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Industry 2000 - New Perspectives:*

PROPOSAL NO. 1:

INTERNATIONAL INDUSTRIAL FINANCE AGENCY

Paper prepared by the Secretariat of UNIDO

* The attached is an elaboration of the proposal described in ID/CONF.4/3, Part One, section 2.2.2 and Part Two, section 5.4.1. It is available in English only.

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THE INTERNATIONAL INDUSTRIAL FINANCE AGENCY

1. INTRODUCTION

This proposal for setting up an International Industrial Finance Agency seeks to mobilise the immense potential for collective self-reliance amongst developing countries by providing a bridge across the Third World with regard to its financing and banking system, thus avoiding the present intermediation of Northern institutions. It will operate on a basis which will yield a remunerative rate of return to subscribers of its capital through approximate investments and placements of funds. It will incorporate the functions of an export credit fund for exports of manufactures and technology from developing countries to the South and to the industrialised countries. It will promote investment packaging, whereby Third World holders of natural resources, management and technology, and finance, are brought together in various types of joint ventures.

The rationale for the proposal, which is summarised below, is that the Third World now contains significant supplies of all the factors of production necessary for successful industrialisation, and that collective self-reliance in the Third World is a necessary counterweight within the framework of global interdependence. Without structural innovation in the international financial system it would not be practically possible to underpin the new international economic order.

It is recognised that the outline below merely summarises a number of issues which will have to be resolved in subsequent negotiations. These issues include decisions - regarding the initial capitalisation and capital structure; control and management structure together with the voting and other powers of participants; the number of finance windows engaged in different types of investment activities; the relationship between the Agency and non-Third World entities; the relationship between the Agency and central and commercial banks; arrangements with other finance institutions: exporters and importers etc.

The Secretariat invites the Third General Conference of UNIDO to approve in principle the concept outlined herein for the establishment of an International Industrial Finance Agency and to provide a forum to initiate negotiations with member countries, international organisations and international and regional financial institutions, to set up the Agency.

2. COLLECTIVE SELF-RELIANCE IN FINANCE

The Old Economic Order is underpinned by an international financial system which is anchored in the North. The potential for collective self-reliance in finance has increased significantly recently. Mass surpluses generated by some developing countries are being deposited in North-based or North-dominated global institutions and banks, these funds being then lent to the South on terms and conditions determined by the North.

The major quantum of borrowing by the South is de facto from other South economies, but via Northern intermediaries, using mechanisms such as commercial bank credits, IMF credit tranche and special facility drawings, medium and long-term lending by bilateral and international organisations and private development loans. The reason for this dependency is that in the unreformed international financial system, the prior concentration of major institutions, skilled personnel and information in the North make it much easier and less risky to use these traditional channels. Direct South to South financial links may involve difficult experimentation with new channels, but it is unavoidable; the initial identification of common interests between some sources of funds and some users of funds, both from the South, is clear.

The weakness of South to South financial linkages inhibits the growth of financing centres in the South and at the same time perpetuates their dependence on the North. There are many problems developing countries face in mobilising financial capital within themselves, of which the low level of per capita income and savings in only one.1/ Despite generally low income, there are pockets of investible funds within developing countries that could be mobilised more effectively for industrial investment, to help ease the developing countries' dependence on the North and to facilitate the achievement of the Lima target. In general, however, such mobilisation has been inadequate. For finance to flow directly between developing countries a prerequisite is the establishment of a greater number of more powerful South-based financial institutions and financial markets, together with the development of appropriate financial instruments well suited to facilitating these flows.

Collective self-reliance requires that where surplus funds have accrued, not only should portfolio preferences be shifted in terms of locality and sector, but South-based financial institutions and appropriate financial instruments should be evolved, which can efficiently and effectively intermediate the changing pattern of investment flows. The need for new South-based financial institutions therefore goes much beyond the question of the current surpluses of a small group of developing countries.

