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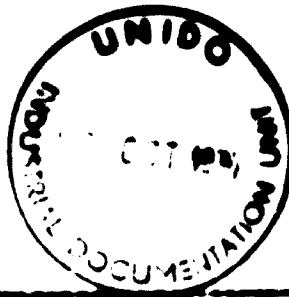
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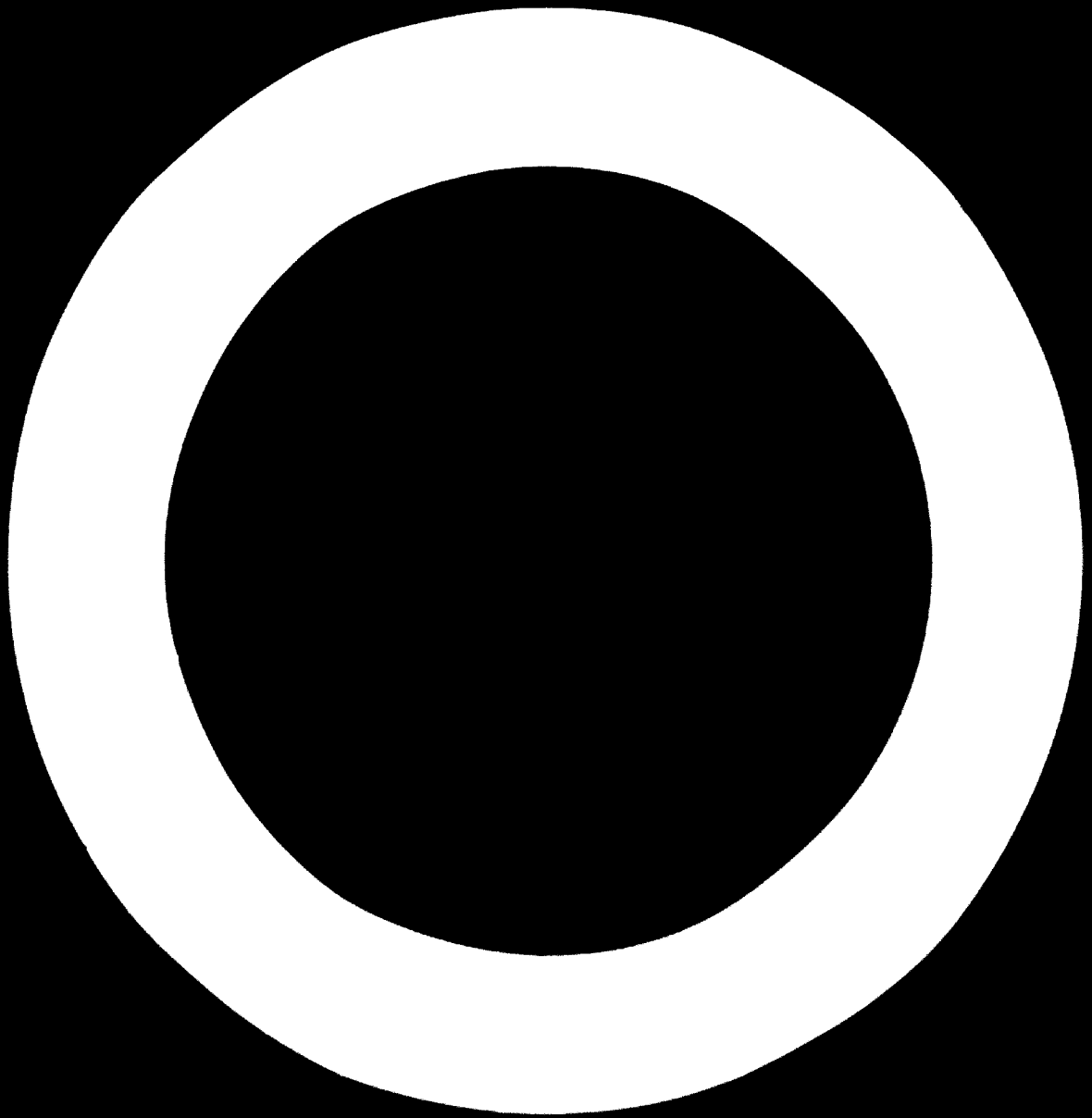
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REPORT ON THE UNIDO/ECA REGIONAL WORKSHOP
ON INDUSTRIAL PROJECT PREPARATION AND EVALUATION

