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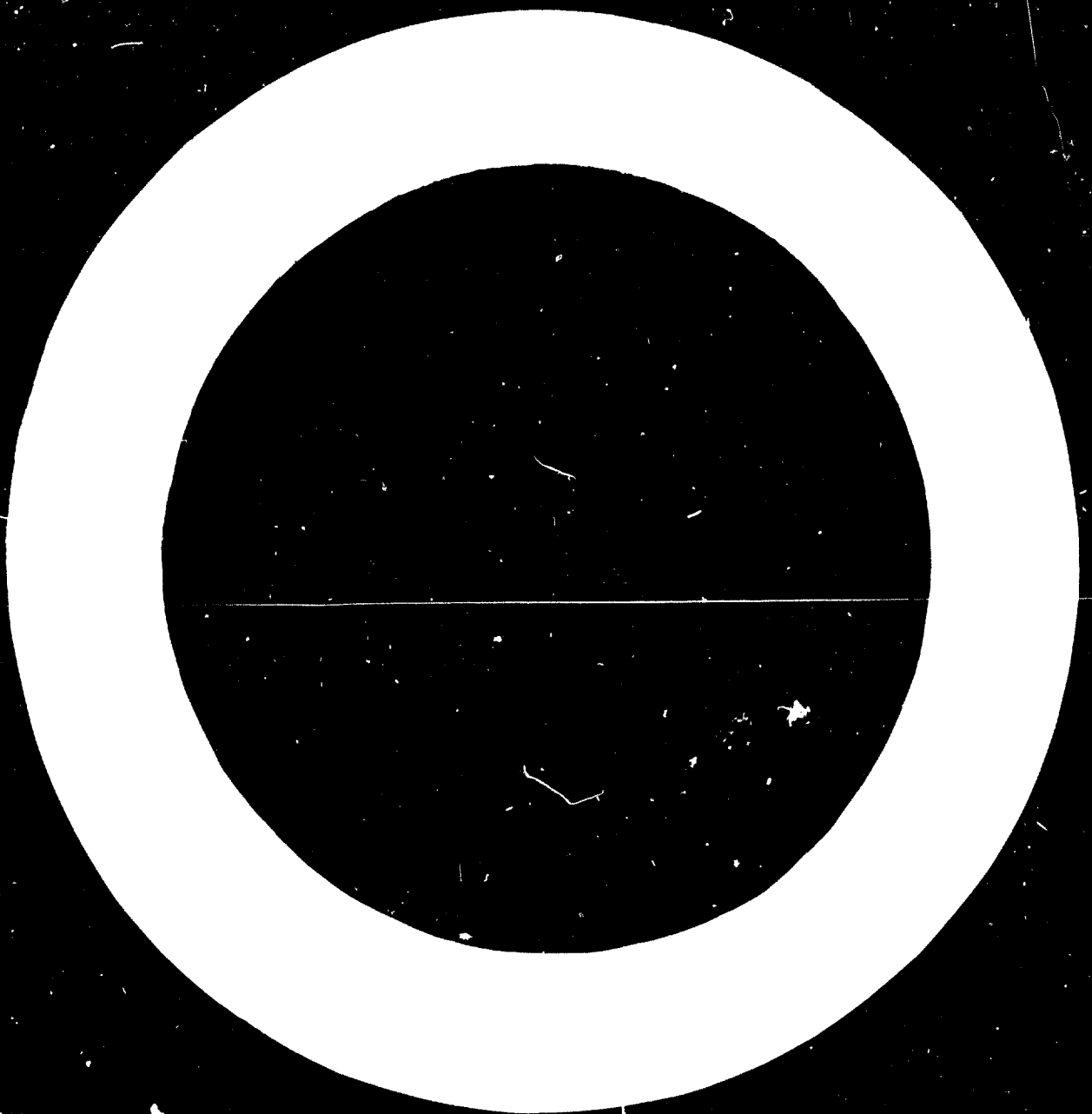
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THE INVESTMENT PROMOTION FUNCTION
AND THE UNDP PRE-INVESTMENT ACTIVITY

Prepared by the
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I. INTRODUCTION

1. The provision of financial resources to developing countries is expected in the long run to be not only beneficial to the recipient but rewarding to the donor as well, by the creation of substantial new investment opportunities. However, despite the common assumption that investment opportunities are abundant in developing countries, due to the shortage of capital, low wages and high expectations of investment returns, a more realistic appraisal of the prevailing economic conditions indicates that the exploitation of many of the resources of developing countries is seldom immediately feasible. There is rarely a consistent transportation and communications network; the supply of electric power is seldom adequate; banking and commercial support facilities are almost non-existent. The system of distribution is often very imperfect while complementary industry and maintenance and repair facilities for industries are lacking.

