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United Nations Industrial Development Organization

REPORT OF EXPERT GROUP ON

THE ESTABLISHMENT OF AN ADVISORY SERVICE FOR THE

SUPPLY OF INDUSTRIAL EQUIPMENT TO DEVELOPING COUNTRIES

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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New York, 20-24 November 1967.

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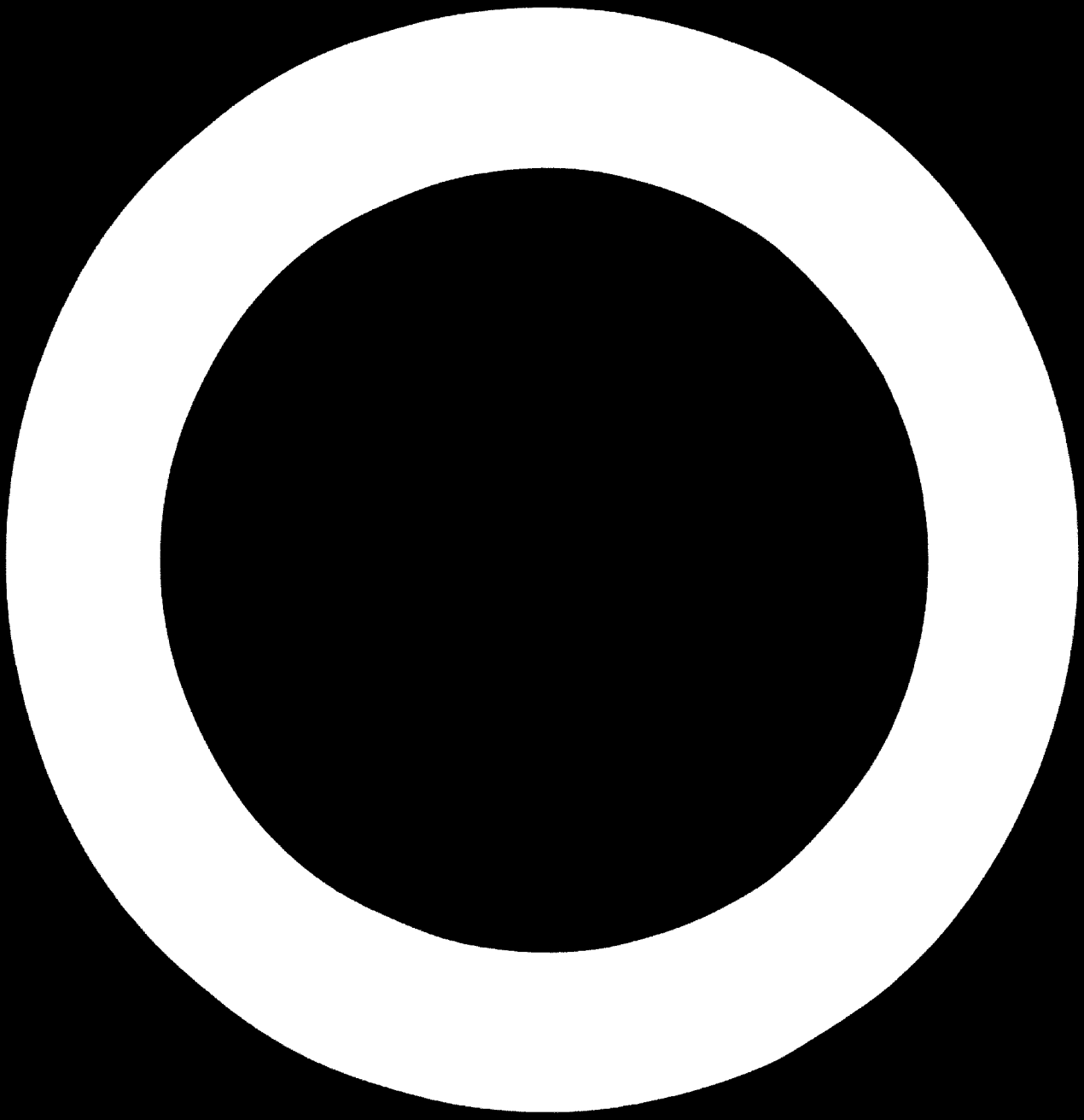


INTRODUCTION

A major factor inhibiting industrial growth in developing countries is the limited availability of finance. It is therefore imperative that the maximum value be obtained for expenditure on purchasing the equipment needed to carry out industrialization programmes. Purchasing officers and supply managers even when not solely concerned with industrial equipment, necessarily play a key part. (Members of the Expert Group included experts in supply management and the organization and operation of purchasing units. They included also specialists in sources of supply, for instance, in the compilation and use of directories and indexes of products and suppliers. The members of the Group came from both developing and developed countries and from both the public and the private sector.)