In a different context, exports of manufactures and technology of developing countries can be inhibited by the weakness of national export credit and insurance schemes. There is thus scope for self-reliant export credit arrangements. It can be seen that there is a pressing need to create new institutional arrangements whose primary objective will be to reduce the financial dependency of the developing countries on the industrialised countries, and it is these new arrangements which will embody a new international financial order.

1/ For a brief discussion of these problems, see UNIDO, World Industry Since 1960: Progress and Prospects, pp. 301-314, ID:CONF.4/2.

New initiatives have been taken in recent years to develop and strengthen co-operation between developing countries, on a sub-regional, regional and inter-regional basis. Only some of these initiatives have been successful. While the effective foundation of this Third World finance institution would not be a sufficient condition for effective inter-regional Third World co-operation, it certainly appears a necessary condition for strengthening such co-operation. In this respect, its anticipated impact in cementing Third World collective self-reliance, can be compared to the undoubted success of the World Bank in strengthening North/South interdependence.

Two issues have to be squarely faced in a consideration of this proposal for a new financing institution. The first issue relates to additionality, i.e. whether a new institution would attract new funds or merely divert funds from existing institutions. The second issue relates to whether there is in fact a shortage of funds for industrial financing or a gap in the international financial structure.

Additionality

Since by definition the global balance of payments must balance, funds attracted to this new institution would indeed represent funds from the South which otherwise would be deposited elsewhere: largely in near liquid form in the Eurocredit market, the commercial banks and government paper of the North. In the Eurocredit market alone, a significant part of an estimated $500 billion in near liquid deposits is owned by countries of the South. One aim of this proposal is to transform part of this near liquid finance into stable forms of long term industrial investment by means of a mechanism controlled by the South: there may well be a preference by Southern investors to lessen their dependency on the Northern financial markets where they exercise no control, and where their investments are in instruments which are not protected against inflation. Investments made through the medium of the Agency in equities would offer to the subscriber to its capital the kind of protection provided by an inflation-indexed bond. Moreover, the Southern investor would also have the assurance that the capital value of investments placed in the Third World in this way, would be relatively more stable because of geographical diversification of risk, free from the potential control of the North. The need for a restructuring of the international financial system is reflected by the excess liquidities of the system which persists despite the long-term industrial investment requirements of the Third World. The international financial system is presently anchored in the North, especially in the Transnational Banks. This proposal aims to get away from the monopoly focus in the North by providing a bridge across the South. It would represent the beginning of the restructuring of the international financial system, and would ensure an additional flow of long-term investment into Southern industry.

The Gaps in Industrial Financing

Two separate gaps exist in finance flowing to Third World industry. First, progress towards the Lima target requires a significant expansion of investment in industry beyond the levels that can be expected of existing channels for investment, whether financed through domestic savings in developing countries or from foreign sources.[1/] Second, the finance available is almost wholly in the form of fixed-term bank lending, rather than in the form of long-term risk capital. Risk capital offers an advantage over straight debt financing in that interest or dividend payments can be designed to fluctuate with profits or output. The financial markets of the North have been unwilling or unable to develop suitable risk finance instruments which can substitute for direct foreign investment and the Transnational Corporation.

From the standpoint of Third World users of funds, the institution would offer the possibility of obtaining equity investment in a manner acceptable to many Third World governments, on terms which respect sensitivities concerning national control, sovereignty and domestic objectives, and confer upon the Third World investor the safeguards and degree of security expected by any foreign investor. Through its institution-building activities it would add to the number of commercially viable investment projects in developing countries. Financing mechanisms could be found within the Agency which would also provide export credit financing for promoting exports of industrial output, especially in the area of technology sophisticated goods and services, within the South as well as to the industrialised countries.

