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THE ROLE OF NATIONAL AND INTERNATIONAL FINANCE INSTITUTIONS IN THE PROMOTION OF ENTERPRISE-TO-ENTERPRISE CO-OPERATION *

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Background paper on the possible role of national and international finance institutions in the promotion of international enterprise-to-enterprise cooperation

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Summary

The paper submits that because of serious financial sector distress in most developing countries the scope is limited for partnership with National Development Finance Institutions (DFI's) and that therefore prospective ETE-partners will (have to) be found mostly among the multi-services institutions and commercial (universal) banks.

International finance institutions on the other hand, through their active support for structural adjustment, will help bring about sectoral reforms favouring market-based (industrial) development but this positive trend may not be sufficient to reverse the reluctance on the part of capital exporters to commit fresh funds to the indebted countries.

This paradox - of an improved investment climinate not being matched by increased net inflows of investment capital - provides a new challenge in development cooperation which can and will be met if at the donor side the focus on government and officialdom as well as ad-hocism give way in favour of decentralization into the mainstream of entrepreneurial activity.

The paper lists a number of areas in which current development cooperation policies and practices should shift in order for enterprise development to be adopted as a long term business exchange, benefitting both the recipient and donor parties. A few new initiatives are mentioned to illustrate these changes.

Finally, the paper makes some suggestions how UNIDO could possibly contribute towards the realization of a more conducive international policy framework for industrial development finance.

This background paper, together with other background papers, will be discussed in an Ad-Hoc Expert Group Meeting organized by UNIDO on co-operation between industrial enterprises from developed and developing countries, (see attached draft agenda).

The terms of reference for this background paper drawn up by UNIDO, are also attached.

National Finance Institutions

Development Finance is at crossroads since its inception in the sixties; its flight in the seventies and its retreat in the eighties.

The financial sector distress with which most developing countries are confronted since the debt crisis has been addressed off late by most leading multilateral and bilateral development agencies.

The World Bank devoted its 1988-1989 World Development Report to the restructuring requirements and development needs of the financial sector and installed a task force on Financial Sector Operations which recently completed its report.

The institutional problems created by the financial distress are highlighted by the following paragraph in the World Development Report:

"Financial institutions in many developing countries have suffered large losses: many are insolvent, and some have actually failed. The scale of the problem - the number of insolvent institutions, the size of their losses and the number of countries affected - is without precedent. Reform needs to go beyond recapitalizing insolvent banks. It must address the underlying causes of bank insolvency as well."

A thorough understanding of the underlying causes of distress among banks in developing cooperation in general and Development Financial Institutions (DFI) in particular is relevant to our subject because international enterprise-to-enterprise (ETE)-cooperation is unlikely to flourish without the active participation of national finance institutions.

It is, of course, beyond the scope of this workshop to try to get at the root of these problems, let alone to work out solutions. As for the macro- and meso- environments, the earlier mentioned report of the World Bank task force gives detailed recommendations for comprehensive policy reform programs to restore stability and growth in the financial sector as a whole.

In our focus at the micro level of national finance institutions, particularly DFIs, we must assume that the interest among development agencies to address these broader policy issues will eventually result in a much improved enabling environment for sound financial intermediaries.

But as we know, such policy reforms take time and it is therefore realistic to reckon with severe constraints for the national finance institutions in their contribution to the promotion of ETE-cooperation.

For a large group of DFIs these constraints go beyond their current financial distress: they effect their very raison d'etre. The original development orientation of these institutions has over time eroded to a point where it has resulted in financial non-performance and institutional stagnation. A recent OECD report (the substainability of Development Financial Institutions in an Evolutionary Environment; December 1988) recognizes this conflict between assigned function and financial performence, emphasizing poor financial management and, in many cases, questionable financial viability.

The analysis by the World Bank task force of the problems that beset DFIs and its recommendation to restore their financial capacity and institutional integrity, not only illustrates the major change that is now taking place in development finance thinking but also points to new approaches to market-based development finance services, relevant to our focus on the promotion of international ETE-cooperation.

