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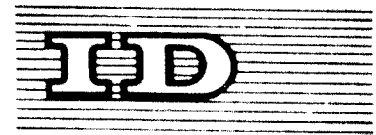
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Agenda Item 4 - Issue paper

THE ESTABLISHMENT OF A PORTFOLIO OF PROJECT REPORTS
ON INDUSTRIAL INVESTMENT OPPORTUNITIES IN DEVELOPING COUNTRIES ^{1/}

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THE ESTABLISHMENT OF A PORTFOLIO OF PROJECT REPORTS
ON INDUSTRIAL INVESTMENT OPPORTUNITIES IN DEVELOPING
COUNTRIES

General Considerations and issues raised

I. Introduction

1. The need for improved facilities and programmes for the active and systematic promotion of industrial investment at the project level is widely recognized in the developing and industrialized countries alike.
2. Conscious of this gap, a plan of action to help fill the gap has been conceived. The proposal consists of the development under international auspices of the appropriate machinery required to promote a world-wide portfolio of project reports on industrial investment opportunities in developing countries.
3. More specifically, the machinery would assist developing countries in the preparation of reports on economically worthwhile and commercially attractive projects; it would also help them locate competent foreign (and domestic) entrepreneurs, technical know-how and finance for the effective implementation of the projects.
4. One advantage of developing such a service at a central point would be that the experience gained in locating appropriate sources of capital and know-how in the industrialized countries could be accumulated and systematically recorded; as a result, this vital (and frequently costly) element of the investment promotion function might be achieved both more effectively and more efficiently.
5. However, a range of important issues arise in considering how appropriate machinery to perform this function might be organized; the purpose of this paper is to raise these issues and elicit the views of participants at the meeting.
6. The proposed portfolio would consist of regularly up-dated project reports on potential industrial investment opportunities in developing countries.
7. The object of the portfolio would be to serve interested parties in both the developing and the industrialized centres. For the developing countries, the service could offer related supporting services in addition to the selective and confidential approach to promoting individual projects described in the issue paper for Agenda item (2) on which its conception was based. For the industrialized countries, the portfolio could be classified by the type of industry in which each industrial investment opportunity falls; those interested parties in the industrialized countries who wished to use the service would thereby have a central channel through which their interest in establishing specific types of new industry in developing countries (or

their interest in supplying finance) could be directed.

8. The question arises as to whether the establishment of such a central portfolio of project reports would be a useful supplement to existing channels for investment promotion. To consider this question it may be useful to review the channels through which industrial investment opportunities are promoted at present.

II. The possible need for such an approach

9. Many industrial investment opportunities have been in the past (and will continue to be) identified by manufacturing firms in the industrialized centres who have their own sources of information (a) because they already have their own manufacturing facilities in the developing country concerned, or (b) because that country has long been an export market for its products. Furthermore, opportunities are increasingly being looked for and developed by manufacturers of plants and machinery in the industrialized countries. These channels, the initiative of entrepreneurs in the developing countries who develop contacts on their own initiative, and the existence of diplomatic, trade and other forms of representation of both developing and industrialized countries, all contribute to the identification of industrial investment opportunities on which the present flow of private capital into industrial projects in developing countries is based.

10. The establishment of a rapidly growing number of developing countries of their own specialized home-based investment promotion machinery recognizes that these channels are not sufficient by themselves. Furthermore, the more recent trend to extend the national investment promotion function by creating on-the-spot representation in Europe and North America (Annex A lists 23 such offices of 15 developing countries) suggests that on-the-spot representation can play an essential role in developing a wider and more selective approach to the identification of potential sources of technical know-how and finance in the industrialized countries.

11. It is these on-the-spot contacts with potential sources of technical know-how and finance that is the essential element of promoting industrial

investment at the project level. The portfolio of project reports approach is suggested for consideration as a natural extension of this function.

III. Issues

12. The issues that arise in this connexion can be grouped for the purpose of this paper under the following headings:

- (A) Advantages of setting up such a machinery;
- (B) Methods of selecting and promoting project reports;
- (C) Information to be contained in a project report;
- (D) Services required to implement the approach under discussion in this paper;
- (E) Institutional arrangements.

