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**PROMOTION, AT THE PROJECT LEVEL, OF THE**  
**TRANSFER OF CAPITAL AND TECHNOLOGY**  
**FROM THE INDUSTRIALIZED TO THE**  
**DEVELOPING COUNTRIES**

**General considerations, problems  
arising and possible action  
by UNIDO**

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We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

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CONTENTS

	<u>Page</u>
INTRODUCTION	3
I. DEFINITION AND PURPOSE	4
II. THE MAIN PROBLEMS ARISING	5
A. CHOICE OF PROJECTS	5
B. FINDING A FOREIGN INVESTOR OR FINANCIER	7
C. THE PROMOTER	10
III. SUGGESTED PROCEDURE FOR A PROGRAMME OF ACTION BY UNIDO	11
A. THE EXPLORATORY AND PREPARATORY PHASE	12
B. "SELLING" THE PROJECT	13

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PROMOTION, AT THE PROJECT LEVEL, OF THE  
TRANSFER OF CAPITAL AND TECHNOLOGY  
FROM THE INDUSTRIALIZED TO THE  
DEVELOPING COUNTRIES

INTRODUCTION

1. When considering the problem of promoting the transfer of capital and technology from the industrialized to the developing countries, two important factors must be taken into account:
  - (a) Such promotion is generally undertaken, both from the theoretical and the practical point of view, at the global level rather than the project level.
  - (b) The absence of anyone to promote the transfer of capital and technology between the two worlds, developed and developing, is often forgotten or overlooked.
2. A number of developing countries have industrial projects that are viable economically, financially and technologically. However, they lack the means of interesting foreign sources of investment or financing so that they can be transformed into enterprises.
3. This type of promotion, at the project level, of the transfer of capital and technology from the industrialized to developing countries will be dealt with in this document, which will contain:
  - (a) An attempt to arrive at a definition or theory of promotion at the project level;
  - (b) A summary of the main problems of undertaking such promotion;
  - (c) Proposals for a practical procedure for action by UNIDO, under its programme for the promotion of industrial investments in the developing countries.

## I. DEFINITION AND PURPOSE

4. Promotion, at the project level, of the transfer of capital and technology from the industrialized to the developing countries is an operational activity entailing the planning, organization and execution of this transfer in connexion with specific industrial projects, previously selected in these countries and on the basis of various criteria, from among projects already drawn up and whose economic, financial and technical viability has already been tested by means of at least a preliminary feasibility study.

5. Promotion takes three forms, in accordance with the policy of the beneficiary country with regard to the import of capital and technology. These are:

- (a) Promotion by means of credit, regardless of what form it takes, whether long-term loans or other financing facilities, such as credit for export. This form thus consists in the promotion of external financing of national industrial investments, whether private or public. It is particularly suitable for countries whose policy regarding the import of capital and know-how from abroad favours the national industrial enterprise, whether private or public.
- (b) The second form of promotion is to set up a joint-venture enterprise, out of a combination of domestic and foreign capital. This procedure is often preferred by countries whose needs regarding the import of know-how, whether technical, administrative or commercial, are greater than their financing needs.
- (c) The third form consists in the promotion of the foreign enterprise.

The last two forms of promotion can only be considered in countries where the investment policy and climate are favourable to participation by foreign capital in the country's industrial development. The only practical difference between them is in the size and nature of the foreign contribution. On the other hand, the first form of promotion of external financing can serve both categories of country. In this case the choice between the three forms of promotion may vary depending on the wishes of the beneficiary country or entrepreneur and possibly also on the preference of the external source of investment or financing.

6. Whichever form it takes, promotion at the project level consists in:

- (a) Assembling and compiling the information generally necessary to the investor or financier so that they can form a first opinion and express a tentative interest in the projects proposed for investment or financing;
- (b) Finding suitable sources of investment or financing, presenting them with the projects selected and interesting them in the projects;
- (c) Helping to initiate contacts between the two parties concerned, to promote them and so that they can lead to a useful encounter between the parties based on balanced reciprocity of interests.

7. This tentative definition of promotion at the project level represents no more than an attempt to facilitate discussion between the promoters of industrial projects in the developing countries and the representatives of sources of investment or financing who are present at this meeting. Such a discussion should be of considerable help in clarifying and improving the definition.

## II. THE MAIN PROBLEMS ARISING

8. Promotion, at the project level, of the transfer of capital between industrialized and developing countries raises a number of problems whose solution will be greatly helped by this meeting. To facilitate consideration of these problems, they will be sub-divided in this document according to the main factors entailed in the promotion, namely: the project, the investor or financier and the promoter.

