



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



Distr.
GENERAL

ID/CONF.1/G.44*
5 July 1967

United Nations Industrial Development Organization

ENGLISH ONLY

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT

Athens, 29 November-20 December 1967

Provisional agenda, Item 3(b) and 4(c)

D01818

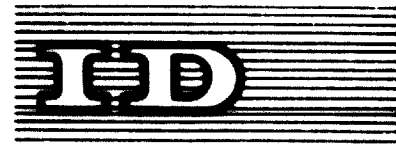
SOME VIEWS ON FEASIBILITY STUDIES OF INDUSTRIAL PROJECTS

IN DEVELOPING COUNTRIES

Submitted by the Government of the United Kingdom

* A summary of this document appears in document ID/CONF.1/G.44 SUMMARY which has been distributed in English, French, Spanish and Russian.

1/ This paper has been prepared at the request of the United Kingdom Government by a firm with wide experience of manufacturing activity in developing countries. The Appendix is the joint work of two other similar firms.



Distr.
GENERAL

ID/CONF.1/G.44 SUMMARY*
22 June 1967

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT
Athens, 29 November-20 December 1967
Provisional agenda, Item 3 (b) and 4 (c)

SOME VIEWS ON FEASIBILITY STUDIES OF INDUSTRIAL PROJECTS
IN DEVELOPING COUNTRIES

SUMMARY

Submitted by the Government of the United Kingdom

* This paper is a summary of the document issued under the same title as
ID/CONF.1/G.44.

1. There is usually little uncertainty about the advantages of processing a natural crop prior to export. Whether this is profitable can be seen by setting off the higher value of the export against the cost of the process and the possible loss of value through the by-products not being utilised or commanding a lower price than abroad. The only doubts on the social economic benefits may arise if differential export duties are introduced to give an artificial impetus to processing.

2. Import substitution industries are more complicated. They generally suffer from higher cost production factors than in developed countries. In fact, the only real saving that can confidently be expected is in freight, because raw materials either enter the country in bulk or are present locally. Even labour may cost more than in a developed country; while actual rates per man per hour may be low, the same physical effort may not be achieved and most manufacturing techniques need some level of skill which is in short supply in developing countries, so that the labour cost is heavily increased by the highly skilled supervision which is needed.

3. The solution usually sought is a protective import duty. If the industry is expected to grow and eventually be able to compete with large-scale producers overseas no problem arises, but in many cases there is little prospect of this and Governments have to make their decision knowing that the grant of the duty will result in a quasi-permanent increase in the price to the consumer and the loss of the revenue from the goods previously imported. This must be weighed against the growth of new taxable income, savings of foreign exchange and its use to import other goods which bear duty, etc.

4. A mere study of the physical feasibility of an industrial project is of little value. Commercial feasibility must be studied, i.e. proper examination of

/...

the market, the cost of all production factors, all problems of management, staffing, administration, distribution and marketing and all financial requirements.* The study is completed by adding up the receipts and expenditures on capital and current account to show whether the return (if any) on the capital will be adequate in the circumstances of that particular economy and all the sources, type and term of the capital invested.

5. Sometimes, even though the result is positive the rate of return may be insufficient to justify the risk in the sponsors' view. Governments are sometimes surprised to find the level of return that the sponsors require; it is for the sponsors to state their project and their requirements clearly and for the Government to make a proper study of their estimates, so that a bargain can be struck by both sides with their eyes open. Governments are likely to be more ready to support sponsors who are permanently resident in the country and are not aiming simply at quick profit.

6. Naturally the views of Government and entrepreneurs will not always coincide. The latter considers almost exclusively commercial costs and benefits, but the Government must also consider social costs and benefits. Sensible sponsors will point out the advantages and disadvantages of their proposal and assist the Government in arriving at an informed decision. Sometimes, because of the broader responsibilities of Government their decision will be contrary to that indicated by pure economics.

