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D02732



Distr.  
LIMITED

ID/WG.92/1  
12 March 1971

United Nations Industrial Development Organization

Original: ENGLISH

Seminar on Financing of Small-scale Industry  
in Asia and the Far East

New Delhi, India, 5 - 10 April 1971

ANNOTATED PROVISIONAL AGENDA  
AND  
PROPOSED ISSUES FOR DISCUSSION <sup>1/</sup>

The following list of issues for discussion has been prepared by the Secretariat of UNIDO with a view to facilitating the debates. Participants are invited to send any amendments or additional proposals in writing to the Secretariat as soon as possible. These will be issued and distributed as addenda to this document.

- Item 1. Opening addresses
- Item 2. Election of Chairman, Vice-Chairman and Rapporteur and adoption of the agenda
- Item 3. Problems, policies, objectives, measures and institutions in the field of financing of small-scale industry in the countries of the participants

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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.

1. Participants are invited to complement the information in their country paper by a short statement on the problems confronting the financing of small-scale industry in their country, evaluating the experience gained and outlining future developments.
2. In document ID/WG.92/2 "Public and Semi-Public Financing of Small-scale Industry in Asia", page 5, it is stated that "in many Asian countries, the Government plays a broad and sometimes a direct role in financing". It is also stated at the same page that among various encouragements and incentives for the private small-scale industry sector, "public and semi-public financing schemes and institutions are predominant in Asian countries." In some countries, commercial banks are nationalized. While some private commercial banks engage in direct financing of small-scale industries under special conditions their role, on the whole, appears to be modest in comparison with that of the public financial institutions. Is this situation favourable for small-scale industries?
3. The same document contains (page 6) the comments that "there is no common definition in the region of what constitutes small-scale industry" and that "no definite demarcation is noted between medium-sized and small-scale enterprises, and loans are often made both to small and medium enterprises."

Inasmuch as special systems of financing of small-scale industry and many other measures of promotion would normally be reserved exclusively to small-scale industries as legally defined, participants are invited to discuss the question whether present definitions of small-scale industry, where they exist, are adequate or inadequate for the promotion of this sector, from the standpoint of financing and of other measures of development. Participants might also discuss the question whether a distinction between small-scale and medium-sized enterprises is or is not necessary.

4. In document ID/ G.65/2 "Financing of Small-scale Industry in the Developing Countries: A Case Study of Latin America" it is stated that in the six countries studied high priorities are given to the financing

of small industries located in decentralized areas, and/or using national raw materials and/or contributing to import substitution, export promotion, or manufacture of producers goods and creating new sources of improvement.

Participants are invited to provide information on whether or not such priorities exist in their countries. They may also state whether any priority or restriction based on industrial branches or products is applied in their countries. The need for such restrictions or priorities and their effect on financing of small-scale industry might be discussed.

5. It is stated in document ID/WG.92/2, page 15, that "many special institutions in Asia have not so far used fully their available funds and that few institutions have been in need of additional funds to meet increasing needs for loan", with the exception of India, Japan and Korea. Several reasons are given for this situation.

Participants are invited to comment on this statement, with reference to conditions in their countries. Is it true to say that the basic problem is not the shortage of fund resources, but rather the inability to make use of available funds on account of lack of demand, unsuitable procedures, terms and conditions, lack of information, etc.?

Documents:

- Country papers by the participants
- "Public and Semi-Public Financing of Small-scale Industry in Asia" (ID/WG.92/2)
- "Financing of Small-scale Industry in the Developing Countries: A Case Study of Latin America" (ID/WG.65/2)

- Item 4. The place of financial assistance in programmes of promotion, modernisation and development of small-scale industries
- Technical assistance as a means of facilitating financial operations
  - Financial assistance as a counterpart of technical assistance

It is well known that, to be effective, programmes of development of small-scale industry should be integrated. They should, in other words, include measures to promote and assist small entrepreneurs at all stages

and in all aspects of planning, establishment and operation of their enterprises. An integrated programme would usually include measures to stimulate new entrepreneurship and to provide extension services in technique, management and marketing to existing industrialists, financing at liberal conditions, industrial estates, promotion of subcontracting, etc. In particular, financing of small-scale industry may not be effective in the absence of technical and managerial counselling, and technical advice may often fail to be followed up if financial help is not available.