LETTER OF TRANSMITTAL
TO THE EXECUTIVE DIRECTOR OF UNIDO

We have the honour to submit herewith the report of the Group of Experts on the Establishment of an Advisory Service for the Supply of Industrial Equipment to Developing Countries. It was prepared during our meeting at United Nations Headquarters in New York from 20 to 24 November 1967. The Group elected, as its Chairman, Mr. Harold Berry, President of the Afro-American Purchasing Centre, Inc., New York. The other members of the Group were:

Mr. Henry Dreyfus, Chief Engineer, Société Nationale des Chemins de Fer Français, Paris, France;

Mr. Paul V. Farrell, Editor, Conover-Mast Publications, New York, U.S.A.;

Mr. Christopher W. Hanson, Head of Research, ASLIB, London, England;

Mr. Alfred P. Harris, Director, Bureau General Supplies of the Government of Liberia, Monrovia, Liberia;

Mr. Ian K. MacDonald, Purchasing Agent, TEXACO Exploration Co., Calgary, Alberta, Canada

Mr. Joseph P. Mishili, Senior Stock Verifier, Treasury Dept., Dar-es-Salaam, Tanzania;

Mr. Prithwish K. Palit, Executive Director, Turner, Hoare and Co. Ltd., Bombay, India;

Mr. Milovan N. Popadic, General Manager, Export and Import Company for Industrial Equipment, Belgrade, Yugoslavia;

Mr. Joseph [illegible]ur, Director, Household and Purchase Department, Municipality of Jerusalem, Israel.

The Group appointed Mr. Christopher W. Hanson and Mr. Joseph P. Mishili as Rapporteurs.

Mr. R.V. Elms, Chief, Purchase and Transportation Service, United Nations, New York, attended the meeting and participated in discussions.

The Technical Secretariat was provided by Mr. Azmi A. Afifi and Mr. Hans Einhaus of the United Nations Industrial Development Organisation.

In his opening address, Mr. Azmi A. Afifi, the Assistant Director of the Industrial Services and Institutions Division, UNIDO, referred to ECOSOC Resolution 1183 (XIX) which provided the terms of reference for this Group:

> "To study the feasibility of setting up, within the United Nations Organisation for Industrial Development or any other appropriate United Nations body, an advisory service which could provide information to the developing countries on the sources of supply, the cost and the quality of equipment needed for their development."

Our report follows these guidelines.

Document ID/W.G.6/1 "UNIDO Advisory Service for the Supply of Industrial Equipment to Developing Countries" prepared for the United Nations Industrial Development Organisation by Mr. Paul V. Farrell, served as a background paper. A paper was also contributed by Mr. M.N. Popadic.

In submitting this report, we have acted in our personal capacity and not as official representatives of the organisations or governments to which we have the honour to belong.

Yours respectfully

Harold G. Berry

The Chairman Acting for the Group

New York, 24 November 1967

Difficulties facing developing countries in the procurement of industrial equipment

Developing countries often face special difficulties in the procurement of supplies.

(1) Many purchases are financed from outside the buyer country by means of loans or credits. Conditions frequently attached to these loans or credits may restrict the buyer's choice of supply to suppliers in a particular country. When this is so, the buyer's scope for the exercise of skill in negotiation is limited. As a result prices paid on purchases financed by tied loansmay in some instances be higher than those on the open market.

(2) Escalation clauses to take account of rising prices are incorporated in some contracts. Although usually rational in conception and reasonable in operation, they sometimes tend to operate against less experienced buyers.

(3) When developing countries buy manufacturing equipment from developed countries, as they frequently do, the buyer commonly has less expertise than the seller and is at a disadvantage in negotiations.