* The task force:
  DFIs were initially visualised as multi-service institutions, supplying equity as well as debt, working capital as well as long-term investment financing, and also developing a range of marketable services, which could include management consulting, leasing, loan guarantees, project evaluation etc.

* As (World) Bank's operations (with DFIs) have evolved, however, attention has focussed almost exclusively on term credit. This high degree of specialization, in addition to encouraging excessive enterprise reliance on credit to the detriment of equity expansion, has increased the vulnerability of the DFIs to changes in the macro economic environment and to the desired growth of competition in the financial sector generally.

* Moreover, the combination of dependence on government and multilateral institution funds has weakened the concern of DFI-managers for profitability, while the emphasis on "developmental" objectives and narrow specialization on term lending has left most DFI-managers ill-trained in one of the fundamental skills required of a financial institution; viz, the management of risk.

* Renewed attention should be given to adequate diversification as an integral element of the (World) Bank's strategy for the development of market-based DFIs. Consequently most DFI-operations should include a clear plan for broadening their activity bases over time.

Should we therefore forget about the DFIs in planning for a (new) intervention in the market aimed at facilitating them to get involved in the promotion of ETE-cooperation?.

In a narrow institutional sense, the answer to this question depends on whether- in line with the new policies of market conformity urged upon the actors in the financial sector- the promotion and implementation of ETE-cooperation can be (made) a profitable service contributing towards a DFI's financial viability.

Market conformity in this context means departing with the assigned function -or presumed objective- of providing services that other institutions have found not (yet) worthwhile or too risky to provide. As the task force puts it: "Unless the market can be shown to have miscalculated the risks and likely returns associated with the activity, the DFI is almost certain to be less profitable and more exposed to risk than other (more broad based) financial institutions".

To avoid this "highly-developmental-low-or-no-profitability" dilemma, national finance institutions are likely to take a more critical look at new products or services suggested to them, particularly if they come with the familiar "developmental relevance" strings attached to them.

It is not surprising that in the rather far reaching "market dominance" approach followed by the task force, it recommends that" it should be incumbent upon the advocate for intervention (or proponent of an as yet unestablished product or service) to demonstrate that the removal of the market-inhibiting factor is either infeasible or undesirable, or that, even if removed, other factors- such as lack of experience and expertise etc. - would seriously retard an effective response by the financial system".

Put differently, only if ETE-cooperation can be structured in such manner that it looks, and actually turns out to be attractive bussiness, will it obtain a high ranking in the new business plans that national finance institutions no doubt will (have to) draw up.

It remains to be seen, however, whether such prevailence of market-dominated thinking and policies, as some of the policy makers (really policy advisers) in the donor circuit now recommend, will (can) indeed come about in the foreseeable future. Put to its extreme logic, development will (should) not take place until and unless the market has determined that it can be done in a sustainable (read: profitable) manner.

Given the great many development issues that are going to be with us for a long time, it is highly unlikely that policy deciders will opt for such a non-interventionist model. That, to be fair, also is apparently not what the multilateral policy makers are after.

* The President Memorandum on the task force:
  In the past, the Bank and member governments often overlooked the importance of financial sector development, using the financial sector to pursue short-term real sector objectives with the result of fragmenting financial markets and impeding efficient resource mobilisation and allocation.

* A cornerstone of the Banks's (new) financial sector development strategy will be the promotion of competitive, market-oriented financial systems and institutions. The liberalization of financial markets can provide powerful incentives for mobilizing domestic savings, attracting capital from abroad and directing these combined resources to production investments.
  (Since) the liberalisation of financial markets ... can be dangerously destabilising .... special attention will be given to establishing supportive legal and regulatory frameworks and to strengthening supervisory institutions.