In a consideration of industrial financing gaps, of some relevance are recent trends in Northern agencies, bilateral and multilateral, towards "basic needs" and rural development. Whether the policy prescriptions behind these trends are correct or incorrect, the net results seem certain to lead to a decrease in the proportion of Northern ODA available for industry. Of perhaps equal relevance is the pessimistic perception that at a time of declining industrial competitiveness in the North, Northern bilateral and multilateral agencies may be unwilling to increase financing available to potential competitors, i.e. Southern industry. Table 1 below shows World Bank lending to industry; the proportion of funds lent to industry seems to be declining, and has not even kept pace with the rate of inflation.

1/ For estimates of the financing requirements in industry, see UNIDO, Industry 2000 - New Perspectives, ID/CONF.4/3, pp. 113-115.

Table 1: World Bank group lending to industry, 1975-1978 (US $ million)

	1975	1976	1977	1978	1979
IDFD/DFC[a/]	543.7	743.6	756.2	909.9	676.8
Industry (Direct)	760.3	606.0	587.0	391.8	842.5
Non-project	520.0	229.0	216.5	155.0	381.5
IFC[b/]	211.7	245.3	258.9	338.4	419.3
Total Industry	2,035.7	1,823.9	1,818.6	1,795.1	2,320.1
Total IBRD/IDA/IFC	6,107.5	6,877.7	7,175.7	8,749.1	10,288.1
Industry as percentage of Total IBRD/IDA/IFC	33.3%	26.5%	25.3%	20.5%	22.6%

a/ Lending by IBRD.

b/ These figures overstate IFC investment to industry to the extent that a small part of these investments have non-industrial uses.

Source: IFC and World Bank Annual Reports, 1979 are Bank estimates.

Lastly, a cliché frequently heard in some quarters is that if a larger number of "good" industrial projects were available in developing countries, finance would be readily available. Whatever the validity of this claim, one major recommendation, for an Industrial Project Preparation Facility,[1/] ties in closely with this proposal for a new Industrial Financing Agency: the project preparation facility would be a crucial instrument for seeking out and promoting in bankable form new industrial projects, thus increasing the absorptive capacity of least developed countries.

The Proposal

This proposal is designed to deepen the content of the concept of collective self-reliance within the South by setting up an International Industrial Finance Agency (IIFA) whose main task will be to:

(a) serve as a channel for intra-Third World investment:

(b) promote and help to make effective independent Third World financial institutions, instruments and arrangements which can themselves serve as conduits for Third World financial flows;

(c) provide a Third World export credit fund designed to facilitate financial backing for exports, particularly of manufactured exports, capital goods and technology, both within the Third World and to the industrialised countries.

Advantages of an International Industrial Finance Agency

A basic aim of the IIFA is the establishment of institutional arrangements controlled by and located in the South to facilitate long-term investment on non-concessional terms of surplus finds from the capital-rich countries of the South, e.g. certain oil-exporting

1/ See UNIDO, Industry 2000 - New Perspectives, op.cit., p. 235.

developing countries and other Third World countries, to the industrial sector in other developing countries including those which are well advanced along the road to industrialisation.1/ The justification for the establishment of such institutional arrangements lies in the need to create direct links between the suppliers of capital and the users of capital without the requirement of having Northern financing institutions, banks and enterprises interposed between capital surplus and capital deficit countries of the South. Not only does the latter interposition strengthen the dependency of the South on the North, but also increases the cost of financing and therefore the profits of the transnational banks providing this intermediation.

In this connexion, even ignoring the perceived disadvantages associated with direct foreign investment and the transnational corporations, i.e. restrictions on the transfer of technology, transfer pricing, possible loss of sovereignty, export market restrictions, etc., these same foreign enterprises often obtain a significant proportion of their own finance from the South: there is the phenomenon of transnational corporations using Third World funds for direct foreign investment elsewhere in the Third World. A related phenomenon is the great concern sometimes expressed by eminent persons in the North about the equity holdings and control of developing countries in Northern industrial firms, including transnational corporations.2/ There is a distrust of the holders of oil surpluses and a reluctance to allow such holders to participate in forms of investment where they might be protected against inflation.