In several documents (ID/WG.92/2; ID/WG.65/2, 4 and 8, and ID/WG.17/14), strong emphasis is put on the need to link technical assistance to financial assistance, both at the stage of application for credit (screening) and at that of use of funds (follow-up). As indicated in ID/WG.92/2, pages 29 - 32 and 51 - 52, and ID/WG.65/2, pages 60 - 62, a number of public and semi-public financial institutions in developing countries provide themselves some technical assistance to the borrowers and some others obtain the assistance of advisory and extension services. Participants are invited to discuss the most appropriate methods and procedures for the integration of technical and financial assistance.

The following questions, among others, might be discussed in this connexion:

1. Should technical assistance be provided by the financial institution, or is it preferable to have separate agencies for these two functions?
2. Are there advantages, especially in countries where no industrial extension agencies exist, in setting up the first industrial extension centre as part of an industrial financial institution?
3. How can the additional cost of technical assistance provided by a financial institution, public or private, to its borrowers, be absorbed by the institution? Would subsidies be necessary, as a rule?
4. If financial and extension agencies are separate, how can their activities be made complementary? In particular, how can industrial extension services be linked to operations of commercial banks?

5. It is suggested in document ID/WG.17/14 ("Extension Service and Development Finance for Small Industry: An International Comparative Analysis"), pages 20 - 21, that the success of a screening programme rests not on the organizational mechanism evolved for appraising loan applications but on the method employed, the importance of personal contacts being primordial. In document ID/WG.92/2 "Public and Semi-Public Financing of Small-scale Industry in Asia", pages 30 - 31, it is stated that "the process of credit screening should depend on a technical assessment of the prospects for the project as well as an evaluation of the entrepreneurs' capabilities. The special institutions should have trained personnel to undertake this task" and at page 38 that "as regards training of personnel engaged in public financing, preference should be given to defining personality and attitude in addition to improving technical knowledge and extension methods." Participants are invited to discuss, among other things, the organization and scope of special training programmes in extension for bank officials and in financing for extension workers.

6. Should financing institutions relax security requirements when borrowers avail themselves of technical assistance and training? Can recourse to technical assistance and training be made compulsory? In some countries, extension agencies deliver "certificates of competence" to certain industrialists; would such a "guarantee" be acceptable to financial institutions?

7. In a few countries, "intensive campaigns" have been organized either for the promotion of new entrepreneurship (especially in the less developed areas of a country) or for the modernization of existing ones, including the transformation of artisans into modern small industrialists. These campaigns are jointly organized and carried out by officers of extension agencies, financial institutions and Government departments (see ID/WG.65/4, pages 34 - 37). Teams of these officers provide orientation to prospective entrepreneurs towards industrial occupations, or make recommendations for the modernization of existing industries and applications for credit

are made on the spot. While campaigns are particularly effective where hire-purchase schemes are in effect, they might also be conducted where systems of credit at liberal conditions are in existence and where industrial extension agencies are set up. Participants are invited to discuss the applicability of such campaigns or, more generally, of joint action between finance and extension agencies, in the conditions prevailing in their countries.

Documents:

- "Public and Semi-Public Financing of Small-scale Industry in Asia: A Comparative Analysis of Institutions, Policies and Measures in the Republic of China, India, Japan, Republic of Korea, Malaysia, Pakistan, the Philippines, Singapore and Thailand (ID/WG.92/2)
- "Extension Service and Development Finance for Small Industry: An International Comparative Analysis" (ID/WG.17/14)
- "Hire-Purchase Loans for the Mechanization of Small-scale Industries: The Experience of India" (ID/WG.65/4)

Item 5. Public and semi-public financing

(a) Institutional arrangements

(i) The role of the central bank

Central banks may influence the financing of small-scale industry through rediscount (total or partial) of commercial bank credit. An inquiry made by the author of document ID/WG.65/8 "Commercial Bank Financing of Small-scale Industries: Policies and Measures", page 43, indicates that the commercial banks surveyed by him would be willing to increase the volume of their loans to small-scale industries if the central bank liberalised its margin requirements with respect to such loans or refinanced them at a lower rate of interest. Participants are invited to present comments on this view.

