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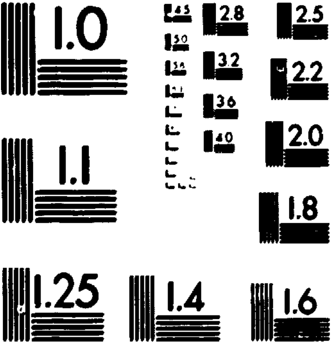

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13961

SYMPOSIUM

über

FINANZIERUNG VON INDUSTRIEPROJEKTEN IN ENTWICKLUNGSLÄNDERN

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SYMPOSIUM

über

FINANZIERUNG VON INDUSTRIEPROJEKTEN IN ENTWICKLUNGSLÄNDERN

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FINANZIERUNG VON INDUSTRIEPROJEKTEN IN ENTWICKLUNGSLÄNDERN

In einem vom UNIDO Investment Promotion Service (IPS) gemeinsam mit der Bundeswirtschaftskammer veranstalteten Symposium wurde von Experten aus österreichischen und internationalen Organisationen auf zum Teil wenig bekannte Projektfinanzierungsmöglichkeiten hingewiesen.

Ziel des Symposiums war es, einen Überblick über konkrete internationale, regionale und bilaterale Möglichkeiten der Kredit- und Risikokapitalfinanzierung für Investitionsprojekte in Entwicklungsländern zu geben und die Vorgangsweisen bei der Ausnützung dieser Möglichkeiten in der Praxis zu erörtern. Hierbei wurden insbesondere auch verschiedenste Arten von Co-Finanzierungen etwa mit Hilfe von internationalen, kommerziellen und Exportkrediten und Institutionen ölexportierender Länder, sowie durch lokale Industrieentwicklungsbanken diskutiert.

Angesichts der in jüngster Zeit zunehmenden Probleme bei der Inanspruchnahme des traditionellen Exportkreditinstrumentariums kommt diesem Thema gerade jetzt besondere Aktualität zu.

* Dr. Paul F. Knotter, Head
UNIDO Investment Promotion Service
Vienna Office

INTRODUCTION

Financing of industrial projects in developing countries is a subject of increasing importance, not only to official and private project sponsors in developing countries, but also to industrialists and bankers in industrialized countries like Austria. There are many reasons that can be quoted in support of this statement. I will mention only a few of them.

There is without any doubt a strong business justification for many industrial companies in countries like Austria to seek additional business in developing countries. Despite their many problems, the economies of the developing countries have been growing more rapidly than the economies of the industrialized countries during the last decade. The rapid population increase and the large unsatisfied demand even for many basic industrial products in these countries should ensure a large demand for many industrial goods in the foreseeable future. One must not forget 75 % of the population -> 80 % by year 2000 will live in Developing Countries According to a recent study by an Austrian economic research institute, of 19 developing countries that accounted for only 4 % of Austrian exports in 1979, industrialized exports to these countries could have been increased quite easily by one third. One of the conditions for this increase, however, would have been a greater willingness to enter into longer-term industrial co-operations.

Adequate financing was another limiting factor in many instances. There is another indication that Austrian exports, especially of industrial goods, should still have ample room for further expansion. While Austria has a 1.5 % share in total world exports, its share of exports to developing countries is only one third i.e. 0.5 %. Finally, only 13 % of total Austrian exports go to developing countries, compared with a much higher 23 % share in a comparable industrialized country, Switzerland. Compared with other industrialized countries, contributions by Austrian firms to projects financed by international development banks leave much room for improvement, partly because of insufficient knowledge of the opportunities offered by these institutions and the procedures followed by them. In addition, there are many lesser-known financing possibilities offered by inter-

* Mr. Knotter has meanwhile returned to the World Bank where he assumed the post of Programme Co-ordinator for the West Africa region.

national institutions (like credit lines to development banks) and financing through Arab and Islamic banking institutions that can be an important source of funds even for rather small industrial projects.

Very important changes have also occurred in the overall pattern of financing for industrial projects in developing countries in recent years. Traditionally, commercial bank loans and export financing have been the most important funding sources for developing countries. For industrial projects the relative importance of these two financing sources has been even higher, since industrial investments usually generate sufficient revenue and are therefore the more attractive investment for external financing. Over the past ten years, however, export financing has lost its relative importance, dropping from 35.6 % of the total disbursed debt of developing countries in 1971 to 28.4 % in 1981. Bilateral and multilateral development assistance also fell sharply during this period (from 37.4 % to 22.5 %), while lending from multilateral institutions, several of which are represented at this symposium, has maintained about a 7.5 % share. While commercial banks have provided the overwhelming part of external funds for developing countries in recent years, this trend may not continue. Many commercial banks have reached or are close to their lending limits for many developing countries and the debt servicing capacity of many of these countries has deteriorated sharply in recent years. In any case, a large portion of commercial bank lending has gone to only a few large developing countries like Brazil, Mexico, Korea, the Philippines, and Argentina, and has not solved the financial problems of many smaller LDCs. To cope with this situation, international banks have become increasingly active in helping to provide additional funding through co-financing mechanisms with other financing institutions. The sharply rising importance of financing for projects in developing countries by Arab financial institutions and funds and banks following Islamic banking principles has also added a new element.

Another factor that makes the aspect of financing for industrial projects even more crucial has been the sharply increasing investment cost. This is partly due to the generally larger size and technical complexity of industrial projects as well as to the impact of inflation on the cost of industrial equipment, which has tended to rise faster than the general level of inflation in many countries. These increased capital cost requirements often have not been matched by a parallel increase in available project funds in developing countries and from the industrialized countries. As a result, nowadays virtually all large industrial projects and many of the medium-sized and even smaller ones require a combination of financial resources in order to obtain the necessary financing volume, an appropriate mix of credit terms, limited exposure of individual lenders on project and country grounds, and a sufficient equity capital base that frequently requires a substantial capital contribution by the foreign partners in the project.

In our activity in the UNIDO Investment Promotion Service we have frequently been confronted by interested parties from Austria and Least Developed Countries with the question of how to put together a satisfactory financial package for an industrial project in a developing country. The implementation of promising projects is often hampered by lack of equity capital or even loan financing, particularly in countries that have at present difficulties in obtaining financing for one specific project from several financial institutions often located in several countries required, however, a considerable degree of experience and expertise. We have been fortunate, therefore, to convene at this conference a series of high-level experts from important international development, Islamic banking and export credit institutions, and I would like to express my gratitude that they were willing to come to participate in this symposium from far away.

Dr. Abayubá Morey Rolando
Deputy Manager for Operations - Region II
Inter-American Development Bank, Washington

INTER-AMERICAN DEVELOPMENT BANK - INTERNATIONAL INDUSTRIAL FINANCING - POLICIES AND PROCEDURES

It is a particular pleasure for me to participate in this important symposium on the subject of financing of industrial projects and to have the opportunity to address such a distinguished audience.

My colleague Julio Heurtematte has outlined for you the main policy criteria of the Bank in its financing of industrial projects. Let me now make some comments about our co-financing schemes and their application to the industrial sector.

In addition to the capital resources of the Bank, and to funds under administration, we have succeeded in mobilizing a substantial volume of additional resources through various types of co-financing operations. The term "Co-financing" applies generally to instances where the Bank not only contributes its own resources for project financing, but also arranges for participation from other sources of funding such as: international financing institutions, government agencies responsible for official development assistance, national export credit and insurance institutions, and private sources like banks and institutional investors. The participation of other sources may be obtained through joint financing, parallel financing, supplier credit and complementary financing.

Among these co-financing schemes, export credit and complementary financing have proved suitable for industrial project financing and have been generally applied by the Bank.

In export credit co-financing, the Bank's role is generally limited to providing the borrower with guidance and assistance, as requested. The borrower is responsible for negotiating such credits, the terms and conditions of which are regulated by international agreements. Notwithstanding, the Bank has taken a very flexible approach in dealing with its borrowers and it often will agree to undertake to organize a "package" of buyer credits from all the important exporting countries; or to simply assist the borrowing institution in its negotiations with national export financing agencies. When the Bank considers the financing of large projects in the industrial or economic infrastructure sectors, main consideration is given to the possibility that certain items within the total cost of the project, generally equipment, could be suitable and attractive for supplier or buyer credit arrangements. When that is the case, the Bank tends to concentrate its own loan resources in other project items, most frequently civil works.

These programs are funded by official sources of aid and include an element of subsidy which to a certain degree is reflected in terms and conditions, which are often critical for some project's viability. Although export credits are linked to the procurement of certain goods and services from a particular country, they have been a very important element in the financial plan of many industrial projects funded with IDB resources.

About our complementary financing program, I should like to emphasize that its conception was a major step forward in the co-financing schemes in operation among international institutions. The program was designed not only to increase the Bank's lending capacity, but also, based on a careful and complete evaluation of the feasibility of the project, to reduce the risk factor in credit operations, thus improving the financial terms and conditions available to the Bank's borrowers from commercial sources. The program was instituted after a careful and comprehensive evaluation of the systems prevailing in the financial markets and we believe that this scheme has enabled the IDB to further its association with private financial institutions for the purpose of financing development projects.

Under this system, the Bank grants two loans from its own resources for the same project; one is the traditional type loan from the ordinary capital; the second, the sale of which has been negotiated in advance with a bank or group of private banks, is absorbed by that group pursuant to a contract between the IDB and the borrower. This complementary credit receives the same guarantees from the borrowing country. The customary feasibility analysis is conducted. In addition, the Bank acts as the disbursement and collection agent, supervises the execution of works and administers both loans until they are fully disbursed. The conditions for these complementary loans are naturally not the same as those of the Bank; they are based on prevailing commercial terms and the repayment period reflects credit market conditions. The interest rates are subject to periodic adjustment, based on such benchmarks as the London Interbank Offering Rate (LIBOR).

Many factors have inf.. nced the increased necessity of Latin America for this type of resources. The main one lies in the need of our member countries to maintain high growth rates to respond to the social and economic development requirements of the region. However, public and private savings in Latin America were and will not be enough to attain these growth targets.

To continue the developmen process at a satisfactory pace, taking into account population growth, complementary financing schemes will assume even greater importance in the future, as amounts of financing being channeled to the region will increase, releasing thereby pressure on public international institution resources to be directed to those objectives where concessionary terms are clearly required. That is to say: social projects and support to lesser developed countries. Projects in the productive sectors especially industry and mining and in economic infrastructure, will have to bear increasingly the market conditions prevailing in the international financial community.

Throughout our experience with complementary financing, we have been able to obtain better terms and conditions than those that our borrowers could have obtained without our advice had they sought direct relationship with commercial banks. And those borrowers have found that this has been possible thanks to two key elements: our complete and objective evaluation of the merits of the project and the IDB prestige in the financial markets. This confidence in the advisory role of the Bank is more important in cases in which the level of development of the country and its institutions have not afforded them enough experience dealing with commercial banks. We foresee increased participation of commercial financing in development projects and, as new borrowers seek financing in the financial community, they are going to rely more and more on the international financial institutions for this purpose.