2. In a few cases it is imaginable that the investor himself would try to overcome the lack of external economies by training his own labour and establishing his own transport and repair systems. However, it is clear that the package of overhead investment involved in this approach could be seldom afforded by the supplier of external resources. Such conditions are an obstacle in the way to substantial capital investment as they establish a permanent vacuum between latent investment opportunities and the possibility of exploiting them. An intensive "pre-investment activity" primarily geared to preparing feasibility studies in such high priority sectors as economic infrastructure, education, agriculture and mining, seems to be one of the most effective answers to this problem. Pre-investment in this sense is to be considered an essential "economic support function" for effective investment, and thus an effective form of investment promotion.

II. THE UNDP PRE-INVESTMENT FUNCTION

3. The necessity of carrying out such an essential function in the vacuum area described above was undoubtedly the basic motivation which determined the United Nations General Assembly, in Resolution 1240(XIII), establishing the Special Fund "as a constructive advance in United

Nations assistance to the less developed countries which should be of immediate significance in accelerating their economic development by inter alia, facilitating new capital investments of all types by creating conditions which would make such investment either feasible or more effective". The resolution, in designating the basic fields and types of projects to be assisted by the Special Fund so as to cover surveys, research, training and demonstration, including pilot projects, makes it clear that the term "pre-investment" is to be construed to cover not only activities which would directly stimulate capital investment by identifying opportunities for investment and establishing the feasibility thereof, but also activities which could be considered to facilitate and make such investment more effective, primarily by creating the necessary pre-conditions for investment e.g. by developing the necessary skilled manpower, technology and institutional framework needed to sustain capital investment. It is clear that pre-investment, as defined by the G.A. resolution, encompasses a wide span of economic-support activities among which there is broad room for investment promotion. It would seem, in turn, important to point out that investment promotion to be of any effect in generating capital investment ought to be basically project oriented.

III. UNDP OPERATING MODALITIES

4. Since its foundation the United Nations Development Programme^{1/} in compliance with the General Assembly resolution, has assisted well over one hundred low-income countries and territories to enhance economic development and attract sizable amounts of development capital on a sound business-like basis from internal and external sources in almost every major field of economic and social development activity.
5. The development activities financed by the UNDP are carried out in the field by the United Nations and the following thirteen participating and executing agencies: the World Bank, FAO, WHO, ILO, Inter-American Development Bank, UNIDO, UNESCO, ICAO, ITU, IMCO, UPU, WMO and

^{1/} The Special Fund of the United Nations was merged on 1 January 1966 with the Expanded Programme of Technical Assistance to become the United Nations Development Programme.

IAEA. The newly established African Development Bank and the Asian Development Bank are expected to join shortly the family of the participating and executing agencies.

6. The agencies provide recipient governments with professional and technical advice and recruited international experts. The latter are usually consulting firms of industrial countries specialized in the field of the project's activity and undertaking a wide variety of surveys ranging from a feasibility study for the establishment of a water supply and sewerage system in Ghana to the studies for modernization of the transportation and telecommunications facilities in Malawi.

7. As of the end of December 1967 subcontracts for the Special Fund component of the UNDP were awarded to 337 consulting firms from twenty-one countries involving a cumulative allocation of approximately \$74 million. These subcontracts are for services covering a wide variety of fields including power studies, transport and communication surveys, sewerage and water supply studies, soil hydrological and forestry studies, fisheries surveys and training. The United Nations agencies that have most utilized advisory services of subcontractors to implement UNDP feasibility studies were: the United Nations itself, which has awarded 158 subcontracts mainly in the fields of mineral and geophysical surveys and transportation and communication surveys; the FAO, which has awarded 156 subcontracts during the same period; the IBRD, which has awarded 45 subcontracts mainly in the field of transportation and communication; and the WHO, which has awarded 8 subcontracts mainly in the field of water supply and sewerage.

