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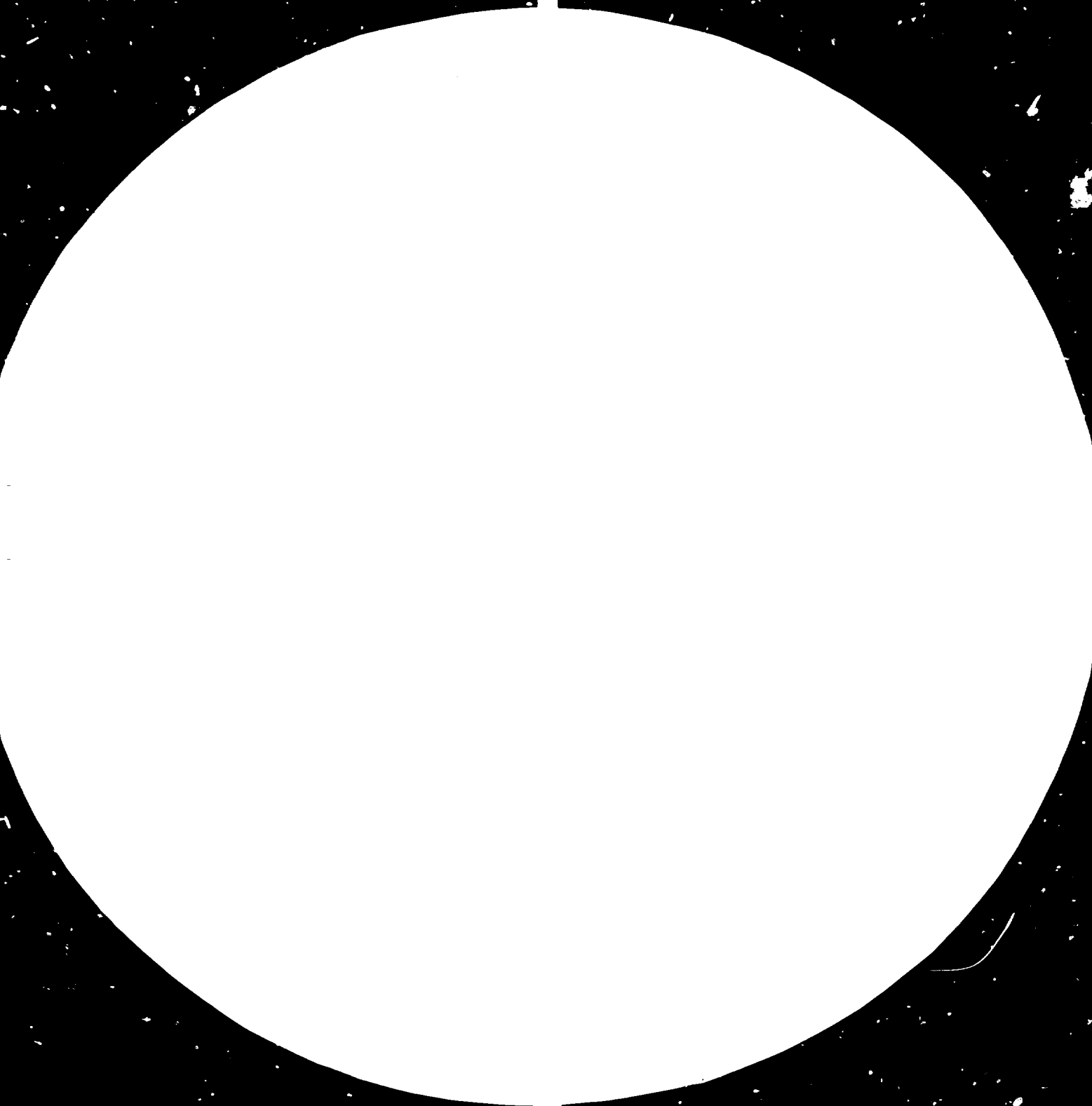
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UNIDO INVOLVEMENT IN THE FINANCING OF
INDUSTRY AND INVESTMENT PROMOTION*

BACKGROUND DOCUMENT

Prepared by the UNIDO secretariat

002157

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INTRODUCTION

Prior to the Second General Conference of UNIDO at Lima in 1975, UNIDO involvement in these areas was restricted to traditional technical assistance activities encompassing the preparation of feasibility studies etc., together with investment promotion for the most part directed towards attracting direct foreign investment. However, as a result of mandates received at the Second General Conference of UNIDO, and more specifically in resolution 3362 of the Seventh Special Session of the General Assembly, which dealt with development and international economic co-operation, the secretariat was called upon to prepare a Joint Study undertaken with Governments encompassing inter alia methods and mechanisms for diversified financial co-operation geared to international industrial co-operation.