Another important element of our focus on prospective partners for ETE-cooperation in the financial sector of recipient countries is the trend in financial markets in recent years towards "universal banking": the blending of commercial and investment banking to a comprehensive whole of state-of-the-art financial services.

Although this trend is now most apparent in high income countries, the underlying causes - deregulation, technology and economics of scale and scope - are such that one would expect these forces to also eventually spread this "growing convergence of the world's financial systems" to the developing countries. This the more so because the policy reorientation towards profitability in development finance referred to earlier, is likely to put a premium on those national finance institutions that are capable of monitoring corporate performance and controlling the behaviour of corporate managers. Multi-services institutions, such as universal banks, have proven to be in the best position to do so.

But the allignment of developing countries with the emerging world financial system wil take time; much time according to the World Development Report which expects the financial systems of developing countries as a whole to remain "quite heterogenous and shallow, with little long-term finance over the next two decades". As to the scarcity of the external long-term finance - and thus the urgent need to raise domestic savings - the WDR expects "that certainly in the next decade and perhaps in the next two, the net flow of foreign capital to most developing countries is likely to be relatively small, regardless of how the present debt crisis is resolved.
This decline in funding from abroad will make living with a shallow domestic finance system and little long-term finance difficult".

Although developing countries' economic structure and approaches to development will continue to differ significantly - requiring country-specific solutions to general development issues such as the promotion of ETE-cooperation - it nevertheless seems realistic to assume that our prospective partners in this type of international development cooperation will primarily be found among the multi-services institutions, if not (special windows of) the commercial banks and that the scope for partnership in this field with DFIs will be limited.

International Finance Institutions

The official donor agencies are likely to continue with their structural adjustment efforts, paying increasingly attention to sectoral reforms, such as the World Bank's policy package for the financial sector referred to above, emphasizing at the same time market-based approaches and providing active support for the type of institutional rehabilitation that is needed to bring about the desired reorientation towards a more balanced -mixed- economy.

Whereas these measures should go a long way in preventing the economic situation of the ldc's to worsen further, it nevertheless is realistic to expect a rather harsh business climate for new initiatives aimed at accelerating their industrial development such as the promotion of international ETE- cooperation.

Paradoxically, this harsh climate is no longer primarily brought about by private investment inhibiting factors within the host countries, but rather by the reluctance on the part of capital exporters to commit fresh funds to the indebted developing countries.
However, as these countries make progress in the liberalization of their financial and real markets, and as growth in their economies is restored, this unfortunate situation of attractive investment opportunities remaining unrealized for no good reason other than lack of sufficient investment capital, may well change again in favour of more foreign direct investment into these emerging markets.

We would, however, agree with those who predict that foreign direct investment into developing countries will remain very weak at least in the next five years or so. But we would also agree with those who see in this unfortunate situation a new challenge in development cooperation, calling for new measures to lower the barriers, real or imagined, now holding back otherwise perfectly sensible business decisions to go ahead with new industrial ventures in those countries. The promotion of international ETE-cooperation fits very well in this provided, of course, that such promotional efforts are in line with the market.

Modalities and forms of assistance, both from actors in the market and from development agencies such as UNIDO, ideally should be based on the strategic and tactical considerations likely to prevail among the industrial executives when planning for the appropriate place of the emerging markets in their global business plans.

Not surprisingly, various international professional bodies have been drawing attention off late to this important topic: the OECD's Development Center study on Foreign Direct Investments; the World Bank's Private Sector Development Action Program and ICC's Statement and Report on the promotion of Private Foreign Direct Investment in Developing Countries, to name a few. Also, the recent creation of MIGA and IFC's stepping up of its Foreign Investment Advisory Services (FIAS) can be seen in this light.

On the positive side, the following facts and arguments are often mentioned to underine the logic and likelihood of a -early?- resurgence of the international business community's interest in emerging markets:

- Increased investment is a pre-requisite for exports and foreign exchange earnings without which developing countries will not be able to maintain, let alone increase, their imports from the industrialized countries (over a third of the US and EC total exports and almost half of that of Japan are consumed by developing countries).

