

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



Distr.
LIMITED

E/CN.14/INR/29
28 November 1963

Original: ENGLISH



ECONOMIC COMMISSION FOR AFRICA
Standing Committee on Industry,
Natural Resources and Transport
Second session
Addis Ababa, 3-13 December 1963

STUDY OF THE PROBLEMS OF FINANCING INDUSTRY
IN AFRICA

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Introduction

1. The Economic Commission for Africa, at its fifth session held in Leopoldville in February-March 1963, requested the Executive Secretary to make a "study of the problems of financing industry in Africa, including analysis of self-financing methods, the channelling of private savings to industry through development of capital markets, internal financing of the sale of capital goods, international financing through international agencies and other channels, and the provision of credit for export of manufactures, in co-operation with the Center for Industrial Development, the African Development Bank when set up, other international financing agencies and private banks". ^{1/}

2. The progress of work undertaken in relation to this study is now submitted to the Standing Committee on Industry, Natural Resources and Transport for consideration and further transmission to the sixth session of the Commission.

Progress report on current studies

3. The attention of the Committee is called to certain current studies undertaken by the Secretariat of the United Nations pursuant to the recommendations made by the General Assembly's Committee for Industrial Development. These studies, although intended to cover a large number of developing countries, are of interest for the study specifically called for by the Economic Commission for Africa.

4. A document entitled "The Provision of Credits for the financing of imports of machinery and equipment and developing countries" ^{2/} was prepared in 1963 by Headquarters. It covers sources of external financial

^{1/} Document E/CN.14/229 Rev.1, page 59

^{2/} Document E/S.5/26

assistance for industries in the developing countries. Although, as indicated in the paper, the study is of a preliminary nature, it provides comprehensive information on the sources of export financing with information on the terms and conditions for granting them, as they are available in capital-exporting countries like Austria, Belgium, Canada, Czechoslovakia, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Poland, Sweden, Switzerland, the Union of Soviet Socialist Republics, the United Kingdom and the United States of America. It contains also a brief critical view on international co-operation in export financing with a direct reference to the Amstel Club ^{1/} and it gives an account of recent progress made in this field under the sponsorship of the European Economic Community.

^{1/} The Amstel Club is an association of private financial institutions operating in Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States. Through this association, an exporter can arrange for a foreign buyer to obtain credit from a centre in his own country. Credit facilities, however, are limited to member countries and some of their overseas territories including Canada. This is, to a certain extent, a limitation of the scope of the club. The Amstel Club members are:

- Austria : Avo Automobil-und Warenkredit Verkehrs-Anstalt GmbH, a subsidiary of Creditanstalt-Bankverein;
- Belgium : Banque de Bruxelles;
- Denmark : Kiskonto-Selskabet A/s, a subsidiary of Københavns Handelsbank;
- France : Crédit Mobilier Industriel (SOVAC), a subsidiary of Lagard Frères;
- Germany : Kundendreditbank, KGaA;
- Italy : Compass SpA, a subsidiary of Banco di Credito finanziario SpA;
- Netherlands : Industriele Disc.Maatschappij N.V., a subsidiary of Tuentsche Bank;
- Norway : A/S Norsk Handelskredit;
- Portugal : Fincol-Sociedade de financiamentos Limitada;
- Sweden : Finansieringsaktiebolaget Vendar (Associated with Stockholms Enskilda Bank);
- Switzerland : AKO Bank Ansfar-und Kredit-Organisation A.G.
- United Kingdom : United Dominions Trust Ltd.
- United States : Commercial Credit (Baltimore).

5. This study could be supplemented by counterpart provisions, including institutional and legal measures, existing in Africa with a view to facilitating guaranteeing and promoting the receipt and utilization of such credit facilities available for African countries. An investigation along these lines with factual case studies reporting the practical experience and possible difficulties encountered by lending as well as receiving concerns could seem useful. This might also lead to further investigations on the feasibility of present provisions in this field and the advisability of introducing institutional reforms and better international agreements.
6. A second report is now under preparation on the activities of the major financial institutions engaged in external financial assistance to industries in developing countries. Lending and investment activities of the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, the European Development Fund for Overseas Countries and Territories, the Inter-American Development Bank, the Central American Economic Integration Bank and other international finance agencies will be analyzed. This study, when completed, will offer an idea of the volume of external financing available through international lending institutions for developing industry and the terms and conditions under which funds are available.
7. This survey might be supplemented by a case study of actual experience gained by African recipients as well as by lending institutions. In this connection, projects financed as well as those rejected should be taken into consideration. In the first instance, the problems faced and difficulties overcome, together with an objective appraisal of the burden accepted in terms of credit terms and conditions and impact on the financial and productive structure of the industries concerned, may bring about a vast and practical knowledge of the effectiveness, including its shortcomings, of international financing in developing industry in Africa. Moreover, if this is also examined from the point of view of loan administration and repayments, a good deal of knowledge may be acquired concerning solvency and loan productivity in relation to the problem of financing industry in Africa.

In the second instance it would seem valuable to appraise rejections of projects from the point of view of the lending agency as well as from that of the applicant. This may unveil a number of good reasons which may call for further measures to be taken by either of the parties concerned, i.e., the promotion of certain types of assistance or training which may turn beneficial to applicants with a view to furthering industrial financing.