SPECIAL ACTIVITIES

So far, special activities undertaken as a result of these new mandates have fallen into two categories:

- (a) international aspects of industrial finance;
- (b) domestic aspects of industrial finance.

These special activities are described under the headings below followed by an outline of the permanent ongoing traditional technical assistance aspects of industrial financing and promotion, together with innovations which have occurred also in this area.

International aspects of industrial finance

Work in this context has taken place against a recognition that the fundamental challenge for international policy on industrial finance lies in two areas:

- (a) identification of means to increase the volume and improve the terms of aggregate North-South, East-South and South-South financial flows required to meet overall industrial development goals;
- (b) identification of finance mechanisms to support changes in North-South and South-South patterns of investment, technology and trade.

This fundamental challenge has to be seen within the perspective of the massive flows in industrial investment, of the order of \$500 billion per annum, which would be required by the year 2000 if the Lima target is to be attained, and of this sum about one third might have to be covered by external financial flows.

These considerations led to the development of two major concepts which were placed before the international community meeting at the Third General Conference of UNIDO in New Delhi in 1980. The first concept called for the setting-up of an International Industrial Finance Agency to promote South to South co-operation in financing industrialization by converting financial surpluses available in some developing countries into durable forms of long-term investment in the Third World. The second concept called for the setting-up of a Global Fund for the Stimulation of Industry which recognized the crisis in the international economy: global recession, coupled with global inflation and instability of the international monetary and financial systems; in essence, the Global Fund proposal envisaged the provision of quick-disbursing programme financing loans to developing countries on extended maturities and in significant amounts reaching an annual level of over \$15 billion. It should be noted that this Global Fund concept provided one of the major areas of discussion and negotiation at the Third General Conference of UNIDO, and that these discussions and negotiations are still continuing. Indeed, at the present time, the Industrial Development Board is considering the convening of an Intergovernmental Conference to examine the formation of an institution, namely the International Bank for Industrial Development (IBID) which had its roots in these two major concepts which were first examined at the Third General Conference of UNIDO.

It should also be mentioned that forming part of the secretariat's presentation of industrial financing issues at the Third General Conference of UNIDO was a recommendation for an industrial finance information and negotiation network which could provide two basic services needed to permit developing countries to use commercial banks and export credits more effectively: financial information and assistance in negotiation. Attention has also been given to the promotion of risk capital financial instruments, whereby a number of innovative financing techniques might offer particular

attractions in specific industrial arrangements. Among these new financing arrangements are commodity or trade index bonds and new opportunities for foreign portfolio investment through national and regional industrial investment trusts. Similarly, arrangements involving the promotion of barter or buy-back related long-term investment agreements, possibilities for facilitating the access of developing countries to the financial markets of industrialized countries, including the promotion of financially levered aid and means for improving developing countries' access to commercial bank funds have received attention.

Domestic aspects of industrial finance

Work in this area has taken place against the recognition that as important as external financing flows are by far the major source of finance for industry in the Third World has been and will continue to remain self-generated resources. To this end, four surveys are being prepared by the secretariat of the effectiveness of financial intermediary institutions, such as banks, in collecting domestic investible funds and channelling these funds to manufacturing enterprises. Two of these surveys offer a bird's eye view of domestic financing arrangements in Africa and Latin America, while the other two surveys review selected countries: India to which a complete survey has been devoted by virtue of her size and the sophistication of her financial system, and Bangladesh, Indonesia, Malaysia, Sri Lanka and Thailand. The surveys examine the source and type of financing and discuss the influence of the existing patterns, as well as gaps and deficiencies in the availability and channelling of finance to manufacturing enterprises. The central theme of each survey is financial intermediation between lender and borrower: the three main aspects of intermediation, namely the collection, transformation and allocation of finance, address the following questions: does the domestic financial system make the contribution it is capable of making? If so, what should be done to keep the system in good condition as developing countries undergo the profound structural changes that lies ahead of them? If not, how can it be brought into working order?