The author of document ID/WG.92/2 "Public and Semi-Public Financing of Small-scale Industry in Asia" indicates at pages 17 - 18 that in the developing countries of the region, where the organized financial system



is not highly developed, there is "a limit to the effective function of the central bank to regulate the supply and demand of credit". He also states that "the bank rate policy which the commercial banks follow as a result of the official discount rate of the central bank does not apply to the special financing for small enterprises" and that "by and large, in this region, the fiscal policy of the government is more influential than the financial policy of the central bank."

Participants are invited to comment on these observations.

A few central banks make available funds to financing institutions for loans to small-scale industries. Some central banks provide general guidance on small business financing. Some central banks administer credit guarantee or insurance schemes. Should such activities by central banks be encouraged?

(ii) The role of other public and semi-public financial institutions

Document ID/WG.92/2 and other documents show that the institutional arrangements of public and semi-public banking organizations vary from one country to another. Two main categories of institutional arrangements are distinguished in that document: (i) those whereby financing is extended directly by government departments or government funds are channelled through certain financial institutions; and (ii) those applied by self-supporting institutions.

In the first category, financing is extended by bureaux of Ministries, local governments, industry departments, special corporations, etc. In the second, by private law corporations or banks and, in some countries, by nationalized commercial banks.

In either category, funds may be provided by the government. Some public corporations have foreign financial resources at their disposal. Some institutions lend exclusively to small industries, others also finance large and medium enterprises. Some provide only medium- and long-term loans, others provide also short-term loans. Some provide advisory services to clients, others depend on government industrial extension centres.

Participants are invited to comment on the institutional arrangements which they consider to be most desirable and effective, having regard to conditions in these countries.

Discussion is invited of the view, put forward in document ID/WG.92/2, page 13, that the scope for financing and servicing of self-supporting institutions is more limited than that of government departments.

Documents :

- Country papers by the participants
- "Public and Semi-Public Financing of Small-scale Industry in Asia" (ID/WG.92/2)
- "Financing of Small-scale Industry in the Developing Countries: A Case Study of Latin America" (ID/WG.65/2)
- "Extension Services and Development Finance for Small Industry: An International Comparative Analysis" (ID/WG.17/14)

(b) Policies, measures and conditions in respect of long-term, medium-term and short-term financing: terms, conditions and procedures, e.g. security requirements, interest rates, subsidization of interest rates, debt recovery, etc.

Participants may wish to discuss the question of conditions and procedures in connexion with long-term, medium-term and short-term credit, respectively. The following questions, among others, may be discussed:

1. In document ID/WG.92/2, the author states at page 22 that special institutions generally provide long-term and medium-term credit to small-scale industry, leaving short-term credit to be provided by commercial banks. He also states that it is difficult to make a hard and fast distinction between medium-term and long-term loans, and further that medium-term loans could be provided to new enterprises to meet their initial working capital requirements. The author further suggests at page 26 that in some cases, special institutions might consider undertaking the extension of short-term credit to small enterprises, but that they should preferably let commercial banks to act as their agents. Comments on these views are invited.

2. As may be seen in Table I, pages 7 - 8 of document ID/WG.92/2, maximum limits on single loans for small enterprises are set up by financial agencies in different countries. Is this system justified and effective?
3. Table II at page 23 - 24 of the same document provides information on loan periods of public institutions. For equipment loans, the maximum period is, in many countries, of 5 years or less, and in a few countries, of 10, 12 and even 15 years. Are the lower limits adequate?
4. Should terms be flexible and admit, e.g. grace periods, extensions or debt consolidation?
5. Some loans financed out of funds provided by foreign agencies must be spent in the countries of these agencies ("tied loans"). Participants are invited to discuss the advantages and disadvantages of such loans.
6. Regarding screening of applications for credit, discussion is invited of the view, stated in the same document, pages 30 - 31, that "the process of credit screening should depend on a technical assessment of the prospects for the project as well as an evaluation of the entrepreneur's capabilities" and further that "while the screening of an application should be the responsibility of the loan department of a bank or a special institution, the technical viability, market prospects, entrepreneurial or managerial evaluation, etc. should be reviewed by a consultant or advisory centre". As an alternative, the bank or special institution might have expert departments or trained staff to undertake survey and evaluation.
7. In many cases, the collateral requirements appear to be very stringent. Banks require mortgages or chattel mortgages (long-term credit), bonds (debentures) and receivables (medium-term and short-term credit) as well as personal liability. Exacting requirements for self-liquidating securities are undoubtedly one of the major obstacles to the financing of small-scale industry. The author of document ID/WG.92/2 states at page 34 that "the extent of guarantee required for financing by public institutions must be more liberal than that required by private financing institutions".

