



Project-Secured Investment for a Productive Economy

The Formula for National Prosperity is simple:
EVERYBODY WORKING –
EVERYBODY WORKING PRODUCTIVELY
Yes it's possible. Here. Right now.

Job-creation requires capital – in sufficient quantity and with guaranteed longterm financial reliability to ensure that a business is properly set up, and able to maintain the highest international standards in design, production and marketing. Our current banking system does not provide this.

The fact is simply stated: banks are private institutions whose function is to make money for their directors and shareholders. Serving the needs of the nation's economy is not their prime concern. In fact quite the contrary. Bankers tend to shrink from involvement in an economy suffering downturn or recession. As bank loans are reduced or refused many a business has found bitter truth in the old saying that 'banks lend you an umbrella when it's sunny, and take it away when it rains'.

A network of Regional Investment Agencies providing investment based on thorough research and on-going monitoring, can spread growth across the nation, creating jobs and providing the wherewithal for existing companies to increase their competitiveness, as well as for infrastructural improvements. Investment targeted regionally can bring industry and growth to traditionally backward areas.

PROJECT-SECURED INVESTMENT

Traditional banking practice requires pre-existing assets as security, and loans carry no long-term commitment. Project-Secured Investment avoids these two limitations of traditional banking by securing the loan on the industrial or commercial project itself, thoroughly researched and costed, rather than outside assets alone, and by making a long-term commitment based on an intimate involvement with the business or project in which it is invested. This facilitates the creation of new business and new jobs, as well as providing secure finance with which existing business can maximize quality and productivity.

Unlike government grants and incentives, development through repayable investment does not swell the deficits of indebted governments.

By setting up multiple Development Agencies to operate at regional level, focusing on regional and local needs, the benefits can be spread widely and uniformly, avoiding the usual geographical pockets of non- or under-development. Local infrastructure can also be financed.

Many of today's successful businesses grew over many years and a long hard climb, starting with minimal capital, operating on a shoestring, and reinvesting every penny of profit. Industrial Investment Agencies can provide sufficient capital for a good business venture to start at full operation, properly equipped for maximum productivity.

Indeed, by conditionally requiring the highest standards of product and service quality, Development Agencies can increase competitiveness, and the high level of productivity which creates real and lasting prosperity.

The Industrial Development Agencies (IDAs) would require minimal initial capitalization, since each project, thoroughly vetted from design to production, management and sales, continuously monitored, together with its fixed assets, becomes the loan collateral.

The IDAs rely for their security on thorough research of loan projects in which they are invested, on expert advice and assistance where necessary, and on a close working and constructive follow-up partnership with the loan recipient, backed by an ongoing flow of performance data.

Thus the business itself, its assets and its ongoing performance, becomes the security. Asset and investment are in balance. Security becomes "equity plus" – equity with the additional security of on-going monitoring.

Britain is already familiar with Regional Development Agencies, though to date these have operated as dispensers of grants, albeit based on their own thorough research and analysis of project details, costs and anticipated returns. This simply increases the public debt. Finance dispensed as returnable investment makes no such claim on the exchequer.

Development Agencies can also finance infrastructure improvements, creating jobs without adding to the overall deficit, as several examples and studies have indicated.

Is this ‘sound banking practice’?

Perhaps we should reverse the question, and ask: does ‘sound banking practice’ still exist in these days of hi-tech gambling, mis-reporting of assets, and under-cover manipulation of interest rates (the Libor scandal)? Morality and scruples are no longer a part of the banking tradition, now replaced by a culture of ‘profit at any cost’. And as for banks’ assets, government bonds, once considered as ‘gold-plated’ are now themselves being downgraded.

In these changed circumstances, Regional Investment Agencies, their loans firmly secured on the assets and ongoing monitoring of thoroughly researched industrial and infrastructural projects, stand out as being a very much sounder prospect.

Regional Investment Agencies can create jobs and industries NOW, with genuine, repayable investment loans, avoiding the need for deficit-increasing grants.

Industry- and Infrastructure-Secured Investment is an old-established, well tried, tested and proven concept whose time for revival on a major scale is now more than overdue.

Some Historical and Current Examples

Napoleon III became President and self-styled Emperor of France in December 1852 at a time when industrialization and scientific discovery were already gaining pace in Europe. This in turn required that banking should promote industry and infrastructure, in contrast to the existing banking system in France which was almost exclusively, and very conservatively managed under Baron James de Rothschild.

Under the direction of the Pereire brothers and the patronage of Napoleon, the newly established Crédit Foncier and Crédit Mobilier financed and promoted investment in the expansion of the textile, chemical, steel and metallurgical industries, and the modernization of agriculture. The rail network was increased from 3,000 km in 1852 to 18,000 km in 1870, and the complete renovation of Paris between 1853 and 1870 was undertaken by the Seine prefect, Baron Georges-Eugène Haussmann. The addition of further large banks focusing on industry ensured strong economic growth and industrial development.