- For the past twenty years real economic growth in the Third World as a whole has been considerably higher than that of the industrial countries; there is no reason why this trend should not continue in the future.

- The improved economic performance resulting from host governments actions to address the problems of slower growth and adjust to the changing international economic environment.

- Increasing awareness among business leaders that temporary constraints and weaknesses cannot be permitted to disrupt longterm-investment plans in important markets.

- Companies are becoming more conscious of market access in developing their strategic planning because of the general awareness that major new trading blocs are emerging in Europe, North America and East Asia; consequently they seek to position themselves within these larger groupings to hedge against possible inter-blocs protectionism.

- Since intra East Asian trade is likely to remain limited - in spite of current attempts to transform ASEAN into an enlarged Asian Pacific Economic Cooperation system-leaving the countries in that area as trading competitors rather than trading partners, capital flows into the Asian developing countries may well increase faster than elsewhere as international companies seek to ensure continuing corporate access to these -segmented-, foreign markets, however the trading regime evolves.

- The transformation of Japan's model of export - led growth (to the rich markets in North America and Europe) into a model of foreign direct investment - led growth may well lead to such concerns among Asian recipient countries about the level of Japanese ownership in their economies that delibrate attempts will be made to further facilitate foreign direct investment in that area from other capital exporting countries.

On the negative side, the general reluctance on the part of investors to commit fresh funds in view of the continuing uncertain economic situation in most ldc's aggravated by the persistent debt crisis, is well known and documented.

- Potential investors are further discouraged by the weakening and sometimes disappearing markets in large parts of the developing world.

- Also, concern is increasing about recent signs in some debtor countries of unilateral action in debtor-creditor relationships.

- Furthermore there is also the increasing opportunity cost of investing in the developing world, compared to the new investment opportunities both of a defensive and offensive nature that now present themselves in the wake of the EC-integration in 1992 and the recently ratified North American Free Trade Agreement.

- Finally, this year's dramatic changes in Eastern Europe are also requiring the attention of company executives for possible forms of ETE-cooperation in that part of the world.

Roles

If we look at ETE as a form of enterprise development where the developmental inputs are organized by actors in the market rather than by the professional development institutions and agencies, assistance packages should be designed that on the one hand provide distinct additionality to the commercial initiatives that otherwise would have taken place in any case, and, on the other hand, make good business sense for both prospective partners, albeit perhaps of a more long term nature.

The additionality test comes in when ETE-cooperation requires facilities which are not readily available for that purpose at reasonable terms in the market.
A market-based approach to (industrial) development cooperation actually requires 'Public-Private-Partnerships' that today hardly exists in donor countries, with the exception perhaps of Japan. In fact, current development-cooperation practice in most donor countries is fractionalized into loosely coordinated (if at all) inputs by professional development organisations; bilateral governmental and non-governmental organisations; consultants; advisers etc.
If in the past such practices have not produced the desired results, it is because this 'ad-hocism' lacks the typical characteristics of sound private enterprise such as caution, selectivity, adaption, consistency, foresight and perhaps above all endurance.

The type of assistance package that is required obviously depends on the type of ETE-cooperation one aims for. Whereas greenfield investments (newly established joint venture enterprises transferring, besides capital, other needed entrepreneurial prerequisites) traditionally have been the preferred vehicle for development assistance, it is important not to limit the new support mechanisms to this type of ETE-cooperation, not only because the current business outlook may argue against new start-ups, but also because the structural adjustments now being carried out in many developing countries put a premium on other types of ETE-cooperation.

The underlying weaknesses of many private enterprises which are now being exposed, typically came about because of a protected environment which shielded them from foreign and domestic competition while making available financing at low or negative real interest rates. As the World Bank points out "the generalized financial distress of such firms inhibits continuation of the reform process and often creates strong pressures on the backtracking on the reforms".
The physical and financial restructuring of these private firms therefore has become a high priority, requiring costsharing among the owners, the creditors and often the government.