### A. CHOICE OF PROJECTS

9. Since our conception of promotion of the transfer of capital and know-how from industrialized to developing countries centres primarily on the project, one of the first questions to be raised by its technical application will be whether promotion should necessarily be selective and whether, as a result, consideration should only be given to industrial projects with the prerequisites generally to be expected from the point of view of the investor or the financier and of the beneficiary country. What should be the criteria



for selection and what scale of priorities should there be for these criteria? Will it be assumed, for example, that the selection entails two kinds of considerations - considerations regarding the priorities set by the beneficiary country in the light of its economic and social needs and considerations regarding the viability and profitability of the project?

10. Should promotion be confined exclusively to industrial projects already identified, whose viability has been ascertained by means of at least a preliminary feasibility study, or can it include the identification of projects and feasibility studies for them? Some experts consider that, in the case of several developing countries, the facilities are often lacking for the identification of industrial projects and for studies of their economic, financial and technical feasibility; they therefore feel that these two phases of industrial investment should be covered by the promotion programme. Others, while attaching the same importance to identification and to the studies regarding the feasibility and profitability of industrial projects in the developing countries, think that these should be undertaken separately and that the promotion of external investment or financing should be limited to projects already identified and accepted as viable.<sup>1/</sup>

11. Since promotion of the transfer of capital and know-how at the project level is complementary to international and bilateral action in this field, it can be assumed that it must be limited to projects on which no such action is being taken.

12. A question that arises is whether projects to be promoted should be public, semi-public or private, or whether promotion should cover the three categories of project.

13. Some limitations may also be imposed regarding the scale of the projects to be promoted. It has been noted that large-scale projects are generally given sufficient publicity and that the investor or financier who may be

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<sup>1/</sup> Industrial project identification and feasibility studies are dealt with in a separate programme of UNIDO assistance to developing countries.



interested in such projects often himself takes the initiative of expressing interest directly to the party concerned. In such cases, therefore, promotion should be confined to medium-scale projects and, when appropriate, to small-scale projects likely to interest the foreign investor or financier. It now remains to decide what is meant by a medium-scale project and a small-scale project likely to interest a potential partner and to arrive at sufficiently clear criteria for making a distinction between the two. Suggestions from participants will be particularly welcome on this point.

14. Lastly, in so far as UNIDO is concerned, it must be clearly understood that since the organization's activities extend only to the manufacturing industry, only projects for that sector should be dealt with under its promotion programme.

15. Generally speaking, the success of promotion will largely depend upon the choice of projects to be promoted. It is generally acknowledged that a good project will always find a buyer in the form of an associate or a financier. The definition of a good project may vary according to the viewpoint from which the project is considered, by whom and the reason for which it is undertaken. It may differ chiefly for the investor and the financier. It is generally accepted that a financier is always anxious to ascertain the feasibility of a project before deciding to finance it but that the eventual failure of the enterprise has fewer implications for him than for a partner in the investment, since the financier generally covers his risks by sufficient guarantees before undertaking to finance the project.

16. There is, however, general agreement that any project should fulfil certain conditions if its promotion is to be at all successful. The conditions most important to the foreign investor or financier are the security of the investment or financing and the economic, financial and technical feasibility of the project.

#### B. FINDING A FOREIGN INVESTOR OR FINANCIER

17. The second phase in the operation of promoting an industrial project is the "sale" of the project to an investment partner or financier. How can suitable sources of investment or financing be found and how can those most likely to be interested in the project be selected from among those sources? Lastly, how can the project best be presented? Suggestions from participants will no doubt provide the answers to these questions.

18. Since the object of the promotion may vary as much according to the policy of the beneficiary country as to the needs of the project - financing or partial or total participation in the investment - should a distinction be made between the two types of sources: sources of financing and sources of investment? Furthermore, is the distinction systematic? Do not the activities of certain institutions sometimes cover both financing and investment?
19. Should sources of financing or investment also be sought among international or regional institutions, or should the search be confined to development banks and other financing agencies specializing in long-term credit, to investment companies and to producers who export industrial capital equipment with facilities for long-term financing in the form of credits for export or in any other form?<sup>1/</sup> Lastly, should investments be sought from all possible sources, whether public, private or mixed, or should a selection be made and, if so, on the basis of what criteria?
20. It would not be appropriate to provide even an incomplete list of the sources in this document; however a discussion of the respective roles of some such sources, in promotion at the project level, is extremely important for the development of such promotion, which largely depends on their interest and, consequently, on their contribution to the external financing of industrial projects considered feasible economically, financially and technically.
21. The provision of financial assistance by United Nations organizations whose activities extend to the financing of industrial projects in developing countries is generally decided upon and put into execution at the project level. Consequently, UNIDO's assistance in the promotion of project financing should be focused on other sources, particularly those which have remained outside the established "circuit" for the procurement of industrial financing and investment for developing countries.