7. The Government's policy also impinges on the investor in the "investment climate". It is of great importance that Government should give clear undertakings and observe them both in the letter and in the spirit regardless of subsequent changes of circumstances or of Government. The investor on his side must bear with delays which are sometimes inseparable from the Government's decision-making processes.

* The most common heads of feasibility studies are contained in the Appendix to the paper.

8. It is of prime importance not to create industries in the absence of a sufficient market. The market survey is a first priority and, in developing countries with no previous experience for guidance, a detailed study is indispensable. A common pitfall is to take a group of products or an import classification and treat it as if it were related simply to the output of one factory. In fact, such groups cover a wide variety of different products, different "lines" and different specifications, and a single import classification probably comes from a large number of different factories of different kinds and sizes. A practical feasibility study must isolate the demand for the specifications and sizes which can be economically produced in one factory. When the size of the market has been ascertained, it is ruinous for a Government to licence or encourage manufacturing capacity in excess of that market, even though this may mean agreeing to a virtual monopoly.

9. Manufacturers of plant and consultants have special qualifications for making estimates of production feasibility, but they can rarely bring first-class commercial manufacturing experience to bear on the problem of commercial feasibility of the project. Their work needs to be supplemented by a concern with direct commercial and operational experience in the field. The ideal consortium for studying feasibility is perhaps a manufacturer in a developed country who knows how to make the required product, and a firm established in the developing country who is deeply acquainted with the country, its administration, customs, laws and markets, both these interests being responsible for a substantial share of the financial investment and perhaps employing a consultant or machinery supplier as an expert.

10. If Government wishes to involve its finance in a manufacturing enterprise, it may either take 100% ownership of the project, in which case private enterprise will be concerned with the project only as potential competitors, or a partial share of the capital. Many entrepreneurs are reluctant to agree to the latter because they fear that the Government may seek to introduce non-commercial considerations into the decisions affecting the project, and they point out that the tax revenue from the project gives the Government an infinitely high rate of return with no risk. However, realistic partnerships between Government and private enterprise are not uncommon.

11. It should in conclusion be remembered that a sponsor's estimates can be no more accurate than the facts or forecasts on which they are based, that an intelligent feasibility study is no substitute for good commercial common sense and that the success of a project will always be very dependent on influence of circumstances.



Distr.
GENERAL

ID/CONF.1/G.44*
5 July 1967

United Nations Industrial Development Organization

ENGLISH ONLY

INTERNATIONAL SYMPOSIUM ON INDUSTRIAL DEVELOPMENT
Athens, 29 November-20 December 1967
Provisional agenda, Item 3(b) and 4(c)

D01818

**SOME VIEWS ON FEASIBILITY STUDIES OF INDUSTRIAL PROJECTS
IN DEVELOPING COUNTRIES**

Submitted by the Government of the United Kingdom^{1/}

* A summary of this document appears in document ID/CONF.1/G.44 SUMMARY which has been distributed in English, French, Spanish and Russian.

^{1/} This paper has been prepared at the request of the United Kingdom Government by a firm with wide experience of manufacturing activity in developing countries. The Appendix is the joint work of two other similar firms.

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.

Contents

Paragraphs

Introduction	1
Crep processing industries	2
Import substitution	3-6
The scope and outcome of a feasibility study	7-9
National economic benefits	10
Investment climate	11
Study of demand	12-14
Who should make the feasibility study?	15-17
Where Government enters industry	18-19
Commercial commonsense	20

Appendix

The market	1
The Government and the influence it is likely to have upon the proposed industry	2
Availability of the necessary utilities	3
Availability of raw materials	4
Availability of a suitable site	5
Local labour and management	6
Local sources of finance	7
Local partners in the project	8
Credit requirements	9-10

1. This Paper will be concerned, for the most part, with secondary industry whether in respect of the processing of natural crops for export or of import substitution. Tertiary industry, that is the provision of services, distribution, and the like, will not be referred to except insofar as it may have an effect on the distribution problems of secondary industry.