The strengthening of direct links, which already exist in rudimentary form at the present time, is particularly relevant in the area of industrial finance, especially relating to the raw material and mineral processing sectors, where benefits can be gained by both the surplus and deficit developing countries. More specifically, it opens to capital deficit developing countries the possibility of procuring of long-term financing on commercial terms in both debt and equity forms, from sources of investment which, while requiring the conventional degree of security associated with such investment, may be more responsive to broader issues involving national control and sovereignty. Moreover, financial resources obtained in an unpackaged form, i.e. separate from the package of finance, technology and management which comprises direct foreign investment, are often more desirable to those developing countries which, while holding high capability in specific industrial sectors, lack financial resources.

1/ See ID/CONF.4/2, op.cit., pp. 39-42.

2/ For the report of a recent debate see International Herald Tribune, 18 July 1979. See earlier discussions and reports in The Wall Street Journal, 22 January 1974, 26 February 1975, 5 March 1975. See also US Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on Securities, Foreign Investment Act of 1975: Hearings 94th Congress, first session and Hearings 93rd Congress, first session, serial no. 93-71.

The IIFA would offer several advantages for investors from developing countries. While requiring conventional investor protection, these countries see the importance of investing at least a part of their savings, particularly where the savings are based on non-renewable natural resources, in financial instruments which provide a measure of protection against inflation, i.e. through investment instruments with the equity characteristic of profit sharing. A return that could have been earned by a diversified portfolio drawn from four Latin American countries over 1950-1968 has been calculated at over 6 percentage points above the return of shares on the New York stock exchange in the same period.[1/] Equally important to the surplus developing countries are benefits to be derived from placing at least a part of their investment portfolios in countries of the world outside the control or potential control of countries of the North. Established financial theory advises the rational investor concerned with long-term returns to diversify his portfolio. Risk diversification applies to all types of risks, including the political risk of asset and foreign exchange reserve seizure, confiscation or freezing. The concentration of placements in a small number of Northern financial centres may leave capital-surplus developing countries vulnerable to actions that may be taken by these industrialised countries. No agreement was reached with these industrialised countries at the CIEC (i.e. the "North/South" Conference) in Paris, 1977, with regard to the protection of the financial assets of the oil-exporting developing countries.[2/]

Aims of the International Industrial Finance Agency

It is proposed that an International Industrial Finance Agency,[3/] be founded by developing countries with the following aims:

(a) To further the economic development of developing countries by encouraging the growth of productive enterprises, particularly by direct financial linkages between developing countries.

1/ See Development Committee, Developing Country Access to Capital Markets, Washington, D. C., 1978, pp. 91-92 "Risk and Return on Investment in Developing Country Securities". See also Lessard, International Portfolio Diversification: An Analysis for a Group of Latin American Countries, Journal of Finance, June 1973, pp. 619-633. See also Lessard and Wellons, Financing Development: Innovation in Private Capital Markets. April 1979, paper commissioned for Industry 2000 - New Perspectives, ID/CONF.4/3.

2/ UN General Assembly, Development and International Economic Co-operation: Implementation of the Decisions adopted by the General Assembly at its Seventh Special Session: Report on the Conference on International Economic Co-operation, A/31/478/Add. 1, 9 August 1977, p. 150.

3/ While there is some similarity between this proposed agency and the International Fund for Agricultural Development, there are significant differences in its orientation towards industry, South/South linkage and the promotion of additional investment channels, its emphasis on non-concessional funds, and the mixed public/private institution emphasis.

(b) In association with public and private investors in developing countries, to assist in the promotion, financing, establishment, improvement and expansion of productive enterprises, including regional and sub-regional industrial enterprises and multinational enterprises, which would contribute to the development of its member countries, with or without the guarantee of repayment by member governmens, as appropriate.

(c) To seek to bring together industrial project and programme investment opportunities, domestic and other developing country sources of capital, technology and management.

(d) To seek to stimulate, and to help create conditions conducive to the flow of private and public resources, originating principally within and between developing countries, through the promotion of financial instruments, advice, arrangements and institutions appropriate to the social, cultural and economic environment of member countries.