ADDIS ABABA, ETHIOPIA
(29 January - 14 February 1974)

id.74-1497





INTRODUCTION

The Regional Workshop on the Preparation and Evaluation of Industrial Projects was held in Addis Ababa, Ethiopia. It was implemented jointly by UNIDO and ECA and was financed from the 1974 Regular Programme of UNIDO. The Regional Workshop was the first activity of the recently established Joint ECA/UNIDO Industry Division. The preparation of the Workshop was assigned to the Industrial Policies and Programming Division of UNIDO. The Workshop was attended by 25 participants from seven English-speaking African countries, viz.: Ethiopia, Malawi, Nigeria, Swaziland, Tanzania, Uganda and Zambia.

1. OBJECTIVE OF THE WORKSHOP

The purpose of the Workshop was to assist ministries of industry and/or planning and other interested governmental and semi-governmental agencies to upgrade their current practices in the fields of project preparation, financial analysis and national economic evaluation. The objective was achieved through an intensive programme including the presentation of concepts and techniques and the evaluation of several industrial projects submitted by the participants.

2. PREPARATION OF THE REGIONAL WORKSHOP

The preparation of the Workshop was mainly the responsibility of the Industrial Programming Section of UNIDO. The selection of candidates was done jointly with the Section for Africa, TCD. Due to the late submission of some of the candidates it was not possible to involve ECA in the selection procedure. With the exception of one candidate whose professional line of activity was not at all related to the objectives of the Workshop, the selection committee was able to accept all candidates submitted by the Governments of the countries concerned.

Although the participants had been requested to submit one or more industrial projects currently under active consideration by their Governments, for use as case studies for evaluation during the Workshop, we were only able to receive these studies upon our arrival in Addis Ababa.

The proposal for a sugar plant (Ethiopia), a shoe factory (Tanzania) and a tin-can plant (Malawi) were edited and prepared jointly with the country representatives for discussion during the Workshop.

In the course of the Workshop, the documents listed below were distributed to the participants:

- a) "Guidelines for Project Evaluation" (ID/SER/H/2)
- b) "Checklists for individual studies and planning stages as used in project screening operation" (ID/WG.55/3)
- c) "Extracts of Industrial Feasibility Studies" (ID/WG/52/2)
- d) "Problems often encountered in implementing industrial projects in developing countries", UNIDO Industrialisation and Productivity Bulletin, Nr. 17
- e) "Simple criteria for commercial evaluation - break-even, point, payback period, and rate of return in a typical year", UNIDO Secretariat
- f) "Case study: rolling mill and scrap iron smelting plant"
- g) "Case study: sugar plant"
- h) "Case study: shoe factory"
- i) "Case study: tin-can factory"

3. PROCEDURE OF THE REGIONAL WORKSHOP

The Workshop took place in Africa Hall of the UN ECA. It was officially opened on 30 January 1974 by Mr. Sebhat Nable Selassie, Director of the Industry and Housing Division of ECA and by Mr. Werner Behrens, of the Industrial Policies and Programming Division, UNIDO, who directed the Workshop. Mr. Sebhat Nable Selassie conveyed an opening statement by the Executive Secretary of ECA, Mr. R. K. A. Gardiner, to the participants. Copy of this statement is given in Annex I.

Sessions were held Monday - Friday, from 9 - 12 hours and from 15 - 18 hours. The lectures were given in English. Teaching was mainly performed by Mr. Barnerias, Mr. Bahrens (both of the Industrial Policies and Programming Division, UNIDO), and Mr. Hocevar (Joint ECA/UNIDO Industry Division). Mr. Azzam (Joint ECA/UNIDO Industry Division) and Mr. Mead (Harvard Study Group attached to the Planning Commission of Ethiopia) covered one session each. No additional experts were needed.