Crop processing industries

2. There is generally little question about the economic advantages for a developing country of processing a natural crop before export. The higher value of the processed export has to be set off against the economic costs of the process, and the possible loss of value of by-products which remain in the developing country and cannot be used there; or, if they can be used, may fetch a lower price than abroad. In the ordinary way, if a commercial venture is undertaken and the manufacturer can export the processed product to some other country and show a profit, that is the end of the matter, and the social economic benefit can be clearly seen. However, where a developing country, for the purpose of encouraging such an industry, applies an export duty to an unprocessed product at a rate ^{higher} ~~lower~~ than for the processed product this may give an artificial impetus to local processing, and in such circumstances it is not always possible to identify or prove the social economic benefits of the industry even where there is an apparent improvement in the balance of payments or the terms of trade.

Import Substitution

3. Turning to import substitution industries, with which secondary industry in developing countries is mainly concerned, we find fundamentally different considerations. There are, in fact, few real economic advantages. If the standard of living or the per capita national income is lower in the developing country than elsewhere, it is usually assumed

that as a consequence labour is cheap. The assumption is unwarranted. Unskilled labour may be cheaper than in developed territories, simply measured as physical effort over time. Even this can be questioned bearing in mind climatic conditions, standards of nutrition, and the like. But most manufacturing techniques need or imply some level of skill, and skilled workmanship is in short supply, by any standards, in the developing countries. The consequence is that highly skilled supervision and management from expatriate sources is often necessary and this has to be added to the cost of labour whether unskilled or skilled, so that the total salary and wages bill in respect of productive factory effort is frequently higher, and sometimes markedly higher, than in the developed countries.

4. Indeed, most factors of production are dearer in the developing country. For example, the cost of building; the cost of access roads; the cost of plant and equipment; the cost of electricity, fuel and water; the cost of raw materials; all these generally cost more in the developing country. The only real economic saving that can nearly always be found in "local" manufacture as opposed to importation is in freight savings. The bulk import of raw materials often costs less in freight than the "freight intensive" import of the finished product with its packaging. Of course, where a local raw material is available this is a real economic advantage and may be regarded as a freight saving. The best examples of this are to be found in the cement industry, where local limestone provides most of the raw material; and in brewing, where water is the main constituent by volume.

5. The advantage usually sought, in these circumstances, for local industry in a developing country is the protection of an import duty. By forcing up the cost of the imported article this enables the local industry to compete on even terms. The protective tariff makes up for the shortage of skills and higher costs in other fields. It is often argued that the reason why protection is necessary is that the industry is an infant which cannot compete with the large-scale methods of production adopted overseas. This, of course, is true. It is also true that the size of the local market is the determining factor, and if no growth is foreseen in this there is little hope of the infant growing up.

Indeed, even where the infant industry does grow up, it is often the case that overseas industries have grown at the same rate or even faster in such a way that they are relatively more competitive with the local industry than they were before. In these circumstances the infant industry argument has no long term application, and the developing country has to assess the social economic benefits obtainable in return for a quasi permanent rise in the price to the consumer. In making this assessment Government takes into account apparent foreign exchange savings and other latent benefits. Governments realise only too well that to the extent that a tariff is protective it is not revenue producing; the encouragement of a new industry by means of tariff protection therefore becomes a budgetary decision.

6. In assessing social economic benefits Governments take into account the new incomes generated, and especially the new character of the incomes so generated; new sources of Government revenue (Company Tax, Income Tax, etc.,); the utilisation of any savings in foreign exchange for the purpose of paying for imports of a different nature, which in their turn can be subjected to import duty and thus yield an indirect revenue to Government which may partially offset the direct loss of revenue brought about by local manufacture.

The scope and outcome of a feasibility study

7. Feasibility studies of industrial ventures in developing countries should, of course, consider not simply the physical feasibility of an operation but commercial feasibility in the light of current foreseen economic, and indeed sometimes political, conditions. A study of physical feasibility which falls short of considering marketing, distribution, financing, and management, is not a study of feasibility; it is merely a production study. The full feasibility study^u should examine all costs, all factors of production, all financial requirements, all problems of management, staffing, administration, distribution and marketing. There is no short cut to determining whether an industry will pay. At the end of the study all the positives and negatives, that is the

5 The most common headings for such studies are listed in the Appendix.

receipts and expenditure both on current and capital account, should be added together to show whether a positive profit is yielded giving a return on capital which, in the circumstances of that particular economy, and having in mind the source, type and term of the financial capital, is regarded as adequate over a long enough period to justify the risks involved, both economic and non-economic.