He further recommends that "the machinery and equipment bought by the proceeds of public loans should be admitted as physical security". Also, in many cases, a personal guarantee should be sufficient. The co-operation of private banks should be secured in order to ease the terms and conditions of security. In the final analysis, is the managerial ability of the entrepreneur (and the assistance he may receive) the real guarantee of his creditworthiness?

8. Small entrepreneurs renting factories, whether on an industrial estate or outside of it, have less security to offer to financial institutions than those who own their buildings. This situation may be aggravated when the machinery is encumbered. How can this problem be solved?

9. Regarding collection of loans, it is stated by the author of ID/WG.92/2, at page 35, that more and more this function is delegated to private banks. The instalment repayment method is a distinctive feature of public financing, but it appears to be troublesome. Participants are invited to discuss the problem of arrears in payment and debt recovery - in particular whether this is a factor hampering loans to small industries and, if possible, to formulate recommendations on means to solve effectively these problems, e.g. the floating overdraft system (see ID/WG.65/8, page 21).

10. Regarding operating expenses, document ID/WG.92/2, pages 39 to 42, contains an analysis of the operating expense rate. It is stated that "in public financing, the operating expenditure should be kept as low as possible because the interest rate of public institutions should be lower than the ordinary rate". However, financing of small industries is usually concerned with loans of small amount, and administrative costs are higher than those of loans of greater amount. In the case of public financing overhead charges may not necessarily be added to the cost of loans. Is this one of the arguments for expanding public financing?

11. Regarding interest rates, chapter 5 of document ID/WG.92/2, pages 43 to 49, contains an analysis of the components of the interest rate in relation to credit risks involved in small industry financing. The author

is of the opinion that the interest rate for public financing is dependent on the industrial policy of a country and not on the central bank rate. He also states (page 47) that the interest rate charged by public and semi-public financing institutions might be lowered by the risk percentage for small industry, the difference being covered by a subsidy. Can interest rates be lowered, or made uniform (as is the case in certain countries)? To the extent that part of the interest rate covers screening and other operational costs, can a reduction in the overall rate be obtained through the co-operation of banks with promotion or extension agencies for small-scale industry, through minimizing screening requirements, or through other means? Should interest rates for loans to small-scale industries be lowered through subsidies by the Government?

12. What methods may be used to facilitate self-financing by small-scale industries and to regulate non-institutional credit, especially usury and other illegal or semi-legal money-lending practices to which small industries have all too often to resort?

Documents:

- Country papers by the participants
- "Public and Semi-Public Financing of Small-scale Industry in Asia" (ID/WG.92/2)
- "Financing of Small-scale Industry in the Developing Countries: A Case Study of Latin America" (ID/WG.65/2)
- "Commercial Bank Financing of Small-scale Industries: Policies and Measures" (ID/WG.65/8)

(c) Equity participation in small industrial enterprises.

Document ID/WG.65/5 "Equity Financing of Small Industry" presents some data on a few experiments in equity financing, some of which were successful, others less or not successful. One of them - the Fonds de participation et de garantie of the Government of Senegal - which provides for temporary equity participation, seems to offer hopes for success. Another possibility is the participation of a development corporation - created for this purpose - in the equity capital of small enterprises

(e.g., the scheme tried in Orissa State in India). Discussion is invited of these and other equity participation schemes.

Documents:

- "Equity Financing of Small Industry" (ID/WG.65/5)

(d) Administrative aspects of financing

Certain administrative aspects of public and semi-public financing are discussed in chapter 3, pages 27 to 33 and chapter 4, pages 37 to 42 of document ID/WG.92/2 "Public and Semi-Public Financing of Small-scale Industry in Asia". The following questions, among others, might be discussed by the participants:

1. The organisational structure of financing institutions for small-scale industries, including whether or not there should be specialised staff for pre-investment survey and assessment and post-loan supervision within the institution, or whether such services should be carried out by advisory and extension centres for small-scale industry in co-operation with the financing institutions.
2. The handling of applications for credit. Many institutions have a passive role in receiving applications. What active steps could they take to induce small industrialists to take advantage of credit programmes?
3. Should the institutions be able to make their own decisions on the acceptance or rejection of applications, or should this depend on a public or semi-public committee?
4. Where institutions are given the right to decide on the granting of loans, should this authority be limited to loans of a certain size?
5. Should institutions fit not only a customer but also a customer case for a loan since the administrative cost of handling very small loans is relatively high and uneconomic? Should small loans be granted without prior investigation and only against the personal guarantee of the borrower?