The Industry and Housing Division of ECA was in charge of the administration of the Workshop, the provision of conference facilities, local transport, arrangement of factory visits, etc.

4. WORK PROGRAMME

The Workshop covered the methodological aspects of project preparation and evaluation as well as the practical aspects through case studies and plant visits. A total of 25 sessions (3 hours each) or 75 working hours were devoted to the following subjects:

a) Stages of project preparation, market and techno-economic studies	3 sessions
b) Commercial analysis	3 sessions
c) Social-cost benefit analysis	4 sessions
d) Case studies	10 sessions
e) Plant visits	3 sessions
f) Opening and closing of Workshop	2 sessions

The detailed Work Programme is given in Annex II.

5. PARTICIPANTS

25 participants from seven countries took part in the Workshop, originating from Ethiopia (10), Tanzania (6), Nigeria (3), Uganda (2), Swaziland (2), Zambia (1), and Malawi (1).

The majority of the participants had an educational background in economics, engineering, commerce or public administration. 82 of the participants are currently working in development banks, 11 in ministries of industry, economic development or commerce, 2 in planning commissions and 6 in development corporations. 19 participants came from the least developed countries. A nominative list of participants is given in Annex III.

6. RESULTS OF THE REGIONAL WORKSHOP

The participants were all well prepared for the Workshop. Both their educational background and their professional experience - although of different duration - enabled them to follow the presentations and the practical exercises. All participants are currently working at the project level and benefitted therefore from their attendance of the Workshop.

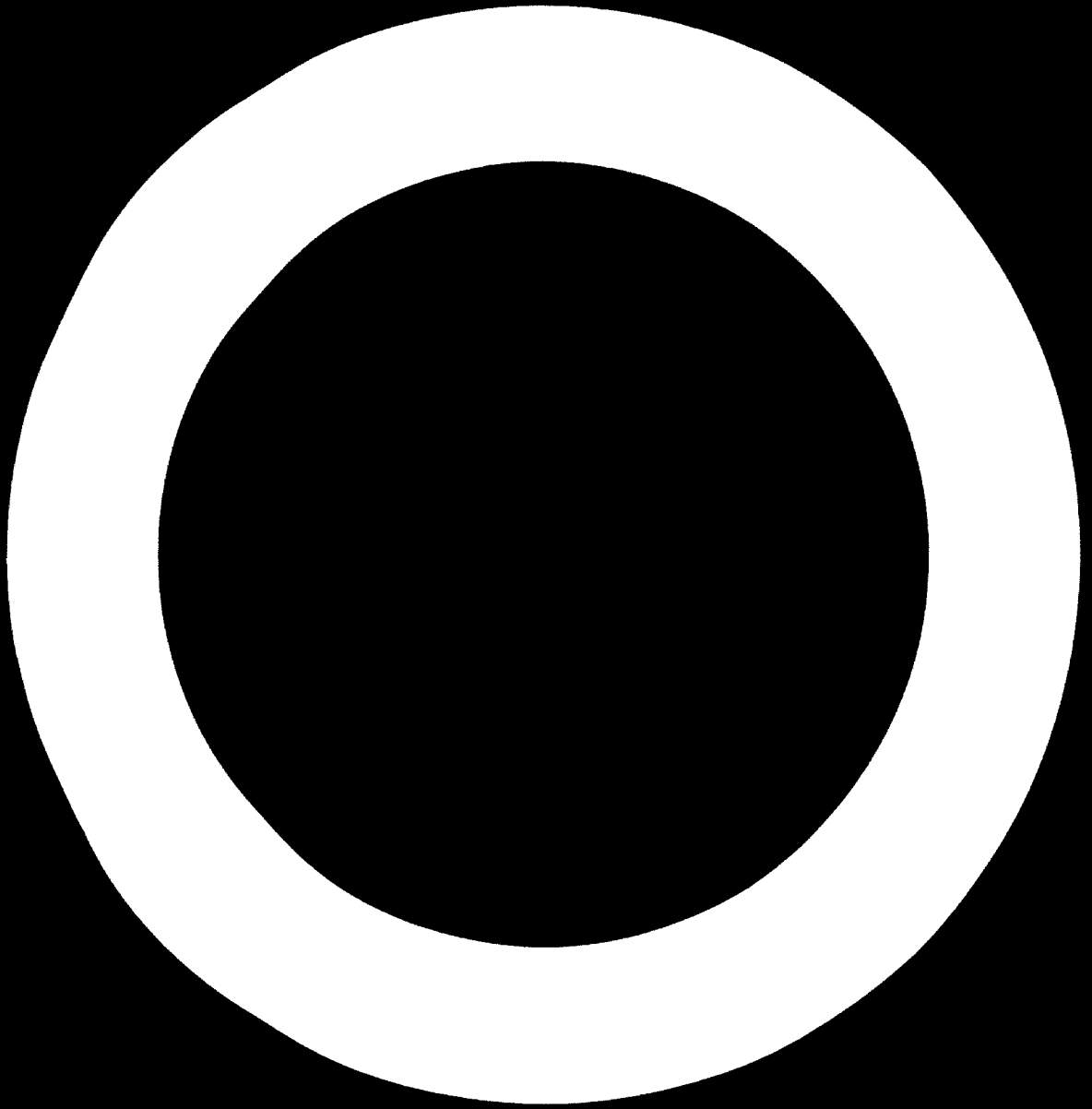
The participants showed keen interest in the subjects dealt with during the Workshop. This was not only reflected by the lively discussions but also by the punctuality and 100 per cent attendance rate of all participants throughout the meeting.