This system represents also unquestionable advantages in the case of projects of a certain size whose financing needs exceed the Bank's possibilities. Complementary financing resources are additional to the Bank's direct lending, reducing thereby local counterpart requirements and can be used to finance any component of the project. This flexibility is especially advantageous for industrial projects, for: (a) they can be used to finance items our ordinary capital resources generally can not cover, such as working capital; (b) they are not subjected to international competition through procedures previously agreed upon with the Bank, as our own resources are; and (c) their use is not limited to the area of the member countries of the Bank. This flexibility has made possible their utilization not only for specific projects but also, and increasingly, in our global industrial loans.

In this program the Bank acts as a financial and technical advisor in the selection of participating banks, it prepared the information to be given to these institutions and then assists in the evaluation of offers presented by these banks. On the other hand, the IDB is also able to foster the interests of the commercial banks, given the knowledge we have of the borrowing country, the sector and the agencies involved, these actions help to obtain the best possible terms and conditions for this specific project that the borrower may hope to obtain at the moment of presenting the project to the market, under the conditions prevailing in the international financial community.

An additional benefit accrues to the commercial banks invited to participate in financing through the complete appraisal of the project carried out by the Bank, thus facilitating their decision to participate in its financing. In this way they can consider not only the country risk aspect but also the viability of the specific project and its possibilities to generate the financial resources necessary to assure timely repayment of the loan. In this way the objectives of both the commercial banks and the development banks are common.

In summary we feel that the attractive features of this program which lead borrowers to seek our participation in dealing on a project basis with commercial banks are: (1) the institutional support given by the Bank which enhances the success of the project and the future access of the borrower to international capital markets; (2) the degree of confidence our appraisal affords the borrower and the international banks based on the thorough knowledge we have of the country, the particular sector involved, the executing agency and the project itself; and (3) the technical capability which the Bank has acquired in such areas as financing, economic evaluation, institutional analysis, and marketing opportunities, among others, attained through the appraisal of more than one thousand projects in Latin America.

Now, however, the Bank is prepared to offer a new dimension to the services we are able to render our member countries, expanding our collaboration from offering financial support for specific projects, to other technical and commercial areas that are essential for the success of a project. Indeed, we are in the process of implementing a new program for channeling additonal external resources, to Latin America, be they financial, technical or commercial mainly to the industrial and mining sectors in an effort to find new ways to collaborate with the private sector to meet the challenge of development in the region during the decade of the 80's.

The major objectives and procedures that I will briefly summarize for you are the result of a conscious effort to facilitate direct access of Latin American entrepreneurs to the international commercial banking community, to providers of advanced technologies needed in the region, to marketing channels and other services that are indispensable for a given project, or to facilitate arrangements between Latin American companies and the developed world. This is not a co-financing scheme per se, because the Bank will provide basically the services involved in appraisal of the project and will serve as an advisor of the entrepreneur to negotiate the financing and the services needed.

The successful presentation of a project in the international financial community is more reliable when the interested parties have available an impartial appraisal of the project and know that a competent technical support will be available during the project's execution.

These are the main reasons behind the Bank's initiative in creating the scheme called "additional external resources program", designed to assist the promotors of selected projects to attract possible providers of financing including equity; technical development of the project, and product marketing, especially in cases where the participation of foreign companies or capital are called for.

The Bank's functions under such a program are mainly that of co-ordination, providing services to Latin American countries and to the international financial community. These new responsibilities will permit the Bank to increase its ability to meet the ever-increased demands of Latin America development. This is especially important for those countries where the private sector is more highly developed or for those in which the projects selected have potential to compete in world markets. At the same time the scheme will provide new channels of communication between the Latin America private sector and international private financial community.

The operations under consideration will not necessarily be tied to bank's lending from its own resources. Basically the importance of this service is to prepare a detailed technical, economic, financial and legal appraisal enabling the entrepreneur to structure the project in such a way as make it most attractive to providers of foreign capital and technology, and therefore to improve its economic return.

In this program the entrepreneur is free to choose the bank or banks through which he believes he will obtain financing on the best possible terms. The IDB will advise on this matter, indicating as appropriate, other possible alternatives. Once we receive a mandate from a project promotor, we proceed to appraise the project and to help him obtain the services necessary for its successful execution on the best available conditions. After the appraisal an information memorandum with a detailed description of the project requirements is prepared and then provided to interested parties for them to prepare and submit their offers. Any final decision is taken by the borrower with the advice of the Bank.

At the moment the Bank has under consideration several projects in which this program has been considered. There are several countries especially in the Andean region, that have presented to the Bank projects in the mining and industrial sector, and we are confident that we will be able in a very short time to bring forward these projects for the consideration of the international community.

Julio E. Heurtematte, Jr.
Deputy Manager for Project Analysis
Inter-American Development Bank,
Washington

THE INTER-AMERICAN DEVELOPMENT BANK'S SUPPORT TO LATIN AMERICA'S INDUSTRIAL SECTOR

1. Introduction

The Inter-American Development Bank is an international financial institution, established in 1959 to help accelerate the economic and social development process of its Latin American member countries. The Bank Headquarters are located in Washington, D.C.

At present, the Bank has 43 members and is the principal source of external public financing for most of the countries of Latin America. By the end of 1981, the cumulative total of the Bank's lending and technical co-operation programs exceeded 20 billion dollars.

The Bank also serves as a catalyst in mobilizing external public and private capital for Latin American development, by obtaining loans in international capital markets and promoting co-financing operations with other financial institutions for development projects.

The Bank has various sources of funding for technical co-operation and loan operations. The principal source consists of the subscriptions and paid-in contributions from its member countries, the amounts of which are increased at periodic intervals. Another source is represented by the capital markets to which the Bank recurs through bond issues and other fund-raising arrangements. The Bank also administers a number of trust funds for various countries, as well as the resources from loan amortization payments.

Of the Bank's 43 member countries, twenty-seven of them - the regional members - are in the Western hemisphere and the other sixteen - the nonregional members - are in Europe, Asia and the Middle East. The latter group joined the Bank starting in July 1976.

The admission of nonregional countries has not altered the provisions of the agreement establishing the Bank, which ensure that the group of Latin American countries will retain their position as the institution's majority shareholders.

The Bank works closely with Latin American governments to achieve balanced economic and social development. Thus far, about 35 % of the Bank's resources have been channeled to the financing of projects designed to increase agricultural production and raise the standard of life in rural areas. Those projects include farm credit, irrigation, settlements, integrated rural development, fishery, rural drinking water supply systems, health and education facilities, the construction of access roads and roads between markets and production centers, rural electrification and communications programs. Not only individuals, but also co-operatives and other rural associations as well as entire communities benefit from those projects.

Another 18 % goes to social projects to benefit urban areas, particularly the low-income population. The projects financed here include water supply and sewerage systems, health facilities, housing and urban renewal, as well as centers for advanced, technical and vocational education.

The remaining 47 % is earmarked for the financing of energy projects, mainly hydroelectric plants; electric power transmission systems, gas pipelines, and industrial and mining projects, including the expansion and modernization of thousands of small and intermediate-scale private enterprises and such infrastructure works as highways, ports and communications systems. These investments are vitally important to the diversification and growth of the economies of the Latin American countries and social integration of their population.

During its twenty-one years of activity in the industrial field in Latin America, the Bank's action has developed mainly along five lines: (1) direct loans, (2) global loans, (3) technical assistance for preinvestment and institutional support, (4) support to technology research, and (5) loans for exports of manufactured goods.

The industrial sector in the Latin countries is supported primarily by private sector forces, except in the case of large-scale projects in which the governments participate as well.

In both these instances, the Bank co-operates to the best of its ability, using the lines of action cited to identify, prepare, finance and execute projects with a favorable impact on the economies of the countries involved. In the following paragraphs, we shall review those lines of action, adding a brief reference to certain relatively new mechanisms that the Bank has adopted or is about to adopt as a means of increasing its co-operation in this sector.

2. Past Experience

Financing Through Development Loans

From the time it was founded up to and including 1981, the Bank has granted 219 loans to the industrial sector, amounting to nearly US$ 3 billion to finance projects representing an aggregate cost of more than US$ 20 billion. Thus, the industrial sector has accounted for 15 % of both the number and amount of the loans. But if we take into account the overall cost of these projects, the industrial sector programs in which the Bank has participated represent more than 30 % of the total amount. This is indicative of the large extent to which financial resources from sources other than the Bank have been mobilized on behalf of this sector.

For reasons of a practical nature, the Bank only considers the direct financing of projects in excess of a certain amount, which varies according to the country but is rarely less than about US$ 5 million at present. When smaller amounts are needed, financing is channeled by the IDB through local and regional development banks which in turn grant credit to medium and small-scale industrial enterprises.

The Bank has financed direct loans totaling US$ 1.8 billion in the industrial sector. These loans went to both public and private industry operating in the various subsectors, but primarily in the fields of steel, petrochemicals, iron, copper and coal mining, cement, pulp and paper and, to a lesser degree, refineries, sawmills and the like. In other words, financing in the form of direct loans tends to support basic industry and large-scale projects.

In most cases, the size of the project has allowed the Bank to underwrite a portion of a financial package together with a combination of national public and private sector efforts. However, particularly during the seventies, the progress made by regional countries and the growing cost of industrial project investments led the Bank to seek alternatives that would allow financing to keep pace with spiraling costs, which in many cases topped the billion dollar mark.

In the face of this problem and given the limitations on the Bank's resources, it was essential to seek parallel financing whereby other international sources would participate in the same projects: the World Bank, for example, joined the IDB in co-financing numerous projects. In such instances, the joint participation of the two Banks attracted support on favorable terms from other sources of financing. In this way, relatively small contributions from the Bank constitute effective co-operation in the execution of large-scale projects. They act as a catalyst to attract financing and technological inputs for this purpose. In recent years, the Bank has developed new co-financing modalities which will be described by my colleague Mr. Morey.

If the Bank had limited its action to financing large industrial projects, it would have neglected the great majority of projects - those of intermediate and small scope, primarily funded by private enterprise. Happily, this was not the case and in its very first year of operation, the Bank started to grant lines of credit to national and regional development institutions to finance to meet this demand. These in turn used those resources, together with their own funds and financing from other sources, to grant some 11,500 loans by 1981 for the expansion, installation or modernization of industrial companies, practically all of them in the private sector.

The global industrial loans granted by the Bank through 1981 amounted to a total of about US$ 1.2 billion. Various types of mechanisms have been used. In some cases the intermediary financial institutions lend directly to the end beneficiaries. In others, a rediscount mechanism in the Central Bank is used, with the participation of qualified national financial institutions.

