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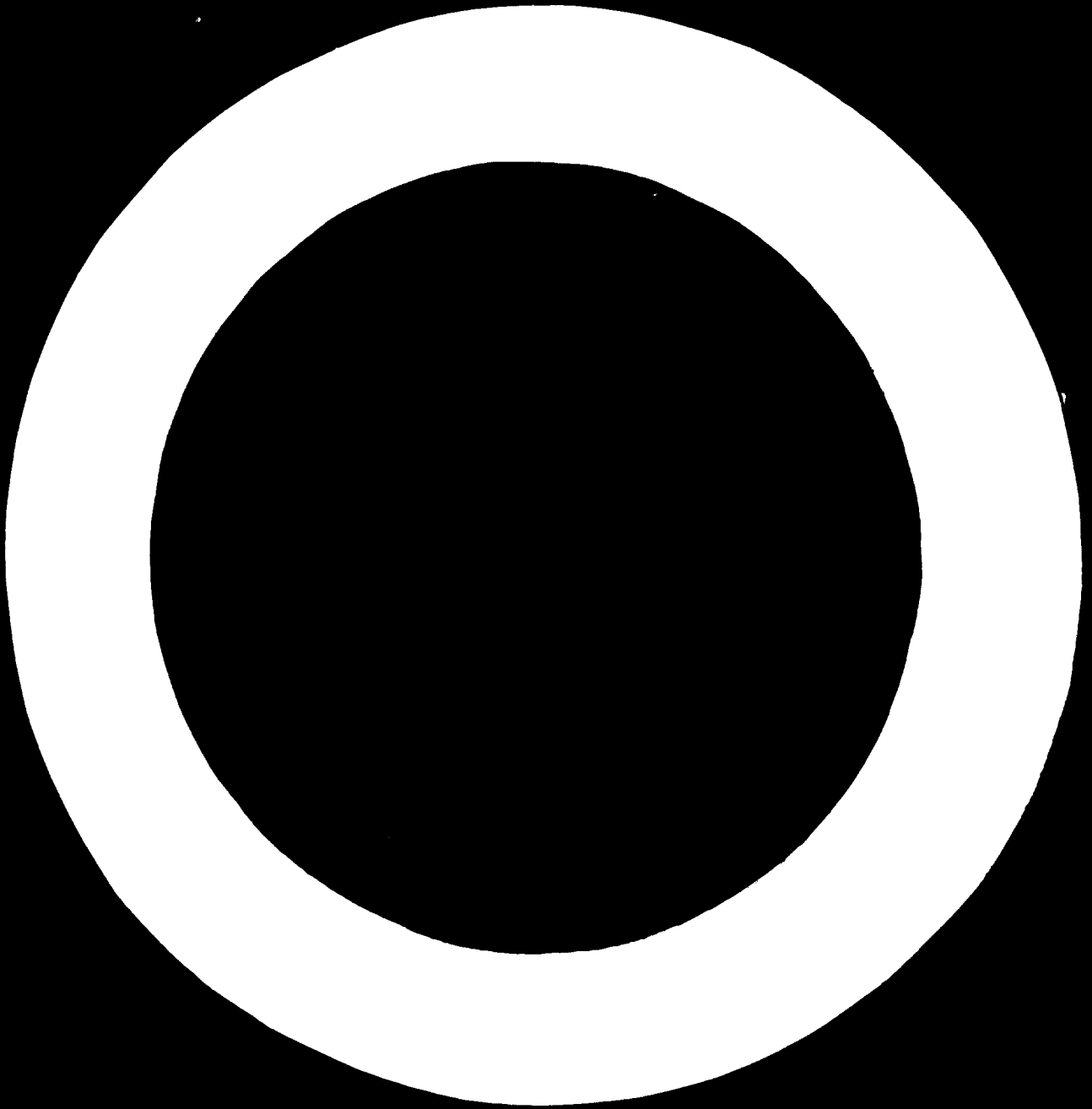
ORGANIZATION AND OPERATION OF AN
INVESTMENT PROMOTION AGENCY -
THE INDIAN EXPERIENCE ✓

