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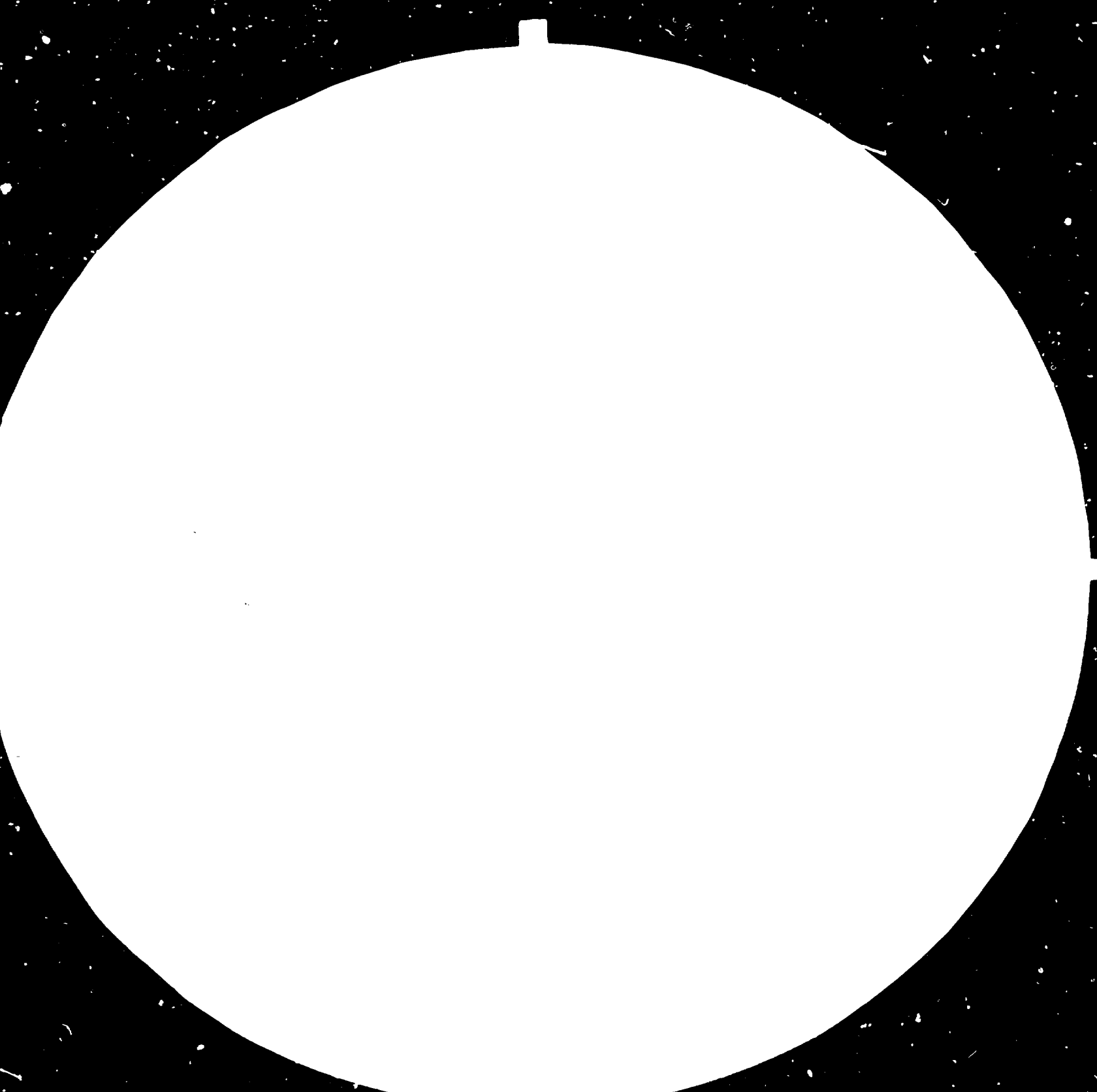
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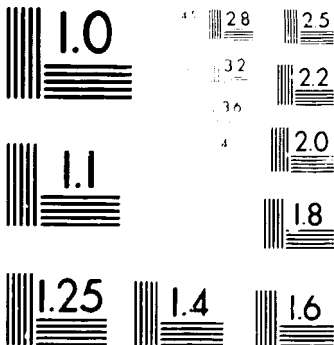
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Global Preparatory Meeting for the
First Consultation on the
Building Materials Industry
Vienna, Austria, 24-28 September 1984

