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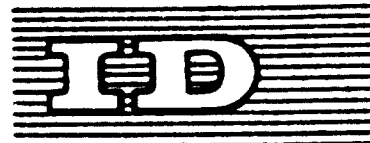
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Meeting on Financing of Small-scale Industry  
in Latin America

Buenos Aires, Argentina, 23 - 28 November 1970

**UNIDO ACTIVITIES IN THE FIELD OF FINANCING  
OF SMALL-SCALE INDUSTRIES <sup>1/</sup>**

prepared by  
the secretariat of UNIDO

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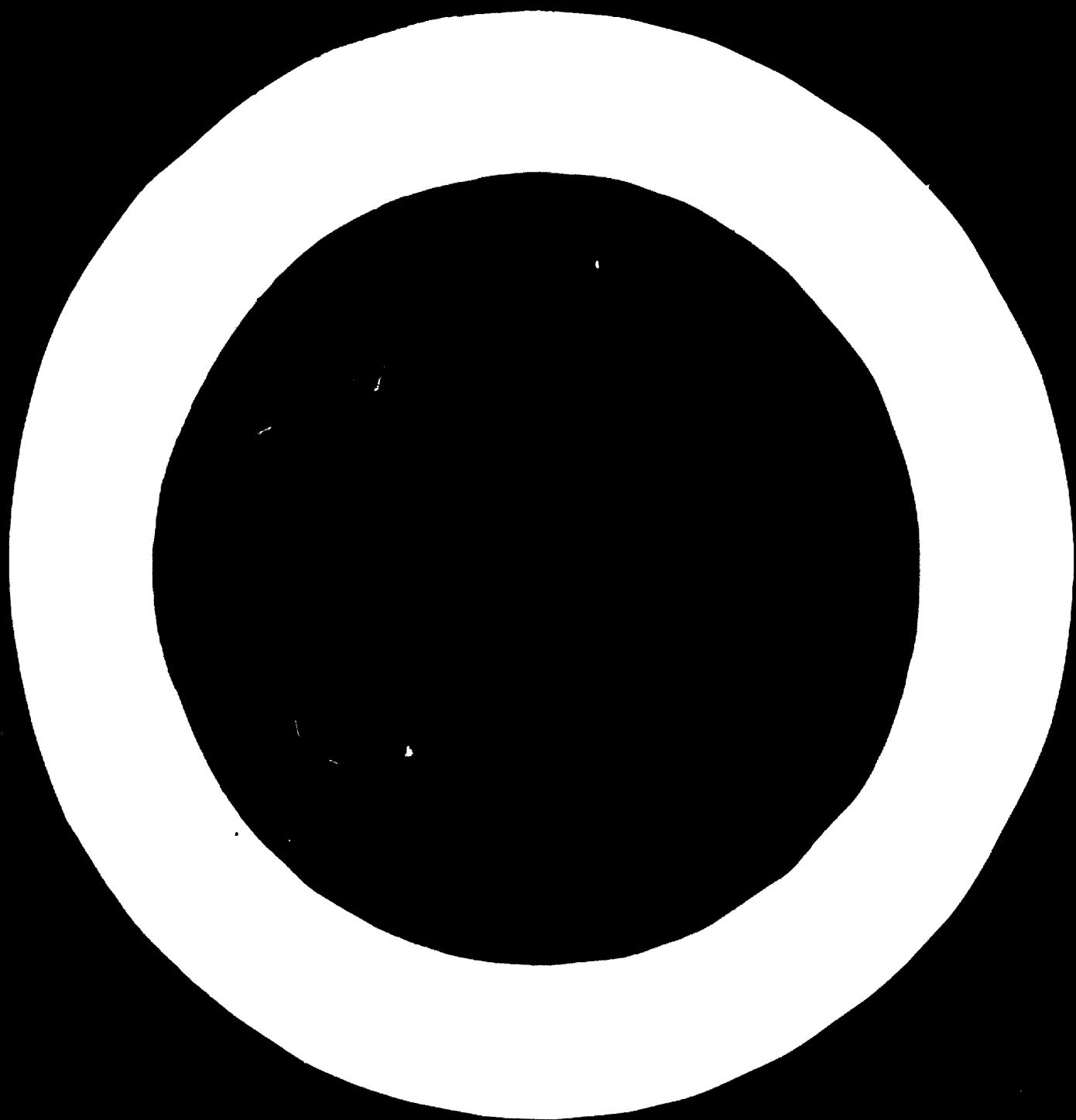


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UNIDO Activities in the field of financing of small-scale industries

Introduction

In Latin America, as in other developing regions, the problems of financing of small-scale industries are distinct from those faced by large-scale enterprises. Therefore, special financing methods and procedures have to be devised and, in most cases, financial assistance needs to be closely related to the provision of extension services, particularly technical and managerial assistance to small-scale industries. For this reason, activities in the field of financing of small-scale industries have been included in the work programme of the United Nations Industrial Development Organization (UNIDO).