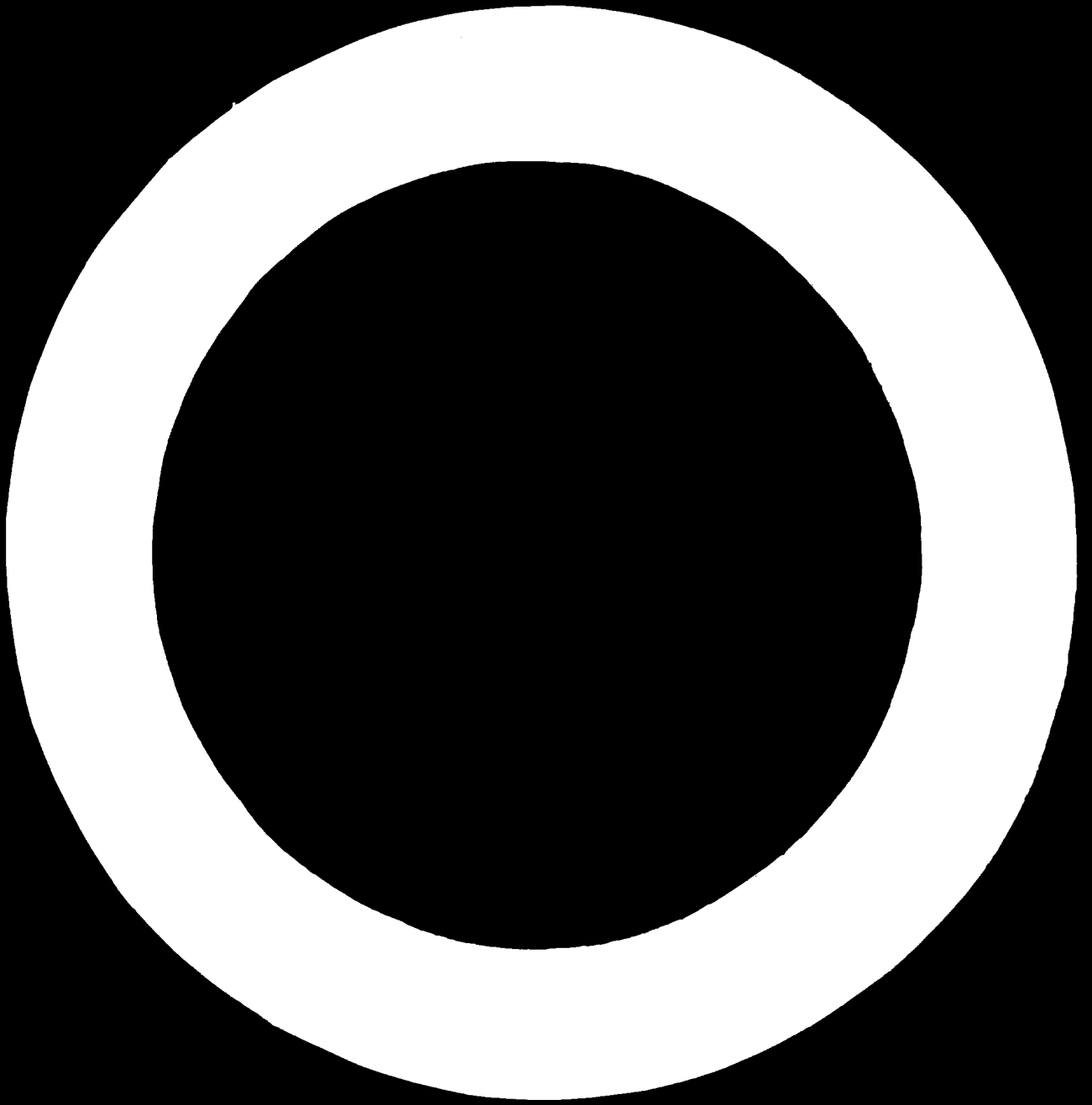
by

P.R. Nayak
Resident Director
Indian Investment Centre
New York

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1. All developing countries now recognize the need and benefits of foreign private capital. However, such need and benefits are obviously related to the position a nation occupies at any given point in its development. Some are further along the road than others and consequently their needs differ. Further, development is generally influenced by a nation's political institutions. The task of attracting foreign capital, therefore, is to be set within the framework of a nation's philosophy of development conditioned as it is by its own past experience and hopes and plans for the future. In this sense, the Indian Investment Centre's experience is specially relevant to India, although I hope it will have some lessons for all developing nations.