The last session was devoted to the evaluation of the Workshop by the participants. The most senior among them took this opportunity to express the group's satisfaction and appreciation of the Workshop.

In addition, all participants were invited to complete a questionnaire (copy see Annex IV) in order to voice their frank opinion about the meeting. A first assessment of the questionnaires revealed:

- a) the applied method of "learning by doing" was highly appreciated by all participants;
- b) the Workshop achieved its aim of having participants actively engaged in the evaluation of actual cases. It was particularly emphasized that the difficulty of interpreting the varying concepts of commercial profitability calculation became apparent;

- c) the duration of the Workshop of three weeks was generally thought to be too short to cover project preparation, financial evaluation and national economic evaluation. Participants showed great interest to become more experienced in cost-benefit analysis, a field which had been entirely new for most of them. A few participants suggested to have more lectures on market research and project preparation. Generalization is very difficult, however, since the professional experience of each participant was not quite the same;
- d) national manuals for industrial project evaluation have by now been prepared in most countries. It was felt, however, by the participants that in many cases a piecemeal approach was taken by the authors or the issuing institutions and that more refined methods would be needed. In most cases national economic profitability was not covered by the manuals;
- e) full support was therefore given by the participants to endorse UNIDO action to write national manuals for industrial project evaluation;
- f) full support was also given to follow-up action in the form of consultative missions to evaluate projects currently under consideration by governments. The participants' attention was drawn to the functions of Mr. Boris Heccevar, UNIDO Regional Adviser for Project Preparation and Evaluation, who would be prepared to undertake such assignments;
- g) endorsement was also rendered to the proposal of UNIDO and ECA developing further joint activities in the fields of project preparation and evaluation in the form of training workshops and/or consultative missions;
- h) the organization of the Workshop was fully appreciated by all participants.



opening Statement by Mr. J. K. A. Briner,
Executive Secretary,
United Nations Economic Commission for Africa