It is expected that these surveys can provide results which will have policy implications which would need to be examined by Governments of Third World countries. and also would serve as a conceptual framework against which UNIDO technical activities could be made more effective.

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PERMANENT ON-GOING SECRETARIAT ACTIVITIES

In the UNIDO secretariat, the Investment Co-operative Programme Branch (ICPB) is the organizational unit directly responsible for promoting private and public investment in industrial projects in developing countries as well as for the UNIDO input into the World Bank/UNIDO Co-operative Programme.

Accordingly, the Branch is functionally divided into two groups, namely, the Investment Promotion group and the World Bank group.

Investment promotion

In fulfilling the investment promotion mandate, the branch

''' performs the following general functions:

- . provides relevant information to prospective investors;
- . provides advisory services to project proponents, both on a country and specific project basis;
- . brings together investors and project proponents either directly through active presence in the marketplace, or indirectly through sponsorship of forums and large meetings for this purpose.

''' and engages in the following activities on an established and regular basis:

- . maintenance of Industrial Promotion Services - an innovation whereby by the end of 1981, seven of these Services were in full operation at Brussels, Cologne, New York, Paris, Tokyo, Vienna and Zurich. New Services are under consideration in Australia, Italy, the Scandinavian countries and a second Service in the United States. Extension of the Services to some advanced developing countries is also under consideration.

These Services organize country presentation meetings (41 in 1981) and provide investment promotion training through apprenticeship arrangements and through the sponsorship of occasional orientation programmes.

- . sponsorship of Investment Promotion Meetings - these meetings have gained considerable popularity but are somewhat costly. They are usually held at the request of particular governments or group of governments which make a contribution towards them in cash or in kind.

There are two types of Industrial Promotion Meetings which the branch organizes. First, those arranged in either an industrialized

or developing country for the benefit of a single developing country, a region or a group of developing countries, and second, those which are organized to promote industrial projects proposed by developing countries in a specific industrial sector.

In 1981, two Investment Promotion Meetings were held, one in Sri Lanka and another for a group of Arab countries in the Gulf region.

. Promotion Tools in order to carry out its task, ICPB issues five publications which have become known as Promotion Tools. These Tools are designed to assist the investment promotion process through the dissemination of information and are intended for use both by potential partners in industrialized countries and by project promoters and sponsors in developing countries.

The five Tools now in publication are: "Industrial Investment Project Proposals", "Industrial Investment Profiles", "Financial Resources for Industrial Projects in Developing Countries", "Roster of Resources" and "Manufacturing Ideas"

Co-operation with the World Bank Group

The World Bank/UNIDO Co-operative Programme which began in 1973 is modelled after similar programme instituted by the Bank with other United Nations bodies. It is financed 75% by the World Bank and 25% by UNIDO. Its overlying aim is to draw upon the respective strength of the two organizations for the purpose of identifying and preparing projects in the developing countries. The Bank is seeking to extend financial assistance to certain industrial areas in which UNIDO has special expertise; examples are small-scale industry and the building materials industry.

Through the Co-operative Programme, UNIDO and the World Bank are jointly contributing to the industrialization process in various developing countries. Its field missions and special studies normally constitute the earliest stage in identifying industry related activities requiring technical and financial assistance. The work is organized in several ways. The programme dispatches its own missions, composed of UNIDO staff members and consultants to carry out specific tasks in developing countries. These missions, the terms of reference of which are provided by the World Bank, are usually composed of three or four team members who spend three to four weeks in the field. In 1981,

for example, seven operational missions were carried out under this programme; seven other missions were carried out as a part of the World Bank's activities and four more were undertaken at the request of other UNIDO units. 16 Developing Countries were covered by the 18 missions, all of which resulted from requests made by governments of the developing countries concerned.

The Co-operative Programme also brings work done by other divisions of UNIDO to the attention of the World Bank Group for possible financing. In other words, the World Bank approves loans for projects for which the Co-operative Programme has done preparatory work.

Other Activities

In addition to the two principal function groupings described above, ICPB also maintains its own network of contacts with financial and business communities, mainly through the personal efforts of individual staff members. While formally organized efforts have not been launched so far, the branch has been undertaking to a limited degree, activities relating to the mobilization of financial resources for industrial development.