2. India's approach to foreign private investment was influenced by two factors. A certain amount of caution towards foreign capital was inherent in the thinking of a newly independent nation which had reason to associate foreign capital with foreign domination. Secondly, there was, already a substantial industrial base, mainly in consumer goods and mining industry and a nucleus of experienced entrepreneurs. These two factors logically led to a restricted view of foreign capital investment in the early years. However, it was quickly realised that a continuous increase in industrial production was vitally dependent on the development of the machine-building industry and the new process industries rapidly being developed in the industrialised countries. These, in turn, largely depended on the import of capital equipment and technology and, therefore, inevitably, foreign private capital was given a position of priority in the strategy of planned development.

3. The Indian Investment Centre's role should be viewed in this light. Foreign investment is to be sought actively but selectively and within the four corners of a predetermined plan of investment. Its charter objectives may be summarised thus:

- a) To promote a wider knowledge of the policies and conditions pertaining to investment in India and opportunities offered,
- b) To advise and assist Indian businessmen in their search for foreign private capital and/or advanced technical know-how,
- c) To advise and assist foreign businessmen on the setting up of joint ventures consistent with the basic framework of India's Five Year Plans and

d) To conduct surveys of investment possibilities open to prospective investors in India.

4. The Indian Investment Centre was set up on December 1, 1960. It was considered that the instrument most suited to attract private foreign capital had to have a status distinct from a government organisation although financed, supported and encouraged by Government. The Indian Investment Centre has, therefore, been set up by Government as an autonomous organisation and being outside the normal administrative apparatus, has gained a greater access to and a wider acceptability by the foreign private investor. The Centre has been registered as a Society under the Societies Registration Act 1866 and functions under the direction of Governing Body consisting of eleven members appointed by the Government. The complexion of the Governing Body reflects the autonomous character of the organisation. Five are to represent the Industrial Credit and Investment Corporation of India, Ltd. which is a joint stock company incorporated in India, 30 per cent of whose stock is owned by institutional investors in the U.S.A., U.K., West Germany, France and Japan. Four members represent Indian financial institutions and organisations of businessmen and industry and only two are senior Government officials. A non-official member is the Chairman.
5. Some of the direct advantages of this mode of representation may be mentioned here. Though the Governing Body does not lay down policy or hand out rulings, it is an important link between official agencies and the industrial community in matters affecting industrial policy, rules and procedures. The need for a constant cross-flow of information, informed criticism and intelligent appraisal of the Government's viewpoint on the one hand and that of the business and industrial community on the other is fulfilled in the easy and informal atmosphere of the Investment Centre and this is made possible under the guidance of a Governing Body in whom both Government and Industry can have confidence. Obviously, the success of this body depends entirely on the cooperation of the Government and the private sector.
6. The Centre's principal office is in New Delhi and is headed by an Executive Director. It has two branch offices at New York and Dusseldorf under Resident Directors. In other countries, it functions, if necessary, through official diplomatic and commercial representatives. Before the set-up of

these offices is examined further it will be useful to know the degree of involvement of the Centre in the decision-making processes of Government or private parties because this will throw light on the size of the Centre's operations and the need and adequacy of its organisational set-up. In the complex area of advice on specific proposals where expertise and technical experience are called for, the Investment Centre's contribution is not in great depth but is generally directed towards a clearer understanding of the several issues involved from the project feasibility angle. Experience has shown that private parties tend to utilise agencies of their own choice for a more detailed investigation of feasibility and usually on a contract basis. The Indian Investment Centre, therefore, aims at helping the private party to come to a judgment of values and of the direction in which the maximum speed and benefit may be secured. Its advisory set-up is moulded to subserve this purpose.