I am pleased to welcome you to Africa Hall to participate in the Regional Workshop on Industrial Project Preparation and Evaluation. The subject matter of your Workshop carries high priority in the Work Programme of ECA. This is a reflection of the extent of interest of member States of the Commission in project development activities. We have attempted to respond to this need by mobilizing bilateral and multilateral assistance. This Workshop is to no small measure the result of initiatives pursued with UNIDO. Moreover, ECA co-operates on a continuous basis with the Economic Development Institute of the IBRD in organizing training seminars on project evaluation, the first of which was held in Abidjan, Ivory Coast in October/November 1973 and the second of which is scheduled to be held in March of this year. We have also continuing co-operative programmes with FAO and bilateral donors by means of which we provide advisory services to Governments in project identification and appraisal notably in respect of food and forest-based industries.

Member States are also pursuing active measures to create and strengthen their project development machinery as exemplified by the increasing number of industrial development and promotion centres being established often with the assistance of UNIDO. Greater attention is also being given to training inside and outside Africa of policy-makers and project evaluators. Much, however, still remains to be done if we are to cope

effectively and efficiently with the challenging task which our countries confront in promoting industrialisation

It is frequently observed that the lack of bankable projects in Africa is as serious a constraint to industrial investment as is the shortage of the investible resources themselves. Yet African Governments have expended considerable money and efforts in organising and carrying out feasibility studies which generally have not led to the construction of factories or if the projects materialised then the operation of the enterprises raised more problems than they contributed to the national welfare

Project realisation may either be the result of a political and/or economic decision. The project evaluator has a significant role to play in either case. In the former it is incumbent upon him to spell out the implications of the political decision and to outline alternative approaches to enable the vision of the political leadership to materialise. The latter is essentially the primary responsibility of the project evaluator within the predefined precepts and confines of national goals and instruments.

In this Workshop you will be devoting some attention to reviewing the stages of project development. Here I would only like us to recognise that there is at every stage a decision to be taken either to accept or to reject a project idea. We stand to economise on project development costs if we seriously adhere to this stage-by-stage "accept or reject" notion. Too frequently considerable resources are utilised to push through projects which ought to have been abandoned at an early stage. In this regard the attention paid to market research and project identification activities are of significant importance.

These activities could systematically be pursued if there existed the requisite know-how and skills. We need metallurgists; chemical and mechanical engineers; food, forest and textile technologists; and a range of other specialisations to be able to pinpoint investment opportunities

and thence proceed to the elaboration and implementation of viable industrial projects. A domestic capability in know-how is not only decisive in terms of identifying a profitable investment opportunity at an early stage but it also takes for designing a project to correctly reflect national social and economic objectives.

The primary functions of technicians, technologists, financiers and businessmen is to see to it that industrial projects selected for implementation are commercially viable and technically sound. A correct assessment of commercial viability is a first and essential requirement of project development. But what is good for the private entrepreneur may not be good for the nation as a whole. This is particularly true for developing countries where because of structural rigidities market prices do not correctly reflect opportunity costs.

Where the earnings of primary factors of production are heavily influenced by social and institutional considerations and where taxes and subsidies distort the relative prices of goods, labour may be priced at a wage considerably higher than its opportunity cost; capital may be provided at a rate below its real value; and foreign exchange may be overvalued. Under these conditions, the commercial evaluation of a project can give a very different picture from a social cost-benefit analysis. Investible funds are furthermore limited and consequently it is important that Governments make the correct decisions on the appropriate bundle of projects for implementation in a given point of time as well as over time.

In other words projects would need to be scrutinized from the vantage point of the national economy to ensure that the planned programs of investment is optimal and that the correct tactical decisions are taken at the project level within the overall industrial plan. Governments, therefore, like private firms require a yardstick for screening and selecting projects which could contribute optimally to national objectives. This has given rise to intensive research aimed at formulating methodologies of social cost-benefit analysis.

