



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



07171



Distr.
LIMITED

ID/WG.235/1
11 October 1976

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Expert Group Meeting on Technical Assistance
in Pre-investment Studies

Vienna, 14 - 17 December 1976

ISSUES IN THE ORGANIZATION AND FOLLOW-UP OF
FEASIBILITY STUDIES ^{1/}

Note by the secretariat of UNIDO

^{1/} This document has been reproduced without formal editing.

id.76-5464

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

Issues in the organization and follow-up of
feasibility studies

I. Introduction Remarks

1. The target set by the Lima Declaration for raising the share of the developing countries in world industrial production to at least 25 per cent by the year 2000 ^{1/} has wide-ranging implications for economic policy and management. The speed and scale of the investment effort would be such as to raise valid questions concerning capacity for mobilization of domestic savings supplemented by foreign aid on the one hand and the development of investment skills on the other.

2. One variant of growth examined by UNIDO assumes an annual growth rate of 10.5 per cent for Developing Countries compared to 4.0 per cent for Developed Countries. ^{2/} Accordingly it is estimated that value added in manufacturing in the Developing Countries would increase by over 11 times to reach the level of US \$ 1,224 billions representing a share of 23.5 per cent of world industrial production by the year 2000. Assuming a constant rate of growth over the planning period, value added as 40 per cent of industrial output and capital output ratio as 3, the annual increments in investments to achieve the Lima target would be expected to rise from US \$ 70 billions in 1976 to US \$ 915 billions in the year 2000. Consequently, resources required to conduct feasibility studies could be estimated to increase from US \$ 3 billions in 1976 to US \$ 40 billions in the year 2000, assuming that the cost of feasibility studies falls in the range of 3 - 5 per cent of overall investments.

3. These are admittedly rough estimates based on general assumptions; but they do go some way to indicate the magnitude of the task ahead. Even though it may generally be recognized that considerable resources are devoted to carrying out feasibility studies, the aggregative figures cited above are suggestive of the basic importance to industrialization objectives, of the issue of feasibility studies. The mobilization of the resources required would in itself constitute one serious constraint on industrialization.

^{1/} Para 28; Lima Declaration and Plan of Action on Industrial Development and Co-operation

^{2/} The implications of raising Africa's share in World Industrial Production to 2 per cent by the year 2000; CMI.3/INR/TP/3, ECA, Addis Ababa

their effective and efficient utilization still another. The requisite project development skills and institutions would need to be developed in a relatively short period of time for Developing Countries to have the ability to invest commensurate with the dimensions implied by the Lima target.

4. It would seem, therefore, to be timely to focus attention on an issue which broadly has received scant consideration in development plans and policies; namely the organization, co-ordination and follow-up of feasibility studies. Measures aimed at capitalizing pre-investment studies already undertaken could constitute a point of departure for several countries aimed at implementing the Lima Declaration. The main thrust of efforts would, however, need to be directed at creating appropriate mechanism for triggering a constant and substantial flow of viable industrial projects.

5. International assistance could play a very useful catalytic role in these efforts. UNIDO has provided and continues to provide assistance to the Developing Countries in various stages of pre-investment studies. These are important activities which need to be strengthened and given new dimensions. The timing, nature and content of UNIDO's assistance are factors which require careful consideration. For example it may be thought that measures are needed to overcome the problem of lack of information on industrial projects, technology, investors and investment climate, through the establishment of a centralized technical assistance service on feasibility studies while at the same time assisting in the development of national and regional industrial consulting services.

6. The Expert Group Meeting on Technical Assistance in Pre-investment Studies scheduled to be held in Vienna from 14 - 17 December 1976 is expected to deliberate on this and related issues with a view to setting-out specific recommendations on approaches and methods for effectively organizing and efficiently following-up on feasibility studies. The present Note has been prepared to facilitate the deliberations of the Meeting. Some of the problems confronted in conducting and promoting feasibility studies are briefly described and the issues presented in the form of questions for the consideration of the Experts. The Note does not claim to be exhaustive but indicative of the kind of issues which could fruitfully

be discussed in the framework of the three major topics of the Meeting, namely:

- (a) Review of current methods and practices used by Developing Countries for conducting feasibility studies,
- (b) Methods for generating and maintaining a constant flow of bankable industrial projects, and
- (c) Possibility of creating an UNIDO Feasibility Analysis Service.

II. Consideration of some leading issues

7. Governments in Developing Countries shoulder the main responsibility for mobilizing domestic and external resources for industrial development. Accordingly policies have been designed to generate adequate flows of capital to the industry sector. However, it would appear that there is a serious shortage of bankable projects in these countries to absorb investible and re-investible funds to any significant degree. It is thus frequently stated - more so in recent years - that it is the lack of bankable projects rather than of capital which is constraining the rate of industrialization in the Developing Countries. Do the facts substantiate this claim? What have the experiences of the national, multinational and international financial institutions been in this respect?