(e) To foster mutual benefit based on equality and self-reliance between all developing countries.

Membership

It is envisaged that membership of this Agency would be open to governments and financial entities of all developing countries. Control and management would be exercised strictly by the Third World, with an appropriate voting structure, to protect the interests of all parties. A number of arrangements are possible for solving this issue, but it is recognised that this paper is not the place for attempting to reach a determination on the issue. The initial resources of the Agency would consist of paid-up and callable share capital in agreed proportions. The initial capital of the Agency is envisaged to be of the order of $ 5 billion, with $ 500 million paid in, leaving 90 per cent as callable capital. The Agency would be authorised to augment its resources by the issue of debt instrments in international markets as well as through bilateral arrangements in the developing countries, against the security of its callable capital and through earnings accumulated from its operations. It will operate on a basis which will yield a renumerative rate of return to subscribers of its capital, through appropriate investments and placement of funds.

It is envisaged that while control of this Agency would be wholly in the hands of Third World entities, this would not preclude mutual arrangements, on appropriate terms, with governmental, intergovernmental and private institutions and enterprises of the industrialised countries. However, its bias would be towards the Third World and accordingly it would be neutral with respect to private enterprise, direct foreign investment and transnational corporations, recognising the diversity of developing country perceptions of these latter phenomena. While there is some similarity between the aims of the institution proposed here and the aims of the World Bank affiliate, the International Finance Corporation, there are also significant differences: this proposal aims towards direct financial linkages within the Third World, i.e. South to South interdependence based on equality; in this connexion the composition of voting power existing in the IFC is shown in table 2 below. It is recognised that there is some diversity in Third World perceptions of the role of the public sector and state participation in productive enterprises, and the management of the proposed agency would be expected to be fully sensitive towards this diversity of perception.

The clients of the agency would include both state-owned as well as private firms from the South. Positive consideration would be given to investment partners supplying management and technology from Third World sources, including Third World Multinational Corporations, and while collaboration with transnational corporations would not be precluded, such collaboration would also be sought from the medium-sized firms of the OECD countries as well as similar firms from the socialist countries. In this connexion, the recommendation for mobilising the potential of medium-sized enterprises and other non-TNCs[1/] would be supportive of the Agency's activities in this regard.

Table 2: Voting power of member countries of the International Finance Corporation, 1978

United States	31.8%	Canada	4.3%
United Kingdom	8.6%	Other OECD countries	13.6%
Federal Republic of Germany	5.7%	All OECD countries	69.4%
France	3.6%	Other countries (including developing countries)	30.6%
Japan	1.8%		

Source: Annual Report, IFC, 1978.

3. OPERATIONS

Staffing

The Agency would employ its own management and professional staff, competent in the workings of the market place, for financial and project operations. While this technical staff would collaborate with staff from existing North-based bilateral and multilateral institutions, care would be taken both to avoid dependency on this collaboration and to avoid the growth of an enlarged bureaucracy. In this connexion, it should be noted that although the existing multilateral financing institutions are less subject to some of the immediate commercial and political pressures and preferences that can afflict the Northern bilateral finance agencies and more objective in their geographical lending allocations, they are nevertheless considerably under the influence of the North. Equally, major practices and assumptions have become established in the past in management and staff perceptions, and this affects many aspects of investment policy and procedures.

1/ See Industry 2000 - New Perspectives, op.cit., pp. 168-170.

Investment

The Agency will use its own funds to provide finance in conventional and innovative forms of debt and equity to productive enterprises, particularly industry in the Third World. Depending on the capital structure of the Agency, it ought to be possible for it to function *inter alia* as an investment trust, placing some portion of its funds in a diversified portfolio of investment instruments in the Third World. It is envisaged that the Agency can complement this purely financing function by also acting in the nature of a Third World investment bank; it will in this manner put together financing packages for the development of commercially viable industrial ventures, entering into suitable co-financing arrangements with private banks. To the extent to which the Agency caters to the entire Third World, it will pay particular attention to the setting up of multi-country or multinational industries, taking account of particular regional circumstances and of the need to expand export markets.