These activities include the preparation of research studies, the organisation of meetings and the provision of technical assistance to developing countries. Research studies are aimed at obtaining knowledge and information on financial institutions which extend credit to small-scale industry, the volume of credit provided as against the actual requirements, the methods and procedures for the provision of credits, the handicaps and weaknesses and special problems of small-scale industry in obtaining its financial requirements, etc., with a view to evolving guidelines for promotion measures in developing countries. The purpose of the meetings is to pool and exchange experience and to encourage the adoption of measures to improve systems of financing of small-scale industry, through linking technical assistance with financial assistance. Technical assistance could be provided by UNIDO to developing countries for evolving and adopting improved systems of financing of small-scale industry.

The purpose of the present paper is to provide a brief review of UNIDO's activities (and of its predecessors, the Division of Industrial Development of the United Nations Secretariat and the Centre for Industrial Development of the United Nations) in these three areas.

Research Studies

1. "Hire-Purchase Loans for the Mechanization of Small Industries", by J. E. Stepanek, Industrialization and Productivity Bulletin No. 1 (Sales No.: 58.II.B.2.).  
A study of methods linking technical assistance to financial assistance applied in Burma to facilitate the procurement of machinery by small industrialists.
2. "Financing of Small-scale Industries in Underdeveloped Countries", Industrialization and Productivity Bulletin No. 3. (Sales No.: 60.II.B.1).  
A survey of measures to increase the supply of funds, reduce the cost of credit and reduce the risks of lending.
3. "Public and Private Financing of Industrial Estate Projects and Stimulation of Private Projects by Government Authorities with Special Reference to India's Experience", by B.K. Chatterji, (included in Industrial Estates in Europe and the Middle East,) (Sales No.: E.68.II.B.11).  
A discussion of the policies, procedures and methods of financing various types of public, semi-public and private-owned industrial estates in India. Transfer of ownership and management from the Central Government to State Governments or to municipalities/corporations or to private co-operatives is considered in this connexion. The question of equity and working capital requirements is also discussed.
4. "Hire-Purchase Loans for the Mechanization of Small-scale Industries: The Experience of India", by K. L. Nanjappa, July 1970. (Document No.: ID/WG.65/4 ).  
An analysis of the sources of institutional credit available to small-scale industries in India, and the nature of loans and advances made to them, is followed by a detailed description and critical evaluation of the hire-purchase scheme for the

supply of machinery and equipment to small-scale enterprises, being operated by the National Small Industries Corporation, the State Small Industries Corporations, commercial banks and machinery manufacturers in India.

5. "Extension Services and Development Finance for Small-scale Industry. An International Comparative Analysis", by M. C. Shetty, July 1970.  
(Document No.: ID/WG.65/3 ).

Analyses international comparative data on sources and methods of financing of small-scale industry and discusses in detail the basic interrelationships between extension services and the financing facilities.

6. "Report of the Expert Group on the Development of Small-scale Industries in Arab Countries of the Middle East", November 1968.  
(Document No.: ID/WG.17/19).

A chapter on "Financing of Small-scale Industry" reviews the methods of financial assistance required for the countries of the Middle East, and emphasizes the need for close links with technical and managerial assistance.

7. "Problems and Possibilities of Small-scale Industry Extension and Development Finance with Special Reference to the Situation in East Africa", by Franz C. Helm, April 1970.  
(Document No.: ID/WG.54/4 Corr.1).

Outlines in its first part the approach to assistance in the small-scale industry field, with special reference to the aspects of development finance and the need for integrated assistance, linking technical assistance with financial measures. The second part discusses the current situation of government policies towards small-scale industry development, including extension services and financial institutions in five East African countries - Ethiopia, Kenya, Malawi, Tanzania and Uganda.

8. "Services for Small-scale Industry in West Africa", by Benjamin P. Spiro, January 1970.  
(Document No.: ID/WG.53/2-ID/WG.54/2).