It should be stressed that, as a development bank, the IDB enters into a commitment with all its member countries to ensure that the industrial projects in finances are efficiently executed and contribute to the economic development of the borrower country. In the case of direct loans, the Bank analyses each project, determining its technical, financial and economic feasibility. In the case of global loans, the Bank delegates the task of analysing these projects to the national institutions. To this end, those institutions submit evidence to the Bank that they have the necessary ability to shoulder that responsibility; and, should additional capacity be needed in this respect, the Bank itself can provide assistance in the form of training courses or technical co-operation for institutional strengthening, if requested.

3. Technical Co-operation and Preinvestment

Efficient implementation of the industrial development process is based on the creation and expansion of good projects. That process must necessarily have the input of preliminary activity in the form of identification opportunities; the search for and quantification of natural resources; determination of possible markets for the products; selection of the most economic locations and the technologies most appropriate to the project and to local conditions; existence of the necessary physical infrastructure; organization, first for execution and later for operation; human resources and needs for education and training, and the like. The Bank would be hard put to enlist support for industrial development if it were to neglect such activities, which are an essential prerequisite for every project. To this end, the agreement establishing the Bank provided for the possibility of extending co-operation and technical advisory services in the tasks of economic planning, and studies and specific projects. As a result, the Bank grants financial resources to conduct basic and general studies as well as prefeasibility and feasibility studies and final designs for specific projects. Depending on the particular circumstances and the sector and country in question, the Bank's co-operation takes different forms. In the case of the less developed countries, financing may be either nonreimbursable, or on a contingency recovery basis in case the project is carried out. In other instances, operations are reimbursable. The latter category encompasses the global preinvestment loans which the Bank grants directly or through national and also regional institutions, usually by setting up special funds. Elegible studies cover various economic sectors and infrastructure. By the end of 1981, the Bank had granted 56 preinvestment loans amounting to

US$ 300 million to help finance some 2,000 studies.

In the industrial sector, technical co-operation has centered mainly on support to institutional strengthening of development institutions, the preparation of industrial projects and research on new technologies.

Because of the limited time, I have attempted to avoid the details concerning the Bank that have been made available to you in the brochures that have been distributed for this symposium. There are, however, a few items that are of particular interest, that are not included in these brochures.

First, concerning the Bank's lending rates. At the present time, for industrial projects the Bank charges 10.5 % interest, 1.25 credit fee on undisbursed balance, provides adequate grace periods predicated on the execution time of the project and an amortization period of up to 18 years. In the case of our lines of credit to regional and national institutions, our lending rate to those institutions would be virtually the same, except the amortization periods might be extended. Normally these funds are relent at the ongoing local market rates and carry appropriate grace periods and amortization periods consistent with the project needs. It is the Bank's policy to encourage that the national institutions charge positive interest rates. This is done because of the Bank's special emphasis in trying to establish viable financial institutions that can provide industrial credits in its member countries on a continuing basis.

The Bank denominates its loans in U.S. dollars or the equivalent in other currencies which are part of its resources. In the case of national currency of the borrowing country, disbursements and repayments are made in the equivalent of U.S. dollars at the time of the transactions.

In the case of foreign exchange, the Bank has been disbursing these currencies in the equivalent of dollars at the time of the transaction: the actual currencies are determined according to the Bank availabilities at that point of time.

Traditionally the borrowers have had to repay the loans in the amounts and currencies disbursed. This has caused at times important variations in the exchange risk assumed by the borrowers. As of 1 July, the Bank will switch over to a system that is designed to balance the exchange risk of the borrowers by denominating disbursements and repayments in units of account determined by the weighting of the convertible currency holdings of the Bank.

Bernard Snoy
Financial Counsellor
The World Bank, European Office

WORLD BANK FINANCING OF INDUSTRIAL PROJECTS IN DEVELOPING COUNTRIES

1. In this short presentation I would like to concentrate on three essential questions, which have a practical interest for the Austrian business and financial community:

a. What are the specific characteristics of World Bank lending facilities as opposed to those available from other financial sources such as commercial banks, export credit agencies and regional development banks (Inter-American Development Bank, Asian Development Bank, African Development Bank, etc.)?

b. What kind of industrial projects does the World Bank finance and through what channels?

c. What is the purpose of the World Bank co-financing program? What interest does it present for Austrian Banks?

A. General Characteristics of World Bank lending

2. The three most important characteristics that differentiate World Bank lending from other sources of finance are the following:

a. The World Bank Group is the most important source of long-term funds at terms that are not available elsewhere in the international capital market; the degree of concessionality and the kind of guarantees are, however, different for the three institutions in the World Bank Group, namely the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC).

b. The World Bank is a development-oriented institution aimed at financing only economically and financially viable investment projects in developing countries;

c. The World Bank is a multilateral institution with procurement policies designed to ensure both efficiency and equal opportunity for firms of all member countries.

Scope and terms of lending

3. The IBRD was created in 1944; it is owned by the governments of 144 countries. In addition to its paid-in capital and reserves, the IBRD relies primarily on the international private capital markets for its funding. Because of its exceptionally strong financial structure and prime credit standing, the World Bank is able to make long-term loans at conditions that are not normally available in the international capital markets: IBRD loans are repayable over 15 to 20 years and have generally a grace period of 3 to 5 years. The rate of interest is determined by a guideline that provides for a spread of 0.5 percent above the cost of a pool of borrowings. Currently the interest rate stands at 11.43 percent since July 1, 1980, for loans that comprise a cocktail of currencies. Each loan must be guaranteed by the Government concerned. The IBRD committed US$ 8.8 billion in Fiscal Year in 1981 in 140 loans to 50 countries. Disbursements on IBRD loans were $ 5.1 billion in the same year. To give you a point of comparison with other major international financial institutions making loans at near-commercial terms to developing countries, the EIB committed in 1981 ECU 487 million for Mediterranean and ACP countries. Excluding special concessional funds, the 1981 commitments of the Inter-American Development Bank (IDB) were about $ 1.9 billion, and those of the Asian Development Bank (ADB) $ 1.1 billion.

4. The International Development Association (IDA) was established in 1960 to provide assistance primarily to the poorer developing countries on terms that would bear less heavily on their balance of payments than IBRD loans. IDA's assistance is, therefore, concentrated on the very poor countries — mainly those with an annual per capita GNP of $ 625 or less (in 1978 dollars). More than 50 countries are eligible under this criterion. In practice over 80 percent of IDA lending goes to countries with an annual per capita GNP of less than $ 360. Membership in IDA is open to all members of the IBRD, and 125 of them have joined. The funds lent by IDA come mostly in the form of contributions from its richer member countries, although the number of developing countries contributing to IDA has increased notably in recent years. Part of IDA's resources come in the form of transfers from the net earnings of the IBRD. IDA credits are made only to Governments. They have to be repaid in 50 years, including a grace period of 10 years. They carry no interest, but an annual service fee is charged on the entire credit, of 0.75 percent on the disbursed portion and of 0.50 percent on the undisbursed portion. Although IDA is legally and financially distinct from the Bank, it is administered by the same staff. IDA committed US$ 3.5 billion in Fiscal Year 1981 in 106 credits to 40 countries. Disbursements on IDA credits were $ 1.9 billion in the same year.

5. The International Finance Corporation (IFC) was established in 1956 to promote the growth of productive private investment and to assist enterprises which will contribute to the economic development of its developing member countries. The capital resources of IFC are provided by its 119 member countries, 98 of which are developing. IFC does not borrow from capital markets but only from the IBRD. IFC is one of the few international organizations which can make both equity investments and long-term loans without government guarantees. In all its activities, IFC works to raise investor confidence. In addition to providing financial and technical assistance, the IFC may, as an international institution, help facilitate the process by which investors — both foreign and national — and governments can arrive at mutually satisfactory agreements. The IFC seeks to encourage the flow of private capital through the establishment or expansion of local capital markets and financial institutions. IFC committed $ 811 million in Fiscal Year 1981 in 56 investments in 34 countries. More details on IFC's activities and on its lending for industry are give by Mr. Pollan in a separate presentation.

The World Bank as a development-oriented institution

6. According to their charters, the World Bank and IDA can lend only for productive purposes. Except in special circumstances IBRD loans and IDA credits must be for specific investment projects. The basic consideration the IBRD and IDA take into account in making loans or credits is not the collaterals offered by the borrower but the quality of the project and its projected cash-flow. The World Bank insistence on the quality of the projects explains why the World Bank appears often very slow in making decision and why it may sometimes take several years between the time a project is identified and the time a World Bank loan is signed. Indeed projects have to be carefully prepared on the basis of feasibility studies for which the World Bank often establishes terms of reference. Before a loan or a credit can be negotiated, the project is appraised by a multi-disciplinary team of World Bank experts who look at the project from all angles: technical, commercial, institutional, financial and economic.

7. Whether large or small, every project financed by the Bank is considered in the light of the country's total needs, capabilities and policies. The project must not only be viable but it must command a clear priority on other projects. It must have not only a satisfactory internal financial rate of return (i.f.r.r.) but also a satisfactory internal economic rate of return (i.e.r.r.). As you know distortions in the markets of developing countries often result in market prices for inputs or outputs that do not accurately reflect the true scarcity prices of inputs of the international price of outputs. Shadow prices have to be substituted for market prices in cash-flow projections to establish if the project also meets the test of the i.e.r.r.

8. Special attention is also given by the World Bank to the projects' institutional aspects. A key word in the World Bank jargon is "institution building", by which we mean that we aim at creating financially self-supporting institutions with sound operational and training policies capable of implementing investment plans and of managing the project.

9. Reflecting the World Bank's development orientation the Loan Agreements concluded between the World Bank and the borrower, as well as the Guarantee Agreements concluded between the World Bank and the Governments, include covenants which are almost never found in the agreements concluded by commercial banks with the same borrowers or guarantors. These covenants relate to matters such as the maintenance of specific financial ratios, the pricing policy, rationalization of investment decisions, training, the undertaking of crucial studies in view of restructuring or improved marketing, etc.

10. The development orientation of the World Bank is also translated in the sectoral orientation of its operations. Until 1968, two-thirds of the assistance provided by the Bank was for electric power and transportation projects. Although such infrastructure projects continue to play a critically important role in building essential elements for economic growth in many developing countries, the Bank has diversified its activities in the past 15 years. It has broadened the scope of its work beyond the "traditional" sectors as it has gained experience, increased its financial resources and acquired new insights into the nature of the development process. The Bank is now giving particular attention to projects that can directly benefit the poorest people in developing countries by helping them to raise their productivity and to gain access to such services as safe water, family planning, nutrition, education, housing and health care. The direct involvement of the poorest in economic activity is being promoted through increased lending for agriculture and rural development (a sector that now receives more assistance than any other), small-scale enterprises and urban development.

