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Follow-up Committee on Industrialization
in Africa
Third meeting
Addis Ababa, 4 and 5 November 1976

PROJECT DOCUMENT ON THE ESTABLISHMENT
OF AN
AFRICAN INDUSTRIAL DEVELOPMENT FUND

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I. Authority, origin and nature of the proposal

In its final declaration, the Second Conference of African Ministers of Industry expressed its regret that an "adequate level of international flow of financial resources in particular to the industry sector has not been forthcoming and that acceptable external conditions were not realized", 1/ and recommended "the creation of financial institutions" 2/ within the framework of which new measures should be taken to further international co-operation. The Follow-up Committee on Industrialization in Africa, at its first meeting in Addis Ababa on 23 and 24 September 1974, recommended the establishment of an "African Industrial Development Fund" (hereafter referred to as "the Fund") "to support the new role envisaged for Africa in world industry". 3/ The third Conference of African ministers of Industry, held in Nairobi from 17 to 22 December 1975, recognized the necessity and urgency of the creation of the Fund. 4/

II. Justification for the establishment of the Fund

- (a) African Governments rely almost completely on borrowed money from abroad and on foreign consultants to undertake feasibility studies for industrial projects. This imposes on them a substantial additional financial burden, while Africans require no skills in carrying out feasibility studies, hence further dependence.
- (b) The overwhelming majority of Africans live in rural areas, where feasibility studies for large numbers of integrated packages of small-scale and rural industries could be undertaken. Rural communities can hardly afford to make a direct investment, let alone spend money on feasibility studies. On the other hand, the cost of undertaking such feasibility studies may exceed that charged for large industries. The Fund could assist Governments which intend to carry out such feasibility studies for as integrated package of small-scale and rural industries.
- (c) For large industries:
 - (i) Foreign funding organizations usually insist on having feasibility studies available to them, even though they are actually much more expensive;
 - (ii) Expensive feasibility studies whose cost must be paid for in a short time may contribute to making the price of the final products high;
 - (iii) If feasibility studies are carried out by competent independent African consultants with no direct or indirect vested interest in the projects themselves, there is a greater likelihood that the number of sterile projects will decrease.

1/ "Report of the Second Conference of African Ministers of Industry" (E/CN.14/613), para 1.

2/ Ibid., p. 28, sub para (iv)(b).

3/ "Report of the first meeting of the Follow-up Committee on Industrialization in Africa (E/CN.14/INR/211), p. 12, sub para (iv).

4/ "Report of the Third Conference of African Ministers of Industry" (E/CN.14/649) paras 48-50.

- (d) The scale of industrialization envisaged for the next 24 years by the Lima Declaration (increasing Africa's share in world industrial output from 0.8 per cent to 2 per cent by the year 2000) implies substantial technical assistance inputs, especially for the carrying out of feasibility studies; therefore, adequate provision must be made for financing them.

III. Objectives

- (a) The purpose of the proposed Fund is not the provision of capital investment, but rather the provision of finance for industrial preinvestment activities, without which the intended investment could never come about;
- (b) The Fund should in co-operation with other appropriate organizations, take the initiative in seeking out feasible projects;
- (c) It should provide general information, advice and guidance on investment processes to prospective individual or group investors;
- (d) On request, the Fund should recommend reliable and independent consulting engineering firms to undertake feasibility studies for proposed industrial projects
- (e) Whenever possible, the Fund should charge African Governments a concessionary rate for financing feasibility studies on integrated packages of small-scale and rural industries.

IV. Terms of operation

- (a) Financing by the Fund should be limited to projects carried out in Africa by African Governments, public corporations and private firms;
- (b) Borrowers should be responsible for the repayment of loans in accordance with an agreed schedule and terms, regardless of the outcome of the feasibility study;
- (c) In recommending a consulting engineering firm to a client, priority should be given to the regional African Centre for Industrial Consulting Engineering and Management, and to national institutions undertaking similar activities, provided that their terms for carrying out feasibility studies are competitive;
- (d) Charges for financing feasibility studies for African projects should be based on cost plus reasonable handling fees;
- (e) Preferential treatment should be given to small-scale and rural industries;
- (f) The Fund should institute working relationships with national, subregional, regional and international financial institutions engaged in financing African projects;

- (g) The Fund may also give technical assistance to financial institutions working in the same field at the national, subregional and regional levels;
- (h) The Fund should secure information concerning problems encountered in the operation of similar institutions in other developing regions;
- (i) Loans for feasibility studies should be repaid within a period of five years, including a grace period of two years.