Two contributions have commanded interest among policy-makers and practitioners, namely the UNIDO Guidelines on Project Evaluation and the UNEP Manual on Industrial Project Evaluation. We in ECA have been involved in the application of both methodologies and envisage shortly to bring out a publication on the comparative use of these methodologies. The criticisms which are voiced in regard to social cost-benefit analysis is that the methodologies suggested are too complex to apply in practice. The statistical data required may not be readily available in Africa; and the national parameters required for computation purposes may not be easily established and could also be misleading since they depend on the value judgements of the individual project evaluator.

However, social cost-benefit analysis is not intended to provide precise answers to the complex problems involved in the screening of projects, nor could it claim to be policy-prescriptive. What it can do in such an intricate field as is the process of industrialisation is whether a country would generally be moving in the right direction by opting for a bundle of projects as opposed to another. What, moreover, could be said with confidence is that at least serious errors in project selection are avoided. More positively, the approach promotes discipline in project development activities; whether these be in the collection of data, in the analysis and presentation of information, or in the consideration of a large number of candidate projects.

In this Workshop you will be focussing your attention on the UNIDO Guidelines on Project Evaluation. Based on this methodology, you will also be examining and evaluating a number of industrial projects. As a result of these efforts UNIDO and ECA hope that you will acquire new knowledge which will be of use to you in your future responsibilities. Moreover, we look forward to you becoming the focal points for the propagation in your countries of the knowledge you acquire here, through either your day-to-day work or through training programmes which you may organise in the future in your respective countries.

I trust that your stay here would be fruitful and that your efforts would prove practical benefits in your future activities. I have pleasure in declaring this Workshop open. Thank you.

WORK PROGRAMME

January 29		Arrival and registration of participants
January 30	9:00 - 12:00	Opening of the Workshop Address by the Executive Secretary of ECA (read by Mr. S. Hable-Selassie) General Introduction to the Workshop and presentation of the Work Programme (Mr. Behrens)
	15:00 - 18:00	Stages of project preparation (Mr. Behrens)
January 31	9:00 - 12:00	Market study (Mr. Behrens)
	15:00 - 18:00	Techno-economic study (Mr. Behrens)
February 1	9:00 - 12:00	Financial evaluation: basic concepts (Mr. Hocevar)
	15:00 - 18:00	Methods and criteria (Mr. Hocevar)
February 4	9:00 - 12:00	Discounted cash flow analysis (Mr. Hoed, Harvard Study Group)
	15:00 - 18:00	Visit to industrial plants: Indo-Ethiopian Textile Mills
February 5	9:00 - 12:00	Introduction to national economic evaluation (Mr. Barnérias)
	15:00 - 18:00	UNIDO Guidelines: Application of methodology at the project level (Mr. Barnérias)
February 6	9:00 - 12:00	UNIDO Guidelines: Application of methodology at the planning level (Mr. Barnérias)
	15:00 - 18:00	Calculation of national parameters (Mr. Assan, UN ECA)
February 7	9:00 - 12:00	UNIDO Guidelines: Chemical Plant (Mr. Barnérias)
	15:00 - 18:00	Country experience in project preparation and evaluation (Participants)
February 8	9:00 - 12:00	Studies of industrial projects submitted by Governments: Sugar plant (Messrs. Barnérias, Behrens, Hocevar)
	15:00 - 18:00	Sugar plants:(continued)

- February 9 7:00 - 18:00 Plant visit: sugar refinery and pulp and paper plant, near Nazareth
- February 11 9:00 - 12:00 Sugar plant: (continued)
15:00 - 18:00 Continuation of the country experience in Industrial Performance Evaluation Profiles - cement industry (Mr. Behrens)
- February 12 9:00 - 12:00 Studies of industrial projects submitted by Governments: Shoe factory (Messrs. Azzam, Barnerias, Behrens)
15:00 - 18:00 Shoe factory (continued)
- February 13 9:00 - 12:00 Studies of industrial projects submitted by Governments: Tin can factory (Messrs. Barnerias, Behrens, Hoocevar)
15:00 - 18:00 Tin can factory (continued)
- February 14 9:00 - 12:00 Closing session: General discussion and summary of the Workshop (Mr. Behrens and Mr. S. Hable-Selassie)