Procurement of Goods and Works

11. The responsibility for the award and administration of contracts under World Bank financed projects rests with the borrower, but the Bank is required by its Articles of Agreement to ensure that the proceeds of its loans are used with attention to economy and efficiency. So it reviews the borrower's

procurement methods and actions. Although the specific procurement procedures to be followed in implementing a project vary, the Bank as a multilateral institution is committed to giving qualified firms in all its member countries, developed and developing, plus Switzerland — which although not a member opens its capital market for World Bank's borrowings — an equal opportunity to compete in providing the goods and works it finances. The Bank is also interested as a development institution, in encouraging the development of local contractors and manufacturers in the borrowing country.

12. The Bank has found that in most cases — not all cases — these needs of efficiency and equal opportunity can be best realized through international competitive bidding, with allowance for preferences for local, and in some cases, regional manufacturers, and where appropriate, for local contractors under prescribed conditions. The procedures for i.c.b. and the preferences for local manufacturers and contractors are described in the brochure "Guidelines for procurement under World Bank financed projects" which has been distributed to participants of the symposium.

13. The World Bank recognizes, however, that in some circumstances international competitive bidding is not the most economic and efficient method of procurement. In these cases, the Bank and the Borrower agree upon other appropriate arrangements, such as competitive bidding in accordance with local procurement procedures, direct purchase, international shopping or following established commercial practices.

14. Manufacturers and contractors in the borrower's country are encouraged to participate in the procurement. They may bid independently or in joint ventures with foreign manufacturers or contractors. The Bank, however, does not approve conditions of bid invitation which would compel foreign firms to enter into joint ventures with local firms.

15. General information on specific projects which are being studied for a possible IBRD loan or IDA credit, is provided in the World Bank's Monthly Operational Summary, which is free of charge to subscribers of the Development Forum, Business Edition, published in Geneva by the United Nations[1/]. Where there are goods and works to be procured by international competitive bidding, these are advertised as "General Procurement Notices" also in Development Forum, Business Edition. I recommend to Austrian enterprises interested in obtaining

1/Subscriptions Department, United Nations, CH 1211 Geneva 10, Switzerland contracts under prospective IBRD or IDA financed projects to get in touch with the borrower as early as possible in the project cycle, so as to be well prepared at the time when competitive bids are being sought.

B. Scope and forms of World Bank Lending for Industrial Projects

16. Lending by the IBRD and IDA for industrial projects represents large amounts of money and a significant proportion of total commitments. As detailed in Annex I, cumulative lending for industrial projects by the IBRD through the end of 1981 reached about $ 13.0 billion, i.e. 18 percent of total commitments, cumulative lending by IDA for similar projects was $ 1.6 billion, i.e. 6 percent of total commitments. Comparable figures for commitments in fiscal year 1981 are $ 1,518 million for IBRD and $ 480 million for IDA. World Bank lending for industry has taken essentially two forms: (i) direct lending to major industrial companies — mostly public enterprises — in support of large scale projects, and (ii) lines of credit to Development Finance Companies making subloans to finance industrial investment projects of medium- and small-scale enterprises.

Direct Lending for Industry

17. The World Bank's direct lending for industry has been largely confined to assisting large scale undertakings in the basic industrial sectors such as steel, cement, fertilizers, chemicals, textiles and mining — wherever the borrowing country has a competitive advantage. The projects financed have been sometimes export-oriented and sometimes for import substitution.

18. The largest share of direct industrial lending has been for fertilizer production and distribution projects, primarily to meet the increasing demand in developing countries. Since 1970, almost $ 1.8 billion has been lent for 34 fertilizer projects in 14 countries. In the past, the World Bank financed mostly new projects. For instance the IDA made in 1981 a $ 400 million credit to finance the construction of the Hazira fertilizer plant in Gujarat state in India that will produce 2,700 tons of ammonia and 4,400 tons of urea a day and is expected to generate more than $ 3.4 billion foreign exchange savings over the next twelve years from reduced imports of fertilizers. Two years earlier the Bank had made a $ 250 million loan to assist in the financing of another major project in India, the Thal fertilizer project, consisting in the construction of gas-based ammonia and urea plants. In recent years, as fertilizer industries in some countries have

become more mature, it has increased lending for rehabilitation, modernization and rationalization investments so that existing plants may improve productivity, capacity utilization and use energy more efficiently. This was the case in two recent loans to Turkey of US $ 110 million and US $ 44.1 million respectively made in 1981 and 1982 to finance rationalization plans of five important fertilizer companies. A loan of US $ 58 million was made in 1979 for the modernization of fertilizer plants of Quimica de Portugal. In each case these investments are to be supported by appropriate technical assistance and institutional improvements.

19. Chemical and synthetic fuels projects, particularly those designed to produce energy economically from domestic resources such as coal, natural gas and biomass, are becoming another important area for direct lending by the World Bank. It is now actively considering industry retrofitting projects in a number of countries to increase the energy efficiency of energy-intensive industries such as fertilizer, refineries, steel, cement, and pulp and paper.

20. In 1978, the Bank began to do more to develop both nonfuel minerals and energy minerals, such as coal and lignite. As the Bank expands its role in the field of mining and minerals processing, its direct lending for such projects, including small engineering loans, is likely to increase in countries that have rich mineral or coal resources, especially those in Africa and Latin America.

Development Finance Companies

21. Whereas assistance to large-scale industrial projects is provided directly through World Bank loans or IDA credits, support for medium- and small-scale productive enterprises — now running at more than $ 1 billion per year — is largely channelled through development finance companies (DFCs), both privately controlled and government owned. DFCs are financial institutions in borrowing countries whose major activity is to mobilize medium- and long-term resources to finance investment projects of productive enterprises. Most DFCs lend for manufacturing industry, though some also specialize in particular activities or sectors, such as agroindustries or tourism.

22. DFCs having obtained several lines of credit from the World Bank to finance manufacturing projects include the Industrial Credit and Investment Corporation of India, the Korean Development Bank, Morocco's Banque Nationale de Développement Economique, Portugal's Banco de Fomento Nacional, Turkey's Türkiye Sinaî Kalkinma Bankasi and Greece's National Investment Bank for Industrial Development. Closer to Austria, four banks in less developed republics or autonomous provinces of Yugoslavia were used to channel World Bank lending to Yugoslav

industrial enterprises; these banks are Privredna Banka Sarajevo, Investiciona Banka Titograd, Stopanska Banka Skopje and Kosovska Banka Pristina. Back in the 1950's when Austria was still borrowing from the World Bank, the Oesterreichische Investitionskredit Aktiengesellschaft was the DFC used by the World Bank to finance Austria's industrial recovery. A list of some of the DFCs having received World Bank assistance is in Annex 2.

23. Under the DFC system, IBRD or IDA funds are lent to the DFC, which in turns makes sub-loans to finance specific investment sub-projects appraised by the DFC on the basis of financial and economic viability criteria similar to those used by the World Bank itself. World Bank lending for DFCs also supports institutional building objectives and strenghtens the DFCs' ability to raise additional resources in the domestic and international capital markets.

24. In the past few years the Bank has sought to provide financial and technical assistance to enterprises smaller than the range served by most traditional DFCs. Small-scale enterprises are vital for ensuring balanced industrial growth, expanding employment, and forging links among the various subsectors of manufacturing activity in a country. They often generate more jobs per unit of investment than do large firms. They often also create substantial indirect employment, which helps the urban and non-farm rural poor.

25. While they account for a very important part of value-added and employment in the manufacturing sector of most developing countries, small-scale enterprises (generally defined as those with assets of less than $ 250,000) generally have poorer access to financial and technical institutional forms of assistance than do larger enterprises. In choosing intermediaries through which it could lend to these enterprises the World Bank looked not only to DFCs but also to a wider range of institutions such as commercial banks, investment companies, and cooperatives. In some cases, the World Bank used financing institutions established specifically to cater to the financial needs of very small enterprises, such as the Citizen National Bank of Korea.

26. The World Bank recognizes that the effective provision of finance to medium- and small-scale enterprises requires simpler criteria and more flexible procedures than those normally required for other World Bank financed projects. As far as procurement rules are concerned, simplified procedures such as international shopping or competitive bidding in accordance with local commercial practices are generally acceptable. Austrian firms interested in business opportunities under

sub-projects financed by the World Bank through DFCs or other intermediaries should be encouraged to establish regular contacts with these intermediaries.

C. Co-financing Program

27. When the World Bank makes a loan, it must assure itself that the necessary funds are unavailable from other sources on reasonable terms. The World Bank does not want to compete with anyone. It is the lender of last resort. At the same time, it tries to play a catalytic role in arranging co-financing with other sources of funds: official sources -- bilateral or multilateral -- at concessional terms, export credits assorted with interest subsidies and/or guarantees of export credit insurance institutions (such as Oesterreichische Kontrollbank), and loans from private financial institutions, primarily euro-credits arranged by syndicates of commercial banks.

28. A number of Austrian banks have already been active in this third category of co-financing operations. Girozentrale und Bank der Oesterreichischen Sparkassen was manager of a euro-credit for Romania's Investment Bank, co-financing with the World Bank the Danube-Black Sea Canal project. Austrian banks having participated in euro-credits for co-financing projects with the World Bank include Bank für Arbeit und Wirtschaft, Creditanstalt-Bankverein, Oesterreichische Länderbank, Zentralsparkasse und Kommerzialbank and Oesterreichische Volksbanken.

29. Co-financing with the World Bank affords to the participating banks not only access to information on the project and on the country's economic situation assembled by the World Bank, but also a moral guarantee that their funds will be used under World Bank supervision for an income generating investment proposition carrying a high economic rate of return. Because of the cross-default clause included in the World Bank loan agreement, the borrower knows that by defaulting on a commercial bank loan co-financing a World Bank project, he would jeopardize his overall relationship with the World Bank.

30. Industrial projects are particularly suitable for co-financing. In the 1973-81 period, 60 industrial projects directly financed by the World Bank attracted in total $ 4.1 billion in co-financing. World Bank support for DFCs also enabled a number of them to secure additional lines of credit from other sources. Co-financing of small- and medium-size industrial projects, through DFCs, is a formula that is likely to expand in the future.

31. About twice a year, the World Bank mails to commercial banks having expressed an interest lists of projects suitable for co-financing in the form of export credits or commercial loans. Commercial banks having identified projects of potential interest to them or to their industrial clients are invited to contact the prospective borrower directly. If additional project information is required, commercial banks may also contact the World Bank [1]. It should be noted, however, that it is the borrower who ultimately selects the financial institution with which he negotiates the terms and conditions of an export credit or a commercial bank loan and enters into a separate loan agreement with that financial institution.

32. The World Bank is presently studying new co-financing formulas that would strengthen the protection given to co-financing banks and increase the advantage of co-financing euro-credits for borrowers, particularly through longer maturities. Under one of the techniques being considered the World Bank would, in addition to making its ordinary loan to a developing country borrower, take a participation in a euro-credit co-financing for the same project. The World Bank participation could be concentrated on the later maturities.

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Annex I.