6. How can financial institutions evaluate periodically their small industry credit programmes with a view to achieving a proper balance between administrative costs and the volume of credit granted?

7. What controls should be instituted over the operation of credit programmes for small industries by public and semi-public institutions and how should this operation be evaluated?

Documents:

- Country papers by the participants
- "Public and Semi-Public Financing of Small-scale Industry in Asia" (IB/48.92/7)

(c) Industrial Financing

(i) Hire-purchase and other supervised credit schemes

Document IB/48.61/4 "Hire-Purchase Loans for the Mechanization of Small-scale Industries: The Experience of India" presents a detailed account of the operation of the hire-purchase system in India. Document IB/48.92/7, pages 27 - 28 contains some comments on this system. Under this scheme, machinery instead of cash is provided to the small entrepreneur; the machinery remains the property of the hire-purchase agency until the last instalment has been paid - this obviates the need for collateral. The scheme operates through close co-operation of the hire-purchase agency and industrial extension centres - the needs of the industrialists are well ascertained and the operation of their enterprises is supervised and assisted. Discussion is invited on the desirability and feasibility of introducing hire-purchase schemes - appropriately modified, if need be - in the countries of the region. The following questions might be discussed, among others:

1. Should a hire-purchase scheme be operated by a special agency?
2. Would it obviate the need for collateral, in the conditions prevailing in these countries?

3. Should the system be limited to procurement of general-purpose machinery, to facilitate repossession and disposal of the machinery by the lender, in case of default in repayment by the hire-purchaser? (This problem also arises when special machinery is given as collateral for a cash loan).
4. What are the prospects for developing suppliers' credit, that is, a form of hire-purchase granted by the manufacturer or the importer of machinery?
5. Is there any scope for private "leasing" companies - such as those operating in Western Europe and the United States? See, in this connection, "Leasing and Mutual Industry Financing in France" (IB/VG.65/6) para 5 - 8.
6. In Venezuela, the Corporación Venezolana de Fomento (CVF) operates a plan under which land, buildings, machinery and equipment may be provided on long-term hire-purchase conditions, provided the borrower supplies the necessary working capital (IB/VG.65/2). The participants may wish to discuss the prospects for introducing similar schemes in their own countries.
7. Participants are also invited to discuss other types of supervised credit such as purchase of raw materials for the small enterprise or payment of other bills by the financing institution; advances to small subcontractors for enabling them to carry out orders for large companies, the latter paying the bank which would in turn pay the subcontractor after deducting the funds due to it; and techniques of supervised credit, such as obligation to keep accounts, to accept technical assistance, to attend training courses, etc.

#### References

- Country papers by the participants
- "Hire-Purchase Loans for the Mechanization of Small-scale Industries: The Experience of India" (IB/VG.65/4)
- "Financing of Small-scale Industry in the Developing Countries: A Case Study of Latin America" (IB/VG.65/2)
- "Public and Semi-Public Financing of Small-scale Industry in Asia" (IB/VG.65/2)



(ii) Cost reduction through provision of factories for rent on industrial estates, common service facilities and grants towards land, building and machinery costs

Industrial estates may be financed, according to their type, by the central, state or local governments, by co-operative associations or by private groups. Factories on government-sponsored estates may be given on rent, hire-purchase or outright sale. In the latter case, the government recovers its investment earlier and may plough it back in other developmental projects, e.g. other industrial estates. Assistance may be given by the Government to co-operative estates, e.g. through loans at liberal conditions in amounts proportional to the equity of the co-operative. Temporary equity participation in a co-operative estate might be another possibility. Private estates may be encouraged through loans, guarantees, tax concessions, accelerated depreciation allowances and other means. The co-operation of life insurance companies, real estate development and construction companies and various institutional investors may sometimes be obtained.

Participants are invited to discuss these aspects of the financing of industrial estates, especially the means whereby government-financed estates may be rapidly turned over to the occupants, and the encouragement of non-government estates.