7. The New Delhi office is supported by three Divisions -- the Economics Division, the Industrial Information Division and the Project Proposals Division. The Economics Division undertakes the collection, compilation and analysis of data having a bearing on the investment climate in India. The Industrial Information Division maintains a close liaison with Government authorities with a view to evaluating the feasibility of ventures in the light of Government policy, specifically towards relative sectoral priorities within the framework of the Five Year Plans and the admissibility of foreign private capital. The Project Proposals Division comprises technical advisors on engineering and chemical industries, a financial analyst, a tax expert and a legal adviser. These specialists collectively examine the technical and economic feasibility of a venture and offer suggestions for adapting the proposal so as to conform to policies or known preferences of the Government of India.

8. The lack of precise and informative data on Indian laws and conditions likely to be useful to foreign investors was realised early and a systematic effort was made to bring it all together in brochures, several of which are now available. They cover a wide field including: basic facts of the Indian economy, exchange control, taxation and company law. A series of "fact sheets" and "industrial folders" was also brought out focussing on specific investment opportunities, dealing with essential information such as current

demand and installed capacity, plan targets and progress in fulfilling them and an assessment of the scope for foreign collaboration. With a view to ascertaining special areas of interest and also gaps and weak spots developing during the course of implementation of industrial programs, the Centre has been undertaking periodically industrial surveys through its own efforts or by commissioning specialised agencies. Important surveys which have been published include 1) raw materials for chemicals and process industries, 2) machinery and machinery parts, 3) measuring tools, gauges and instruments and 4) machine tools. Such information and data is sought to be brought up to date by the publication of a monthly newsletter which also presents an objective analysis of the developments relating to the investment climate. A special feature of this newsletter is the "case study" of joint ventures which have been operating in India.

9. The reverse side of the medal -- the bringing of foreign investors face to face with reality -- is equally important. The Centre has organised or jointly sponsored visits to India by delegations of business and industry from major capital exporting countries -- the U.S.A., West Germany and Japan. The principal objective is to enable them to make an on-the-spot study of the investment climate, to bring them together in question-answer sessions with top Government representatives responsible for policy formulation and implementation and to assist them to establish personal contacts with Indian businessmen. In 1964 the BCIU sent a large delegation from U.S.A. which entered into a thoroughgoing discussion of important issues such as approval procedures, unit-size, price controls, extent of foreign equity holdings, relationship between the public and private sector, export policy and taxation, particularly relating to foreign investors and personnel. A Japanese team visited India specially to examine the prospects of setting up joint ventures in the petro-chemical field. The ACID group of U.S.A. representing over 2000 medium-scale corporations also paid a visit in pursuit of possibilities in the pharmaceuticals, electronics, steel forgings and castings, and agricultural implements industries. In 1965 a group of 30 West German industrialists, businessmen and bankers representing mostly medium-sized enterprises visited India as a "fact-finding committee" to study the investment climate.

10. The ultimate end of all this educational effort is, of course, to help Indian and foreign parties establish joint Indian enterprises when either needs a partner or both need assistance. The services of the Centre which can be drawn upon by either party at any stage of consideration of a specific proposal, are characterised by an attitude of objectivity and complete confidence. The Centre maintains an up-to-date register of names of Indian and foreign parties who are desirous of seeking collaboration in fields in which such collaboration is generally encouraged by Government. The interest of Indian parties is ascertained from licenses issued by Government in the concerned or related fields, actual inquiries reaching the Centre and from the contacts maintained by the Centre with the several Indian Chambers of Commerce and Industry and Associations. For information on foreign corporations interested in Indian ventures, the Centre depends mainly on its foreign branches who employ, as will be seen presently, several means to gather the information.

11. To make sure of an Indian party's serious interest and his capacity to carry out his plan successfully, the Centre seeks from him important data in a "checklist". The data on his current business activities relates to his management experience, capital resources, the nature and operating results of his business and his bank references. The data concerning the specific venture relate to appropriate Government licenses obtained, his study of project dimensions such as demand and supply, product pattern, inputs, location and transport, etc., his estimates of capital investments and profitability and the nature of foreign collaboration desired. The examination of these particulars by the Centre's specialists determines if and with what modifications acceptable to the party the proposal could be pursued abroad.