WORLD BANK LENDING FOR INDUSTRY

(amounts in US $ million)

	Fiscal Year 1981		Cumulative through 12/31/82	
	Amount	Percentage of total lending	Amount	Percentage of total lending
Direct Lending for Industrial projects				
IBRD	475.8	5.4	5,456.0	7.6
IDA	409.7	11.8	1,049.8	4.2
Lending to Development Finance Companies				
IBRD	1,042.0	11.8	7,492.9	10.5
IDA	70.5	2.0	524.3	2.1
Total				
IBRD	1,517.8	17.2	12,948.9	18.1
IDA	480.2	13.8	1,574.1	6.3

List of DFCs Associated with the World Bank

Country	Name	Acronym
Eastern & Western Africa		
Botswana	Botswana Development Corporation Ltd.	BDC
Ethiopia	Agricultural and Industrial Development Bank	AIDB
Ivory Coast	Banque Ivoirienne de Développement Industriel	BIDI
Ivory Coast	Crédit de la Côte d'Ivoire	CCI
Kenya	Industrial Development Bank	IDB
Liberia	The Liberian Bank for Development and Investment	LBDI
Mauritius	Development Bank of Mauritius	DBM
Nigeria	Nigerian Industrial Development Bank Ltd.	NIDB
Senegal	Société Financiere Sénégalaise pour le Développement Industriel et Touristique	SOFISEDIT
Sudan	Industrial Bank of Sudan	IBS
Tanzania	Tanzania Investment Bank	TIB
Zaire	Société Financière de Développement	SOFIDE
Regional		
	East African Development Bank	EADB
	SIFIDA Investment Co. S.A.	SIFIDA
East Asia & Pacific		
China, Rep. of	China Development Corporation	CDC
Indonesia	Bank Pembangunan Indonesia	BAPINDO
Indonesia	P.T. Private Development Finance Company of Indonesia	PDFCI
Korea, Rep. of	Korea Development Bank	KDB
Korea, Rep. of	Korea Development Finance Corporation	KDFC
Malaysia	Malaysian Industrial Development Finance Berhad	MIDF
Philippines	Development Bank of the Philippines	DBP
Philippines	Private Development Corporation of the Philippines	PDCP
Singapore	Development Bank of Singapore Ltd.	DBS
Thailand	The Industrial Finance Corporation of Thailand	IFCT
South Asia		
India	Industrial Credit and Investment Corporation of India Ltd.	ICICI
India	Industrial Development Bank of India	IDBI
Pakistan	Industrial Development Bank of Pakistan	IDBP
Pakistan	National Development Finance Corporation	NDFC
Pakistan	Pakistan Industrial Credit and Investment Corporation Ltd.	PICIC
Sri Lanka	Development Finance Corporation of Ceylon	DFCC
Europe, Middle East & North Africa		
Afghanistan	Industrial Development Bank of Afghanistan	IDBA
Algeria	Banque Algérienne de Développement	BAD
Austria	Österreichische Investitionskredit Aktiengesellschaft	IVK
Cyprus	Cyprus Development Bank Limited	CDB
Egypt	Bank of Alexandria	BOA

List of DFCs Associated with the World Bank (continued)

Country	Name	Acronym
Finland	Teollistamisrahasto Oy · Industrialization Fund of Finland Ltd.	IFF
Greece	National Investment Bank for Industrial Development, S.A.	NIBID
Iran	Industrial Credit Bank	ICB
Iran	Industrial and Mining Development Bank of Iran	IMDBI
Ireland	The Industrial Credit Co., Ltd.	ICC
Israel	Industrial Development Bank of Israel Ltd.	IDBI
Morocco	Banque Nationale pour le Développement Economique	BNDE
Morocco	Crédit Immobilier et Hôtelier	CIH
Spain	Banco del Desarrollo Económico Español, S.A.	BANDESCO
Tunisia	Banque de Développement Economique de Tunisie	BDET (formerly SNI)
Turkey	State Investment Bank (Devlet Yatirim Bankasi)	SIB (DYB)
Turkey	Türkiye Sinai Kalkinma Bankasi, A.S.	TSKB
Yugoslavia	Privredna Banka Sarajevo	PBS
Yugoslavia	Investiciona Banka Titograd	IBT
Yugoslavia	Stopanska Banka Skopje	SBS
Yugoslavia	Kosovska Banka Pristina	KBP
Latin America & the Caribbean		
Bolivia	Banco Industrial, S.A.	BISA
Brazil	Banco do Nordeste do Brasil, S.A.	BNB
Colombia	Corporación Financiera de Caldas	Caldas
Colombia	Corporación Financiera Colombiana	Colombiana
Colombia	Corporación Financiera Nacional	Nacional
Colombia	Corporación Financiera del Norte	Norte
Colombia	Corporación Financiera del Valle	Valle
Colombia	Corporación Financiera Popular	CFP
Ecuador	Comisión de Valores · Corporación Financiera Nacional	CV-CFN
Ecuador	Ecuatoriana de Desarrollo S.A. · Compañia Financiera	COFIEC
Mexico	Fondo de Equipamiento Industrial	FONEI
Trinidad and Tobago	Trinidad and Tobago Development Finance Company Limited	TTDFC
Regional		
	ADELA Investment Company S.A.	ADELA

Dr. Hans Pollan
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INTERNATIONAL FINANCE CORPORATION (IFC)

Die International Finance Corporation (IFC) ist die kleinere Schwester der Weltbank und ist mit ihr eng verbunden. Als internationales Entwicklungsinstitut dient sie ausdrücklich der Förderung des Wachstums von produktiven privaten Investitionen in Entwicklungsländern.

Wir sind das einzige internationale Institut, das Investitionen sowohl durch Kapitalbeteiligungen als auch mit langfristigen Krediten finanzieren kann. Diese Finanzierungen erfolgen nicht an Staaten oder mit Regierungsgarantien, sondern ausschliesslich für private Projekte. Was ist der Reiz von IFC, wenn sie Kapital gibt, wie andere es auch können, und wenn sie Kredite zu kaum besseren Bedingungen als kommerzielle Banken oder sonstige Entwicklungsinstitutionen gewähren kann? Wir meinen und hoffen, dass viele, die mit uns zu tun haben, die Meinung teilen, dass wir ein besonders qualifizierter Partner sind, der nicht nur sachlich und verständnisvoll, sondern auch in kritischen Situationen zuverlässig ist und der darüber hinaus häufig bewiesen hat, dass er als wesentliches Element der Weltbankgruppe einen Schirm bieten kann, der nicht nur aufgespannt ist, wenn die Sonne scheint. IFC ist keine Investitionsschutzversicherung, aber ein Partner, der in schwierigen Situationen - nicht nur bei Devisentransferbeschränkungen - von den Regierungen der Länder, in denen Projekte errichtet wurden, angehört wird und kaum "überhört" werden kann.

Ein weiterer wichtiger Punkt ist die Rolle von IFC als Katalysator. Während der letzten 25 Jahre wirkten wir an der Gründung bzw. Erweiterung von rund 600 kommerziellen und finanziellen Vorhaben mit einem Gesamtkostenvolumen im Gegenwert von ca. S 320 Milliarden mit, wobei über S 43 Milliarden aus IFC-eigenen Mitteln und S 27 Milliarden aus Syndizierungen mit Banken und anderen Finanzinstituten bereitgestellt wurden. Abgesehen von dem oft augenscheinlichen Entwicklungseffekt bei den von IFC unterstützten Projekten konnte IFC dabei auch Gewinne erzielen. Bei diesen Finanzierungen spielt die Zusammenarbeit der IFC mit den internationalen privaten Banken, darunter auch österreichischen, eine besondere Rolle. Mehr als 50 % der IFC Finanzierungen werden syndiziert. Unternehmen in den Entwicklungsländern werden dadurch an internationale Banken herangeführt und erstklassige Gesellschaften der dritten Welt häufig kapitalmarktfähig gemacht.

In den letzten paar Jahren bewegte sich das jährliche Geschäftsvolumen der IFC, verteilt auf rund 60 Projekte, um ungefähr S 12 Milliarden. Etwa die Hälfte dieser Finanzierungen erfolgte auf eigene Rechnung. Zum Vergleich sei erwähnt, dass das Geschäftsvolumen der Weltbank und der beigeordneten International Development Association, die in erster Linie Projekte der öffentlichen Hand in Entwicklungsländern finanzieren, fast 12-mal so gross ist. Bei fast allen IFC Projekten waren ausländische Partner, in Zusammenarbeit mit heimischen privaten und manchmal auch öffentlichen Unternehmungen, vertreten.

An österreichischen Firmen beteiligten sich die VOEST und Semperit an IFC Projekten, und wir hoffen auf weitere österreichische Partner in der Zukunft.

Bei der Durchführung von Projekten ist IFC grundsätzlich nicht nur am Aspekt der Lieferung von geeigneten industriellen und anderen produktiven Einrichtungen interessiert. Unser Interesse gilt selbstverständlich auch dem reibungslosen Funktionieren und dem langfristigen kommerziellen Erfolg des finanzierten Unternehmens. Die Qualität der Geschäftsführung und die unternehmerische Initiative sind daher äusserst wichtig. Das ist der Grund, warum IFC, im Gegensatz zur Weltbank und IDA, keine internationale Ausschreibung der zu liefernden Einrichtungen fordert; diese Entscheidung wird dem Unternehmer oder den verantwortlichen einheimischen und ausländischen Partnern überlassen.

IFC Finanzierungen betreffen ungefähr zur Hälfte die Industrie, insbesondere den metallverarbeitenden Sektor und die Bauindustrie. Sehr stark sind auch die Nahrungsmittel-, Papier-, Holz- und chemische Industrie sowie die Sektoren Bergbau, Erdöl und -gas und Hotels vertreten. Geographisch gesehen ist IFC's Tätigkeit mit etwa der Hälfte aller Finanzierungen vor allem auf Lateinamerika konzentriert. Auch in Asien hat IFC ein beträchtliches Portefeuille. Dagegen ist sie in Afrika südlich der Sahara eher gering vertreten und scheint in Europa nur mehr mit Investitionen in Jugoslawien und Portugal auf. Andererseits ist Europa äusserst wichtig als Quelle des Investitionsstroms, d.h. als Ursprung von Investitionsträgern, die mit IFC bei Investitionen zusammenarbeiten.

Neben der schon beschriebenen Schirmwirkung liegt die besondere Attraktivität der IFC jedoch im starken arbeitsmässigen Engagement vom Anfang bis zum Ende des Projekterrichtungskreislaufes sowie auch in der Zeit nach der Aufnahme der Geschäftstätigkeit. Dies macht IFC zu einem äusserst interessanten Partner trotz marktgerechter Kapitalkosten für Kredite, die derzeit in US$, DM, Sfr und Yen angeboten werden. Bei finanziellen Beteiligungen ist IFC stets bestrebt, ihr Kapital, ohne unternehmensstörend zu wirken, zu revolvieren, um es für neue Investitionen freizumachen.