8. Yet considerable efforts are devoted by the Developing Countries to carrying out pre-feasibility and feasibility studies; and it is generally known that the rate of accumulation of feasibility studies has been far greater than the rate of actual investments. This presents a dichotomy in that while there is no dearth of studies, yet potential investors claim a lack of investible projects. What are the root causes for this situation?

9. It may be that the so-called feasibility studies may have not been the kind of studies which provide the data, information and analyses that permit or even facilitate the investment decision-making process. Moreover, the participants in an investment may typically include a government agency such as a development bank, local and foreign investors and regional and international financial institutions. This usually gives rise

to divergent technical opinions and hence to costly repetitions of feasibility studies. To what extent have divergencies in investment criteria been contributory factors in the accumulation of feasibility studies and what measures would need to be pursued to reduce wasteful use of resources on feasibility studies?

10. Feasibility studies are sponsored by several different agents in both the public and private sectors and financed in multiple ways including technical assistance from international organizations. Access to them is in most cases restricted, and the organization of a specific feasibility study tends, therefore, to take no account of previous efforts. To reduce wasteful duplication of effort and to streamline project development and investment follow-up activities, a number of developing countries have set-up machinery such as industrial development centres and industrial consulting organizations. How effective have these been in co-ordinating pre-investment studies at the national level and in generating a greater flow of bankable industrial projects?

11. A feasibility study may technically be sound and yet not attract investors. The size of the project may have a great deal to do with this situation as potential investors, especially foreign investors, may consider the efforts needed to implement a small project disproportionate to the level of expected profits. Yet the large majority of feasibility studies brought to the attention of potential investors fall under this category. As technical know-how is a major constraint, the setting-up of technology centres, which provide know-how in available technology, could be an effective means of speeding-up investments based on a country's stock of feasibility studies. What then are the kinds of industrial extension services and institutional arrangements that could stimulate a more substantial participation of domestic investors?

12. As to foreign investors, the investment climate would seem to be a decisive factor in investment decision-making. Fear of nationalization, cumbersome government administrative procedures, lack of reliable information and data etc.... could often be the causes for lack of follow-up on otherwise sound feasibility studies. In recognition of this, developing countries have set-up investment promotion machinery, legislated investment codes offering various concessions to potential investors and borne

the major costs of feasibility studies. These efforts do not generally seem to have paid dividends. What are the reasons for this? Should feasibility studies also contain information on buying-out procedures, concessionary terms, industrial legislation etc...or should efforts be rather directed to strengthen machinery and manpower required for analysing, negotiating and promoting industrial projects?

13. The time horizons of risk capital investors are generally short. Consequently, the shorter the pay-back period, the more attractive the project becomes to such investors. When costs implying long-term pay-back periods, such as housing for labourers, access roads, power generation etc....are included in the capital costs, they tend to further deter private investors. In the circumstances the marketing of the project may prove difficult. Would it not be desirable to make explicit distinctions in feasibility studies between long-term and short-term investments so that a mixed enterprise could be set-up whereby private investment could concentrate on directly productive facilities and the public sector on the required industrial infrastructure by securing concessionary aid from bilateral sources and institutional lenders?

14. While measures aimed at making markets more attractive through concessionary incentives and institutional support are a good thing, nevertheless, it is recognized that a major cause for the shortage of bankable projects in developing countries is the size of the market. This/^{is}generally small and fragmented. It would be through regional co-operation that large-scale projects that could command the interests of investors could be developed. Several developing countries have created economic groupings either in the form of customs unions, free trade areas or common markets to promote, inter-alia, the implementation of regional projects. While considerable efforts have been directed to the identification of regional industrial project proposals, follow-up to the stage of feasibility studies has received very little attention. The regional banks, the regional economic commissions and the international financial institutions working in close co-operation with the established economic groupings could give much needed impetus to pre-investment studies at the regional level. In addition it would seem necessary to build-up institutions and skills for feasibility studies and investment promotion at the multinational levels. Would it, therefore, be desirable to create regional industrial consulting engineering services and a network of multinational investment promotion centres, assuming that the political will to co-operate exists?