8. It frequently happens in practice that the feasibility examination yields a negative result: sometimes because the minimum conditions for profitable operation cannot be met. The demand for a standardised product must reach a minimum figure before an industrial unit of the minimum size can be made to pay. This minimum demand cannot be created ad hoc: it is a question of spending power.

9. Sometimes the result is negative not in the sense that no profit at all can be foreseen, but that the profit is not high enough, in relation to the capital at risk, to justify the risk. This is a matter which is frequently misunderstood in developing territories. Countries, where interest rates of 15% a month on money-lending do not cause the raising of an eyebrow, sometimes look askance at estimated yields of 20% or 30% per annum on industrial projects. What the Government of a developing country conceives as a reasonable return on capital has real importance when after examination the sponsors of a project declare the operation as non-feasible. Where the developing country positively encourages the operation, the sponsor necessarily has to state the circumstances in which he is prepared to begin. This statement might very well include a request for protection by way of import duty on the finished product, or exemption from import duty on the raw materials. In these circumstances Government is bound to consider whether the estimates of the sponsor are reliable and, if so, whether the level of profit foreseen or hoped for is reasonable. There is ample scope for argument on this plane. Governments of developing countries will naturally seek to pay the lowest price they can for the economic advantages of a new industry; and sponsors will bargain for the highest price that they reasonably can for their effort. It is in this context that the permanency of the sponsor's position in the developing country is of paramount importance. In the long run, the sponsor who is permanently resident there and is not aiming simply at a quick profit will claim and ultimately obtain the best

support from Government.

National Economic Benefits

10. There must inevitably be some cases where the views of sponsors or entrepreneurs and Governments will not coincide, especially when the true economic benefits are being assessed. A sensible sponsor will take the trouble to point out to Government in support of his claim not only the economic advantages that he proposes to afford the developing territory but also the economic or financial disadvantages. In this way the Government is assisted in making up its mind as to whether the social and indirect benefits of the industry equal or exceed the net advantages of the scheme as put forward by the sponsor. There are bound to be cases where Governments for broad social reasons follow a course flying in the face of the facts put forward by the sponsor. When the cotton textile industry of Egypt was in its infancy, the Government insisted on providing some of the finest quality cotton in the world grown in Egypt for the purpose of making relatively low-grade cloth; and this against the advice of independent consultants who insisted that they would do better by exporting their high-grade cotton and importing cheaper coarser cotton for the purpose of the cheaper cloth. Similarly, it is common experience in African territories that they will encourage the growth of industries for spinning, weaving and printing cotton goods for local disposal even though it can be shown indisputably to be far cheaper to buy unbleached cloth of Far Eastern origin and print it in the developing country concerned. In taking decisions such as these Governments have in mind broader issues than the pure economics of the situation. Indeed, one highly placed official, when discussing just such a matter as this, was heard to say that if developing countries based their decisions on industrialisation on pure economic or commercial principles they would never start any industries

Investment climate

11. There are other fields in which Government and private enterprise may not at first see eye to eye. The sponsor of a feasibility study must, of course, bear these in mind and make his decision accordingly. For example, great play is frequently made of the need to create the right

climate for investment. So far as the sponsor or investor is concerned, one of the most important meteorological observations when studying this climate is the extent to which Governments are prepared to commit themselves in writing, and to carry out their commitments not only to the letter but in the spirit. It sometimes happens that a Government promises certain conditions to encourage a new industry and then, because of some change in the economic situation, finds itself embarrassed in carrying out its obligations. In these circumstances, whilst sympathising with the Government's embarrassment, the sponsor has every right to expect Government to carry out its obligations; and this applies even where the Government changes, and even in the knowledge that no Government need necessarily be bound by a previous Government on a policy decision. So far the Governments of most developing countries have displayed an acute awareness of this problem, more particularly because they understand that their actions today create the investment climate of tomorrow. If in case of difficulty Government appears to take an unconscionable time to implement its guarantees, this is something that the sponsor or investor must tolerate with forbearance, especially as he no doubt took it into account when first making his proposition. In this context it is worth noting that long familiarity with a country and its peoples can convert time-consuming frustration into the exercise of tact and patience, which of course is reciprocal.