(4) In particular, he may be less bale to assess the technical level of the equipment offered - how up-to-date it is. The buyer has difficulty in analyzing costs, assessing values, applying checks and comparing offers, through lack of experience.

(5) Developing countries in particular have problems of maintaining equipment and securing adequate service and spare parts when required.

(6) Developing countries, lacking many of the sources of specialized information available in developed countries, are less well placed to know of, or to find out about, all the possible suppliers of the equipment they need.

(7) Developing countries often lack both the organization and the trained personnel necessary to ensure effective procurement policies and procedures and their implementation.

Participants gave examples, illustrations and evidence of the reality of each of the difficulties during the discussion. The Group is of the opinion that UNIDO could help developing countries, directly and effectively, to overcome or to diminish most of these difficulties through the operation of an Advisory Service. Where it is unable to take direct action, it could bring its influence to bear by expressing its views to other international, national and regional organizations as appropriate.

The role of the UNIDO Advisory Service in helping developing countries to overcome difficulties in the procurement of industrial equipment

Six of the seven major difficulties (1) to (7) met by developing countries can, in the opinion of the Group, be diminished by direct action to be taken by the UNIDO Advisory Service, either in Headquarters or in the field. The fact that the Advisory Service is directed solely to manufacturing industry as a result of the UNIDO mandate was of concern to the Group. Nevertheless, it felt that this should not substantially reduce the value of the service to industrial buyers, although purchasing managers covering the whole field of supply might find it regrettable.

The steps which the Group considered should be usefully taken by the UNIDO Advisory Service included the following:

1. Provision of information about sources of supply of equipment.

(1) At the centre there should be established a comprehensive collection of directories and indexes of suppliers and products. By making full use of this existing material buyers could be supplied on request with comprehensive lists of suppliers with due consideration to wide geographical representation. Consideration should be given at a later stage to the integration of the directory information, and mechanized processing.

(2) On request, the Centre would select from the comprehensive lists shorter lists of suppliers. The selection provided solely on an advisory basis would be made by specialists, exercising their professional judgement. Beyond this, UNIDO would not have any responsibility. Selected lists would be accompanied by further information about the firms on the lists, their catalogues, etc. obtained by UNIDO.

(3) As a long term project, UNIDO would study and encourage the provision by suppliers of information about their products in standard form to facilitate handling suitable to mechanized operation.

2. Provision of information about prices of equipment

(1) The Advisory Service would at intervals or continuously, study price movements and trands. It would collect price information and records. It would study techniques of measuring costs and assessing prices. The results of all this work would be made available to developing countries.

(2) The Advisory Service would not attempt to collect and kep up-to-date all prices of all products of all suppliers. It would attempt rather to provide specific information as it is required by developing countries, in the form and in the depth needed by them.

3. Provision of advice and assistance on drawing up specifications, assessing offers and tenders, choosing suppliers

(1) The Advisory Service would prepare manuals or other publications providing guidelines and general advice on supply management procedures and techniques appropriate to developing countries.

(2) With the background assistance of the Centre, experts and consultants sent to the field would provide, assistance in depth on specific projects.

(3) Both from Headquarters and in the field, attempts would be made to get information fed back to UNIDO about performance of the plant, equipment and suppliers, particularly, when the choice of these had arisen from help or advice given by UNIDO. This feed-back would increase the ability of the Advisory Service to provide realistic advice.

4. Training

Considering the role that UNIDO's Advisory Service might play in training industrial supply managers for developing countries and their personnel, the Group reviewed the different alternatives for the training programmes of UNIDO;

(1) Experts - Visits to Developing Countries - UNIDO experts shall advise and/or assist in the operation of purchasing units in developing countries would be required also to train local staff. In addition UNIDO experts may upon request - assist developing countries with drawing up of training programmes based on their familiarity with local problems.

(2) Fellowships - that is, study missions for periods from one to twelve months for officials from developing countries giving them the opportunity to participate in training programmes tailored to their particular needs which might comprise on-the-job training in industrial organizations, specialized courses in universities, etc. provided that the candidates for fellowships undertake to impart their acquired knowledge to their staff and others on return.

(3) Exchange Visits - between industrial personnel from different developing countries and from developed and advanced countries to cross-feed knowledge, practice and experience.

(4) Regional and Inter-regional Seminars - for participants from developing and advanced countries for discussion and exchange of experience.

