified to the private concern submitting the application so that it may draft the contract for the loan. All the particulars of the loan must appear in this contract: the amount, rate of interest, investment programme, term and form of repayment, security, etc.

In virtue of this contract the amount of the loan is paid over to the private concern acting as agent, which holds it for the applicant.

Credit institutions are obliged by law to supervise the proper investment or use of loans, and to submit to the Fund copies of their reports.

VENEZUELA

National Finance Commission

(a) Applicants submit their applications to the appropriate regional commission, which examines these to evaluate the capacity of the undertaking for which the loan is to be made. For this purpose it considers the most important features of the market, the applicant's administrative and technical ability, the production costs, the availability of skilled manpower, and the sources of raw materials.

(b) After examining each application for credit, the regional commission submits a report, accompanied by the original application and the supporting documents, for consideration by the National Commission.

(c) When the National Commission has considered the application, it notifies its decision to the regional commission, which informs the applicant.

Where the regional commission refuses an application for a loan, the applicant may appeal to the National Commission, which as the highest authority makes the final decision.

C. OPERATIONAL RESULTS
THE MEXICAN CASE

Except from Mexico, it has not been possible to obtain recent figures of the volume of finance advanced by bodies in Latin America specializing in the support of small and medium-scale industry. Therefore the only particulars given here relate to the operations and results of the Guarantee and Development Fund for Medium and Small-Scale Industry of Mexico.

The main items in the report on the Fund's work for the financial year 1966/1967 are these:

Assets of the Fund

On 30 June 1967 the Fund's own resources amounted to 181,441,280.86 pesos, made up of -

(a) Contributions from the Federal Government	130,000,000.00 pesos
(b) Surplus from previous years	48,107,928.86
(c) Surplus from the year 1966/1967	<u>3,333,352.00</u>
Total	<u>181,441,280.86</u>

OTHER RESOURCES

The remaining resources of the Fund consist of three loans made by the Inter-american Development Bank totalling US\$16 million, equivalent to 200 million Mexican pesos.

By 30 June 1967 the Fund had used 149,500,000 pesos of these loans.

OPERATIONS

The Fund's operations consist mainly in the discounting of bills issued in respect of working capital advances and loans for the purchase of equipment granted by private firms to small and medium-scale industrialists.

In September 1966 it began to discount industrial mortgage advances (for debt funding). Particulars of such advances therefore appear for the first time in the report for the financial year 1966/1967, in addition to the usual figures for working capital and equipment.

Number and amount of loans authorized

During the financial year under consideration the discounting of 828 loans to the amount of 194,439,839.69 pesos was authorized.

During the same period 161 loans amounting to 50,302,996.66 pesos were written off.

The net figures for the period are therefore 667 loans amounting to 143,636,843.00 pesos, granted to 376 small and medium-scale undertakings.

The net total of loans authorized by the Fund since it started business in 1954, including the financial year 1966/67, is 7,565, amounting to 1,573,153,077.63 pesos.

These loans were granted to 4,180 small and medium-scale undertakings, the reason for the difference, 3,385, between the number of loans and of undertakings being that some undertakings received more than one loan at various stages of their expansion.

The 4,180 undertakings financed from the resources of the Fund have, taken together, great economic importance, as may be seen from the following figures: ^{1/}

- (a) They provide employment for 152,623 workers;
- (b) They have a total net worth of 5,047 million pesos;
- (c) The market value of their production amounted to 8,713 million pesos;
- (d) The Fund's loans represented 31.2 per cent of the undertakings' net worth and 18.1 per cent of the annual value of their production.

The 7,565 credits, amounting to 1,573 million pesos, were provided by 150 different firms, from deposit banks to finance corporations.

^{1/} These totals are derived from the figures shown in the most recent balance sheet presented by each undertaking applying for credit.