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<sup>1/</sup> Financing under a bilateral agreement between two States is not considered promotion for the purpose of this document.

22. It is in this spirit that UNIDO should develop its programme for the promotion of the external financing of industrial projects in such countries in close collaboration with the other United Nations organizations, particularly the United Nations Development Programme, to which its activities should be complementary. UNDP's financial assistance has been particularly great in the field of pre-investment. UNIDO considers that its promotion programme will supplement UNDP's activities by promoting industrial projects for which the feasibility studies have been financed by UNDP.

23. Fruitful collaboration between the World Bank and UNIDO can likewise be developed by the submission to the Bank of industrial projects identified and studied by UNIDO.

24. The large development banks have, of course, their own promotion services and are fully equipped to identify, select and study specific industrial projects in developing countries with a view to financing them. Nevertheless, close collaboration between these banks and UNIDO could widen the possibilities of promoting the financing of specific industrial projects in developing countries. Any concrete proposals which the representatives of such banks who are participating in this meeting may make regarding the organization and development of such collaboration will be particularly appreciated. Proposals for the realization of such collaboration will be put before these representatives later in this document.

25. There may be those who consider that UNIDO's activities should be aimed primarily at supplementing those of medium-scale institutions for long-term financing, which are generally less well-equipped for the identification of industrial projects in developing countries and whose interests and financing possibilities lie predominantly in the field of medium-scale industrial projects. This also applies, no doubt, to the producers and exporters of industrial equipment, whose facilities for identifying and selecting industrial projects in developing countries are relatively limited. The discussions which will take place among the participants in the present meeting will probably make it possible to provide answers to all these questions.

26. Because of their relationship with the various branches of industry and finance, the banks - even the commercial banks - probably cannot contribute actively, independently of their own direct interest in financing or investment, both to the location of possible investors or financiers and to the preparation and establishment of contacts with such persons. Although the nature of the financial resources of commercial banks in industrialized countries limits their activities in the financing of industrial investment in developing countries, and limits still further their participation in such projects, however, such banks nevertheless remain an important element in the industrial investment promotion circuit, particularly as this circuit gives rise to many operations which are of direct interest to these banks. The contribution of bank representatives to the discussions which will be taking place on the role of banks in this field, the extent and limitations of this role, and the procedure to be followed in order to bring the banks into action will be particularly appreciated. It may be worth remarking, in this connexion, that the confidential nature of all promotion operations and the need for safeguarding such confidentiality, at any rate in the first stages of development of the promotion work, gives still greater value to the role of the banks in this field.

### C. THE PROMOTER

27. What is the role of the promoter of an industrial project, and by whom can such promotion be carried out most effectively?

28. Does the role of the promoter of an industrial project resemble, for example, that of someone placing a commercial product on the market? Is he the person who draws up the industrial project, or is he the person who locates a possible "buyer" (in the sense of investor, partner or financier) for the project and, having contacted such a "buyer", puts the project to him, sounds out his interest in it, and stimulates this interest to the point where it may lead the "buyer" himself to express interest in such a way that contacts can be established and negotiations then undertaken between the two interested parties.

29. This work of promotion can be carried on by the local entrepreneur himself, if he exists, by a specialized national agency, (such as a promotion centre or an industrial bank), or sometimes by a national or overseas intermediary or an international agency. What, then, are the respective roles of national and international agencies in this field?

30. In order to make up for the possible absence of a local promoter, to assist developing countries in their efforts to promote imports of capital and technology from industrialized countries, and also to supplement international and bilateral action in this field, UNIDO has conceived and worked out, on a provisional basis, a comprehensive programme for the promotion of industrial investments in developing countries which provides for institutional action, the training of national personnel, an advisory service on the policies to be followed in this field, and operational assistance at the project level. This programme is described in a separate note submitted for discussion at this meeting. Only the operational part of the programme is set out in the present document, which outlines a practical procedure for the implementation by UNIDO of the concept of promotion at the project stage.

### III. SUGGESTED PROCEDURE FOR A PROGRAMME OF ACTION BY UNIDO

31. It is proposed that the procedure to be followed by UNIDO in the promotion at the project level of transfers of capital and technology from industrialized countries to developing countries should consist of two phases:

- (a) A first phase of exploration and preparation;
- (b) A second phase which would be initiated only in cases where the first phase had already given positive conclusions: this second phase would in effect consist in "selling" the project.