12. Both at the preliminary stage and later when the interest of a foreign party has been focussed on a particular project, the Centre is particularly qualified to advise on how the utmost speed and success may be secured consistent with Government policies. Though the broad policy of Government in regard to foreign collaboration is well known it admits of flexibility depending on the operational sophistication of the industry concerned, its importance to the economy and the balance of payments. Keeping in close touch with the Economic Ministries of the Government, the Centre is conversant

not only with the nuances of policy but also with matters such as the range of compensation for technical assistance, the favoured extent of foreign participation in equity, the desirable capital structure and the requirements in regard to the extent of domestic manufacture. The same contacts with Government also enable the Centre to arrange for consultations by parties involved with the concerned Government officials at the appropriate level of responsibility. The services of the Centre in this sphere have proved to be useful and time-saving.

13. When the Centre is reasonably satisfied that a proposal is worth pursuing, it is sent, in outline, to the branch office concerned for eliciting the reaction of potential collaborators. The search for a prospective investor has been the subject of a separate presentation which I made to you last month. Without repeating myself, I shall only emphasise the need for preparedness before an approach is made to the target corporation. The Centre has to be prepared to answer intelligently all possible questions asked by the foreign company. For this purpose the foreign offices have to rely very heavily on the head office. In addition to the "check-list", prompt and complete support from the Head Office is very essential for the efficient operation of foreign offices.

14. After establishing the initial-approach it is necessary to provide the foreign company with full assistance in collecting data and opinions necessary to evaluate the project and the investment climate in India. The foreign offices provide adequate services in this regard. The good offices of Advisory Committee members, local Banks and U.S. A.I.D. and the Department of Commerce are also used for this purpose. A continuous flow of ideas and information goes on between the foreign corporations on the one hand and the Centre and the Indian party on the other until the foreign corporation decides to take a more concrete course of action.

15. The Centre's role in negotiations between parties varies from case to case. A foreign firm which is fairly conversant with Indian conditions generally prefers to get together with the Indian party quite early and conduct further negotiations. Others may carry on for some more time with the Centre exploring the various aspects. It is, however, generally correct to say that the Centre does not enter into the negotiation of terms between

parties. It may sometimes assume a role with Government calculated to impress upon it the special circumstances of any project which require a careful consideration of conditions to be prescribed by Government. The Centre also takes upon itself the duty to get Government decisions expedited. The Centre does not attempt to influence decisions either by Government or by the parties concerned as it is likely to curtail its larger usefulness.

16. The Branch Offices in New York and Dusseldorf naturally act as extensions of the New Delhi organisation. They make use of all the material available with the Head Office. They are the first points of contact for foreign investors and also serve as the end of the line for project proposals arising in India. They have, however, by the very nature of the work involved, a far more important function to discharge than merely act as channels of communication. It is these offices which strive, beyond the limited utility of the printed word, to create a realistic image of Indian conditions, to bring the intimacy of a personal answer to far-away questions, to weave Indian needs into the fabric of a foreign mind. The task is delicate and demands perseverance but highly rewarding. It is easy to see that the size of these offices is less important than how they set about to achieve these objectives.

17. Let us look at what we have been trying to do in the New York office of the Indian Investment Centre. For several historical reasons there is a certain awareness in the United States of Indian economic conditions. However, industrial expansion over the last 10 years having been rapid and widely diversified, a much larger number of relatively smaller U. S. Corporations stood in need of much more detailed and accurate information and quick replies to simple but basic questions. Are foreign investments freely repatriable and profits remittable? What is the corporate tax structure? What are the legal provisions regarding corporate control and responsibility? A great many of these questions no doubt find answers in the publications of the Indian Investment Centre which are freely distributed in the U.S.A. The need, however, was quickly felt to use all available forums to bring up these answers as part of general discussions relating to investment in India.