Aim or Purpose of the loans

Most of the 7,565 loans authorized were intended to be used as working capital by the applicant undertakings, the remainder for extension and improvement of plants and funding of debts, as may be seen from the following figures:

<u>Type of credit</u>	<u>No. of loans</u>	<u>%</u>	<u>Amount (thousands of pesos)</u>	<u>%</u>
Working capital	4,755	62.9	857,536	54.5
Equipment	2,800	37.0	711,096	45.2
Mortgages	10	0.1	4,521	0.3
Totals	7,565	100.0	1,573,153	100.0

The following are the average figures: 180,300 pesos for working-capital loans; 254,000 pesos for equipment loans; overall average 208,000 pesos.

A similar situation is shown by the analysis of the 667 loans granted by the Fund during the financial year 1966/67, the majority being intended for the purchase of raw materials, payment of wages and general working capital expenses. The relevant figures are these:

<u>Type of credit</u>	<u>No. of loans</u>	<u>%</u>	<u>Amount (thousands of pesos)</u>	<u>%</u>
Working capital	429	64.3	75,475	52.5
Equipment	228	34.2	63,642	44.3
Mortgages	10	1.5	4,521	3.2
Totals	667	100.0	143,637	100.0

Repayment periods

One of the purposes of the Fund is to grant medium and long-term loans. To indicate the extent to which it has fulfilled this purpose, the 7,565 loans authorized hitherto have been classified by the repayment periods stipulated in each case, with the following results:

<u>Number of loans</u>	<u>Repayment periods</u>	<u>Amount of the loans (thousands of pesos)</u>
440	Up to 12 months	63,968
4,016	" " 24 "	646,579
1,860	" " 36 "	377,821
649	" " 48 "	175,528
590	" " 60 "	295,282
10	Over 60 "	13,975
<u>7,565</u>		<u>1,573,153</u>

As the figures show, most of the loans (58.9 per cent) were granted for terms up to two years. Their amount is 41.1 per cent of the total. Next in number are loans for periods up to three years, with 24 per cent of the total.

Most of the periods for repayment of the 667 loans authorized during the financial year 1966/67 were two years; but the loans granted for terms longer than two years amounted to a larger sum, as the following table shows:

<u>Number of loans</u>	<u>%</u>	<u>Periods of repayment</u>	<u>Amount of the loans (thousands of pesos)</u>	<u>%</u>
401	60.1	Up to 24 months	61,115	42.5
148	22.2	" " 36 "	30,782	21.4
39	5.8	" " 48 "	6,007	4.2
73	11.0	" " 60 "	36,693	24.6
6	0.9	Over 60 "	9,040	6.3
<u>667</u>	<u>100.0</u>		<u>143,637</u>	<u>100.0</u>

Amount of individual loans

The maximum amount of credit which the Fund may grant is 1,250,000 pesos of working capital, 2,500,000 pesos for equipment, and 2,500,000 on an industrial mortgage, with a ceiling of 3,375,000 pesos where more than one loan is granted concurrently to the same undertaking. It is interesting to observe, however, that the majority of loans authorized are for amounts not exceeding 500,000 pesos, as may be seen from the following figures:

<u>Amount of loans</u>	<u>Number of loans</u>		<u>Total amount (millions of pesos)</u>	<u>%</u>
Not exceeding 200,000 pesos	5,256	69.5	447.3	28.4
Not exceeding 500,000 pesos	1,659	21.9	573.8	36.5
Over 500,000 pesos	650	8.6	552.1	35.1
Totals	7,565	100.0	1,573.2	100.0

The same trend was maintained throughout the last financial period, when the majority of loans were for amounts not exceeding 500,000 pesos, as may be seen below:

<u>Amount of loans</u>	<u>Number of loans</u>	<u>%</u>	<u>Total amount (millions of pesos)</u>	<u>%</u>
Not exceeding 200,000 pesos	480	72.0	39.8	27.7
Not exceeding 500,000 pesos	131	19.6	44.4	30.9
Over 500,000 pesos	56	8.4	59.4	41.4
Totals	667	100.0	143.6	100.0

The number of loans for amounts up to 500,000 pesos is 91.6 per cent of the total. Nevertheless, although only 56 loans for amounts above 500,000 pesos were authorized during the financial year 1966/67, their aggregate value was 41.4 per cent of the total amount lent.