SUGGESTIONS FOR ISSUES RELATED TO INDUSTRIAL FINANCING
OF THE BUILDING MATERIALS INDUSTRY *

prepared by the
UNIDO Secretariat

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1. At its eighteenth session in May 1984 the Industrial Development Board requested the UNIDO Secretariat to examine the issue of industrial financing with respect to each of the sectors for which Consultations had been scheduled.

2. As such, it is proposed that one issue of the Consultation or at least part of one issue be devoted to problems of industrial financing of the building materials industry. However, given the diversity of this sector and the crucial importance of the cement industry it is suggested that the issue center on problems specific to international financing of the cement industry.

3. Even a cursory examination of the cement industry would suggest that certain problem areas can be readily identified. These areas are specified in this note, and the Global Preparatory Meeting is requested to:

- (a) Advise the Secretariat as to whether these areas warrant consideration by the Consultation;
- (b) Advise the Secretariat as to whether or not these areas can be elaborated upon in appropriate background studies, given the time constraints and difficulties in obtaining suitable information;
- (c) Discuss the possibilities of presenting certain solutions to the problem area under discussion.

4. The main areas identified by the Secretariat are as follows:

(a) Estimation of the total investment requirement in the cement sector in developing countries to the year 2000. One of the papers for this meeting^{1/} identifies shares and total future world consumption of cement, by the year 2000. Would it be possible to achieve a "realistic" estimate of the required capacity increase for the production of cement in the developing world, in

^{1/} ID/WG.425/4, Outline of a Policy for Expertise and Technological Selection in Capital Goods for Cement and Brick Manufacturing: Co-operation between Developing Countries in these Industries.

order to achieve some degree of self sufficiency in relation to these projections? Should this be possible, could an estimate of total investment requirement be made for the construction of cement plant in developing countries? It is recognised that there are severe conceptual difficulties in arriving at these estimates, but should we be able to use industry information and projections, at least a gross assessment could be arrived at to establish the financial constraints facing this industry in its future development.

(b) A second, less global, problem would be in assessing the impact of the global crises on the financial solvency or viability of this industry. A simulation of a financial analysis appended to this note examines the impact of a devaluation on the asset and cash flow situation of a cement plant relying on hard currency loans for part of its capital investment, but supplying output to local markets. The effects of the global crisis could be examined through specific country or enterprise case studies on aspects such as:

- underutilized capacities of existing cement plants;
- the effects of terms and conditions of finance on project feasibility;
- the effects of external indebtedness on the sector, through curtailment of maintenance imports etc:

(c) Thirdly, an assessment could be made on biases by existing international financial institutions in their lending to the industry. These biases may circumscribe the development prospects of this industry by influencing developing countries' industrial and marketing policies, the type of technology, source of plant and equipment, increased capital costs as a result of limitations imposed with regard to the preceding two points, and "inappropriate" lending terms and conditions;

(d) The prospects for sectorial programme financing could warrant some attention. A particular feature of the cement sector, pointed out in a background paper, is its ongoing need for training of skilled personnel who could maintain economically viable levels of plant productivity. Is the problem of financing training a major one in this sector? Could measures be suggested for "packaging" finance for training with that of the acquisition of capital equipment?

(e) Finally for reasons of technological choice and "appropriateness"; the need for enhanced South-South cooperation have been identified. What are the financial constraints to South-South trade in know-how, technology and plant and equipment in this sector? Could specific problems be identified and solutions be sought through the Consultation process?

5. It should be reiterated that these suggestions for issues are not exhaustive, nor is it proposed that all of them be discussed at the Consultation. The GPM is requested to assess the priorities or suggest alternatives as it may deem fit.