Common service facilities such as tool rooms, foundries, etc. are set up by governments of certain countries with a view to reducing investment requirements of individual enterprises, improving quality and reducing costs. They usually operate on a no-profit no-loss basis. Such facilities should also be turned over to private ownership and management as soon as possible. Is there scope for such facilities in countries of the region?

Grants towards land, building and machinery costs are made in certain countries as an incentive for establishment of industries in non-metropolitan or backward areas. Such grants might also be used to attract foreign enterprises. Participants might discuss the need for such grants for promoting the development of small-scale industries.

Documents:

- Country papers by the participants
- "Public and Private Financing of Industrial Estate Project and Stimulation of Private Projects by Government Authorities, with Special Reference to India's Experience" (CID/IE.1/9)

(iii) Tax and tariff concessions and various subsidies

1. Tax and customs concessions are also a form of financial assistance for the development of industry. What is their effectiveness for the promotion of small-scale industry?
2. Subsidies may be granted to small-scale industries for a variety of purposes - to obtain land, factories, machinery, to reduce the cost of freight, power, certain raw materials and even for training of entrepreneurs and workers.

Should the use of subsidies be encouraged, or should it have a relatively low priority as compared to other forms of financing? Should subsidies be reserved, in particular, for encouraging the establishment of small industries in remote or under-privileged locations or under other circumstances which give rise to special handicaps?

(iv) Preferential treatment in government purchase programmes and other guaranteed purchase, procurement and marketing arrangements

In all countries, including the least developed ones and those with very narrow domestic markets, the Government and public agencies such as the army, the police, hospitals, schools, public transportation, etc. are among the most important institutional purchasers of a variety of goods. Small-scale industries may be oriented towards productions catering to the public market. This, however, may be effective only if a public bidding system is in effect and if small-scale industries are given equitable or even preferential treatment as against larger establishments, for instance when their bids exceed the one of the latter by a given percentage, all other conditions being equal. The improvement in marketing and even the reduction in malpractices which such a system would entail are, in a way, a form of financial aid to small industrialists. What is the scope for introducing such procedures in countries of the region?

Item 6. Commercial bank financing

(a) Credit guarantee and insurance schemes

The following questions might be discussed, among others:  
Various means have been devised to stimulate the financing of small-scale industries by commercial banks (whether public or private). In India, the Social Control of Commercial Banks Act of December 1967 is credited, in conjunction with the credit guarantee system, with increasing the share of commercial banks in total financing of small-scale industries from 9 per cent in March 1965 to 41.8 per cent in March 1969 (ID/WG.65/4, p. 2-3). An effective means appears to be the credit guarantee scheme such as the one administered in India by the Reserve Bank of India and in Japan by credit guarantee associations (ID/WG.17/14). (See also ID/WG.65/8, pages 35 - 36). Another system is credit insurance (inter-institutional or by a public agency) (ID/WG.65/8, p. 36 - 37).

Discussion is invited of credit guarantee and insurance schemes as means of stimulating and facilitating the participation of commercial banks in the financing of small-scale industry.

Documents: As indicated above

- (b) Co-operation between industrial extension agencies and commercial banks in joint supervised credit schemes
- (c) Co-operation between public and private financial institutions
- (d) Other inducements to commercial banks

The following questions might be discussed, among others:

1. In document ID/WG.65/8, p. 37 - 40, strong emphasis is placed on the training of industrial credit supervisors of commercial banks in credit evaluation, supervision and technical assistance to small-scale industries, as is done, for instance, in Brazil, Colombia and Uruguay. It is suggested in that document that such training could be organised on a national or even a regional basis. Another means is to associate industrial extension centres to the operations of commercial banks (ID/WG.65/8, p. 40 - 41; and ID/WG.17/14, p. 24 - 33). Discussion is invited on these and other means of facilitating the financing of

small-scale industries by commercial banks through the provision of technical assistance.

2. Discussion is also invited of the means of improving internal loan management in commercial banks (ID/NG.65/7, p. 41 - 42).