The other priority area is the growing interest in many developing countries to reduce the role of the public sector and privatize selected public enterprises. Whereas the multilateral donors pay active attention to state-owned enterprise reform, apparently few divestures have actually been carried out so far.

In a recent review the World Bank cites the following reasons for the slow progress: opposition from entrenched SOE-managers and labour unions; fears of being accused of "giving away" valuable SOE's to private well-connected individuals; serious valuation gaps between the government and the potential buyer; thin capital markets; weak administrative capacity of government to manage the process and inadequate regulatory environments to manage national monopolies.

Much of these difficulties is highly political and solving them will therefore largely depend on the backing one gets from the government to push the restructuring and privatizations through. But there is no doubt that in order to be eventually succesful governments need market-based expertise to help bring about these divestures and this type of ETE-cooperation may therefore well become an interesting opportunity for those market actors that specialize in this new field.

Finally, although peripheral to industrial cooperation, it may be useful to refer to a new type of ETE-cooperation that is emerging in the border area between traditional project work and enterprise development. This approach, known as the BOT (Build, own/operate and transfer) concept is directed at discrete parts of infrastructure for which private financing is being sought. There are several examples of this among sectors as diverse as transport, energy and health.

The BOT approach involves a partnership between the public agency responsible for the provision of a particular type of infrastructure and private domestic and foreign investors. The private entrepreneurs are typically responsible for mobilizing funds, construction and operation and maintenance.

In return they are allowed to retain some or all of the revenues from the users or through sales of the output to the public sector under pre-arranged terms and conditions. The recently approved loan from the World Bank for a Private Sector Energy Development Fund in Pakistan is one of the first major projects based on the BOT-concept.

Modalities and forms

What are the areas where a reorientation in the current organization and practice of development cooperation towards more market-based operations are likely to have the greatest impact?

First, the narrow focus on government and officialdom should give way in favour of decentralization into the mainstream of entrepreneurial activity with long term contracts for market actors being the rule rather than the exception;

Second, current emphasis on ad-hocism in the associations formed at the donor side should shift towards durable clusters which have a stake in the ultimate success of the development efforts;

Third, the qualification process for executing donor agencies' contracts should be shifted from the current narrow focus on individuals to generalized criteria on institutional quality and integrity as well as specific track record credentials. Also, in-house supervision and evaluation by donor agencies should be transformed into independent "performance audits" by professional bodies, measuring actual results in terms of enterpreneurial sustainibility

Fourth, viability screening, particularly of proposed industrial operations, should pay much more attention to the commercialization aspect, including trading and marketing arrangements with established market actors. In this connection, much is to be learned from the Japanese experience wich puts trade ahead of investment as is evidenced by the success of the Japanese international trading houses (Sogo Shosha's) which have now become important private agents for development (see also the OECD publication "Japan's General Trading Companies, Merchants of Economic Development").

Fifth, long term commitments towards enterprise development by the business community in donor countries should be facilitated by inducing finance institutions to make available venture capital, together with the type of professional services that are needed to promote and nurture new ventures in unestablished markets.

Sixth, donor agencies should give more weight to line-experience, compared to a consulting record, in selecting institutions and persons for their project work;

Seventh, In view of the serious shortage of professionals with the required skills and experience to execute the rehabilitation and restructuring work as well as the liberalization policies already experienced now by donor agencies and host organisations alike - a situation that will no doubt worsen in the near future - the pooling and blending of both active and non-active executives from the business community with agencies' professional staff and consultants should be broadened.
Agencies should therefore design facilities that make it possible to establish expertise-transfer operations of this kind as on ongoing business;

Eigth, the trust-fund mechanism should be broadened to enable multilateral donors and bilateral interests to blend in a more equitable manner, providing at the same time a sensible contribution to the need for less officialdom and more market-orientation referred to earlier.