A survey in five West African countries - Ivory Coast, Ghana, Nigeria, Dahomey and Senegal - of industrial extension and financing, including existing financial institutions and the procedures and practices used in extending public, semi-public and private credit to small-scale industry. A proposal by the Senegal Government for establishing an equity participation fund for small-scale industrial enterprises in which SONEPI (National Society of Industrial Studies and Promotion) will play a very important role is discussed in detail.

9. "Commercial Bank Financing of Small-scale Industries: Policies and Measures", by Benjamin P. Spiro, July 1970.  
(Document No.: ID/WG.65/8 ).

A study based on a questionnaire sent to 81 commercial banks in 33 developing countries. An analysis is made of the existing structure and character of the various types of commercial bank credits to small industry, including types of loans made, terms and conditions, lending policies, collateral requirements and the position of recovery and defaults. Discusses very briefly government policies on commercial



credit to small industry in selected countries, viz, Chile, Cambodia Brazil, Uruguay, Mexico, West African Region and India. Conclusions have been drawn and recommendations made for increasing credit to small industry within the available resources of the commercial banks.

10. "Financing of Exports of Small Industry Products: The Experience of Japan", by Ichiro Oshikawa, July 1970.  
(Document No.: ID/WG.65/9 ).

Provides information and analyses on the small industry financing system in Japan, and special organizations and methods for financing exports of small enterprises. The role of Exporter's Associations in Promoting the exports of small industry briefly discussed.

11. "Financing of Small-scale Industry in the Developing Countries: The Situation in Latin America", by Sabas Francia Garcia, July 1970.  
(Document No.: ID/WG.65/2 ).

Outlines the policies and programmes of various institutions dealing with financing of medium and small-scale industry in six Latin American countries, viz, Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. Discusses the sources of available funds in these countries, size of loans, terms, conditions, procedures and priorities assigned, and technical advice provided by financing institutions.

12. "Equity Financing of Small-scale Industry", July 1970  
(Document No.: ID/WG.65/5 ).

Study based on relevant information obtained from various documents available in the Secretariat.

13. "Public and Semi-public Financing of Small-scale Industries: A Comparative Analysis of Institutions, Policies and Measures in Selected Asian Countries", by S. Aburatani,  
(under preparation).

Outlines the policies and methods of financing of small-scale industries by public and semi-public institutions in the Republic of China, India, Japan, Republic of Korea, Malaysia, Pakistan, Philippines, Singapore and Thailand. Discusses and evaluates operational aspects, financing practices, administrative aspects and interest rate in the relation to credit risks. This study will be submitted to the Meeting on Financing of Small-scale Industries in the ECAFE region, to be held in 1971.

14. "Small-scale Industry in Latin America" UNIDO publication, (Sales No.: 69.II.B.37).

Included in the publication are recommendations on financing the development of small-scale industry, made at the United Nations Regional Seminar on Small-scale Industry in Latin America, held at Quito, Ecuador in 1966. Also included are an evaluation of the programme of assistance to small-scale industry in Chile and case studies on industrial financing in Mexico and Venezuela.

### Meetings and Seminars

The subject of financing of small-scale industries has been briefly considered and discussed in most of the seminars and expert group meetings on small-scale industries<sup>1/</sup>.

The Expert Group Meeting on Financing of Small-scale Industry in Latin America, organized by UNIDO in co-operation with the Secretariat of the Economic Commission for Latin America and the Instituto Nacional de Tecnologia Industrial (INTI), Argentina, to be held in Buenos Aires, Argentina, from 23 - 28 November 1970, will be the first meeting of its kind and will be entirely devoted to the problems of financing of small-scale industry. UNIDO will also organize during 1971 an Expert Group Meeting on Financing of Small-scale Industry in Asia and the Far East, in co-operation with the Economic Commission for Asia and the Far East (ECAFE).

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- <sup>1/</sup>
- Report of the Seminar on Small-scale Industry in Latin America, Quito, Ecuador, 28 November - 5 December 1966, published in Small-scale Industry in Latin America, (Sales No.: E.69.II.B.37)
  - Report of the Inter-regional Symposium on Technical Services and Facilities for Small-scale Industries, Vedbaek, Denmark, 26 June - 8 July 1967, UNIDO, (Doc. No.: ID/CONF.2/19/Rev.1,) August 1968, to be published in 1970 in Technical Services for Small-scale Industries.
  - Report of the Expert Group on Small-scale Industries in Arab Countries of the Middle East, UNIDO (Document No.: ID/WG.17/19) November 1968, to be published in 1970 in Small-scale Industries in Arab Countries of the Middle East.
  - Report of the Training Workshop on Extension Services for Small-scale Industry in the East and West African Sub-regions, June 1970, UNIDO, (Under preparation).