V. Relationship between the Fund and the Regional Centres

- (a) In disbursing loans for pre-investment activities, the Fund should give priority to the regional centres, namely the African Centre for the Transfer, Adaptation and Development of Technology, the African Centre for Industrial Design and Manufacturing and the African Centre for Industrial Consulting Engineering and management;
- (b) Subject to the general conditions of viability, preference should be given by the Fund, at least initially, to financial assistance for feasibility studies on projects related to the transfer, adaptation and development of technology involving the priority sectors, namely metallurgical industries, iron and steel industries, chemical and petrochemical industries, mechanical engineering and supporting tool-making industries and small-scale and rural industries;
- (c) The Fund should co-ordinate its policies and programmes with three of the African regional centres.

VI. Expected impact

- (a) Reduction of the cost of feasibility studies;
- (b) Saving foreign exchange;
- (c) Greater utilization of local personnel and skills in the undertaking of feasibility studies as a result of recommendations of African consulting firms by the Fund;
- (d) Encouragement of a more realistic and disinterested appraisal of projects;
- (e) Fostering of financial and managerial self-reliance in the African region;
- (f) Acceleration of process of undertaking feasibility studies.

VII. Sources of financing

The sources for financing the Fund will consist of:

- (a) Subscriptions and/or grants from member African countries; 5/
- (b) Subscriptions and/or grants from developed countries;
- (c) Subscriptions and/or grants from other developing countries (especially oil producers);
- (d) Subscriptions, grants and/or soft loans from intergovernmental organizations in Africa such as ADB, or elsewhere, such as the Arab Bank for Economic Development in Africa;
- (e) Technical assistance funds from bilateral and multilateral sources.

VIII. Resource requirements

The estimated monetary resources required will be calculated on the basis of:

- (a) The number of industrial projects the Fund is expected to process;
- (b) The number of staff required to undertake such a task;
- (c) Salary levels.

These estimates are calculated in annex II on the basis of information on the resource requirements of ADB and ADF. However, in general terms, the initial subscriptions to the Fund should be sufficient to enable it to meet, at least for the first five years, its recurrent expenditure on staff and its lending operations for financing feasibility studies. At the end of its first five-year period, the requirements for the funds for financing increased demand for feasibility studies and increased staff should be re-considered in the light of the experience gained by the Fund.

IX. Personnel

The qualifications of the personnel required for the Fund will be directly related to the objectives listed above. The staff requirement must be such as to enable the Fund to implement at least a minimum effective programme, as described in sections III and IV.

In accordance with the concept of self-reliance it is expected that the Fund will be staffed predominantly by Africans. However, in view of the present scarcity of qualified African personnel in this field, the African expatriate staff ratio as well as the actual number of personnel required will have to be determined by a field mission and a committee of experts.

It is certainly too early to attempt a precise break-down of the Fund's skill requirement. But it is obvious that properly qualified personnel will be needed in the

5/ Opinions are divided concerning the desirable total African contribution to the Fund. In one view, African governments should contribute as much as two thirds of the Fund's requirements as a concrete demonstration of self-reliance; another view is that no fixed proportions should be laid down.

following areas:

- (a) market analysis;
- (b) Engineering (with emphasis on personnel with broad general knowledge and industrial experience, rather than narrow specialists);
- (c) Financial analysis;
- (d) Industrial management;
- (e) Industrial investment advisory services;
- (f) Industrial loan management.

X. Location

The choice of location will depend on the following criteria:

- (a) Substantial contributions from the host Government;
- (b) Good communications;
- (c) Suitable industrial environment;
- (d) Level of local costs.

XI. Organizational set up

A policy-making organ will be constituted by the subscribers to the Fund. The management of the Fund will be entrusted to an existing Industrial Development Bank located in Africa. Nevertheless, the Fund will have a secretariat of its own headed by an Executive Director directly responsible to the policy-making organ of the Fund in respect of its entire operations, through the managing bank.

The following operations will be entrusted to the Secretariat of the Fund:

- (a) Administration of personnel;
- (b) Advisory services to clients and investigating feasible projects;
- (c) Project analysis.

The managing bank will deal with lending, recuperating short-term investing and taking appropriate account books of loans approved by the Fund.

It is necessary to draw attention to the fact that early agreement will be necessary on voting arrangements within the policy-making body. One possible system is that used in ADB, which is based on the principle that voting power should not be granted in direct proportion to subscriptions; rather, the smaller subscribers are somewhat favoured at the expense of the larger ones.