18. So was born the idea of the Advisory Committee. Starting with New York, groups of prominent U. S. businessmen, bankers, investment houses, economists and industrialists in several key industrial concentrations agreed to assist the New York office of the Indian Investment Centre, in a purely honorary capacity, by providing their valuable guidance and advice towards a better implementation of the Centre's objectives. They meet periodically, on occasions to hear visiting dignitaries from India and in turn to offer suggestions of their own. In a role which is immensely useful they function as sources of informed opinion to U.S. businessmen on the investment climate in India thus serving as a link between the Centre and the potential U.S. investor. The value of their advice lies in the free expression of their views on the policies and procedures obtaining in India. Frequently they build up the opinion of the U.S. investors much more persuasively than our own efforts would be able to do. To date there are more than 75 members of Advisory Committees in New York, Boston, Philadelphia, Chicago, Cleveland, Detroit, Pittsburgh, Los Angeles and San Francisco.
19. Occasionally, a wider forum is utilised when specific areas of industrial development are sought to be presented to U.S. businessmen with or without identifiable schemes. The Government of India deputed a top level team in 1966, to explore the interest of U.S. corporations in investments in the field of fertilisers and agricultural chemicals. To a large group of U.S. corporations assembled under the auspices of the Investment Centre and later individually to most who showed a deeper interest, the delegation laid bare the entire gamut of the Government's agricultural policies in relation to the need, production and consumption of fertilisers and pesticides and invited their participation in full measure. The interest of many of these corporations was and is being followed up by the Centre. Also in 1966, the electronics industry was the subject matter of a similar presentation by the Chairman of India's Atomic Energy Commission. The representatives of major electronics corporations in the U. S. were apprised by him of the current status of the electronics industry in India and the potential it held for U.S. investment. Their interest is also being pursued vigorously by the Centre in New York.

20. The Centre has a program of holding seminars with the object of projecting a balanced picture of investment opportunities in India helped by the experience of foreign companies operating in India. In U.S.A. seminars have been organized in almost all the major industrial centres. Normally, these seminars are organized in co-operation with the local Chambers of Commerce, a local bank, the field offices of the U.S. Department of Commerce. They are addressed by representatives of the Centre, the Department of Commerce and A.I.D. A local company may be requested to present a case history of its experience in India. The discussions which follow generally cover a wide area including such problems as the size and structure of the Indian market, Government procedures and policies, practical problems, tax laws, labour situations etc. The Centre has found these seminars very helpful in generating interest in investing in India. Annual seminars covering a wider field have also been organized by the American Management Association in which the Centre has taken an active part.