A. Advantages of setting up such a machinery

13. Participants are therefore asked to consider whether the availability of such a central portfolio of project reports would (a) be of assistance to developing countries, (b) be of use to potentially interested parties in the industrialized countries. Assuming the service can be developed on an efficient and effective basis, could the service be an effective supplement to the national investment promotion machinery (including overseas representation in some cases) organized by the developing countries themselves? If so, how many developing countries are likely to use the service proposed and how many projects is each one likely to wish to promote in this way at any one point in time?

B. Methods of selecting and promoting project reports

14. How should the central portfolio of project reports be developed? Should the service organizing the portfolio be prepared to consider any project submitted by a developing country, or should it be more selective? The issue paper for Agenda Item (2) considered possible criteria for selecting projects; should these be used? Would it be necessary (a) in the initial stages, and (b) later on when experience has been gained, to investigate on-the-spot all new projects prepared by a developing country?

15. The answers to these questions are related to the next issue — what techniques could be used to promote the project reports obtained? Should the confidential and selective approach to promoting individual projects be adopted, or can this be supplemented by a direct-mail advertising approach which circulates to the widest possible range of interested parties in the industrialized countries brief resumés of all projects requiring active promotion? If so, how often should the world-wide list of investment opportunities be circulated (monthly, bi-monthly, quarterly?).
16. The direct-mail advertising approach has the advantage of potential access to a wider audience but it also has disadvantages, the most fundamental of which are its "hit-or-miss" element and lack of selectivity.
17. Its success would depend (a) on the extent to which developing countries were prepared to use the service, (b) how carefully the investment opportunities listed were described, (c) whether the list could be so categorized that parties in the industrialized countries quickly identified projects in the list of potential interest to them, (d) on a careful selection of recipients (mostly busy business executives) for the mailing list, (e) a quick and effective follow-up to any interest expressed.
18. The approach is probably best suited for the promotion of a wide range of investment opportunities which have been identified for inclusion in the national development plan of a country but not studied in great detail. Some of these lists merely identify gaps in the industrial structure of the country which the Government would like to see filled; others examine the opportunities listed in more detail.
19. Participants at the meeting might consider:
- (a) whether such an approach is worth developing in principle;
 - (b) how much and what type of information is required to define an investment opportunity and attract the interest of the reader?;
 - (c) what type of industrial classification would businessmen in the industrialized countries find most easy to use — (the UN Standard Industrial Classification, or the Standard

International Trade Classification (facilitating; market research) or some other?).

- (d) how frequently (every 1, 2 or 3 months) the list should be published;
- (e) how a favourable response should be followed up - (by independent promoters or by leaving the interested parties in the industrialized and developing country to get together on their own initiative);
- (f) what help can participants from industrialized countries give in drawing up a mailing list (in particular in identifying the right person in each business firm or organization approached);
- (g) what help can developing countries provide from their own experience and the mailing lists they have developed.

C. Information to be contained in a project report

- 20. The success of both the portfolio of project reports approach and the direct-mail advertising of a list of investment opportunities would depend on the quality of the project report or project prospectus.
- 21. The project prospectus should contain all the information essential for the prospective source of technical know-how and finance to take a decision in principle as to whether the project warrants further a more detailed investigation.
- 22. The typical reader of the project prospectus will be a busy business or banking executive. The prospectus should therefore be brief, clearly written and to the point. It must be accurate and consistent so that the reader develops confidence in the local promoters of the project who will usually not be present at the time it is read.
- 23. To provide information (a) for preliminary contacts or (b) for listing of an investment opportunity for direct-mail circulation, Annex B outlines a minimum list of points which should be covered by projects at an early stage of formulation; this includes answers to questions about the type and size of technical know-how and finance requested from foreign sources.
- 24. Annex B also outlines the list of points on which potential sources of external finance would seek reassurance when considering projects at

an advanced stage of formulation and preparation. It is recognized that this list represents somewhat of an ideal and that the information obtained from developing countries on specific projects will fall at some stage between the well-prepared project and that for which answers to only the first and minimum list of questions can be prepared.

Participants are asked to consider whether the two outlines suggested in Annex B can act as useful guides for the development of standard outlines for a project prospectus to be used when compiling the central portfolio of project reports.