Study of demand

12. It is no use recommending in a feasibility study the setting up of a new industry to make goods that cannot be sold. The first step in project work, whether it is in respect of extractive, secondary or even tertiary industries, whether for export or import substitution, is to survey the demand and to follow that survey by a study of how to meet that demand. Manufacturers with centuries of experience in the U.K. can sometimes give an off-the-cuff opinion as to the price at which they can manufacture and market a product in a given area of the U.K. or even on the Continent. Such rule-of-thumb methods cannot be relied upon in remote developing territories. A long experience of manufacture in the highly industrial countries of the world will give very little clue to the costs of manufacture in a developing country. All costs must be examined

in the greatest detail. And if the sponsor has no means of estimating comparable costs in the developing territory, he must necessarily go to somebody who can impart the necessary information.

13. When working out the potential demand, it is not enough to consult the import figures and show that a certain group of products is sufficiently large to justify the minimum industrial unit. A group of products recorded in the import statistics may, in fact, cover a wide variety of different products, and invariably covers a wide variety of different "lines" of products or different specifications, or simply different sizes. The wide variety of goods included in the group of products in the import statistics is supplied usually from a number of different sources, and from a number of different factories of different kinds and sizes. What has to be examined is the market demand for the particular specifications and sizes of products which can be economically produced from an industrial unit of the minimum size or of the size contemplated in the project. There have been cases where important decisions have been based on feasibility studies submitted by those who are unfamiliar with the actual trade in the goods to be produced; studies in which not only was the market measured by reference to the volume of goods imported as recorded in the trade returns, but where the potential selling price was computed by reference to the average c.i.f. price per unit calculated by dividing the value by the volume mentioned in the official trade returns for an entire group of products.

14. In passing it is interesting to note that although monopoly or near monopoly conditions in a local market are undesirable from almost any standpoint, the fact is that as soon as the market demand in a developing country is just sufficient to justify one industrial unit of minimum size in that country, monopoly or near monopoly conditions of manufacture must be accepted. By definition, to put two competing industrial units of minimum size in a developing country in order to supply a market demand which is sufficient to keep only one industrial unit in profitable production implies encouragement to commercial suicide. Until the neighbouring countries accept, with the developing country concerned, the notion of a common market area, the problems arising from the placing of two competing industrial units in the developing territory, in the

circumstances mentioned, cannot be solved by exporting excess capacity at a profitable price.

Who should make the feasibility study ?

15. A large part of the exports from the U.K. consist of exports of manufacturing plant. The manufacturers of the plant, and even the agents employed to sell the plant, may be expert in their knowledge of how the plant operates; indeed, it would be remarkable if they were not. But manufacturers or sellers of plant are not necessarily experienced in operating factories or businesses in developing territories in which their plant is to be installed. Except in special cases, they are not usually familiar with local conditions, with the factory and commercial organisation required, with staffing, pricing, marketing, and distribution problems. Experience in this field can only be gained from manufacturers of the products themselves; and, what is more, successful manufacturers at that.

16. Consultants fall into a different field. Whereas the manufacturer of plant has an international reputation to maintain for his plant, the consultant has a professional reputation at stake. Consultants may be broadly of three kinds - management consultants, engineering consultants, and all-round consultants capable of doing a full-scale feasibility study. Generally speaking, none of these professional bodies can bring broad first-hand commercial experience to bear on a problem; and rarely do they back a project with investment capital. Therefore, while a positive recommendation in a feasibility study made by consultants is, perhaps, the best hallmark for affirmative action, any investor who ventured a large sum of money in a developing territory on the basis of such a feasibility study would be running the risk of overlooking some important element in the commercialisation of the venture. The drive of the investor and the skill of the consultant need to be supplemented by commercial and operational experience in the field; this is likely to be found only in a fully operational and successful commercial undertaking.