### Technical Co-operation

United Nations technical co-operation activities include provision of assistance to developing countries under four types of programmes. Projects financed by the United Nations Development Programme (Special Fund component) include provision of experts, award of fellowships for the national counterparts and supply of some equipment for demonstration, testing, quality control, etc., over a period of 2 to 5 years. Projects financed under the Regular Programme of Technical Assistance or under the United Nations Development Programme (Technical Assistance Component) include the provision of experts and/or award of fellowships for specific projects of shorter duration. Projects financed under the Special Industrial Services Programme are concerned with the provision of experts or the award of fellowships for short durations for emergency operations of a "trouble-shooting" nature, which might either solve immediate problems or generate technical assistance or Special Fund projects of longer duration.

Thus far, technical assistance operations provided exclusively for promoting financing of small-scale industry have been few but, some of the established UNDP (Special Fund component) projects in the field of small-scale industry or the establishment of industrial estates and common facility services have been aimed, among other things, at providing assistance in the field of financing of small-scale industry, linked to the provision of extension services.

The most effective programmes are "supervised credit" schemes, which permit financial aid to be linked with technical assistance. Industrial extension organizations are sometimes set up in financing institutions, to lend assistance to borrowers from the stage of applications for credit to the stage of follow-up of use of funds and their repayments. Such institutions might be assisted by UNDP (Special Fund). The services of experts may be provided under the technical assistance programmes or under the special industrial services programme for formulating and operating a scheme of liberalized credit, insurance and guarantee systems, supervised credit, hire-purchase of machinery, etc.

Further, the job descriptions of certain international experts (industrial economist or industrial adviser) involved in policies, programmes and general promotion measures or in providing extension services have included drawing up programmes of financial assistance at liberal conditions, including supervised credit, supply of machinery on hire-purchase, etc.

Some examples of United Nations assistance in the field of financing are given below. During 1966/67 UNIDO provided the services of a financial adviser for small-scale and medium-sized industries for a period of one year to the Republic of China. The expert advised the Government on financial policies and programmes, including legislative, institutional and administrative measures; schemes of supervised credit, guarantee and insurance; procedures and terms of loans to small and medium enterprises; and co-ordination of financial assistance with other programmes for the promotion of small-scale and medium-sized industries. Another example is the assistance being provided to Trinidad and Tobago. Since the beginning of 1969 UNIDO has provided the services of an Industrial Adviser (Small-scale industries) to the Industrial Development Corporation, whose functions include advice on the development of a loan programme for supplying machinery to entrepreneurs, so as to promote the wider use of facilities of existing industrial estates. A third example is the provision by UNIDO of a Small Loans Adviser attached to the UNDP/SF project in Iran: Establishment of an Industrial Estate and development of Small-scale Industries. This expert will be provided for a period of two months, will appraise the present situation with respect to availability of financial assistance to small enterprises, estimate the financial assistance required over the next five years by viable small industry projects, suggest the form of financial assistance and the terms of loans required and recommend any modifications required in the present institutions and procedures.

Hypothetical job descriptions for expert assignments in the field of financing of small-scale industries are included in Annexes I and II.

Annex I

Financial Adviser (Small-scale and Medium-sized Industries)

**Duration:** One year

**Duties:** The expert will advise the Government on financial policies and programmes for the promotion of small-scale and medium-sized industries. In particular, he will advise on:

- (a) Legislative, institutional and administrative measures<sup>e</sup> needed to organize and implement the programme;
- (b) Schemes of supervised credit, including hire-purchase plans for machinery and equipment;
- (c) Measures such as guarantee and insurance schemes to facilitate credit to small and medium enterprises by private commercial banks;
- (d) Procedures and terms of loans to small and medium enterprises, including interest rate, maturity collateral requirements, credit investigation methods and handling of defaulting cases;
- (e) Evaluation of industrial projects and of credit applications;
- (f) Co-ordination of financial assistance with other programmes for the promotion of small-scale and medium-sized industries, such as technical and managerial assistance, provision of factory space and services in industrial estates, and so on.

**Qualifications:** Financial expert familiar with the organization and operation of public and private credit facilities for the promotion of small-scale and medium-sized industries in developing countries.