D. Services required to implement the approach under discussion in this paper

25. The speed and effectiveness of the portfolio of projects approach will clearly depend on the range of supporting services developed. These might include (a) the compilation of a central register of potential sources of technical know-how and finance, (b) assistance in formulating projects in certain cases so that a more detailed project prospectus can be prepared, (c) a service which can make available publications by developing countries describing their investment climate and industrial infrastructure to those potential sources of technical know-how and finance information in the industrialized countries requesting such information.

(i) Central register of information on sources of technical know-how and finance in industrialized countries

26. Financial institutions in the industrialized countries who are willing to supply finance for industrial projects in developing countries are relatively easy to identify. UNIDO is compiling such a register and it will be kept up to date. Information on the financing of exports of plant and machinery using export credit insurance and other schemes supported by the Governments of industrialized countries is also well documented, although not widely known yet by all potentially interested parties in the developing countries.

27. A register of potential sources of technical know-how would be more difficult to compile. It would have to distinguish between (a) firms interested only in supplying plant and machinery, (b) firms interested in participating in projects not only with finance but also by contributing technical know-how and perhaps management skills as well.

28. Such a register could do much more than just service the promotion of portfolios of project reports at the request of developing countries. The main issues are (a) how should it be compiled? and (b) who should have access to it?

29. A uniform classification of technical know-how would be needed, and it should be the same as that used to compile the list of worldwide investment opportunities for direct-mail circulation. The choices are again to use (a) the United Nations Standard Industrial Classification of All Economic Activities, (b) the Standard International Trade Classification (to facilitate market research) or (c) some other form of classification.

30. What assistance can industrialized countries be in compiling such a register. Could developing countries through their investment promotion agencies, industrial development banks etc. contribute to the register by pooling their knowledge of sources of technical know-how used in constructing plants already in operation? Could (a) the industrialized countries, (b) the developed countries, nominate a body or correspondent who could be given control authority to help compile this central register?

31. The existence of a central register of technical know-how would clearly be a substantial plus factor in encouraging developing countries to utilize the "portfolio of project reports" approach and other services offered by a central investment promotion service. The compilers would therefore have to decide whether (a) national investment promotion agencies, and (b) entrepreneurs in developing countries would be given free access to it. A separate enquiry service might need to be set up to handle such requests.

(ii) Assistance in formulating projects for promotion

32. The promotion of individual projects by independent investment promoters will clearly be most effective if the developing countries requesting this service have developed enough information about each project which they wish to promote for a detailed project prospectus to be drawn up. As national investment promotion centres and other machinery designed specifically to study and formulate projects are developed and strengthened in developing countries, this condition should become easier to comply with.

33. Nevertheless, cases will arise where the additional function of assisting in the formulation of projects is needed. Recognizing this need, should staff with the required skills and funds to finance feasibility studies (where needed) be developed on a wider and more flexible scale than is available at present? Should these services be linked to the other services offered? If so, how?

(iii) Central Service distributing official "investment climate" information

34. Approaches by the independent investment promoters to potential sources of technical know-how and finance are more effective if they are supported by information about the investment climate and industrial infrastructure available in the developing country promoting the projects being considered.

