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07341



Distr.
LIMITED

ID/WG.235/12
5 January 1977

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Expert Group Meeting on Technical
Assistance in Pre-investment Studies,
Vienna, 1976

TECHNICAL ASSISTANCE IN PRE-INVESTMENT STUDIES.

Report of an Expert Group Meeting,

Vienna,
4-17 December 1976.

td.77-041

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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.

INTRODUCTION

The Expert Group Meeting on Technical Assistance in Pre-investment Studies, organized by the United Nations Industrial Development Organization (UNIDO), met at Vienna from 14 to 17 December 1976. Its main purpose was to examine the organization and follow-up of pre-investment studies in developing countries. Experts and observers from regional and international financial institutions, consulting firms and research organizations attended.

RECOMMENDATIONS

The Expert Group Meeting made the following recommendations for concerted national, regional and global action within the framework of the objectives and principles of the Lima Declaration:

1. Effective measures should be taken to overcome the constraints on the flow of implementable project studies identified by the Group (see page 9) and to foster the adoption of tested methods and procedures, as examined by the Group, in accordance with specific needs and prevailing economic systems.
2. An integrated, interdisciplinary approach to pre-investment studies should be made more effective so that project development and management will take full account of plan priorities and allocation of resources, maximum support will be secured throughout the pre-investment process, and available resources will be used efficiently.
3. Systems and mechanisms that ensure uninterrupted action from the conception of a project up to implementation should be promoted, that is, the link between pre-investment studies and investment should be strengthened.
4. UNIDO assistance to national and regional efforts to develop skills, work aids and organizational structures for pre-investment studies should be intensified.
5. A UNIDO advisory service consisting of a high-level, interdisciplinary team should be created to stimulate pre-investment studies with a view to their early implementation; provide, at short notice, assistance to national and regional organizations on specific problems; and take the initiative in identifying and formulating concrete industrial projects in response to the target set at Lima.
6. A pre-investment fund should be established, possibly on a revolving basis, by mobilizing financial assistance from donor countries, financial institutions and the business community.
7. A programme to develop the proposed advisory service should be formulated that would define:
 - (a) The terms of reference;
 - (b) The most suitable location (UNIDO headquarters (see annex II), regional organizations or development banks);

(c) Link to the Industrial Operations Division of UNIDO and especially the Feasibility Studies Section;

(d) Operational network of contacts at the country and regional levels, with account taken of the work in this area of other agencies in the United Nations system and regional and international organizations;

(e) Means of financing, especially during the interim stage.

8. To facilitate follow-up action and wide dissemination of the issues and measures proposed, UNIDO should prepare a publication on the subject of pre-investment studies, drawing on the material examined and the conclusions reached by the Expert Group Meeting.

I. ORGANISATION OF THE MEETING

G.P. Veliky, Director of the Industrial Operations Division of UNIDO, opened the Meeting with an address he delivered on behalf of the Executive Director of UNIDO in which he referred to the objectives of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, particularly that of increasing the share of the developing countries in world industrial production to at least 25 per cent by the year 2000.

The Meeting elected Mohamed Khati Wajid, Director-General, Federal Industrial Development Authority, Malaysia, as Chairman; José Palomino-Rocdel, Chief, Department of Programming, Board of the Cartagena Agreement, Peru, as Vice-Chairman; and George S. Eboke, Chairman and Managing Director, Tanzania Investment Bank, United Republic of Tanzania, as Rapporteur.

The Meeting agreed to discuss the following topics:

- (a) Current methods and practices used by developing countries in organising and conducting feasibility studies;
- (b) Methods of generating and maintaining a constant flow of bankable industrial projects;
- (c) Feasibility of creating a UNIDO feasibility analysis service.

It was understood that the discussion would include, under the appropriate topic, the following:

Institutional aspects

Contents of pre-investment studies

Link of pre-investment studies to investment

After the discussion, the Meeting considered and adopted the recommendations.

The Meeting was closed by the Vice-Chairman, Mr. Palomino-Rocdel, who requested that UNIDO keep the participants informed of any future follow-up action to be pursued in implementing the recommendations.

II. SUMMARY OF THE DISCUSSION

Terminology

The Meeting considered it important to clarify terminology at the outset so as to establish a common basis of understanding for subsequent exchanges of views and the recommendations to be formulated. The following stages in project preparation were identified: (a) general project opportunity studies, consisting of investment opportunity studies and project identification; (b) prefeasibility studies; (c) fully fledged feasibility studies; and (d) detailed engineering planning and implementation schedules. The Meeting agreed that the term "pre-investment studies" would apply to stages (a) through (c) above.