8. On different occasions most of the major industrial countries were called upon to provide, through private or public consulting firms, technical know-how to the UNDP-assisted projects. During the year 1967, for example, major subcontracts were awarded to CANABRA of Canada for carrying out a major power survey in Brazil, SOFNERAIL of France to supply organizational know-how for a major railway operational project in Chile for which the participating and executing agency is the World Bank, the Economist Intelligence Unit, Ltd., of the United Kingdom which will act as the major subcontractor for a regional African transport study for which the agency is, again, the World Bank, Nippon Koei Corporation Ltd., of Japan which has been awarded a contract by the FAO

to undertake a feasibility study of irrigation development in the Terai Plain in Nepal, the DAMOC Consortium of the United States, which has been awarded a subcontract by the WHO to prepare a master plan for water supply and sewerage for the Istanbul region and Italconsult of Italy which has received a subcontract to prepare a major transportation survey in Tunisia under the control of the World Bank as the participating and executing agency. A major contract has also been awarded by the United Nations to the Crooks, Michell, Peacock and Steward Ltd., of Australia for the urban renewal and development of Singapore.^{2/}

9. More frequent and substantial participation by such major Asian industrial countries as Japan, Australia and New Zealand is to be expected with the beginning of the implementation of major projects of the Asian Development Bank. The ASDB, which is shortly expected to become one of the participating and executing agencies of the UNDP, is presently co-operating in close consultation with the UNDP in the promotion and selection of development projects. Contracts are awarded on an international competitive basis by the participating and executing agencies which keep rosters of qualified firms and organizations interested in being considered for awards of contracts.

10. With some differences in procedure for large and small scale activities, each project supported by the Programme is subjected to a careful screening process before being approved by the Governing Council. A request is usually prepared by the government concerned in consultation with the agency or agencies having special competence in the proposed project's field and with the UNDP Resident Representative. It is then considered for priority, feasibility, potential, impact and relationship to overall national development efforts, by the UNDP's international secretariat, and further reviewed by the Programme's Inter-Agency Consultative Board. Finally, it is submitted for consideration and approval to the UNDP Governing Council, which is made up of 37 countries at all levels of economic development. At the completion of the project, detailed information for investment promotional purposes is usually contained in final reports and sometimes interim reports prepared by the agency. The reports are

^{2/} For a complete list of the subcontracts awarded up to date, and other pertinent data, see DP/L.67/Add.5.

prepared to provide assisted governments with technical data and detailed investment recommendations required for decisions on the implementation of development schemes. Through a direct agreement with University Microfilms, Inc., Michigan, de-restricted final reports can be acquired by any interested organization.

IV. INVESTMENT ACHIEVEMENTS AND TRENDS OF UNDP

11. As of December 1967, the UNDP, working in close co-operation with the UN family of agencies, was assisting 137 countries and territories to carry out 600 major pre-investment projects, each averaging \$2 million in cost and four years in duration. In pure terms of investment results by the same date, 35 completed survey projects and seven surveys still underway and four completed research projects had directly or indirectly stimulated \$2.1 billion of public and private development investment, while some \$300 million more in follow-up financing to other projects was under active consideration. As has been mentioned, the UNDP focuses its energy and efforts in carrying out projects in fields of high economic priority where the need for the establishment of an effective economic infrastructure tops all economic development requirements.

Investment Utilities

12. Thus, 18 of the projects which generated investment were in electric power development, transportation, telecommunications, water supply and sewerage, involving investment commitments totalling \$1,475 million, or approximately 75 per cent of the entire investment reported. Such a result is not surprising when it is taken into account that the IBRD was the participating and executing agency for the majority of these projects, and as such it has supplied organizational activity, technical assistance and financial resources. As can be appreciated, the field of infrastructure is, by definition in most developing countries, the field of public investment supplied by either internal budgetary allocations or external multilateral or bilateral sources. However, as much of the equipment necessary for the implementation of the UNDP-assisted project is in effect supplied by private enterprises from Western Europe, North America, Japan, Australia and other developed countries, the share of the private

sector in these projects is substantial.