32. It is proposed that both phases of this promotion work should be entrusted to officials of UNIDO, so as to safeguard its confidential nature. This policy would also make it possible to respond rapidly to requests for assistance submitted to UNIDO, as it would enable the procedure of recruiting experts to be avoided.

A. THE EXPLORATORY AND PREPARATORY PHASE

33. The object of the exploration work in this first phase is to make sure that the requesting country does indeed have industrial projects which are ready for promotion with a view to obtaining outside investment and financing: that is to say, projects which have already been properly drawn up and whose viability has been established by, at the very least, a preliminary study.
34. The work to be carried out in this first phase also involves the selection, in agreement with the authorities of the requesting country, of the available projects which are to be the subject of promotion, and the establishment of their order of priority.
35. At the same time, certain points must be clarified during this phase, especially regarding the following questions:
- (a) Is the object of the promotion activities to obtain outside financing, and if so, in what form, or is the object to find an overseas investor, in which case the extent of the investor's participation must be determined and it must be decided whether his participation is to take the form of financing, co-management, provision of know-how, contribution to marketing, etc.
  - (b) What is the requesting country's preference regarding the possible source of financing or investment: that is to say, the nationality of the source, its nature (bank, investment company, equipment supplier, etc.) its legal status (private or public body), etc.? There are sometimes special considerations which may influence or restrict the requesting country's choice in this matter.
36. The preparatory work in this first phase follows up the exploratory work and supplements it if the results have been positive. The object of the preparatory work is to ensure that the selected projects are presented in an adequate way which is in keeping with the normal requirements of investors or financiers.
37. It is proposed that this presentation should take the form of two files:
- (a) A general file on the requesting country, and
  - (b) An individual file for each project.

38. The general file will contain a review of political, economic, and other relevant conditions in the requesting country and give a brief description of the various subjects which normally interest a financier or investor and which enable him to get a better idea of the country in which he is being invited to finance a project or make investments.

39. The individual file for the project will include the basic information necessary for its evaluation and for consideration of the possibility of financing it or participating in it.<sup>1/</sup>

40. The work of promoting, or should we say "selling", the industrial project to a financier or investor begins when these files, which constitute the working tools of the promoter, have been completed.

#### B. "SELLING" THE PROJECT

41. This stage represents the culmination of the promotion process: what methods, then, would be used to "sell" an industrial project in a developing country to an investor or financier in an industrialized country?

42. The basic idea here is that UNIDO should establish contacts with banks and other financial institutions, as well as with professional bodies, in countries which may be in a position to export capital, and should work with them to locate possible investors, financiers, or suppliers of equipment who can offer credit terms, know-how or other services. This co-operation may also extend to the evaluation of the position and standing of the prospective financier or investor before he is approached and sounded about his possible interest in financing or investing in the industrial projects selected. At the same time, these co-operating organizations may help UNIDO to make the necessary contacts with sources of finance or investment and prepare the ground for direct negotiations between the two interested parties.

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<sup>1/</sup> Another working document dealing with the methods of preparing these files, their presentation, contents, etc. is before the participants for discussion.

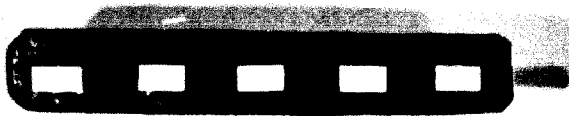


43. On the basis of the co-operation proposed above, the UNIDO official responsible for the promotion of specific industrial projects, who will be equipped with the files already mentioned in paragraph 39, will make contact with sources of investment or finance who are considered to be potentially capable of becoming interested in the project in question. He will then submit the files to them and provide them with any additional information which they may need in order to decide whether to express interest in principle.

44. Interest in an industrial project on the part of a financier, investor or equipment supplier with credit facilities should manifest itself in the form of concrete proposals for submission to the other party. The initiation of a dialogue between the two parties will depend on these proposals and on the reactions of the party to whom they are addressed. The promotion process should be pursued in such a way as to stimulate this dialogue and keep it up until it develops into concrete negotiations on the terms and conditions for investing in or financing the project.

45. It is therefore proposed that the negotiations between the two parties should be carefully prepared by the UNIDO official and that an ad hoc programme should be prepared in advance in consultation with the interested parties.

46. When the negotiations between the two parties are on the road to positive results, UNIDO's assistance in the field of promotion will have achieved its object. Additional assistance may be requested in other fields, however, if it is needed for the concrete realization of the project, its organization or its implementation.





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