IFC Projekte bewegen sich meist in der Grössenordnung von ungefähr S 300 bis 500 Millionen. Projekte, die weniger als S 60 Millionen erfordern, werden, abgesehen von wenigen Ausnahmefällen in Afrika, von IFC nicht durchgeführt. IFC versucht nie, auch nicht als Aktionär, die Kontrolle über ein Unternehmen zu erhalten und beschränkt sich daher auf den Erwerb von maximal 25 % des Kapitals eines Unternehmens. Überhaupt trägt IFC prinzipiell nicht mehr als ein Viertel der gesamten Investitionskosten zu einem Vorhaben bei.

Eine besondere Sparte stellen IFC's Bemühungen dar, Beteiligungsgesellschaften und die "finanzielle Infrastruktur" zu fördern wie z.B. durch Entwicklung und Verbesserung der einschlägigen Gesetzgebung über Börsenwesen. Dies ist entwicklungspolitisch äusserst wichtig, aber nicht unbedingt für IFC's Ertragslage förderlich.

Hauptziel der Entwicklungsbestrebungen der IFC werden in Zukunft vor allem Investitionen auf dem Energie- und Nahrungsmittelsektor sein. Geographisch gesehen, wird man auf Afrika grösstes Augenmerk legen müssen.

IFC zählt stark auf das Interesse und die Mitwirkung österreichischer Gesellschaften sowie Banken. Das Europa-Büro der IFC (New Zealand House, Haymarket, London SW1Y 4TE, England, Tel.: 1-930 4648) ist jederzeit gerne bereit, einschlägig interessierte österreichische Unternehmungen zu beraten und zu unterstützen.

Dr. Ahmed El Naggar
Secretary General
The International Assoication of
Islamic Banks and
Dean of Institute of Islamic Banking

THE ISLAMIC BANKS AND CHALLENGES OF ACCELERATED ECONOMIC GROWTH

There is a simple basic fact about the nature of Islamic banks, Islamic financial institutions and the manner of their operation in the life of Muslims. This fact, for all its simplicity, is frequently forgotten or misunderstood. From forgetting or failing to comprehend it, there arises a serious error in examining the means and merits of such a socio-economic reformation.

Any reformation aiming at raising the standard of living of a certain group of people must be compatible with their shared interests, deeply rooted beliefs, cultural heritage and temperament. This is applicable to Muslim people whose Islamic faith has been lasting for more than fourteen centuries, who believe that Islam is a divinely-ordained, integrated and comprehensive path for all the aspects of human life, who are confident that it was revealed for human happiness in this and the other world and who have welcomed any socio-economic reformation based on these principles that are ever living in their souls and stirring their emotions.

Though post-Quranic history shows that Muslims have often thwarted to various degrees the Quranic imperatives, they have been tightly bound and adhering to the ideal pattern of their Islamic culture. They have never deserted those imperatives or thought of forsaking them at any time or place because they are Muslims by nature and these values are born with them, ever living in their souls. Hence, no one can deny that no reformation in Islamic communities can be initiated and developed without comprehending this individual and collective faith. I am confident that Europeans in particular have fully conceived and assimilated this fact because their civilization is compatible with the temperament, material realities, emotions and common interests of the masses.

No doubt, there is an ever widening gap between developed and developing countries. Ambitious development plans have been the instrument by which developing countries are trying to bridge this gap. We cannot deny or depreciate the efforts of their governments and official institutions to attain this goal but we are all agreed upon that the results have proved the inefficiency of the means used. Here arises a question: what is lacking for the success of these plans?

The empirical evidence gained through experience with the development process leads us to conclude that the success of any development movement or reformation is mainly dependent on positive response and reaction by the masses. The lack of this response would surely check the growth of the whole process. This basic fact has been given priority since the economic-industrial revolution was initiated in Europe. The fruits yielded are always equal to the positive reaction of the masses. So there is an ever existing necessity to keep this reaction in its active state by permanently devising new efficient means to stir up the masses' emotions and meet the constantly changed needs of their restless spirits. The pot must be kept boiling!

Economic development is the process of capital formation and accumulation. To accelerate the pace of this process, the rate of capital accumulation must be increased. This could not be attained without considering the interaction of three factors:

1. The poles of this process.
2. The instruments of this process.
3. The role of the masses.

The development process is centralized round two poles:

1. Mobilising the resources of the community and seeking the available productive energy. (By the word resources, I mean the real capital invested in the plant and the money which keeps the plant operating.) This can be described as the full concept of pooling savings.
2. Utilising these resources permanently and efficiently and elevating the productive capacity of the community. This can be described as

the comprehensive definition of investment. These two correlated poles, saving and investment, influence the whole process of development. Developing countries have faced many problems and obstacles in seeking the means by which they can make the best use of this influence.

Financial institutions are the chief instrument of the development process. Banks function as the heart of this financial body which gives life for the whole economic activity in any community. The efficiency of their operation in the process of development is measured by the positive or negative reaction of the masses to the concepts and rules they apply to the activity of pooling and employing savings. To influence the result of this reaction we have to ask ourselves: to what extent are these concepts and rules related to the different types of environment in which these banks exist? By applying this question to the traditional banks which exist in developing and, in particular, Islamic countries, we find that the mechanism of these banks is neither related to nor did it originate from the environment in which they exist. Consequently, reaction of the masses to this mechanism is negative. This explains why these banks could hardly contribute to the development process in many developing countries although they have been in existence there for many years.

Facing this problem, some governments resorted to nationalizing banking activities, convinced that such a measure would help in diverting the focus of these activities towards public interest. These governments as well as traditional banks were caught in the same trap: Simply, they have not conceived the difference between the willingness to and the capability of performing in the public interest. In other words they have not considered the interaction of the three factors of the development process and they have particularly underestimated the role of the masses in this process.

The Leading Question

The leading question asked as to the nature of Islamic Banks: How these banks operate in the life of Muslims? And what is the sound mechanism to attain the goals of development? The key word to answer this question is "Faith". We have previously referred to "Islamic faith" as the motive and psychological factor of the development process in many developing countries. Now, we will discuss the interaction of the three factors of the development process in many developing countries. Now, we will discuss the interaction of the three factors of the development process from a pragmatical perspective.

First: Mobilization of Resources

Before I speak as an economist, I wish to explain a very important point relating to the definition of money and its function. Money was originally devised as a means of evaluating and exchanging goods. This function implies the stability of the means according to which all pieces of merchandise are compared, evaluated and exchanged. This means could be any commodity chosen and agreed upon by any people forming a community. After devising bank notes man seized to attribute the characteristics and power of money to any commodity and banknotes became the abstract means for evaluating commodities. It is illogical to treat this abstract means as a merchandise, bought and sold, lest its relative stability as a measure of value would be subject to market variables. The evaluation of the exchanged merchandise according to such an unstable measure would be confusing. Converting money into merchandise would end in the total collapse of the economic system and before this collapse takes place we have to expect numerous problems. For these reasons, we do not consider money a merchandise.

Now, we will be back to Islamic banks which undertake the process of mobilizing resources within the framework of the following concepts:

1. There is a difference between the saver and the investor; savers are induced to save by various incentives such as providing for future contingencies or meeting future liabilities, while all investors are stimulated by gaining profit. Hence, it is necessary to find systems capable of pooling savings and investment deposits through fulfilling the needs of both the saver and the investor.

2. There is no relation between the level of income and the tendency to saving; not all the rich people are necessarily regular savers, while many poor people save regularly. Saving is an acquired behaviour. It is the psychological process of preserving some money to be used later, provided that the saved money be deposited in one of the instruments of finance.

Psychological studies divide saving into two parts:

(a) The tendency to save.

(b) The capability of saving.

The tendency to save is a psychological process while the capability of saving consists of two variables:

(i) Income.

(ii) Consumption.

Since consumption is related to expenditure behaviour, it is almost entirely a psychological process. As a result, we can say that income represents a limited relative weight in the whole variables influencing saving decision. Most of these variables relate to the psychological ability of the individual. Hence, it is necessary to develop the tendency of individuals to save. This process is called saving awareness and considered one of the objectives of Islamic banks in addition to being one of the important means of pooling savings.

3. Economists and thinkers have not yet agreed on the essence of interest. They have left this question without a definite answer and continue to argue about the kinds and rates of interest and their influence on economic activity. Since the concept of "interest rate" is strictly prohibited by Islam, the sole alternative compatible with masses of Islamic faith is "participation". This alternative helps in developing many positive aspects such as:

- The fair distribution of profit between financiers and investors.
- The co-operation which leads to multiply the productive capacity.
- Participation makes the borrower stronger in facing crises because he shares the risk with the financier.
- More profit is gained by applying participation to economic enterprise. Participation therefore fulfils the need of investors who are stimulated by profit.

<u>Second: Employing Resources</u>

This activity can be undertaken through individuals or institutions. All systems include the employment of resources through institutions. Every institution has its rules of operation and means of employing capital. The Islamic banks finance those individuals and add their efforts to the productive capacity of the community through the following systems:

1. Finance in Participation

This implies financing, supporting and assisting those individuals to establish and develop their projects. The relation between the bank and its client is partnership. They have a mutual cooperation and a shared interest so they can be adapted to market variables and overcome any difficulty by working together.

2. Interest Free Loans

Granting such loans to the individuals capable of investing and employing capital creates new cadres for development. The client who is to be granted such a loan, however, must have a useful skill or experience and good reputation to make the best use of the loan. Through interest free loans the bank can judge the clients who can be relied upon to share the other profitable and more important projects aiming at the service of society. Interest free loans and participation are two important instruments by which banks can achieve what many governments and other institution have tried to achieve in vain. The continuous inflow of new resources through the channels of savings enables the bank to manage several short, medium or long term investments. The banks' experience and continuous analysis of these savings enable it to determine the relative weight of each of these savings so it can determine the employment of savings within a proper framework.

BANKING MECHANISM

The mechanism of Islamic banks is based on the existence of three channels for the following activities:

I. Saving Savers who are not stimulated by profit but who have other incentives such as providing for future contingencies or meeting future liabilities will not think of interest rate because they are mainly interested in achieving one of the previously stated or other similar goals.

Simply, interest rates do not influence individuals in their being savers or not. Interest actually influences the individual who is stimulated by profit, who looks forward to raise his standard of living and who continuously seeks more profit. In fact, this individual is an investor and the bank deals with him otherwise.

Although profit is not the aim of savers (depositors of savings account) the bank always fosters the growth of savings awareness among individuals and welcomes any means of pooling savings.

II. Participation Investment Account

This account is assigned for those who aim at raising the standard of their living through gaining profit. The bank administers this account on behalf of those depositors with the help of carefully chosen partners. Profits are shared. They are usually higher than interest rates. On the other hand, in case of loss, the depositor would fairly share this loss with the bank. The bank uses every possible technical or administrative controls and restraints in order to minimize the probability of risk or loss.