(5) Workshops - to review and examine in depth specific problems with the guidance of experienced specialists acting as discussion leaders.

(6) Preparation and Dissemination of Manuals and other training material - Manuals, guidelines, training and instruction leaflets are published as a result of expert studies or field experience.

On the invitation of its Chairman, the Group called on Dr. Rene La Marre, Director of Training of the Afro-American Purchasing Centre, to participate in the discussion of the training topic. Dr. La Marre also stressed the importance of training supply managers in developing countries, who, in his opinion, are essential for the successful establishment and operation of industrial plants, because of the key role played in developing countries by appropriate selection of material, service and the provision of spare parts.

To remedy the present lack of adequate supply management in developing regions, UNIDO should develop an appropriate training programme for industrial supply managers, in cooperation with national or international organizations which are presently active in this field.

The Group laid particular emphasis on Fellowships as they enable the trainee to acquire both practical experience and knowhow while on the job, and academic knowledge through participation in appropriate courses.

Concluding its discussion on this topic, the Group agreed that the UNIDO Advisory Service should also perform the following functions:

(1) Advise on the organization and administrative machinery required in the field of supply management.

(2) Assure the supply of training manuals and other literature and up-to-date technical information to raise continuously the professional level of supply management in developing countries.

RECOMMENDATIONS

1. A UNIDO Advisory Service on the supply of industrial equipment to developing countries should be established.

2. It should provide advisory services from Headquarters and in the field. The services should cover all aspects of supply including technological, economic and financial, but should take account of the other services offered by UNIDO as well as other international, regional and national organizations.

3. The Advisory Service at Headquarters should incorporate an information service on sources of supply of industrial equipment. This would be based at first on a comprehensive collection of existing directories.

4. Information about suppliers and supplies should be provided to developing countries on request, in the form and at the depth required by the buying country.

5. The Advisory Service should survey conditions pertaining to the purchase and use, maintenance service and spare parts of industrial equipment. It should continuously maintain a close watch on prices of supplies to developing countries; provide general information on price movements and offer specific advice on contracts, tenders or offers on request. It should not attempt to maintain comprehensive up-to-date information on all prices in advance of demand.

6. The Advisory Service, through activities in the field backed by the resources at Headquarters should assist developing countries in specifying their needs, evaluating offers and choosing suppliers for specific projects on request.

7. The Advisory Service should assist with the planning and implementation of training programmes for industrial supply managers of developing nations and their personnel. An appropriate part of UNIDO's technical aid should be earmarked for this purpose.

8. The Advisory Service should produce and/or make available such information material as manuals, guidelines, brochures on problems pertaining to Industrial Supply Management which meet the particular needs and conditions of developing countries.

9. The Advisory Service should help and advise developing countries on the administrative machinery required for the successful setting-up and operation of supply management services.

10. In matters relevant to the functions of the Advisory Service but where other international and national organizations are involved, it should support any efforts by other bodies:

- to limit the attachment of conditions to the offer of loans and credits which limit the buyer's from freedom to buy in the best market;

- to eliminate escalation clauses which are biased against the buyer in contracts;

- to establish agreed world classification systems for industrial products;

- to encourage the issue of information by suppliers of industrial equipment about their products in standard forms amenable to mechanized manipulation.

11. UNIDO is requested to bring this report as appropriate, to the attention of international, regional and national organizations dealing with problems of industrial equipment.

SUMMARY

5. Help which should be available via the Advisory Service to developing countries in purchasing equipment and supply management

DIRECT HELP

(1) The provision from the Centre, on request, of comprehensive and/or selective lists of suppliers.

(2) The provision, from the Centre, on request, of information about the firms on selective lists and their products.

(3) The provision in the field and from the Centre, on request, of advice or assistance, in specific instances, in specifying requirements, assessing and comparing offers and tenders and selecting suppliers, taking both cost and technical factors into account.