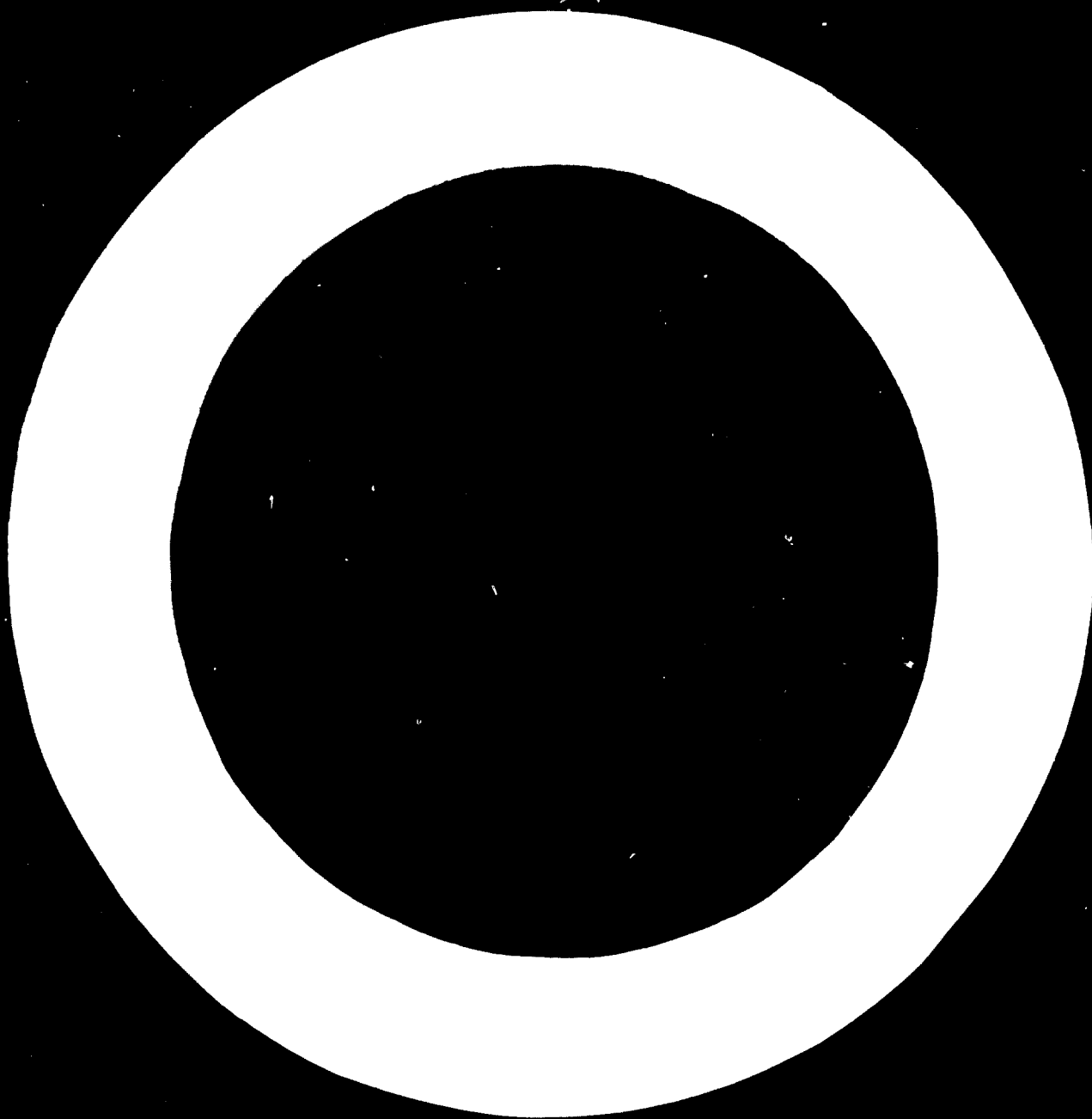
35. To what extent, therefore, should the service make the availability of such literature published by the authorities in each developing country who wish to use the service as a precondition for offering its services? Would there be any point in compiling a central register of such information for all developing countries? Should such a service be advertised in the industrialized countries? Should a charge to the developing country be made for the organization and mailing costs of such a service?

E. Institutional arrangements

36. This paper has suggested that a possible logical development of the promotion of industrial investment at the project level in developing countries is the compilation of a portfolio of project reports and the development of a range of related supporting services.

37. Participants at the meeting will become aware of the extent to which the developing countries have shown interest in the development of these functions and the way UNIDO has responded to these requests. A number of developing countries, even at this very early stage, have demonstrated their interest in the portfolio of project reports approach by preparing projects for consideration by participants from the industrialized countries at the meeting.

38. If the approach seems a sensible one, the obvious next question to raise is how should the functions described above be organized and financed in the future. Should they be grouped as a central service? If so, where? and how should the possible rapid development of the service be financed? In the later stages of the meeting, it is hoped that participants will be able to express preliminary views on these points.