Industrial activity of the undertakings

The 7,565 loans for a total amount of 1,573.2 million pesos were granted to 4,180 industrial undertakings of all classes and branches in the processing industries and to some service undertakings, as the following table shows:

<u>Number of undertakings</u>	<u>Branch of industry</u>	<u>Number of loans</u>	<u>Amount of (thousands of pesos)</u>
514	Foodstuffs	843	190,487
77	Beverages	133	34,930
1	Tobacco	1	45
292	Textiles	576	183,063
658	Footwear, garments and other made-up textile goods	1,155	182,142
57	Wood and bark	97	18,377
179	Furniture and fittings	308	48,288
90	Paper and paper products	174	48,355
276	Printing, publishing and related industries	466	77,026
152	Leather and hide production and manufactures	279	35,339
91	Rubber manufactures	173	33,879
245	Chemicals	481	119,455
287	Non-metallic mineral products	516	99,836
75	Basic metal industries	148	40,845
389	Metal manufactures	790	162,099
210	Engineering	347	78,607
109	Electrical engineering and manufactures	221	55,854
119	Transport equipment	229	50,209
268	Miscellaneous industries	498	93,574
9	Building and contracting undertakings	10	2,996
10	Gas distribution	12	2,456
12	Broadcasting	16	3,251
60	Laundrying, cleaning and dyeing	92	12,040
<hr/> 4,180 <hr/>		<hr/> 7,565 <hr/>	<hr/> 1,573,153 <hr/>

The industries benefiting most substantially from these loans were those making foodstuffs, textiles, metals, clothing and chemicals.

In particular the Fund has assisted 2,594 small and medium-scale undertakings producing consumer goods, 62.1 per cent of the total. They received the following loans:

	<u>Number of loans</u>	<u>Amount</u> (millions of pesos)
Working capital	2,923	581.7
Equipment	1,625	409.1
Mortgages	5	3.0
Totals:	<u>4,553</u>	<u>930.8</u>

The Fund has assisted altogether 1,586 undertakings manufacturing production goods and intermediate products, 37.9 per cent of the total. These received the following loans:

	<u>Number of loans</u>	<u>Amount</u> (millions of pesos)
Working capital	1,832	338.6
Equipment	1,175	302.0
Mortgages	5	1.5
Totals:	<u>3,012</u>	<u>642.3</u>

Geographical distribution of undertakings

The distribution of the Fund's advances according to the geographical situation of the undertakings was as follows:

Number of undertakings:

	<u>Number</u>	<u>Per cent</u>
Provinces	2,284	54.6
Federal District	1,896	45.4
Total:	<u>4,180</u>	<u>100.0</u>

Number of loans granted:

Provinces	3,956	52.3
Federal District	3,609	47.7
Total:	<u>7,565</u>	<u>100.0</u>

Amount of loans:
(in millions of pesos)

Provinces	781,205	49.7
Federal District	791,948	50.3
Total:	<u>1,573,153</u>	<u>100.0</u>

Portfolio

The Fund's portfolio was made up as follows by types of loan on 30 June of this year:

Working capital	\$ 95,952,000.38
Equipment	154,907,368.25
Mortgages	5,443,057.34
Total:	<u>\$ 254,302,425.97</u>

Repayments are collected with absolute regularity, as the firms meet their obligations exactly on the day of maturity.

Size of undertakings

The Fund is empowered to deal with industries having a book capital of up to 15 million pesos. It is, however, interesting to observe that most of the undertakings receiving loans from the Fund have a book capital not exceeding one million pesos, as the following figures show:

Period: April 1954 to
30 June 1967

	<u>Number of undertakings</u>	<u>per cent</u>
With book capital not exceeding 1 million pesos	2,536	60.7
With book capital over 1 million pesos but not exceeding 3,500,000 pesos	1,378	33.0
With book capital over 3,500,000 pesos but not exceeding 15 million pesos	266	6.3
Totals:	<u>4,180</u>	<u>100.0</u>

During the financial year 1966/67, 376 undertakings resorted to the Fund for the first time. Their size pattern remained similar to that of the previous thirteen years of the Fund's work.

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