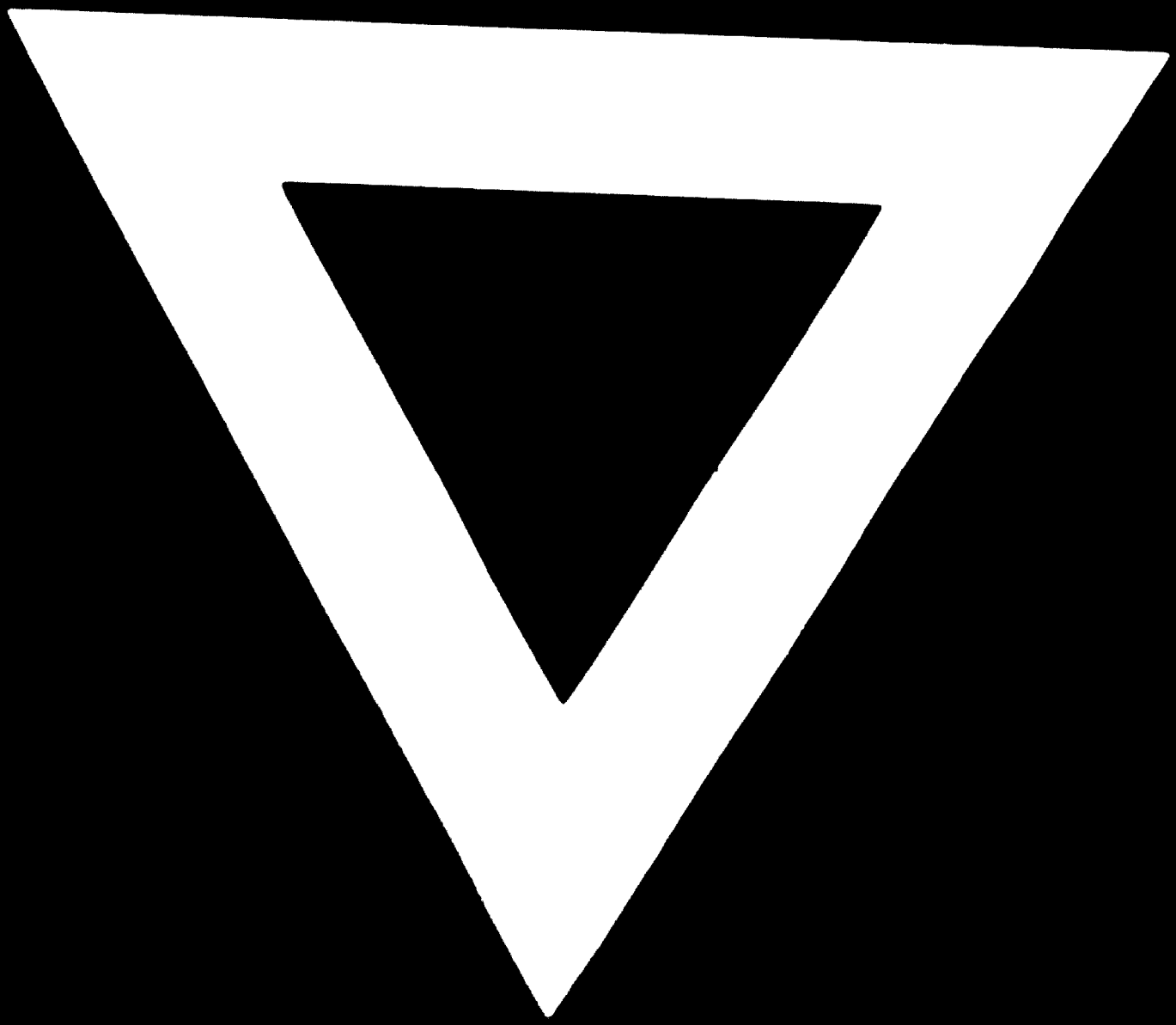
(4) The provision, from the Centre, on request, of information derived from performance records based upon reports (feed-back) the experience of developing countries of particular products and suppliers.

INDIRECT HELP

(5) The provision by the Advisory Service of facilities for the training of supply managers and purchasing staff.

(6) Continuing endeavours by UNIDO to bring its influence to bear in matters affecting purchases of industrial equipment by developing countries but outside the scope of UNIDO. In particular, UNIDO would encourage: the reduction of restrictions to free purchase associated with loan and credit arrangements; the elimination in contracts of escalation clauses which were biased against the buyer.

(7) Increasing the opportunities of making the best choice of suppliers by building up more comprehensive world-wide lists of suppliers.



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