Project Packaging in Mineral Processing

It is envisaged that in its project financing operations, fundamental consideration would be given to control by Third World entitites, financial viability and national economic viability. In recognising that many developing countries are relatively small with limited markets, and that there are significant economies of scale in the production of certain industrial goods, the Agency will give attention to the promotion and financing of viable regional, sub-regional and Third World multinational industrial enterprises. An important area of the Agency's activity would be in the financing of projects in the mineral and mineral processing areas, since it is recognised that in these areas many Third World countries possess considerable comparative advantage. In this connexion, the recommendation for joint efforts for marketing, exploration, processing and financing,[1/] which envisages, *inter alia*, regional processing facilities run by regional multinational corporations, would clearly benefit to a considerable extent by the operations of this Agency. It is envisaged that the Agency *itself* would have a comparative advantage as a supplier of finance in the latter area, since developing countries are particularly sensitive to the exploitation of their national "patrimony" by transnational corporations, i.e. the Agency's activities in this respect could provide an alterentive to the North-based transnational corporation. In the same context, the Agency is envisaged to be active in project packaging, i.e. bringing together non-TNC Third World technology suppliers, Third World finance sources and Third World raw material producers in "down-stream" processing ventures. In this connexion, it is sometimes forgotten that Northern investors and institutions have a near monopoly of information regarding investment opportunities, and that when attractive investment opportunities arise, these Northern investors have often the "right of first refusal". The activity of the Agency, provided it makes its presence in the marketplace effective, should go some way towards counteracting this symptom of dependency, at the same time increasing alterantive sources of finance and technology.

1/ See Industry 2000 - New Perspectives, op.cit., pp. 212-213.

The Promotion of New Institutions

While the Agency would itself be a channel for finance in both debt and equity forms. once the Agency becomes fully operational, its second main task would be to foster the growth of additional channels of direct linkage between Third World entities. Thus, in concert with Third World governments acting bilaterally/regionally/intraregionally/ multilaterally, it should assist in the promotion, strengthening and development of financial institutions, particularly specialist industrial financial institutions, through which direct linkage could be accomplished. In the long run, it will be desirable for the South to build up financial markets, mechanisms and institutions comparable to those in the North. Only in this way will the South achieve parity in financial development. The proces process of developing such financial strength is likely to last well beyond the year 2000, but it is desirable that steps should be taken to move towards parity with the North as soon as possible.

The essential requirement is that financial institutions should be developed which are owned, financed and managed by the developing countries, and are located among them. Such institutions may be national or multinational, private sector, public sector, or mixed. They should include banks, insurance companies, pension funds; organised money and capital markets capable of mobilising funds swiftly and efficiently; supra-national institutions for central bank settlements and balance of payments assistance; and payments unions, monetary unions, and other institutions for co-operation, for example in trade finance. It should be recognised that for developing countries to establish such institutions will take considerable time, and probably involve many teething troubles. It may also require the rejection of "North-dominated" proposals which may work better in the short and medium term, in favour of "South-dominated" proposals which may take off more slowly, but which may be more satisfactory in the long run.

The Promotion of New Finance Instruments

In keeping with its main thrust towards direct linkage and collective self-reliance, it is envisaged that the Agency would also be innovative with regard to the financial instruments used with the Third World.