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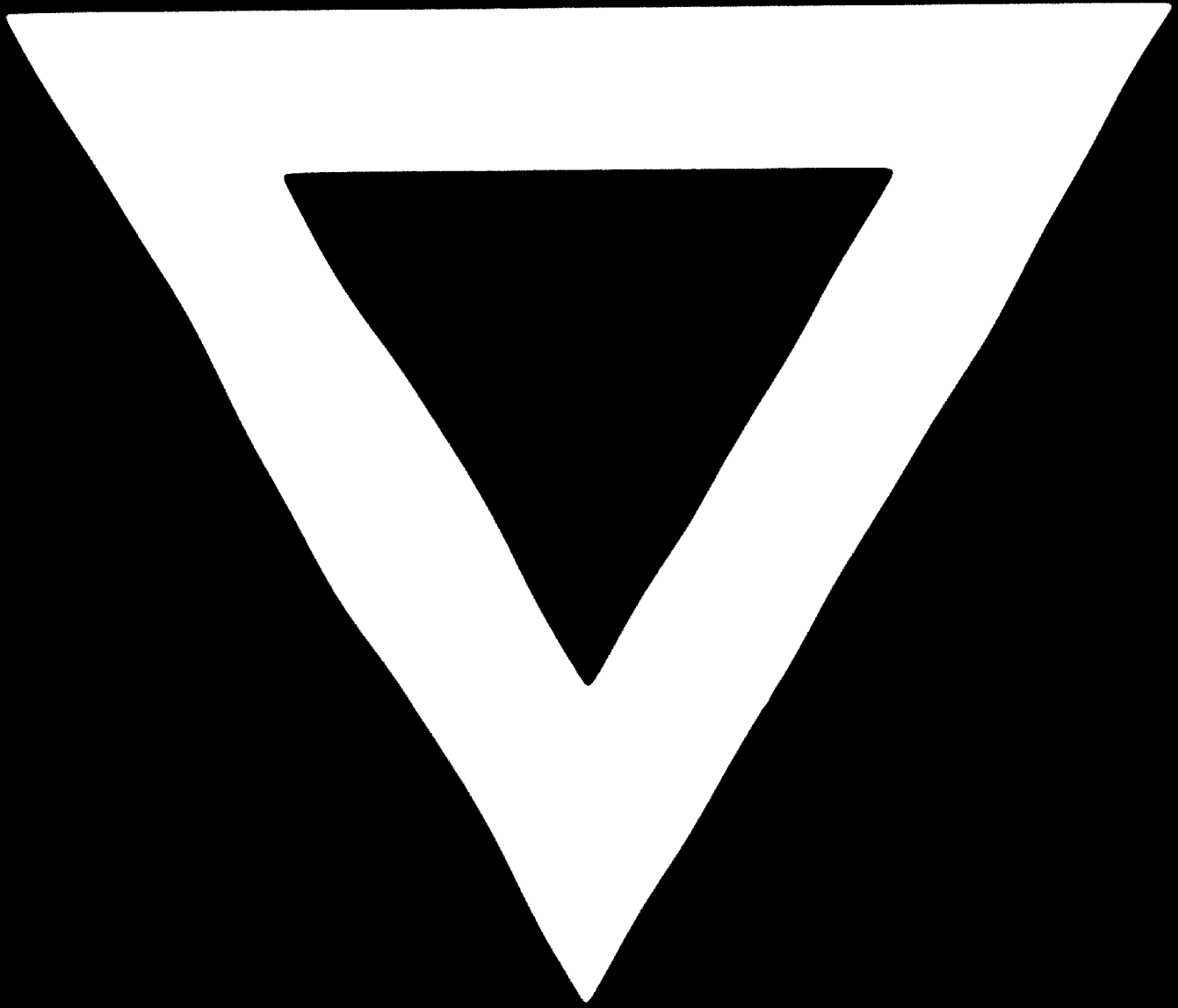
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