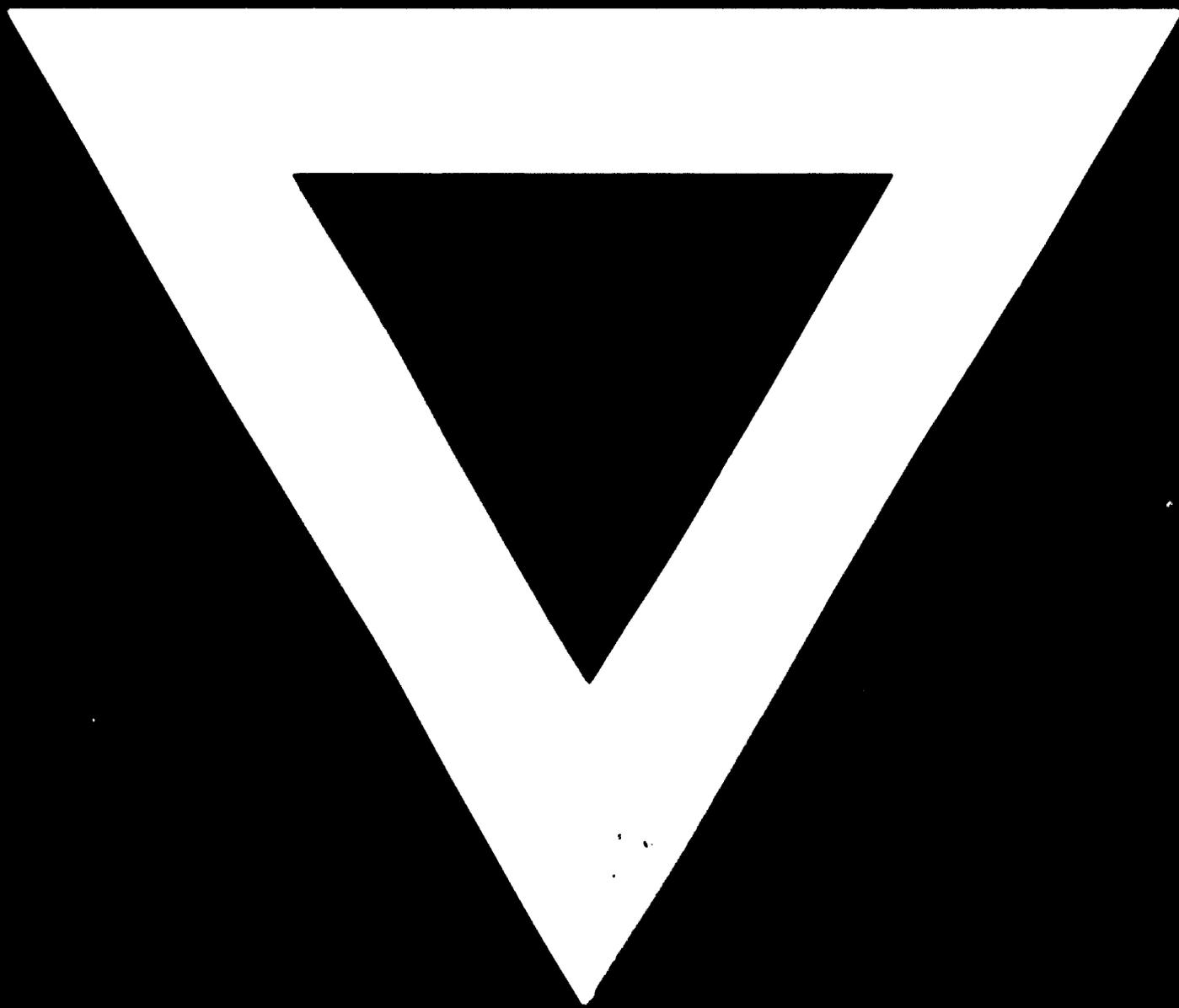
15. Assistance to developing countries in pre-investment studies comes from multiple sources and in varying sizes. Bilateral and multilateral aid play a major role in the organization and preparation of pre-investment studies. These efforts, however, do not seem to be co-ordinated at the country level and governments may well be faced with conflicting and divergent recommendations on the viability of industrial projects. Moreover, when the assistance is spread thin over several small projects the effort may prove costly and its overall impact become negligible. UNIDO provides assistance to developing countries on their request in the identification, preparation and evaluation of industrial projects, in the training of project personnel and in the development of such institutions as industrial development centres and industrial consulting services.

What in the view of the Experts, should the priorities of UNIDO's technical assistance be in the light of past experiences and in the framework of the Lima Declaration?

16. The question of data and information is pervasive and of critical importance to the organization and follow-up of feasibility studies. These are required on a broad front to prepare realistic feasibility studies, to carry out appraisals and to negotiate meaningfully and effectively with potential investors. In particular, up-to date information on feasibility studies carried out or under preparation would need to be made available to those which seek it. UNIDO could render assistance to Governments as well as potential investors including regional and international financial institutions in maintaining a live portfolio of feasibility studies. For this purpose it would need to monitor, analyse and up-date feasibility studies on a continuing basis. Would it be desirable to set-up an UNIDO feasibility analysis centre to provide these services and if so, how should such a centre be funded?



B - 323



77.09.19