Annex II

**Post title:** Small Loans Adviser

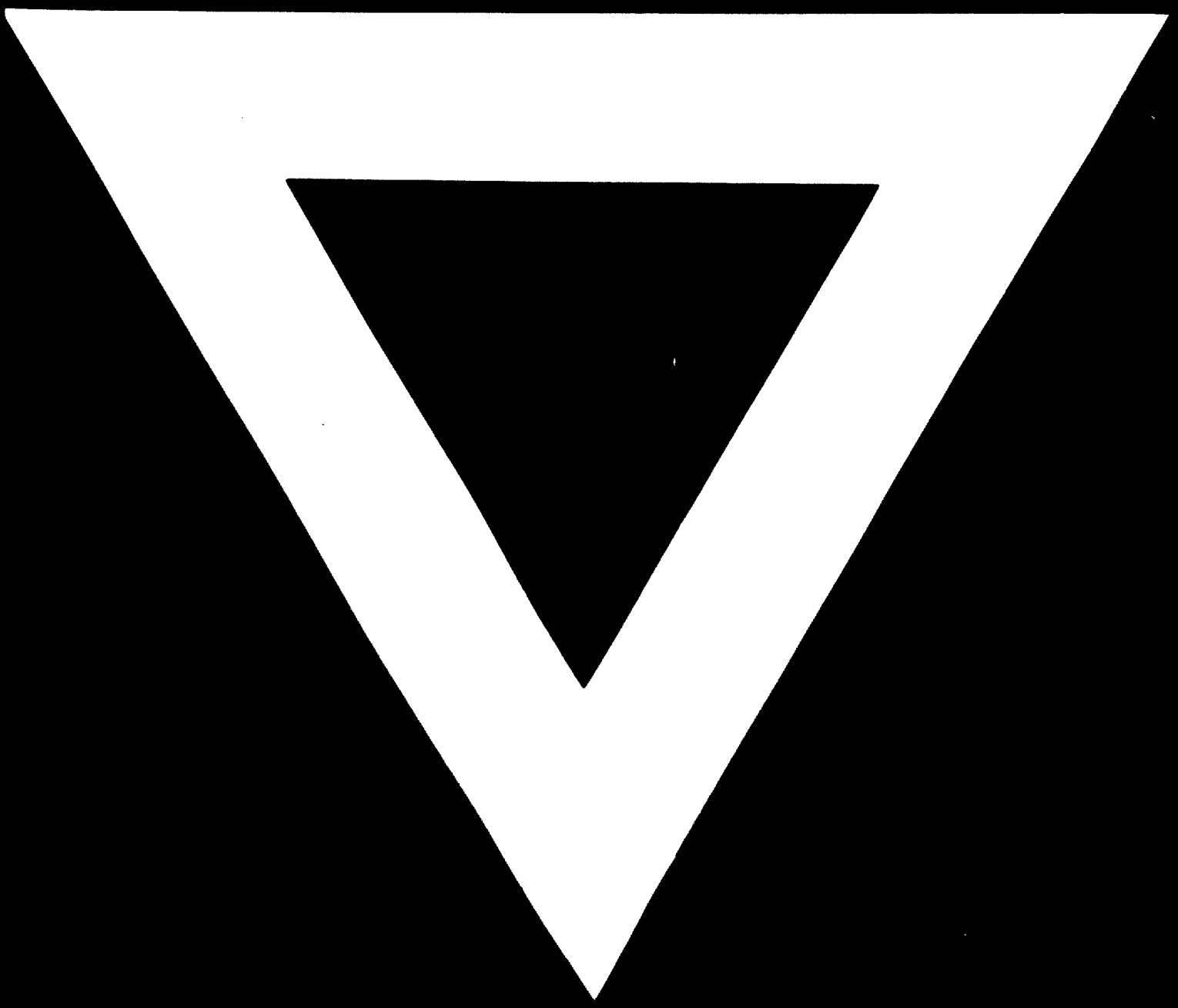
**Duration:** Two months

**Duties:** Under the supervision of the Project Manager (Chief Adviser) and in co-operation with the Organization for Small-scale Industries and Industrial Estates the expert is expected to:

- (a) Study with the assistance of the Organization staff members and UNIDO experts the present situation with respect to the availability of financial assistance to small industrial enterprises.
- (b) Estimate crudely the financial assistance which could be used in viable small industry projects over the next five year period with respect to industrial sub-group, geographical location, and size of enterprise.
- (c) Suggest the form which the financial assistance might take and the loan terms which might be established.
- (d) Identify any modifications required in the present financial institutes or in new institutes which should be established.

**Qualifications:** Financial expert familiar with the organization and operation of public and private credit facilities for the promotion of small-scale and medium-sized industries in developing countries.





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