17. In some respects the ideal consortium for studying feasibility consists of two or perhaps three partners:

- (a) A manufacturer in the U.K. who knows how to make the required product, and preferably has a brand name already known in the overseas country where the industry is to be situated.
- (b) A firm established in the developing country who knows the country, its administration, its customs, laws and markets. Preferably this firm should be one who is already agent for, or associated with, the manufacturing firm whose products are to be manufactured in the developing country. This firm, in an established relationship with the U.K. manufacturer, can provide the inestimable service of translating all U.K. costs into local terms; can give advice on financing, administration, accountancy and legal matters; can set up a commercial organisation and distributive network; and can, if necessary, second management to the operation. This last point is probably the most important.

In this ideal partnership the U.K. manufacturer and the firm already established in the developing territory would each become responsible for a substantial share of the financial investment. Together these two can employ -

- (c) The third partner, that is the consultants and/or suppliers of machinery, who would be fully engaged in the operation but not necessarily to the extent of providing equity finance. The manufacturers of plant and the consultants stake their reputations but generally not their financial capital in ventures of this kind.

When Government enters industry

18. It has so far in this Paper been assumed that the capital for industrial projects in developing countries would be supplied by private enterprise. In some countries Government insists on involving Government

finance in industrial projects. Sponsors from the private sector in the U.K. of industries in developing countries are not concerned with industries which are wholly owned by Government, except to the extent that they might meet competition from them. There have been examples where private enterprise has quite deliberately declined an opportunity to invest knowing that to do so would bring them face to face competitively with a Government sponsored operation. Even where private enterprise feels that it can emerge from such a conflict with profit it may hesitate to range itself against the Government enterprise, for reasons which need no explanation. It can be even more embarrassing when private enterprise sets up a successful industry and Government then sponsors and finances an industry in competition. The risk of this, of course, is all part of the investment climate.

19. There are some sponsors in the U.K. who prefer to set up industry in concert with Government in a developing country. There are many examples of successful undertakings of this kind where Government has supplied part of the money, private enterprise has supplied know-how and the rest of the money; and both Government and private enterprise have received their respective proper shares of the profit. Other U.K. investors are discouraged by the prospect of having a Government partner. They are apt to argue that Government already has a share of the profits in the form of Company Tax without putting in investment at all; for what it is worth they point out that every extra pound the Government invests in the operation lowers the yield on the Government capital invested. (The tax return on nil investment represents an infinitely high yield on capital). They are apt to wonder if Government do not really want a substantial holding for the purpose of imposing some unwelcome form of control over the operation, or control outside the general legal framework, possibly in the form of persuasion to do things which commercially the sponsors would prefer not to do. Investors in the U.K. who share this opinion prefer the extremes of either 100% private enterprise or 100% Government investment. However, some U.K. investors, while privately holding this view, are prepared to face realities; and it is these pragmatists who usually manage to develop a good working relationship with Government in those cases where Government is joining in the finance of the project.

Commercial commonsense

20. All the foregoing consideration have to be taken into account in any successful feasibility study. The sponsor has to bear in mind that his estimates and prognostications are no better than the facts or forecasts on which they are based; that an intelligent feasibility study is no substitute for good commercial commonsense; and that even with an excellent feasibility study combined with commercial commonsense the ultimate success of the venture will depend, not only on the physical projection of the venture on the ground, but also on a concatenation of circumstances both favourable and unfavourable, which in the net result yield a profit. A thoroughly worked out feasibility study can often afford an interesting glimpse into the social function of profit-making.

