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D00055

ID

United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.30/3
4 March 1969

ORIGINAL: ENGLISH

Interregional Seminar on Incentive Policies
for Industrial Development

Vienna, 10 - 21 March 1969

ISSUE PAPER NO. 3

**ASSISTANCE WITH LAND AND FACTORY BUILDINGS
AS AN INCENTIVE MEASURE^{1/}**

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id.69-760

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ASSISTANCE WITH LAND AND FACTORY BUILDINGS
AS AN INCENTIVE MEASURE

"In general in the industrially advanced countries, industrial estates and areas are principally used as a device for influencing the location of industry In the developing countries, they are principally used as an incentive for industrial development and less to influence location".

UNITO (1)

I. INTRODUCTION - THE PROBLEM:

1. One of the problems which entrepreneurs face in some developing countries is locating a suitable industrial site where a factory building can be constructed and where necessary utilities and services are available. In some countries where it is difficult to obtain a clear title to land, or where foreign enterprises are barred from owning land, the acquisition of an industrial site can be an obstacle to industrial development. The designation by the Government of areas of land as an industrial estate, industrial area, or industrial zone can help overcome this problem.
2. The incentive effect of assistance with land and factory buildings derives its strength from the convenience which these arrangements provide for new industrial enterprises. In some countries, land and factory buildings are provided or rented to new industries at a rate below the market price. This subsidy strengthens the incentive by reducing the outlay on land and buildings.
3. As a general rule, developing countries have not used subsidised charges for electricity, water, and other utilities as an incentive measure; this is not raised as an issue here.
4. The establishment of industrial estates or industrial areas has been an important part of the package of incentive measures

(1) Policies and Programmes for the Establishment of Industrial Estates. A background paper presented to the International Symposium on Industrial Development, Athens, December 1967. This paper is a summary of a previous UN publication: Industrial Estates ... Policies, Plans and Programmes, UN Publication Sales No. 66.II.D.10.

offered by such countries as Ireland, Malta, Puerto Rico and Singapore. The experience of a number of countries studied in the Background Papers also shows that their establishment has helped to facilitate an expanding programme of industrial development. The problem posed in this paper is: what role can assistance with the provision of land and factory buildings play in the overall package of incentive measures?

II. SURVEY OF ISSUES RAISED

5. A range of issues arise when considering this type of assistance as an incentive measure. This section lists as many as possible under the following headings:

- A. What forms can this assistance take?
- B. What types of enterprise benefit most from this assistance?
- C. What types of industry should be offered such assistance?
- D. Can this assistance encourage a wider distributional location of industry?
- E. Can the private sector be encouraged to build industrial estates?
- F. How effective is this type of incentive measure compared with other incentive measures?

2. What forms can this assistance take?

6. UNIDO has distinguished between three different ways of providing land for industrial use. The industrial estate is defined as a planned clustering of industrial sites offering standard factory buildings erected in advance of demand where a variety of services and other facilities are provided for the occupants. An industrial area is defined as land offering only industrial sites with the necessary infrastructure — power, water, roads, sewerage etc. An industrial zone is an area of land restricted for industrial use on which no improvements have been made for the benefit of enterprises who will locate there.

7. The Government of a developing country can offer assistance in various forms. It can acquire, sell or rent for a new enterprise a site in an industrial zone or in another location. The assistance will be more attractive if the enterprise is offered a site within an industrial area where the infrastructure has been developed. Finally, the enterprise could be offered a standard factory building erected on an industrial estate.

8. If the industrial area or industrial estate has been developed at the Government's expense, the site can be sold or rented to the enterprise at a subsidised price. The Background Papers show that the extent to which subsidies are provided in this way varies a great deal from country to country.

9. The issue arises therefore: which is the best form of land development to use as an incentive measure?

10. A further issue arises if subsidies are involved: to what extent should the Government be willing to subsidise the selling price or rent of industrial sites?

B. What types of enterprise benefit most from this assistance?

11. As a general rule, industrial areas have been developed as a way of encouraging the establishment of medium-size and large-scale enterprises. The industrial estate where standard factory buildings are erected in advance is widely used to promote the development of small-scale industries. The issue arises therefore: which types of enterprise benefit most from this type of incentive measure?

C. What types of industry should be offered such assistance?

12. One of the advantages of industrial zones, industrial areas or industrial estates is that they make it cheaper and more convenient for the Government to supply the infrastructure required for industrial projects. As a general rule, therefore, provided that sufficient land area is available, all types of industry can be considered in principle for locating in the chosen areas.

13. Two issues arise: are any types of industry unsuitable for development in an industrial area or industrial estate? and, can an industrial zone, area or estate help to encourage the development of related industries which will provide useful economies for each other?

D. Can this assistance encourage a wider distributional location of industry?

14. In the industrially advanced countries, industrial estates and areas have proved to be a powerful measure for influencing the location of industry. The country Background Papers show that a number of developing countries have had this object in mind when establishing industrial estates; indeed in Argentina, Iran and Thailand this has been the principal objective. The issue arises therefore: can industrial estates and areas play a useful role in promoting a wider locational distribution of industry within a developing country?

E. Can the private sector be encouraged to build industrial estates?

15. In a number of the industrially advanced areas, industrial estates have been developed as a business venture by private capital. Of the developing countries studied in the Background Papers, Jamaica has introduced tax incentives in a special law to encourage private capital to move into this field and Thailand has included this activity as one of the "industries" eligible for incentives. The issue arises therefore: would it be useful for developing countries to provide incentives for the development of industrial estates by private capital?

F. How effective is this type of incentive measure compared with other incentive measures?

16. The country Background Papers show that only a few of the 20 developing countries studied have used industrial estates and industrial areas as a major incentive measure. However, in a

country like Nigeria where it is difficult to obtain a clear title to land, the establishment of industrial estates appears to have been an important pre-condition for successful industrial development. The issue arises therefore: how effective is this type of assistance as an incentive measure?

17. As considerable economies can be achieved both by the industrial enterprises themselves and by the Government agencies responsible for supplying such infrastructure as power, water and roads, the development of industrial zones, areas and estates would appear to be a worthwhile exercise for the Governments of most developing countries. The issue arises therefore: have developing countries paid sufficient attention to the economies that can be realized in this way and the incentive effect which their availability can have on encouraging the establishment of industrial enterprises?

III. SUGGESTED ISSUES FOR DISCUSSION

18. In order to maximise the value of the sessions devoted to this subject, it is suggested that discussion might concentrate on the following issues:

To bring out the experience of countries represented at the Seminar, participants might indicate:

- (a) To what extent, and in what form, their country provides assistance with land and factory buildings;
- (b) Whether the assistance is used to promote new projects or to encourage a wider distributional location of industry;
- (c) Whether there is a subsidy element in this assistance;
- (d) What types of industrial project have benefitted.

More general issues which might be discussed include:

- (e) Are industrial estates and areas worth developing for the economies they achieve?

- (f) Can private capital be encouraged to undertake these developments?
- (g) What role should this type of assistance play in the over-all programme of incentives?





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