8. The attention of the Committee should also be called to the fact that in addition to organized international sources of financing at present available for developing industries in Africa, funds may be made available from the private money markets of Europe, certain Far East countries and the Western Hemisphere. Public funds may also be made available in the same areas through appropriate public or semi-public institutions. It is believed that a survey of the major capital markets and of the lending institutions set up in capital-exporting countries may prove to be of great interest. A series of studies have already been undertaken by the

Organization for Economic Co-operation and Development on funds made available by member countries for developing countries, and on the access of the latter to the respective national capital markets. This has also been supplemented by a study on institutional arrangements of most of the European capital markets. Consultations have already been held with the Organization for Economic Co-operation and Development with a view to taking advantage of the knowledge and experience already acquired.

9. The Committee may also wish to take into consideration the series of studies entitled "The Promotion of International Flow of Capital" and the studies on the regular work programme of the Fiscal and Financial Branch at Headquarters. These include an analysis of measures adopted for the promotion of international private investment in industry in capital-supplying and capital-receiving countries and place special emphasis on tax, credit and other financial measures. These current studies will now be pursued by the Branch in co-operation with the ECA secretariat and problems facing Africa will consequently be discussed.

The work now in progress

10. The secretariat of the ECA is now directing its attention to the institutional arrangements of the African capital market.

11. The term "capital market" is used in its broadest sense to cover all sources of capital available to industry. It includes, to some extent, both the credit system and the money market proper, the relative roles of which are believed to be different in the various African countries. It includes also the self-financing operations of industrial companies and corporations when these are an important factor in industrial growth.

12. In dealing with the constituent parts of the capital market, the following groups are being considered:

- (a) Direct private lenders and investors;
- (b) Commercial banks;
- (c) Specialized banking institutions, public and private;
- (d) Development banks;
- (e) The stock exchanges and other arrangements for the marketing of shares and securities;
- (f) Other institutional sources of capital, such as savings banks, investment trusts, insurance companies, pension funds and building activities;
- (g) Post-office savings deposits;
- (h) Trust funds;
- (i) Public authorities in the capacity of providers of direct loans or guarantees;
- (j) public and private channels for investment of foreign resources;
- (k) Self-financing.

13. Attention is also being paid to the main competitors with industry for investment funds, like governments, commercial enterprises and various types of speculation.

14. Investigation is being extended to the appraisal of the initiatives of those who control the institutions of the capital market in the matter of the distribution of capital earmarked for industrial development between the various sections of the industrial economy so as to ensure its most productive use.

15. For practical purposes, the term "industry" is being used in its broadest sense to include mining, transport and power, as well as manufacturing industry. It includes also agriculture whenever available data and information are not separated.

16. This study, which is still in its early steps, will be conducted by means of a series of parallel investigations in several African countries. The comparison of the differing national pictures should assist the evaluation of the features of each particular case by disclosing the merits or defects of other types of institutions and other methods.

17. Although substantial data and information on the subject have already been published or could be made available by appropriate public and private institutions, it is felt that some ad hoc enquiries may be required, including the use of interviews and the study of unpublished material. Most of the information currently available is of such a broad nature that it cannot be of great value in the understanding of the mechanisms of the embargo African capital market, particularly in view of the heterogeneous elements of which this market, in most instances, is composed.

18. If the concurrence of the Committee could be secured along these lines, the Executive Secretary could invite member countries to prepare an initial basic survey along certain guide-lines, to be formulated by the secretariat, and send thereafter experts to the countries concerned to finalize, review and enlarge whenever deemed necessary the work already initiated. It is felt that, particularly in the field of self-financing, there is very little which could be gathered without a direct and personal approach.

Further steps

19. Subsequent to the "Institutional Survey", which would primarily deal with the efficiency of existing institutions and methods of channeling funds to developing industry, it is felt that an investigation should also be undertaken on the volume of, and conditions under which, funds are required and could be made available. In this respect, the secretariat is planning to undertake separate surveys on the supply side as well as on the demand side.

20. On the supply side, the magnitude and conditions and facilities for provision of funds to industrial enterprises from public, private and mixed financial institutions in the countries concerned will be investigated.
21. On the demand side, evaluation and analysis will be made on the nature of financial needs of industries. If time and means are available, the survey will be combined with case studies of selected types of industries, including a description and analysis of their specific structure, working capital requirements and state of financial planning and management.
22. At this stage, as already envisaged in previous paragraphs, practical experiences acquired by lending concerns from one side and borrowing applicants from the other side will be brought into the picture. In addition to this, the knowledge acquired through the studies previously mentioned on international financing will also be taken into account.
23. Thus a close look will be given to the inter-dependence between financing and technical planning of industrial projects. This may perhaps throw some light on one of the crucial difficulties with which industrial financing is faced in Africa, i.e., that the inadequate flow of funds is not necessarily the result of insufficiency and non-availability of funds, or the technical unsoundness of the project, but may, at least in certain instances, be due to lack of proper financial planning and failure to meet the specific requirements of the financial institutions to which recourse is made for funds.
24. A study conducted along these lines may show that the increasing number of channels and methods of financing at national and international levels is not necessarily helpful, and that what is really needed is the provisions of comprehensive basic information, advice and training to industrial planners as well as a certain co-ordination between financial institutions and the governments concerned.