13. The World Bank has been combining its own loans with bilateral export credits often in such a way as to bring about an economic procurement of goods and services at appropriate financial terms and conditions for the assisted country. Clear evidence of joint procurement of funds for the implementation of operations resulting from UNDP-assisted projects is evident in a few prominent cases. The study for the expansion of power generation and distribution facilities in Argentina, for example, has generated a loan of \$150 million from the IBRD which has been combined with the extension of export credits from the United States, the United Kingdom, Italy, France and Switzerland, totalling approximately \$100 million. The latter were in effect export credits guaranteed by the above-mentioned governments to facilitate the export of equipment and machinery produced and supplied to the project by private corporations. Another such similar example is offered by the UNDP survey for the construction of the Kainje Dam in Nigeria, for which \$215 million worth of investment was jointly supplied by IBRD and a group of export credit institutions, under the above-mentioned conditions, from Italy, the United Kingdom, the United States and the Netherlands. As a result, although the bulk of investment in utilities projects is supplied by official sources, this is often combined by necessity with a substantial supply of resources and technical know-how from the private sector.

Investment in the Field of Agriculture

14. The second most important high priority sector is agriculture. Here, however, investment has so far seldom taken place as a direct consequence of UNDP pre-investment activity. Indeed, often the most urgent requirement of developing countries in this field is not capital investment but rather the collection of basic information and data from which to start the assessment of any further step in economic development. In such circumstances, the first most urgent requirement is the pre-assessment of physical resources, like land and water or forestry resources, to be supplemented by similar inventories of population characteristics and needs. It is in matching resources with needs that the basic direction of investment thus normally begins with broad inventory surveys which result in specific feasibility studies often carried out by the private sector. A few major UNDP projects in the

field of forestry are clear evidence of such pre-investment trends. A Survey of Pine Forests in Honduras has attracted the investment interests of ADELA, a private group which handles European and American investment capital on a joint venture basis throughout Latin America. As a consequence of the UNDP survey, the group subsequently identified specific investment opportunities resulting in investment negotiations involving approximately \$100 million from major American corporations in the pulp and paper industry. Another successful paper and pulp material survey in Thailand has already drawn substantial interest from the private sector as well as the interest of the Asian Development Bank.

The FAO/Industry Co-operative Programme

15. Perhaps the most interesting initiative to stimulate private investment in agriculture is the establishment of the FAO/Industry Co-operative Programme approved by the FAO Conference in 1965 to help accelerate agro-industrial extension in developing countries through closer co-operation between FAO, the industrial sector and governments. The Programme acts as a catalyst in bringing together technical and financial components for new investments, and works with governments to eliminate obstacles to investment, focusing its attention on UNDP/FAO pre-investment projects. In two years over fifty multi-national corporations, mainly private, have become members of the Programme, and through co-operation are providing new possibilities for governments to implement agro-industrial development. By the end of 1967, through the Programme, industry had shown interest in at least fifty of the completed UNDP/FAO-assisted projects. So far there has been evidence of a direct link between the project's activities and direct corporate investment in three cases: the Institute for Development of Forest Resources and Industries, which has stimulated investment in forestry-based industries, amounting to \$105 million - this is a case worthy of careful analysis for investment follow-up purposes; in Ethiopia another member has utilized information from a UNDP/FAO project (Survey of the Awash River Basin) in planning an estimated total \$22.5 million expansion of the country's sugar industry; in East Africa the Livestock Plan has helped in the generation of a variety of investment opportunities. In addition, the experience of the FAO/Industry Co-operative Programme has shown that some projects not primarily designed to generate

capital investment have nonetheless stimulated substantial investment.

16. A good example is the new fruit and vegetable processing industry that has been established (estimated initial investment \$2 million) in co-operation with the UNDP/FAO-assisted Centre for Production, Processing and Marketing of Fruits and Vegetables in Yalova, Turkey. Begun in late 1966 the Centre has since been the focal point for FAO/Industry/Government co-operation.