XII. Technical assistance

The creation of the Fund will be a matter of some complexity. Policies must be established, operational systems and methods must be evolved and an efficient managerial structure must be developed. Many of the problems which require solutions may be of a novel type, especially as they will relate not only to the internal functioning of the Fund itself, but also to its interaction with Governments, other financial institutions, the three African regional centres currently in the planning stage, various international agencies, and so forth.

It is believed that other developing countries, on the basis of programmes for technical co-operation among developing countries and the United Nations system, particularly UNIDO, could be of substantial assistance to the Fund both during its preparatory phase and also during the initial period of operation. Help could be provided through resident experts, short-term consultants and contacts with individual organizations in both developed and developing countries.

It is at present too early to develop a detailed proposal. However, it is felt that resident expert assistance may be desirable for the top administrative level of the Fund as well as for management of each of the Fund's four major components. Such assistance would probably be effective only if it could continue for at least three years. This would correspond to a programme of 15 man/years. With the inclusion of the several other types of support already mentioned, a programme with an approximate cost of US\$1 million might be envisaged.

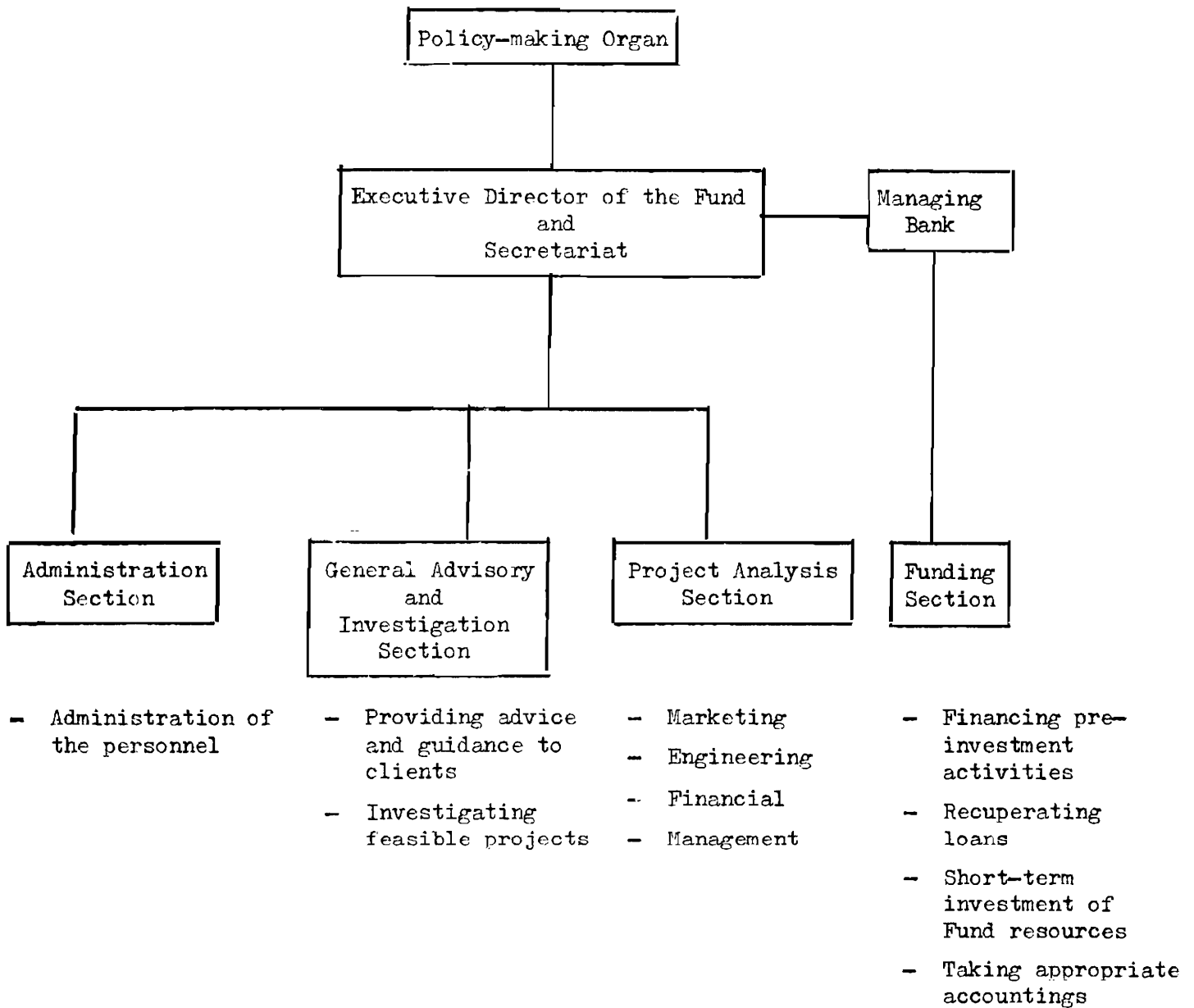
If such an assistance programme appears desirable, early efforts should be made to design its details; and then to determine whether financing can be secured under multi-lateral or bilateral international assistance, or whether the Fund should have its own regular budget.