Thus while the specific financial instruments used by the latter institutions will include the conventional instruments, such as long-term bank loans, underwriting and the purchase of equity shares, bond issues, etc., a number of new financial instruments might be equally appropriate. It must be emphasised that concurrent with changing industrial technology of the North, there is in the North the development and application of new financial technology in response to the needs of changing markets: the floating rate note, certificates of deposit etc. In a like manner, financial instruments reflecting the needs of the developing countries - both of the suppliers of finance and the users of finance - have also to be developed.[1/] Thus an important activity of this Agency charged with the

1/ The Development Committee has identified a number of new financial instruments to facilitate North/South interchanges which are of great interest. See Development Committee, op.cit.

promotional activity identified above would be the development of new financial instruments to facilitate exchange and investment among the nations of the South. The search for and application of new financial instruments are of crucial importance. The activity of the Agency should go well beyond the introduction of "conventional" debt and equity instruments into financial arrangements for profit sharing and risk sharing at the enterprise and national levels without control features, i.e. non-voting and non-controlling equity instruments. It must be emphasised that the financial arrangements and instruments developed in Western Europe in the 19th century and earlier, came into use to serve the economic and social needs of specific societies with specific needs;[1/] it cannot be assumed that these social and economic conditions are replicated in the Third World in 1979.

Innovations have to be sought to substitute for the TNC's presence: some Third World countries perceive risks in using the mechanism of DFI, in particular the mechanism of the transnational corporation; they may prefer either to dispense with the DFI mechanism or to limit DFI only to specific industrial branches.[2/] Alternatively, they seek to control transnational corporations; this control may be either inadequate and thus unsuccessful or if adequate may deter the TNC from co-operating with the developing country. Alternatives to the transnational corporation as a supplier of technology have been indicated above: alternatives to the transnational corporation as a supplier of finance include national and regional unit investment trusts, bonds indexed to commodity prices, trade-linked bonds, flexible credit lines, bank loans indexed to commodity prices,[3/] etc. Another alternative may be the joint investment company, an innovation which has been resorted to in arrangements between oil-exporting and other Third World countries. Yet another alternative may be conventional DFI which incorporates the "fade-out" principle, whereby the foreign partner contracts in advance that the developing country partner becomes the owner and controller of the business under certain conditions.[4/]

The Export Credit Window

One task of the Agency will be to provide export financing through a Third World Export Credit Fund. A number of developing countries have increased their industrial capability in the capital goods and producer goods sectors[5/] to the extent where they have

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1/ The Stock Exchange was founded in London in 1773. Joint Stock banks (other than the Bank of England) were founded in England in 1826. Before 1773 and 1826 the social and economic need for these institutions was either unrecognised or non-existent. The Moscow Narodny Bank was established in London in 1919; in 1959 it was sub-titled "Bank for East-West Trade". The same rationale, i.e. social and economic need by the "actors" concerned, applied to the founding of both sets of finance institutions.

2/ For example, see Industrial Priorities in Developing Countries, UNIDO, 1979. This latter publication examines industrial policies, inter alia, regarding direct foreign investment in Brazil, India, Mexico, the Republic of Korea and Turkey.

3/ See section 5.5.2 on the promotion of new risk capital finance instruments, ID/CONF.4/3.

4/ See a New United Nations Structure for Global Economic Co-operation, United Nations, New York, 1975, pp. 83-85.

5/ See paper by Lall, S., Third World Technology Transfer and Third World TNCs, commissioned by Industry 2000 - New Perspectives, op.cit. See also below.

been able to compete successfully with a wide range of these goods produced by industrialised countries; Third World producers have been able to compete successfully in the markets of both developing and industrialised countries. There is, however, a need for a new mechanism through which developing country exports in the latter sectors could be strengthened in a manner mutually beneficial to Third World purchases and producers. In order to encourage South/South and South/North trade in capital goods and to assist in making the conditions on which these goods are purchased competitive with products from the industrialised countries, it is proposed that a Third World Export Credit Fund should be established[1/] as one of the finance windows of the IIFA.

The Fund's main task would be to refinance credit, made available by domestic banking sources, using its own first class name to secure more favourable financing terms than would otherwise be available. Its primary function would be to provide export credits for South/South trade in manufactures including capital goods and technology, but it could also provide credits for such Southern exports to the North. An important element of the finance provided, whether in the form of buyers or suppliers credits, is that it would seek to be on terms comparable with those terms by which industrialised countries make credit available to their own industrial capital goods producers, as appropriate.