Annex A

A preliminary list of the overseas offices
established by the national investment promotion machinery
of selected developing countries

North America

Europe

New York

Barbados

Chile

China (Taiwan)

Greece

India

Israel

Jamaica

Korea

Pakistan

Puerto Rico

Singapore

Trinidad and Tobago

China (Taiwan) - Rotterdam

Milan

Greece - Cologne

Hong Kong - London

India - London

Dusseldorf

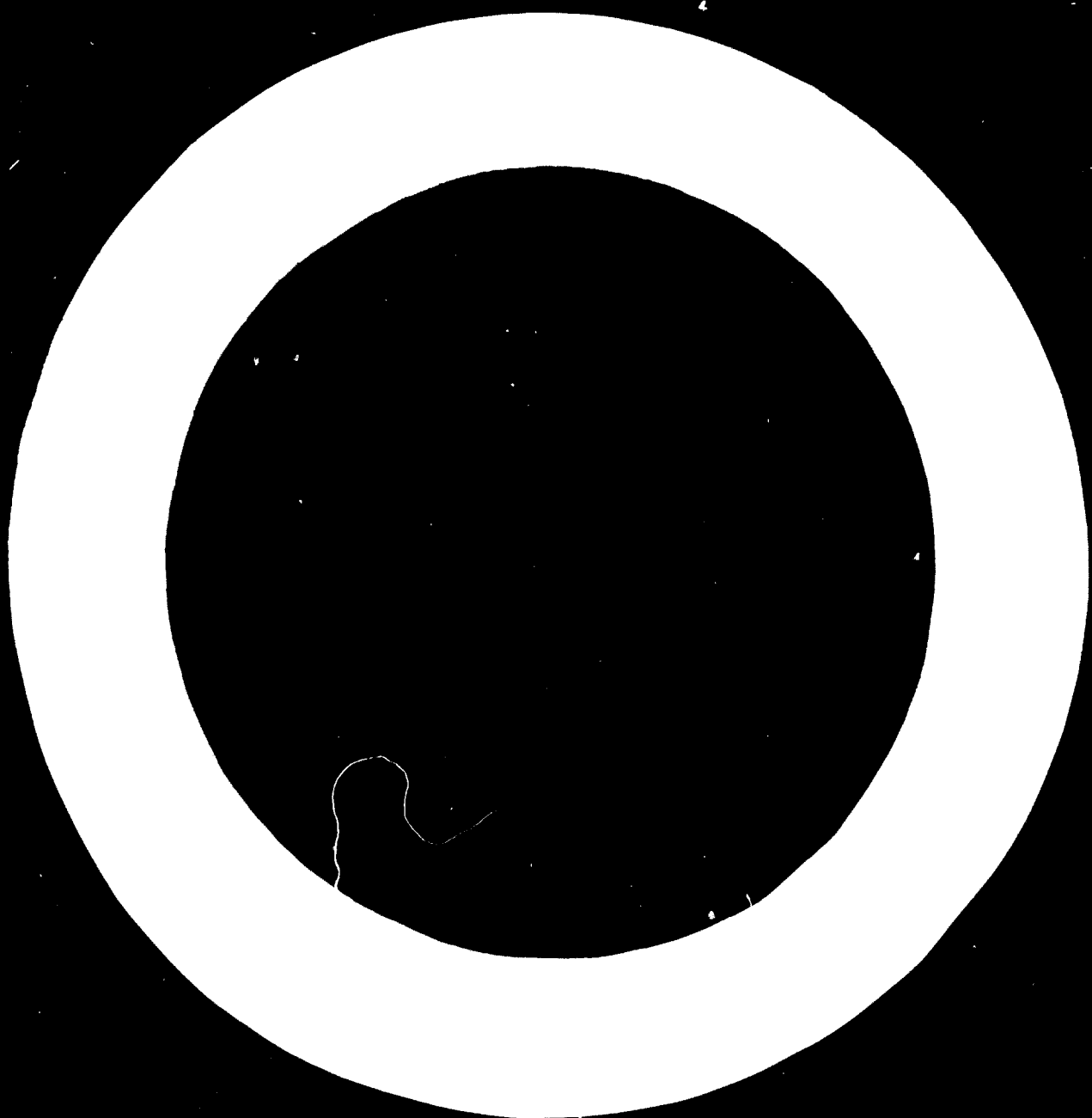
Jamaica - London

Malta - London

Pakistan - Dusseldorf

Puerto Rico - Paris

Singapore - Stockholm



Annex B

SUGGESTED OUTLINES FOR THE PROJECT PROSPECTUS

1. The aim of this Annex is to provide two suggested outlines for the information which might be contained in a project prospectus used to promote a portfolio of projects.
2. The two outlines represent the two possible extremes. The first outline might be used for projects at an early stage of formulation and includes preliminary answers to questions about the type and size of foreign assistance requested. The second outline assumes that the project has reached an advanced stage of formulation and preparation and attempts to summarize the sorts of questions on which a banker or potential sources of finance would seek assurance.
3. In practice, the second outline will probably turn out to be an ideal and a project prospectus containing information somewhat less than that included in the second outline but more than that in the first would come to be used in common practice. This will frequently be the case if the banker is confident that the management (local and foreign) will have taken care to eliminate all potential weaknesses in the project's formulation.
4. Participants are asked to consider
 - (a) whether the first and second outlines are useful guides,
 - (b) to make suggestions for their improvement,
 - (c) whether the second outline includes most of the points which financing institutions suggest be answered in their own standard outlines of information required from applicants for finance?
5. The continuing success of a project will depend on the quality of its management. Participants might consider whether the project prospectus can help assess this vital element and if so how this might be done.

PRELIMINARY INDICATIVE OUTLINE FOR A PROJECT AT AN EARLY
STAGE OF FORMULATION FOR WHICH ASSISTANCE IN IDENTIFYING
SOURCES OF TECHNICAL KNOW-HOW AND FINANCE IS REQUESTED

- (a) type of product(s) to be manufactured;
- (b) proposed capacity for the plant; estimated cost;
- (c) past and future growth of home market, potential export markets; projected sales in these markets and share of markets expected; existing and planned plants competing with the project;
- (d) price at which product is sold at present; main sources of supply; tariff protection; proposed selling price for output of new plant.