These restraints include the following:

1. The feasibility studies of the projects and selection of the partners from amongst the bank's most experienced clients who have good reputation and saving behaviour.
2. Employing the resources within a definit geographical scale; otherwise it must have its suitable legal framework.
3. Distributing the projects technically and qualitatively among various investment activities.
4. The permanent close follow-up of the project and its operations.
5. Supporting the partner and providing him with advice whenever he seeks it.

6. Simultaneous supervision by the depositor of the projects in which he has participated. It is a daily supervision by the public assisting the bank in its supervision of its investments. The depositor is always keen to assist those who employ his money.
7. Formulating special contracts suitable for the specific relation between the partners and serving their aims.

III. Social Activity

As a part of its program of solving the prevailing social program within its scale of operation, the Islamic banks sponsor the application of traditional concepts of solidarity among Muslims. This is represented in its policy in addition to the direct means used to achieve this objective. The previously mentioned systems are integrated so they would enable the bank to achieve its aims of development through the undertaking of the following tasks:

1. Spreading the concepts of saving awareness and rationalizing expenditure among people.
2. Spreading investment awareness among people by training them how to use the interest free loans to attain the best results.
3. Overcoming any obstacles in the way of investment activity.
4. Preparing masses psychologically and socially to accept change and paving the way to individuals to attain personal interests without prejudice to public interest.

Executive Policies

Islamic bank's executive policies are integrated with the goals, tasks and systems. These policies are subject to change and modification according to the results of application. Two of the executive policies of Islamic banks are localism and decentralization.

Localism

Localism means performing operations within a limited geographical scale. This enables the bank to take hold of its activities and directly interact with the environmental variables governing banking operations. It also makes the bank fully acquainted with the needs and problems of the environment in which it exists. Localism does not mean isolating institutions within this geographical scale. On the contrary, the communication outside their local area is necessary for serving the environment in which the bank exists.

That is to delegate some of or all the central powers to executive units.

What I mean here is giving a chance to other leadership to make decisions so as to be used of bearing the responsibility of managing business and decision making. This should also save time.

As a conclusion we can outline some of the causes of the positive reaction by the masses to Islamic banks:

1. Their compatibility with the beliefs of the masses and their Islamic cultural heritage.
2. Presenting new fair means of financing and investment characterized by objectivity.
3. The banks' positive attitude towards problems and needs of the masses.
4. Granting interest free loans to those who lack money as a productive energy required to better serve society.
5. Financing the projects of clients who have specific technical skills and experience but lack money.
6. The feeling of the masses that Islamic banks are not foreign to their ideal Islamic pattern of life.

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OVERVIEW ON ARAB DEVELOPMENT FINANCE INSTITUTIONS AND FUNDS

Mr. Chairman, Ladies and Gentlemen,

As a member of the UNIDO Secretariat allow me to mention a few facts about the world's industrial situation. UNIDO's estimate of the share of developing countries in world manufacturing value added stood at about 11% in 1980, as compared to about 65% for developed market economies and 24% for centrally planned economies. Of this 11% share of developing countries, Africa's share was less than 1%, Asia's share was slightly less than 4%, and Latin America's share was a little more than 6%. The developing countries account for about 48% of total world population. It is this world situation which led to the adoption, in 1975, of the goal of increasing the share of developing countries in world manufacturing value added to 25% by the year 2000.

Reaching, or even approaching, this level of 25% requires close co-operation between the developing countries and the industrialized countries, both market and centrally planned economies. This close co-operation cannot be simply interpreted to mean increasing the exports of machinery, equipment and services by the industrialized countries to developing countries. Innovative forms of co-operation appear to be required, but I shall not dwell on this issue now, in the hope that I shall have time to briefly cover it before the time allotted for my statement runs out.

With the limited resources at its disposal, UNIDO has been assisting developing countries in their efforts to reach this level of 25% share. Within UNIDO, our programme, which is known as the Investment Co-operative Programme, has been assigned the overall responsibility for assisting developing countries in converting industrial project ideas and studies into operating factories.

This responsibility is carried out by assisting developing countries in locating sources of the various inputs required to bring about the implementation of viable industrial production facilities. These inputs may include technology, management, marketing or financing. Our programme, therefore, seeks to keep itself as well informed as possible of sources of financing available to developing countries. In this respect, Arab Funds are becoming increasingly important. A recent OPEC Fund publication lists six Arab countries amongst the top ten official development aid donors in 1980. The state of Qatar tops this list with net disbursements representing 4.5% of GNP.

I shall seek to present to you this morning an overview of Arab Development Funds and Finance Institutions and their role in industrial project financing. I shall not attempt to cover all Arab financing institutions because this will require a great deal of time. Suffice it to say that a large variety of Arab and Arab joint-financing institutions emerged during the past few years. These vary in ownership structure, area of coverage, capitalization, policies and conditions. I shall concentrate on a selected number of Arab development finance institutions, whether wholly Arab or jointly owned. Let us look at a group of nine institutions which are perhaps quite important for industrial project financing. These nine institutions closely co-ordinate their operations. They fall into three categories:

1. The first category comprises five National Institutions which are wholly funded by their governments. These include The Abu Dhabi Fund for Arab Economic Development, The Iraqi Fund for External Development, The Kuwait Fund for Arab Economic Development, The Libyan Arab Foreign Bank and The Saudi Fund for Development.

2. The second category comprises two multilateral Arab institutions, namely the Arab Fund for Economic and Social Development and the Arab Bank for Economic Development in Africa.

3. The third category comprises two multilateral institutions with mixed Arab and non-Arab participation. These are the Islamic Development Bank and the OPEC Fund for International Development. I have included these two institutions because Arab participation in the capital of IDB amounts to about 85% and in the OPEC Fund to about 50%.

The combined authorized capital of eight of the institutions I have just mentioned amounts to some $22 billion and their lending capacity is at least twice this amount, i.e. $44 billion. Cumulative loan committments by these institutions at the end of 1980 amounted to about US $14 billion. During 1981, the total value of financing operations agreements concluded by these same institutions amounted to US $2.5 billion. Of this amount, only about 7% related to industrial projects, which included a US $7 million loan to a sugar project in Burundi. The loan was for 20 years with 5 years grace period and no interest except for 0.75% service charge.

Industrial lending during 1981 also included a US $15 million Line of Credit to the Moroccan National Development Bank. This loan was also for 20 years, with a 5 years grace period and 2.75% interest rate. Both the Burundi and the Morocco loans were extended by the OPEC Fund.

It may also be useful to note the geographical distribution of 1981 financing operations of these nine institutions. Asian countries received 40% of the total amount, Arab countries 34%, African countries 23% and Latin American countries about 3%.

The oldest and the largest of these institutions is the Kuwait Fund for Arab Economic Development. This Fund was established in 1963 to extend loan only to Arab countries. In 1974, its authorized capital was increased by a factor of five and its coverage extended to all developing countries. KFAED's authorized capital, at the end of 1980, was US$ 7.3 million. One example of a Kuwait Fund industrial loan extended in 1981 was for a fertilizer project in Pakistan. The loan amounted to about US$ 12 million for repayment in 20 years after a 5 year grace period of 4% interest. This project involved joint or co-financing by several other sources including the World Bank, Kreditanstalt für Wiederaufbau, US AID and the governments of Denmark and Italy. Although the Charter of the Kuwait Fund was recently amended to allow it to participate in equity of developing countries' projects, to my knowledge no such participation has yet taken place and no guidelines have been made public.

The Kuwait Fund may, according to its Charter, extend

- direct loans;

- it may extend grants to finance sectoral studies, feasibility studies, training and other types of technical assistance;
- it also can provide advisory services relating to any aspect of development projects as well as institution building; and
- it may provide guarantees for the obligations of governments and corporate entities.

However, of these four types of assistance, only the first three are reported to have so far been provided.

The Charter of the Kuwait Fund precludes it under normal circumstances from financing more than 50% of the total cost of any project, and also from financing the local cost component of any project. With regard to financial terms and conditions, ther appears to be a large measure of flexibility in the hands of the Fund's management. In this respect, the Charter's only requirement is the imposition of a service charge of one percent annually on the amounts withdrawn from the loan and outstanding, to cover administrative expenses and other costs incurred in the execution of a loan agreement. The Kuwait Fund favours participation in joint or parallel financing with other bilateral or multilateral aid agencies. With regard to allocation of aid among recipient countries, the Fund's policy is very flexible, but emphasizes political and ideological neutrality. However, the Kuwait Fund is more selective with regard to economic criteria, such as per capita income, overall development performance, and access to foreign exchange. Electricity, transport, agriculture and industry have been the main sectors for Kuwait Fund operations, with the share of industry amounting to about 19% of total lending up to mid-1980.

At the end of 1980, cumulative loans extended by the Kuwait Fund stood at US $2.5 billion. By comparison, the figure for the Saudi Fund was about US $4 billion, even though the Saudi Fund commenced operation only in 1975. The Abu Dhabi Fund's cumulative total on the same date stood at below US $1 billion. These three Funds cover all developing countries and their terms and conditions are somewhat similar. The Arab Fund for Economic and Social Development differs from these three national Funds in that it is owned by all Arab countries and its operations are restricted to these same Arab countries. Whereas the Arab Bank for Economic Development in Africa, known as ABEDA (or BADEA for francophones), is owned by Arab countries but its operations are restricted to non-Arab African countries.

The Arab Fund seeks to identify and lend to Arab projects with more emphasis to multinational Arab projects. In this respect the Fund itself undertakes to prepare studies; e.g. during 1980 two studies covering Arab countries were completed, one on the pesticides industry and the other on the iron and steel industry.

The cumulative amount of Arab Fund loans at the end of 1980 was about US $1.25 million, of this amount, about 15% went into industrial projects. One example of an industrial loan, extended by the Arab Fund in 1981, was that to Syria for the establishment of a garbage composting plant. The total cost of this project is about US $28 million. The Arab Fund's loan covers 28% of this total cost. The OPEC Fund and The Islamic Development Bank also extended loans covering 53% of total cost, and the Syrian Government will provide the remaining 19%. The Arab Fund's loan is for 14 years with a four year grace period and 6% interest rate. Interest rates on loans to poorer countries, such as Yemen, are lower by 2%.

ABEDA's authorized capital stands at US $738 million and was subscribed by Arab League member countries. As mentioned before, ABEDA's operations are restricted to non-Arab members of the Organization of African Unity. The terms of ABEDA's loans vary depending on the recipient country and on the nature of the project. The rate of interest ranges between 3 and 7%. The grace period can vary from 3 to 5 years and the repayment period from 15 to 20 years. In general, ABEDA finances up to a maximum of 40% of the total project cost. The bank is showing increasing interest in industrial projects which account for about 19% of its total cumulative amount of loans. ABEDA extended lines of credit to industrial development banks in countries like Kenya and Zambia and to the sub-regional Development Bank of Central African States. A recently approved loan to Mauritius Island will provide US $8 million which represents 25% of the total cost of a flour mill. The loan is repayable over 15 years, including three years of grace, and bearing interest at an annual rate of 8%.