17. The most encouraging effort of the Industry Programme consists in promoting the initiative of industry in identifying and proposing new projects which may be of interest to governments or the UN agencies or the UNDP. This constitutes an investment promotion initiative of great significance as it originates in industry and thus brings incomparable assistance in terms of technical know-how and business experience to the project programming phase. Needless to say, the entire experience of the industry group should be of invaluable assistance for the promotional efforts of UNIDO.

18. Of particular interest in this respect are projects where complementary investment in infrastructure is needed to make investment in agro-industrial production viable. For this purpose co-operative action by the government, private concerns, FAO, UNDP, IBRD, Asian Development Bank and the African Development Bank could contribute much to increasing the potential for investment in agricultural production.

Investment in Mining

19. A sector of primary importance for the development and the exploitation of the natural wealth of many developing countries is mining. The indirect advantage of mineral investigation and exploitation often materialize in net foreign exchange earnings and consequently in terms of accelerated development and monetary stability. In turn, mining attracts foreign private interests for evident economic reasons. Basic industries in developed countries must be constantly on the lookout to ensure adequate and economic supplies of raw materials. Here, however, the problem of investment is somewhat complex. A very expensive pre-investment process is necessary in order to determine the consistency of deposits and the possibility of exploiting them economically. Public sources are rarely available for this purpose, for they are needed for more urgent development projects and the sector is considered better suited for private investment. An early stage

of investigation, however, the risk of negative results of the pre-investment phase, is as high as to discourage private initiative. Under such circumstances, the UNDP is called upon to fulfil the basic function of carrying out many first stage general inventories of mineral resources, which seldom result in direct investment. However, UNDP-assisted projects fill an important initial vacuum as they provide governments with sufficient inventory results to promote further pre-investment action by private corporations. In a few prominent cases, experience has shown that further mineral exploitation is a consequence of the first phase UNDP survey and in turn results in substantial investment.

20. A general Survey of Groundwater and Mineral Resources carried out by the UNDP in Cyprus has made possible an agreement of mutual advantage between a major United States mining corporation and the local government. Similar conditions seem to have resulted from an Industrial and Marketing Survey of Petroleum Derivatives and Natural Gas in Algeria where major international industrial interests have already been attracted as a consequence of the survey's results. Furthermore, the recent completion of a Mining and Groundwater Survey in Somalia has uncovered the existence of deposits of uranium; active investment negotiations are under way between the government and a variety of international interests from the western as well as the eastern countries.

V. CONCLUSIONS

21. Industrial promotion activities ought to be closely related to the actual potential and possibilities of mobilization of the total resources of developing countries. An effective way of fitting assistance of any sort, including investment promotion, into such a mobilization is by seeing it from the outset in relation to specific projects conceived within the context of national development plans. The academic approach to this problem is rich in ideas and suggestions. It would be useful, however, to fully examine and draw experience from the activities of all those officials, agencies or institutions which are constantly in touch with project implementation. The programming activities of the UNDP, the European Development Fund, the regional development banks or other

such institutions will be useful in this respect. The experience of FAO/Industry co-operative Programme and FAO/IBRD Co-operative Programme, as well as the UNDP investment follow-up activities will also help. In addition, direct experience in the field of UNDP Resident Representatives, project managers, agencies, bank missions, the pre-investment unit of the African Development Bank, and UNIDO field activities must be carefully scrutinized. Of increasing importance are the ten Consultative Groups organized by the World Bank for co-ordinating and programming aid, for Colombia, Peru, Nigeria, Sudan, East Africa, Korea, Malaysia, Morocco, Thailand and Tunisia. Nineteen aid-giving nations are now associated with one or more of the Bank's groups.

22. For members of Consultative Groups, the Bank makes periodic comprehensive reports on the recipient country's development possibilities, problems and performance. It comments on the country's own economic estimates and recommends the type and terms of aid which seem appropriate. The Bank assists the recipient country in preparing or revising its development programme and in resolving problems of execution. In addition, the World Bank has resident missions in India, Pakistan, Indonesia and a few other countries to provide advice on general economic policies and identify and prepare investment projects within the framework of economic priorities of the assisted countries.

23. With this existing experience to draw upon, UNIDO may find its task in the field of industrial investment promotion largely facilitated.





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