It is noted that discussion on a Multilateral Export Credit Guarantee Facility has taken place over a considerable period of time in both UNCTAD[2/] and the World Bank;[3/] the same concept also received attention and support in the recommendations of the Pearson Commission.[4/] These activities deserve the fullest support and it is to be hoped that the problems which still need to be resolved can be brought to a rapid conclusion. The eventual setting up of a multilateral facility based on the concept of North/South interdependence, would effectively complement the activity of this export credit window of the International Industrial Finance Agency. Moreover, some of the work in solving the strictly technical issues arising in export credit would be useful inputs to the resolution of similar issues facing the Export Credit Window of the Agency.

It has to be recognised, however, that in certain industrial sectors a facility based on the concept of collective self-reliance would be more effective in meeting the considerable competition for export markets of manufactures: not only do the governments of the North compete among themselves for such markets, but also there is considerable competition among the commercial banks in providing such financing for Northern enterprises.

1/ In this connexion, some of the features of BLADES, the Banco Latino-Americano de Exportaciones, opened on 1 January 1979 in Panama, might serve as a useful model.

2/ See Export Credits as a Means of Promoting Exports from Developing Countries, UNCTAD, TC/B/494, 1974.

3/ A proposal for a Multilateral Export Credit Facility was first discussed at the Annual Meeting of the Governors of the World Bank in 1972.

4/ Partners in Development, Report of the Commission on International Development, Pearson, L.B., Chairman, Washington 1969.

Thus, at a time of declining competitiveness in certain industrial sectors in the North, Northern agencies may be unwilling to facilitate export financing availability to Southern competitors in these sectors.

Consideration might be given to arrangements for the provision of buyers credits on semi-commercial terms, as appropriate, to the poorer members, these funds being constrained to purchase manufactured goods and services strictly from Third World member countries.

Technology exports among developing countries have grown significantly in recent years. A major problem with this trade, however, is the inadequacy of financial support. The Fund would, therefore, have a special task in this area. Several developing countries have already attempted to offer financial assistance to corporations exporting technology abroad in various forms. Present financial arrangements have, however, three areas of weakness:

- Export and import credit arrangements for both buyers and sellers of technology in developing countries;
- Insurance facilities which would allow adequate cover for the transactions;
- Financial guarantees for tenders and other forms of international bidding for technology contracts.

As is well known, credit, insurance, and guarantee systems allow the realisation of economies of scale and hence a relatively small input of financial resources through the Fund should be sufficient for several technology exporters to receive support. At the same time, international action of this type ought to provide more acceptable risk coverage for those cases where developing country exports of technology have to compete with perspective sales from the industrialised countries. The activities of the Agency with regard to the financing of Third World technology exports would be fully in concern with another major proposal presented to this Conference, namely the proposal for an International Industrial Technology Institute.1/ This Institute could collaborate with the Agency in the provision of technology in the fields of energy and mining and mineral processing.

It is recognised that a number of technical issues will have to be overcome in an appropriate forum. Among these issues are the initial capitalisation, proportions of paid-up and uncalled capital; the control and management structure together with the voting powers of participants; the number of windows engaged in various finance activities; the scale, distribution and terms of finance among members; relationship between the Agency and central and commercial banks; arrangements with other finance institutions, exporters and importers; relationship between the Agency and non-Third World entities, etc. These important issues, many of which are technical and complex, have not been dealt

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1/ See Industry 2000 - New Perspectives, op. cit., pp. 192-195.

with here. The major political issue is whether the international community can agree on the desirability of an International Industrial Finance Agency, based on the concept outlined here, and furthermore whether the international community is prepared to provide an instrument which could lead to the formation of the International Industrial Finance Agency.

The Secretariat invites the Third General Conference to approve in principle the concept outlined above for the establishment of an International Industrial Finance Agency and to designate an appropriate international body or bodies to provide a forum and to initiate negotiations with member countries, international organisations and international and regional financial institutions to set up the Agency.