APPENDIX

When studying the feasibility of a possible industrial development, experienced U.K. Companies will make extended investigations under a number of broad headings of which the following are the most common:

1. The Market: The first essential is a realistic assessment of the market. If the potential to justify manufacture does not exist there is no point in carrying out other work.
 - (a) The study will cover a number of past years of the consumption of the product and of similar and competing products, so as to determine the actual trend of growth. This might or might not prove to be a useful guide to the future rate of growth but it will show whether the market potential is growing steadily or is subject to setbacks. The study will also include the size and growth rate of any local production; population, its distribution between different classes of consumer and its expected growth; the national income and its growth trend; national imports and exports; the whole pattern of price levels and existing methods of distribution and merchandising, including sales promotion.
 - (b) From this, forward estimates covering perhaps 10 years are drawn up, every effort being made to ensure that they are realistic. These include the total market potential and an estimate of the share that the project can secure, taking into consideration likely competition. This provides an estimate of factory output required.
 - (c) If the market assessment indicates that the share of the potential market which the project can obtain is big enough to justify local manufacture, a full-scale study of the succeeding headings is proceeded with.
2. The Government and the influence it is likely to have upon the proposed industry
 - a Under this head will normally be considered the Government's stability, its attitude to overseas private investment and to

private investment in general, the efficiency and flexibility of its administration; and the encouragement that it gives to industry, such as tax holidays, customs concessions, protection through import restrictions or protective tariffs, trade mark and similar legislation, etc. Conversely, the whole range of Government restrictions such as exchange control, price control, import licensing, wage controls or labour regulations, regulations regarding the capital structure of companies, taxes and excise duties. Government policy with regard to the employment of essential expatriate managers and technicians is important; and so (for U.K. sponsors) is its policy on remittance to the UK of dividends, royalties, fees and proceeds of sales of shares, etc.

- b In addition to the local Government's attitude many sponsors think it necessary to consider trends of political thought in the whole geographical region because of the inter-action of policies between one country and another.

3. Availability of the necessary Utilities, such as water, gas, electric power and telecommunications.

4. Availability of Raw Materials of satisfactory quality, whether they are obtainable locally and at what delivered price and, if not, whether they can be imported, and at what cost. Whether the Government will remit import duties on some materials if this is shown to be essential for the projects' feasibility.

5. Availability of a suitable Site: In this context the land title which can be obtained, and the speed at which it is obtainable, may well be as important as satisfactory soil bearing qualities, adequate communications and suitable location in regard to materials and/or markets.

6. Local Labour and Management: It will be important to ascertain whether an adequate supply of labour will be available; and to obtain the clearest possible understanding of their efficiency, the work on which they may be satisfactorily employed, the degree of the supervision needed during the early years and the wage and salary levels that are likely to be payable; also whether accommodation for staff and labour

will be required.

7. Local sources of Finance, both long-term and short-term, and the terms on which they will be available.

8. Local Partners in the Project: It will be a matter for consideration in each case whether the U.K. sponsor should itself undertake the whole of the general and technical management or seek to involve locally established firms in some part of the management, or in the marketing of the product and/or after-sales service (if any is needed). Some firms prefer to keep all aspects of management in their own hands on the ground that split management can never be efficient; others consider that the disadvantages of split management are outweighed by the advantages of the local knowledge and position (and perhaps the established marketing channels) of a local partner.

9. Credit Requirements: To assess the working capital needed, it will be necessary to ascertain the credit terms normally extended to distributors and wholesalers, the normal payment terms for purchases, the size of stocks, materials and finished goods that need to be carried, local experience of debtors, etc.

10. The above headings indicate very briefly the main questions that have to be studied to decide whether the project is physically practicable. The answers are rarely obtained quickly; normally it takes a considerable time, including several visits to the country concerned, before all the information is reasonably complete. Assuming a satisfactory outcome, however, the next stage in the feasibility assessment is to prepare marketing forecasts, to outline the requisite capital expenditure and the production plans. From them the sales revenue and operating costs can be estimated, leading to a forecast showing whether the project can be expected to be profitable and financially sound and what practicable capital structure will be most suitable.