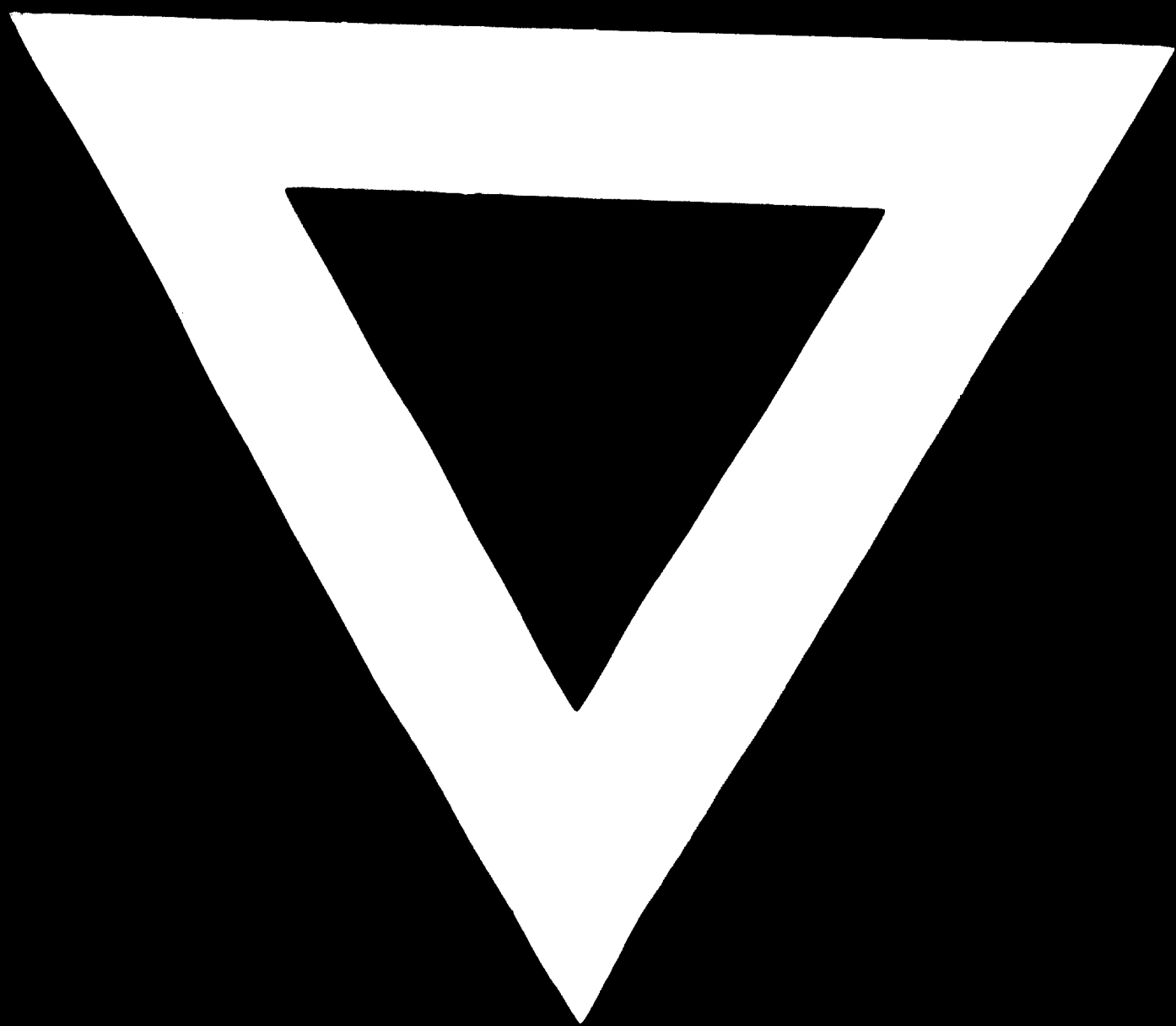
21. Industry and Trade conventions provide an excellent opportunity to speak to a select group of individuals with common interests. The Centre has participated in Annual Conventions of the Chemical Engineers Association, Electronics Manufacturers Association, Farm Equipment Manufacturers Association and Machine Tool Builders Association. In some cases experts on specific industries were invited from India to address the Conventions. The Centre has also, on a regular basis, participated in the Annual Meetings of the Far East - America Council, National Foreign Trade Council and other similar organisations interested in International Trade and investment.

22. It is well to point out here that in all these contacts with U. S. business, the Investment Centre's own part is essentially to present facts as they are, to interpret them in the light of experience gained in the past and to explain the rationale, as Government sees it, of the rules and measures which Government would like to be followed. There is no attempt to support or defend beyond what may be necessary to counter misjudgment of intention or to dispel misgivings which loom large from a distance.

23. I shall conclude with a brief assessment of what we have been able to do in the U. S. In the course of nearly six years, in addition to providing factual information and assistance on specific matters to numerous

companies and businessmen, both American and Indian, about whom no count could be kept, the New York office has, until December 1967, worked on 572 project proposals of which 285 were "processed" by providing the parties concerned with careful assistance in determining the scope of their products, identifying partners, negotiating agreements, etc. Of these 285 proposals 83 have already been approved by the Government of which 65 envisage financial participation of U. S. companies. The remaining include those which are now at final stages of negotiation or awaiting Government approval and those which have not been proceeded with by the parties concerned for various reasons or have been rejected by Government. The projects so far approved by Government cover widely diversified sectors of industry with a dominant emphasis on basic engineering and metallurgical industries.

24. There has been a sharp increase in total U. S. investment in private Indian industry since the Indian Investment Centre commenced operations in New York. This would appear to be more than a coincidence. A large number of projects have been directly assisted by the Centre but many more have gone ahead with initial information obtained from us. The Centre has sought to stimulate investment interest in India and to widen its scope for U. S. corporations and financial institutions. It has developed useful contacts at top levels in industry and finance, it is a source of authentic information to businessmen, and it has spared U. S. investors waste of time and energy in avoidable negotiation. Above all, one intangible but vital contribution of the Centre has been in building understanding and good will for India in the financial and business community of U.S.A.



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