3. Document ID/NG.92/2, p. 19 - 21 argues generally in favour of channelling public funds through commercial banks and of public financial institutions using commercial banks as agents for disbursement and collection of loans. Document ID/NG.65/8, p. 43 - 46 contains the results of an inquiry on the desirability of using commercial banks to channel public funds allocated for small industry development (favourable reaction); of accepting public financing for loans to small-scale industries (mixed reaction); of government subsidies to increase the volume of commercial credit to small-scale industries (mixed reaction). The document suggests that the relatively low level of lending to small industries by commercial banks is, in general, due not to a lack of financial resources, but to a shortage of suitable projects, to the high incidence of risk due to lack of technical, administrative and managerial ability of the entrepreneurs, and to the inadequacy of collateral. The document also suggests that commercial banks do not appreciate the role which may be played by small-scale industry in industrial development, especially as subcontractors to large industries, and expresses the view that training of bank supervisors and industrial extension agents, and the modernisation of lending techniques may contribute to the solution of this problem. Participants are invited to discuss these views.

Documents: As indicated above.

#### Item 7. Co-operative financing

The following questions might be discussed, among others:

1. With some exceptions, as in the case of Japan and the Federal Republic of Germany, co-operative financing has not appreciably developed in advanced or in developing countries. Participants are invited to discuss the reasons for the inadequacy of co-operative financing and the possibility of stimulating it in countries of the region.

2. Document ID/40.65/6 "Lending and Mutual Industry Financing in France" describes (p. 3 - 50) a system of mutual financing practised in France by professional or inter-professional companies for the benefit of industrial, commercial and artisan undertakings and service enterprises. The system permits the financing of machinery and equipment, especially for modernization purposes. Credit may be provided by the Caisse Nationale des Marchés de l'Etat, under a mutual guarantee system provided by the mutual financing companies, rediscount being available from the Banque de France. The system appears to be successful. Is there any scope for its introduction in countries of the region?

Document: As indicated above.

Item 3. Financing of exports of small industry products

The promotion of export industries is an important policy objective in many developing countries. Small-scale industries may contribute to the promotion of exports, provided special measures of assistance, including financial assistance, are made available to them. The financing of small-scale export industries is widely developed in Japan and some lessons might be derived from the Japanese experience for the benefit of developing countries, including those of Asia and the Far East.

Document ID/40.65/9 "Financing of Exports of Small Industry Products in Japan" describes the Japanese experience. Long-term export contracts are financed by special agencies (Small and Medium Enterprise Corporation and Small and Medium Enterprise Credit Insurance Corporation) and by the Small Scale Finance Corporation under specified conditions. Short-term loans are usually financed by trading houses which pass the contracts with foreign importers. The houses also enter into joint ventures and provide technical and other assistance to the small export industries. Credit guarantee associations guarantee bills drawn by smaller enterprises at a low rate of interest for export promotion. Special tax concessions are provided. Importers' associations regulate trade practices.

Participants are invited to discuss these methods as well as any export promotion measures existing in their own countries with a view to formulating, if possible, recommendations on the financing of exports of small industry products in the region.

Document

- "Financing of Exports of Small Industry Products in Japan" (ID/WC.65/9).

Item 9. Scope for regional co-operation

(a) The role of regional financial institutions

One of the recommendations of the International Symposium on Industrial Development (Athens, November - December 1967) is that: "International financial organisations, such as the World Bank and the International Development Association, and regional financial institutions, such as the Inter-American Development Bank and the African and Asian Development Banks, should be requested to review the possibility of increasing their support for financing industrial estates. They should also review the possibility of channelling funds towards national credit agencies for extending loans to small-scale industries". (See Small-scale Industry, Monograph No. 11; Sales No.: E.60.II.B.39, Vol. 11, page 35).

Participants are invited to discuss the assistance which is being received and which might be expected from international financial organisations for the financing of small-scale industries in countries of the region.

(b) Action under technical co-operation programmes

As indicated in document ID/WC.65/10 "UNIDO Activities in the Field of Financing of Small-scale Industry", technical assistance may be provided under various United Nations programmes in the field of financing of small-scale industry. Such assistance may be given for the establishment of special financial institutions, of supervised credit schemes including hire-purchase systems, of credit guarantee or insurance schemes, for improving loan management methods and procedures, for training of bank and extension officers, etc. Fellowships may also be made available.

Participants are invited to discuss the needs of their countries for technical co-operation projects in these fields.

Document: "UNIDO Activities in the Field of Financing of Small-scale Industry" (ID/IG.65/10)

Item 10. Adoption of conclusions of the Seminar.

Item 11. Closing addresses





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