Ninth, the recently announced Expanded Cofinancing Program by the World Bank should actively seek joint operations with IFC and bilateral official development finance institutions to help borrowers access voluntary finance, including venture capital.

If policies and practices were to shift in the direction suggested above, a different type of development cooperation is likely to emerge in which enterprise development is seen as a long term business exchange, benefitting both the recipient and donor parties.

Thus, the challenge is to organize enterprise-to-enterprise cooperation in such manner that both the official donor and the business community's objectives are being met in an equitable manner, thereby opening the way for blending soft and market funds and finances tailored to the specific needs of a particular enterprise development case.

The blending normally is crucial for the success of the development cooperation effort because of the high cost and prolonged time required to bridge the gap between a prospect and the independent viability of the enterprise (or cluster of enterprises) that may come out of it.
The key to tapping the soft funds available in the donor-circuit is the additionality provided by the business community in the donor countries. On the whole, that additionality has so far turned out to be insufficient and or inadequate to attract a sizeable portion of the aid-funds. Another reason is that the impartiality imposed on the multilateral organizations and bilateral donors makes them cumbersome partners in private business transactions. Yet another factor is, as said, the bureaucratization in the donor agencies.

Basic to the succesful undertaking of enterprise development as an ongoing business is the differentation between actions of a typically developmental nature - additional, therefore, the actions normally considered from a pure business point of view - and those serving own (mostly longer term) business interests.

Additionality, eligible for soft donor funds, includes such actions as:

- assistance in project indentification and project preparation
- support with prospect promotion
- forthcomingness in management advisory support
- forthcomingness in commercialization support
- extra efforts in expertise transfer.

The edge the industrial and services business community in donor countries has over professional consultants etc. in providing these services is that particularly in the current stage of restructuring and rehabilitation, 'hands-on' line-experience is in far greater need than non-committal advise. Obviously, that edge is only real if such services are delivered in accordance with the mandate given to the organization holding the soft funds.

Hitherto, that issue has been one of the main reasons for holding back a more prominent role of the private sector in development cooperation: few businesses see such involvement as part of their own strategic goals and if they do, are normally not well equiped to organize their interest on an enduring basis of some substance. On the other hand, strategic throw-offs from developmental partnerships is often looked upon by donors as a conflict-of-interest between the public natu0e of the support given and the ultimate private benefits to be derived from it.

Another shortcoming of the private sector's involvement in development cooperation is the lack of investment contribution. But enterprise development assistance without any investment transfer is in the end not credible and cannot really provide the basis for an enduring business exchange.

Some new Initiatives

- One of the ways to overcome these constraints is to organize development cooperation in the market as a professional service and cluster same around 'Private Participation and Development Companies'(PPDC's). Such companies would basically cater to the same (development) business as the multilateral, statal and para-statal organizations now do, with the difference that there would be a direct interest (as shareholders) of the donor -and possibly recipient -business community ensuring the type of interlinkage between market parties that gives a more mature -and lasting- partnership.

  The donor community seems to realize the importance of such PPDC's and is investigating ways and means to facilitate them. As far as we know there are at the moment two countries (the Netherlands and Japan) which seriously consider facilities, specifically geared to mobilize in the market the capital and expertise transfer needed for enterprise development.

  In Holland the core of that facility would be a guarantee -free of charge- by the government to indemnify eligible PPDC's key qualifications: only operational in DAC-countries and established in the Netherlands) for losses incurred due to the going out of business of the companies in which they have invested. The proposal is currently with the Minister for Development Cooperation and calls for a fifty-fifty risk sharing between the Government and the PPDC's.

  Preliminary investigations show that in such an approach adequate returns on invested capital can be realized provided the additionality of the shareholders is sufficient as pointed out before.

