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Licences for Developing Countries

by Werner Siech, Berlin

It is not good enough to leave the task of assisting the developing countries almost exclusively in the hands of the government, while private industry remains for the most part aloof. In donor-countries like the USA and the Federal Republic of Germany it is always the same few firms that participate in development projects or cooperate with the developing countries. A greater dispersal of the development aid could only be achieved, if it is possible to awaken the initiative of business men and to interest more private industrialists in the economic development of young states.

Creation of a Licence Fund

There exist in the industrial countries numerous firms belonging to various branches of industry, which, while not prepared to make classical capital investments in developing countries, would nevertheless be willing to entertain the manufacture under licence in these countries, provided of course they are sure to receive their licence-fees in time and do not have their transfer suddenly blocked. It is these uncertainties surrounding the licence-business which have hitherto curbed initiatives in this field—and this field includes partnerships, participations, and cooperative projects on the basis of a licence, that is to say without capital outlay.

One frequently hears the view that it is for the state to improve the infrastructure and therefore to finance it by its own means, whereas the development of industry, trade and agriculture should to a large measure be the task of private enterprise—insofar as private enterprise exists at all. It is without doubt impossible to develop a country economically without an adequate infrastructure. It should be borne in mind, however, that major projects which, unfortunately, are frequently projects undertaken for prestige reasons, remain oases in a desert, unless they are placed in a wider framework of economic development. Only advances on a broad economic front can create that fertile soil in which a country's economy can prosper. It is in this context that the granting of licences to developing countries can be of valuable assistance, provided the donor countries create licence-funds, out of which the industrial enterprises which grant the licences receive their fees punctually and without trouble. An important precondition for aid by means of licences is, however, that the developing countries are fully informed about the specific possibilities they enjoy when accepting and exploiting licences.

The means required to establish a licence-fund in the donor-country could be provided out of state-credits set aside for purposes of development. For example 1/4 or 1/5 of the credits to be granted annually to developing countries could be allocated, as required, to the licence-fund, out of which the industrial undertakings receive their current licence-fees. The licence-holder for his part pays his dues in the currency of his own country into a licence- or clearing-account at his state bank or at some other institution. The licence-payments accruing in this manner are paid over to the state where the licence originated in reimbursement of its payments into the licence-fund. The technical details of the transfer-processes are then similar to those applying to the international clearing procedures. Difficulties of an administrative nature should hardly arise when a licence-fund is established. In the Federal Republic, for instance, the task of administering the fund could be undertaken, for a suitable commission, by the Reconstruction Loan Corporation, the "Kreditanstalt für Wiederaufbau" (KfW).

The idea of granting development aid in the form of licences and of establishing a licence-fund—an idea which the author of this article outlined as early as 1962—may have at first glance appeared erroneous, but it was subsequently taken up by authoritative organisations. One of them was for instance UNO under whose auspices a study was published under the title "The Role of Patents in the Transfer of Technology to Developing Countries". This study contains amongst others the following statement: "... a variety of policy measures ranging from domestic compensation of patentees, international funds for this purpose, equivalent investment guarantees and legislation against restrictive practices applying to business operations abroad, is at their (the donor countries') disposal...".

The Forgotten Chance

Many enterprises in developing countries would like to profit by the technical know-how of industrial states through foreign licences. But they are frequently unable to do so for the reason that potential sellers of licences hesitate to grant them because of the uncertainties surrounding the licence-business with developing countries. Western industrialists would without doubt show greater willingness, if they were able to have recourse to a licence-fund. Numerous entrepreneurs would then be prepared, and in a position, to take advantage of the forgotten chance to sell licences and could by way of granting licences open up new markets or recover lost ones. As far as