In 1818 the Swedish government offered 160,000 Taler to Westphalia as reparation for damages incurred during the Napoleonic Wars. This money was decreed the property of all Westphalia by its President, and the Westphalian Hilfskasse, or “Assistance Bank” was established to develop the region’s economy and pay for public-works projects. This proved highly successful, prompting the king of Prussia to order that a similar bank be created in the Rhineland in 1847. Both banks later became Landesbanken (Regional Banks), and were instrumental in making the Rhine-Westphalia region one of the most productive industrial areas in Europe.

In the post-WW2 years, the Landesbanken again played a major role in the creation of Germany’s “Economic Miracle”, in particular through the provision of secure on-going finance to the German “Mittelstand” (small and medium-sized companies) in their respective regions. With 3 million mid-sized businesses the Mittelstand industries employ more than 70% of German workers and contribute roughly half the country’s GDP.

Founded in Basque Spain in 1956, the Mondragon Cooperative group clearly illustrates an ongoing relationship between investment banking and recipient business. The Workers' Bank provides investment as a local development bank, offers technical and financial advice for business startup, then monitors production, quality, and financial performance in a process of ongoing cooperation and partnership. This also assumes longterm commitment, ensuring finance for secure long-range planning and productivity investment, research and development into new-generation products and services, in conjunction with apprenticeships and higher education which are also sponsored by the Cooperative. The group now employs 85,000 workers with a turnover of 15 billion Euros.

In the USA, the Bank of North Dakota (BND) is a state-owned bank dedicated to promoting commerce, industry and agriculture. BND offers numerous low-interest loan programs in collaboration with a lead lender to meet the financing needs of any qualifying new or expanding business. The Bank provides financing to stimulate economic development in the State for both business and agriculture.

Now India's second largest bank, ICICI Bank Limited was incorporated in 1955 as the Industrial Credit and Investment Corporation of India Limited at the initiative of the World Bank, the Government of India and representatives of Indian industry, with the object of creating an industrial development institution to provide medium-term and long-term project financing for Indian businesses.

Tax Increment Financing (TIF) is already established as an effective investment tool for a city to create jobs and promote economic development. Finance is provided in the form of an investment loan to be repaid through an uplift in taxes resulting from infrastructure improvements. The City of Chicago estimates that TIF funds have created and generated more than \$12 billion increase in property values throughout the City since its inception in 1984. Chicago now has 158 such zones, covering 29% of its land and 13% of its property by value.

Edinburgh hopes to test out TIFs on a square mile in the suburb of Leith, borrowing £50m to build roads, a dock for mooted cross-river ferries and a new pier for the former royal yacht Britannia, now a tourist attraction moored behind a modest shopping centre. Dave Anderson, the city's development director, hopes that 2,200 houses, plus shops and offices, will follow. Accountants PricewaterhouseCoopers reckons all this will pull in an extra £280m in business rates (property taxes) over the next 30 years, more than enough to repay the loan.

Newcastle wants one to build a "science city" geared towards commercialising university research. Leeds hopes a TIF will accelerate growth as it tries to create 20,000 jobs in its Aire Valley business park. Birmingham plans to raise £1 billion for seven road and rail schemes across the West Midlands.

The Core Cities Group is a self-selected and self-funded network of England's major regional cities: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. They form the economic and urban cores of wider surrounding territories, the city regions. The Core Cities work in partnership to enable each to enhance their economic performance and make real advances within a highly competitive international market. A report prepared jointly with accountants PricewaterhouseCoopers, *Unlocking City Growth*, looks at a model based on tax increment financing – Accelerated Development Zones – paired with Regional Infrastructure Funds.

The proposal is to borrow against future income to provide major infrastructure, for example from an uplift in business rates, retaining this temporarily to pay back borrowing. Applying the model to four live case studies from the cities, the report demonstrates that by using this approach, increases of between 50% and 80% can be achieved in housing, jobs and economic output.

The concept of loans based on, and secured by the project itself backed by continuous monitoring is basic, and simple. It can create jobs, economic expansion and productivity anywhere without increasing government debt. Development Investment Agencies can spread growth across the regions, creating jobs and providing the wherewithal for existing companies to increase their competitiveness. And the benefits will stretch into the future as a thriving, broadly based economy sends a positive signal to young people providing the prospect of a challenging, well-paid job as the sure reward of education.

The Formula for National Prosperity is very simple:

EVERYBODY WORKING –

EVERYBODY WORKING PRODUCTIVELY.

Dedicated, Project-secured Development Investment can make it happen.

website: www.arton.co
email: mm@arton.co