The most important reason for more favourable return prospects than what is currently known of similar multilateral and bilateral agencies, is that a PPDC can ignore impartiality and organize, through its shareholders, various fee-income based commercialization schemes that increase income commensurate with the extra risks and costs involved, even after discounting the guarantee-facility and soft-fund input.

- An example of additionality organized by actors in the industrial sector in donor countries is the Industry Council for Development (ICD).
  This cluster of some 50 companies actively interested in development cooperation not only enables line managers to participate in the expertise transfer process, but also facilitates access by recipient companies to the technical and business systems of ICD's members.

  The choice of ICD (Services) as executive agency of the newly created African Management Services Company (AMSCO), co-sponsored by several important multilateral institutions led by IFC and UNDP, highlights the practical scope for the type of public-private-partnership recommended in this paper.

  No doubt, AMSCO will contribute to the corporate renewal and development necessary for the sectoral reforms in Africa to succeed. In that manner such management services can also pave the way for private investors to return to Africa. Similar initiatives could be developed elsewhere in the world and the earlier mentioned PPDC's could thus become active partners in the restructuring process.

- The Japanese example of including trade and marketing arrangements in development schemes is getting more and more attention in the Western world. For example, the privately-owned Latin American Agribusiness Development Corporation (LAAD) now owns a subsidiary which itself markets (part of) the produce of LAAD's client companies in the US and European markets.

- Rabobank Nederland's decision to create a new subsidiary (RABO International Advisory Services - RIAS) to cater specifically to the demand for know how in cooperative institution building and agribusiness development, in as yet unestablished (banking) markets is another example of how development partnership can be dovetailed with a sound long term business rationale.

UNIDO

If the current trend of reorientation in development cooperation towards long term business partnerships continues, one must expect that a highly decentralized and competitive environment will evolve in which the corporate sector takes care of most of the execution of (industrial) development cooperation and in which the donor agencies increasingly limit their roles to policy guidance and policy support; complementary finance and related facilities as well as special initiatives of a catalytic nature to accelerate the general transfer process and/or to exploit niches not (yet) touched by the private sector.

In this context, improved donor coordination becomes a high priority. Although both the UN structure and most of the bilateral donor organizations were created in the spirit of complementarity and supplementarity, their - often self centered - circles of activity and influence now frequently overlap, confusing the (co)-actors in the market and diluting the combined strength of the donor community.

Seen in this light, and going by the priority areas for change mentioned in this paper, UNIDO would seem the logical partner in the following specific fields:

- In addressing the underlying causes of bank (DFI) insolvency, UNIDO could take upon it to ensure that (industrial) sector reforms include adequate policies and special programs for the rehabilitation and further development of industrial finance;

- In line with other donors' attention to establish supportive legal and regulatory frameworks and to strengthen supervisory institutions to make the liberalization of financial markets work, UNIDO could take charge of a special "industrial finance chapter" of the frameworks to be developed;

- UNIDO could help (renovated) DFI's develop policies and procedures that enable them to monitor corporate performance and controlling the behaviour of (industrial) corporate managers;

- To the extent that IFC's Foreign Investment Advisory Services include recommended improvements in industrial policies, UNIDO would seem to be a logical partner to (co) design such new policies;

- Having taken the lead among donor agencies in directly working with actors in the private sector in industrialized countries, UNIDO could provide quidance and perhaps assistance to the other multilateral and bilateral donors on groundrules for additionality to be delivered by the private (industrial) sector in order to qualify for donor facilities;

- UNIDO could also endeavour to extend such guidance on additionality groundrules to blueprints of workable public-private-partnership (triple P) frameworks;

- Another important area where UNIDO could play an active role is in assisting funding donors such as the World Bank help brake through the backtracking on (industrial) reforms, particularly the privaterization of selected public enterprises;

- Finally, UNIDO could help to restore the inflow of foreign direct investment by supporting policy making efforts to establish PPDC's in donor countries.

drs M.C. Piek
Utrecht, November 29, 1989