XII. Schedule of implementation

- (a) Preliminary concept discussed by ECA and UNIDO - end of September 1976;
- (b) Internal discussions within the Joint Industry Division - 8 October 1976;
- (c) Final concept by the Joint Industry Division - 11 October 1976;
- (d) Discussions in the Follow-up Committee on Industrialization in Africa - 4 and 5 November 1976;
- (e) Discussions with selected countries through field missions - November 1976 - February 1977;
- (f) ECA/UNIDO meeting to discuss findings of the field missions and make any necessary modifications in the outline;
- (g) meeting of ministries of finance, industry and planning to draw up the final project document and assess country financial contributions - March/April 1977;
- (h) meeting of plenipotentiaries to establish the Fund - July 1977; 6/
- (i) Establishment of the Fund - November 1977.

6/ It is felt by some that the total amount of money required for the establishment of the Fund and for the three regional centres - the African Centre for Industrial Design and Manufacturing, the African Centre for Industrial Consulting Engineering and Management, and the African Centre for the Transfer, Adaptation and Development Technology - should for practical reasons be pledged at the same time by African countries and other donors.

ORGANIZATIONAL CONCEPT OF THE FUND



FINANCIAL ESTIMATE OF AIDF

(in thousand US dollars)

	FISCAL YEAR						Total
	1st	2nd	3rd	4th	5th		
	1977	1978	1979	1980	1981	1982	
1. Estimated number of projects (feasibility studies)		5	10	15	25	40	95
2. Professional m/m required per project, 12(4x3) <u>1/</u>		60	120	180	300	480	1140
3. Number of professionals required (2)/12 <u>2/</u>		5	10	15	25	40	-
4. Number of professionals required with increased efficiency, 10 per cent		5	9	14	23	36	-
5. Total number of staff (4)x3 <u>3/</u>		15	27	42	69	108	-
6. Number of approved projects (1)x80 per cent		4	8	12	20	32	76
7. Number of approved projects, disbursed in the year, 6 months time lag		2	6	10	16	26	60
8. Fund required for loans, 600x(7) <u>4/</u>		1200	3600	6000	9600	15600	36000
9. Expenses 72/yr x(4) <u>5/</u>		360	648	1008	1656	2592	6264
10. Total sum of projects handled, 600x(1)		3000	60000	9000	15000	24000	57000
11. Ratio, Expenses/Total project sum, per cent (9)/(10)		12%	11%	11%	11%	11%	-
12. Establishment cost <u>6/</u>	50						50
13. Subscriptions required, total <u>7/</u> of 8 above		36000					
14. Resources available for the year	0	36000	33742	31833	27143	18802	-
15. Expenses required upto next year		1058	1008	1656	2592	2592	
16. Loan disbursement, same as 8 above		1200	3600	6000	9600	15600	36000
17. Interest earned 8 per cent/yr		0	2699	2546	2171	1504	8920
18. Charges on loans, 1 per cent/yr, <u>8/</u> 2 yr grace (8)x0.01		0	0	20	80	180	320
19. Repayments, 5 yr inclusive, <u>9/</u> 2 yr grace		0	0	400	1600	3600	5600
20. Resources available for short-term investment		33742	31833	27143	18802	5894	-
21. Net income		-1058	1691	910	-341	-908	-
22. Cumulative net income		-1058	633	1543	1202	294	

- | | |
|-------------------------------------------------|-----------------------------------------------------------------------------------|
| <u>1/</u> ADF: 21 m/m project | <u>7/</u> ADF: 99700 + 40700 = 140400 (initial and additional in 2nd fiscal year) |
| <u>2/</u> ADB: 87 (2nd fiscal year at end 1975) | <u>8/</u> ADF: 0.75%/yr |
| <u>3/</u> ADB: x 3.2; total 278 | <u>9/</u> ADF: 13 years inclusive, 3 years grace (for feasibility study) |
| <u>4/</u> ADF: 594 (for feasibility study) | |
| <u>5/</u> 48 + 50% overhead = 72; ABD 73/yr | |
| <u>6/</u> ADF 59 | |

Note: Additional resources are required in 1982 to finance loans and expenses necessary in and after 1983.