- (e) indicate whether the project identified by the Government, its investment promotion agency, or the promoter; is the project in accord with the Government's plans and policies? What priority does the Government attach to the project's early implementation?
- (f) who are the local promoters of the project? what is their previous business experience? how much capital can they provide themselves?
- (g) has any location been selected? for what reasons?
- (h) what sources of raw materials and other essential supplies are proposed?
- (i) can suitable long-term supplies of raw materials, labour, power and other industrial infrastructure requirements be provided?
- (j) are the promoters of the project seeking information on
 - (i) potential suppliers of plant and machinery

- (ii) potential technical partners who would have no management responsibility
 - (iii) partners who would contribute both technical and management expertise.
- (k) identify the industrialized countries in which for tax or other reasons, potential sources of technical know-how and finance would be preferred.
- (l) how much finance will foreign sources of know-how and finance be expected to supply; what terms could the potential foreign partner be offered; what percentage of the total equity, rate of interest on loans, etc.; can technical service, royalty fees also be considered?
- (m) have any foreign firms been contacted about the project? if so who?
- (n) have any feasibility studies been made?

SUGGESTED OUTLINE FOR THE PROJECT PROSPECTUS OF AN INDUSTRIAL PROJECT AT AN ADVANCED STAGE OF PREPARATION FOR WHICH ASSISTANCE IN OBTAINING EXTERNAL FINANCING IS REQUESTED

1. Summary outline

The summary outline should identify the product to be manufactured, proposed capacity of the plant, total cost of plant and total financing requirements in terms of local currency and foreign exchange. It should indicate the amount and form of financing requested and whether management and technical assistance is also required and welcome.

2. The promoters

What pattern of ownership is proposed for the project? Is the local promoters' stake large enough to ensure their continuing interest in the project? Are the local promoters reliable and financially responsible?

3. Management

Is the project assured of competent and expert management? What experience does the proposed local management have? Will this be supplemented by foreign management? If so at what level? Who will provide technical supervision for the construction of the plant?

4. Government acceptance

Is the project basically sound from the national economic point of view? Is it in accord with the Government's industrial plans and policies? What priority does the Government attach to its early implementation? Does the proposed venture conform to the national laws and regulations covering investment? Have the necessary licenses etc. been obtained?