The Islamic Development Bank is of special interest for industrial projects financing. About 44% of its project financing goes to industry and mining. IDB commenced operations in 1975 with the declared purpose of fostering the economic development and social progress of member countries and Islamic communities in accordance with the principles of Shariah which is Islamic law. Its authorized capital is two billion Islamic Dinars which is equivalent to the IMF's SDR. Forty one countries are members of IDB. Keeping in view the principles of Islamic law, the Bank does not charge any interest or commitment fee on any of its financing operations. Dividend earnings from equity participation, and income from profit sharing operations, constitute the major source of income to the Bank. The Bank provides:

1. interest free loans to infrastructure projects - borrowers only pay a service fee to cover the Bank's administrative expenses. Loan repayment periods vary from 15 to 20 years;

2. the Bank also provides interest free loans or grants for technical assistance primarily for feasibility and engineering studies;

3. IDB also provides financing through equity participation in industrial and other projects. Total equity participation since the commencement of IDB operations amounted to about US $181 million. During the year 1980-81, equity participation in six industrial projects was approved. The Bank's participation in these six projects amounted to US $25 million. These included textiles, fertilizers, sugar, and cement projects. The Bank's equity participation is normally limited to a maximum of one third of total equity. This one third should not be less than 2 million Islamic Dinars or more than 20 million Islamic Dinars for any one project. However, in order to assist member countries in the financing of smaller projects, IDB extends lines of equity to national development finance institutions. The same one third maximum in equity applies to each project financed from these lines of equity. The lower and upper limits of this one third are ID 100,000 and ID 2 million. So far, IDB has extended 12 lines of equity to national development banks. These lines of equity amounted to about US $76 million, and were extended to member countries in Africa, Asia, and Europe.

4. IDB may also provide financing through leasing. Fourteen leasing operations have so far been approved by the bank, involving a total of US $ 142 million. In 1980-81 3 leasing projects were approved and 2 of these were for industrial plants: a urea fertilizer project in Bangladesh and a cement factory in Turkey.

5. Lastly, the IDB extends financing for foreign trade operations to utilize its funds in short term profit earning operations, since the bank cannot accept interest on depositing such funds in banks.

The IDB's Sixth Annual Report covering the period 1980-81 reported a decrease in project financing in comparison to the preceding financial year. This decrease was attributed to "the insufficient number of projects suitable for financing in the form of equity participation". The management of IDB also reported the slow utilization of the lines of equity extended to national industrial development banks because of lack of suitable projects. This phenomenon leads me to recall the comment which I made earlier on regarding the need for innovative approaches to co-operation between industrialized and developing countries in the identification of industrial investment opportunities and the preparation of bankable industrial projects. The expertise required for this task is in the hands of operating industrial enterprises in industrialized countries. This expertise can be combined with information and expertise from developing countries to generate an increasing number of viable projects, and thereby ultimately lead to increasing industrialized countries' exports of machinery, equipment and services to developing countries. The number of industrial projects jointly generated by a developing and an industrialized country should be used as a more important measure of successful economic co-operation instead of the traditional use of the value of exports. UNIDO's Investment Co-operative Programme can facilitate such co-operation for the purpose of increasing the number of jointly identified industrial investment opportunities.

There are many other Arab financing institutions which take equity and/ or extend loans to industrial projects. These include KFTCIC, ADIA, the Arabian General Investment Co. There are also large private companies which are active in industrial investments in both developing and developed countries. Other joint Arab financing institutions were established specifically for the purpose of acting as the arm of Arab financiers in regions not well known to the Arabs. Such institutions include the Arab Latin American Bank and many others. I should also mention the Inter-Arab Investment Guarantee Corporation in Kuwait. This corporation was established to provide insurance for Arab investments in other Arab countries against non-commercial risks such as nationalization and inability to obtain foreign exchange.

Several joint Arab and non-Arab financing institutions are now eligible to obtain this insurance. A similar agreement for the promotion, protection and guarantee of investments in member countries of the IDB has been prepared and submitted to member countries for ratification.

A more recent development is the establishment of a joint Arab-French holding type of an investment company to seek to identify operating small and medium size industries in France, and possibly in other European countries, for equity participation by Arab investors. The technology and management of such industries should be already tested and should have future potential for introduction into Arab and other developing countries. The equity participation sought should be large enough to enable the Arab investors to become fully acquainted with the industry but need not be a controlling interest.

I hope I have been able to give you an overview on Arab development financing institutions. Thank you very much.

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FINANCING OF EQUITY CONTRIBUTIONS AND CO-FINANCING

I have been asked to deal with two aspects of the Austrian export development program:

(i) the terms and conditions of financial assistance for insurance and refinancing of Austrian equity participations in the context of the execution of industrial projects in developing countries;

(ii) co-financing from financial resources outside of Austria within the framework of the Austrian export financing schemes.

These are two different subjects which are - in the normal case - not interconnected. I shall deal with them, therefore, separately in the execution of one project. Both schemes may, of course, apply to one supplier in the course of time.

The Austrian export development programs - I prefer this terminology to the literal translation of the legal wording which uses the term promotion instead - provided since its inception both facilities to enhance international cooperation and to assist in the provision of equity in the context of Austrian export activities.

These facilities include the insurance of the political and commercial risk involved as well as the extension of loans to the export industry to finance the financial assets created as a result of export activities or to foreign buyers to pay for imports from Austria and - to a limited extent - also to Austrian investments abroad.

These facilities have been expanded and refined over the years in accordance with the experience collected in its operation and the demand of the Austrian export industry in view of the international developments and competition.

Of course, one has to bear in mind that a very large section of the Austrian export industry are small enterprises. These enterprises may be involved in setting up subsidiaries abroad, but are rarely called upon to participate independently in large projects to which co-financing arrangements are applicable, or to share in the equity of companies which are responsible to operate plants which are exported.

In 1964 OKB organized in cooperation with the ERP-Fund - which administers the counterpart funds originating in the context of the Austrian share in the European Recovery Program - and the Federal Chamber of Commerce a financing scheme for Austrian investments into equity participations in developing countries.

Under this program equity investments and loans of quasi equity nature to enterprises are eligible in countries which are recognized as developing countries according to the DAC rules of the OECD or within the framework of the UNDP. The investor must be an enterprise operating in Austria.

The loans are extended by OKB through the intermediation of an Austrian commercial bank. The proceeds are to be used to finance financial assets of the Austrian enterprises which are created in the course of the execution of projects to penetrate markets in developing countries or to maintain existing market shares in particular by founding subsidiaries, service and assembly plants and repair shops, as well as to undertake industrial consulting works provided Austrian exports are generated. Joint ventures are of particular interest. The creation of such financial assets may result from equity participations or subordinated loans.

The funds are made available from resources provided by the ERP- fund and the Federal Chamber of Commerce up to an amount of AS 6.0 million per project. In addition funds are made available by OKB within its export development program up to that amount which carries a guarantee of the Austrian government. In case that no such guarantees are available, loans are for a maximum of 80 per cent of the total project cost, subject to the above-mentioned AS 6 million limit.

The repayment period of the loans is limited to ten years, including a grace period of no more than five years.

Typically, the loans carry a blended rate of interest between 5 and 6.5 per cent, payable semi-annually in arears.

The loans have to be secured by the assignment of the claims under the investment risk or credit risk guarantees. Additional collateral may be required from case to case.

Prepayment without premium is admitted.

Should the financial assets which are financed from the ERP- and FCC-sources be lost due to

(a) natural catastrophies or
(b) political events inasmuch these are not covered by the government guarantee

the claims for repayment can be waived.

As of December 31, 1981 a total of 150 projects had been financed. Currently commitments amounting to AS 390 million for 67 projects are outstanding, of which AS 330 million for 58 projects have been disbursed. The average size of the loans extended amounts to AS 6.5 million (US$ 400.000.-).

The total losses incurred since the inception of the scheme are minimal.

The most important Austrian export development program is the export development finance program (EDFP) operated by OKB. It provided in 1981 91,5 per cent of the total export development loans extended through the various export development financing programs operated in Austria.

Co-financing is normally used to describe various forms of cooperation between commercial banks, export development institutions and the international and interregional development banks.

This form of cooperation has the effect, however, that the total of financial requirements needed to pay for a project is reduced by the amounts borne by the relevant international or interregional development banks. The necessary arrangements can be handled very simply - as will be shown later on - under the terms and regulations of the EDFP.

Export development loans are extended through the Austrian commercial banks serving as an intermediary either to the Austrian exporter or the foreign buyer exclusively for financing financial assets of the Austrian exporter or the Austrian commercial bank, the repayment of which is guaranteed under the export guarantee program of the Austrian government and limited to that portion of financial assets for which the repayment is guaranteed.

OKB in turn refinances to a large extent its loan-portfolio by borrowing from foreign markets. In 1981, out of a total borrowing program of about US$ 4.0 billion, US$ 3.5 billion or 85 per cent were raised internationally outside of Austria.

One might say, therefore, that OKB through the technique of its operations serves as an instrument to transfer funds from abroad to importers of goods and services of Austrian origin .

The export development loans presuppose an export risk insurance which is made available only for exports of goods and services of Austrian origin. A certain percentage of foreign subsupplies is admitted. However, the previously very liberal policy to include foreign supplies has been tightened recently, in particular with regard to larger amounts (in absolute terms rather than percentage wise).

In view of these procedures cofinancing of industrial projects (if the term is used in a wider sense) is limited to two major cases to finance that portion of the project which is not covered by export credit insurance:

(a) down payments, progress payments and self-insurance of the beneficiary of the export risk guarantee, and
(b) foreign sub-supplies which are incorporated in the project.

In the first case the credit risk must be borne by either the exporter or the lender.

In the second case several methods of cooperation can be applied.

If the supply contract of the Austrian exporter with the foreign buyer provides for extended payment terms (supplier credit), two forms of credit risk guarantees can be applied:

(a) the total risk is guaranteed by the Austrian government; however, payment is restricted to the Austrian beneficiary for the portion of Austrian origin; the foreign sub-supplier is insured for this portion by the relevant national export insurance institution; in case a claim arises the total claims are represented by the Austrian agency with the understanding that any recoveries are shared proportionately between the two export risk guarantees, or

(b) the Austrian agency is reinsured by the relevant foreign export credit guarantee institution for the amount corresponding to the sub-supplies involved.

On the basis of such co- or reinsurance arrangements financing can be arranged for the foreign element either by making use of the national export development finance system or in the market - the export risk insurance serving as collateral.

In special cases OKB may provide the total amount needed to finance also the foreign element (which would be the case if the underlying supply contract would be expressed exclusively in Schillings) provided that the foreign export development finance institution lends the corresponding amount in the national currency to OKB at the rates at which it would have refinanced the relevant foreign exporter.

Should the supply contract be paid out of the proceeds of a buyer credit to the importer similar procedures would apply.