5. Commercial soundness

Is the project commercially sound? Have realistic market forecasts been made, the strength of possible competing firms accurately assessed, and the share of the market expected carefully estimated? Have realistic selling prices been assumed in relation to existing sources of supply and the current selling price? Is protection from foreign competition assured? Are the estimated profits based on a realistic assessment of all cost elements, and a realistic assessment of the level of capacity at which the plant will operate?

6. Technical soundness

Are the construction and engineering plans technically sound? Is the manufacturing process chosen appropriate for the climate and location, and is it up to date? Have the capital costs of plant and machinery been carefully estimated? Have the forecast operating costs for the plant been compared with existing plants of a similar size using the same process? If not, are they realistic and if so why?

7. Financial soundness

What type of capital structure is proposed for the enterprise? Is it appropriate for the type of venture contemplated? Has sufficient provision been made for working capital, particularly in the initial years? Have detailed financial forecasts for 5 - 10 years ahead (a) of the profit and loss statement and (b) of the source and application of funds been prepared? Do they show that the loans requested can be repaid on schedule and the forecast dividend policy maintained?

8. Raw materials and other supplies

Can suitable long-term supplies of raw materials, labour, power and other infrastructure requirements be assured at the price assumed in the profit projections?

9. Detailed feasibility studies

Have any independent technical, cost, market or other studies been made? If so, when and by whom? What further studies are proposed?

10. Proposed sources of finance

What is the total financing requirement (a) in local currency, (b) in foreign exchange? How is the total requirement expected to be met? Which potential sources have been approached to date? What was the response?

SUGGESTED FINANCIAL STATEMENT SUMMARISING (A)
 THE PROFIT FORECAST AND (B) THE PROPOSED SOURCE AND APPLICATION OF FUNDS
 TO BE ATTACHED TO THE PROJECT PROSPECTUS OF AN
 INDUSTRIAL PROJECT FOR WHICH EXTERNAL FINANCING IS REQUESTED

| | Year | Year | Year | Year | Year | Year | Year | Year | Year | | |
|--|------|------|------|------|------|------|------|------|------|---|----|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |

PROFIT FORECAST (currency, units)

1. Sales (net of expenses)
2. Manufacturing and Administration Costs
3. Profit Before Depreciation and Interest
4. Depreciation
5. Interest on loan capital and bank borrowings
6. Profit Before Tax
7. Tax
8. Net Profit

MEASURES OF PROFITABILITY

9. Dividends paid (see line 30) - as % of share capital
10. Net profit per ordinary share (%)
11. Gross investment - year end
12. Net investment - year end
13. Interest, less tax at %
14. Net profit plus interest after tax
15. Return after tax on gross investment (a)
16. Return after tax on capital employed (b)

(a) The ratio of line 14 to line 11; (b) The ratio of line 14 to line 12

Note: Figures in brackets can indicate negative figures; e.g. figures in brackets in line 8 would indicate losses.

FINANCING PLAN (currency, units)

| | Year | Year | Year | Year | Year | Year | Year | Year | Year |
|---|------|------|------|------|------|------|------|------|------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 17. Profit before depreciation and interest | | | | | | | | | |
| 18. Less tax | | | | | | | | | |
| 19. Cash Generated | | | | | | | | | |
| 20. Equity capital (shares) | | | | | | | | | |
| 21. Long-term loan capital | | | | | | | | | |
| 22. Bank borrowing | | | | | | | | | |
| 23. Cash balance brought forward from previous year | | | | | | | | | |
| 24. Total Funds Available | | | | | | | | | |
| 25. Fixed assets | | | | | | | | | |
| 26. Increase in working capital | | | | | | | | | |
| 27. Interest | | | | | | | | | |
| 28. Repayments of bank borrowing | | | | | | | | | |
| 29. Repayments of long-term loans | | | | | | | | | |
| 30. Dividends | | | | | | | | | |
| 31. Cash balance carried forward to next year | | | | | | | | | |
| 32. Total Funds Used | | | | | | | | | |

Note: Figures in brackets can indicate negative figures; e.g. figures in brackets in line 8 would indicate losses.



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