Review of current methods and practices

Experience in the organization and follow-up of pre-investment studies from the point of view of government agencies, private investors and institutional lenders was examined. The causes for the major concerns of the various parties to an investment differed according to the size of the market, the economic system, the investment criteria, the investment climate and the characteristics of the specific project.

Some of the major problems encountered leading, among other things, to the piling-up of unimplemented pre-investment studies, were indicated to be:

- (a) Poor response from potential investors, especially with regard to investment in basic industries;
- (b) Absence of coherent systems of project development and investment follow-up;
- (c) Repetitive studies, whatever the cause, in the same area, which wasted scarce resources;
- (d) Delays arising out of bureaucratic procedures, leading to slowing down of the implementation of industrial projects;
- (e) Lack of proper understanding within a country and abroad of the prevailing institutional network and investment decision-making process in that country;
- (f) Insufficient number of active promoters of identified projects;
- (g) Conceptual differences as to the nature of project studies and criteria of bankability;
- (h) Delay in investment decision making owing to divergent technical opinions of consultants;

(i) Multiplicity of agents, institutions and procedures and lack of co-ordination thereof;

(j) Lack of information on programmes, projects, systems and related legislation;

(k) Demand of potential investors for complete information and data at all stages of project development, which necessitates further feasibility studies.

Among the underlying causes for the problems indicated above were:

(a) Lack of local capacity (skills and institutional) in project development and investment follow-up action;

(b) Failure to involve the potential investor at as early stage as possible in project development;

(c) Deficient studies resulting from poor terms of reference and guidelines provided to consultants;

(d) Exigencies of potential investors to have as complete and detailed a characterization of projects under promotion as possible;

(e) Lack of know-how by local project promoters as to the precise requirements of potential investors arising out of the general absence of guidelines for project preparation;

(f) Weakness of domestic investment promotional machinery to market identified industrial projects;

(g) National markets too small to justify creation of large-scale industries based on economies of scale and a level of income too low to establish mass consumption industries;

(h) Insufficient attention paid by potential investors to the wider prospects for investment that could be achieved by fostering regional and international markets for industrial projects;

(i) Failure to recognize the specific needs of varying economic systems and thus to formulate investment strategies suited to each system;

(j) Misapprehension of potential investors particularly with regard to investment codes and expropriation;

(k) Absence of well-defined investment policies on the part of some Governments;

(l) Absence of national and regional industrial consulting services;

(m) Lack of clear-cut framework of reference concerning economic and industrial development objectives and strategies.

The Meeting devoted particular attention to the promotional role of pre-investment studies. The view was expressed that prefeasibility studies were the main promotional instrument to attract potential investors. On the other hand, it was conceded that full feasibility studies were needed not only to mobilize local support for project ideas, but also to meet needs of potential investors for information. It was agreed that full feasibility studies played a significant role in the investment decision-making process pertaining to regional or intercountry projects.

It was essential to identify a potential investor at the prefeasibility-study stage. Once the stage of full feasibility studies was reached, the investment parameters of the project should be unambiguous and the project, apart from minor accommodations, ready for implementation.

It was also apparent that the bias questions and the information requirements of potential investors often led to repetitive pre-investment studies. At the same time, the view was expressed that good projects would have no difficulty in securing the participation of investors.

The methodology of conducting feasibility studies was considered similar for the private sector (domestic and foreign) and the public sector. There was thus no need to separate devices and manuals by type of investor.

Increasing the flow of implemented projects

Participants examined methods of increasing the flow of implemented industrial projects. Efforts needed to be intensified not only to speed-up the implementation of industrial projects already identified but also to achieve the targets set by the Lima Declaration. Methods, procedures and systems would have to be streamlined and the appropriate machinery and the requisite local skills developed. Specific measures to be adopted would need to be tailored to the specific needs of countries and regions and take account of differences in stage of industrialization, economic system, stage of development of economic and social infrastructures and size of markets.

Although the relevance of general prescriptions to the specific needs of countries could justifiably be questioned, nevertheless developing countries stood to benefit from the experience of other countries, whether developing or developed. Consequently, the meeting stressed the importance of the following methods and approaches to speed up the investment process:

(a) Defining the economic and industrial policy framework for industrial project development and implementation, including information on the respective roles of private investors (domestic and foreign) and the Government;

(b) Preparing briefs and disseminating widely information on industrial legislation, investment codes, institutional network and other information related to the investment climate;

(c) Promoting regional co-operation to enlarge the size of the market;

(d) Developing economic and social infrastructure to increase the profitability of productive investment;

(e) Improving public administration procedures to reduce costs, time and efforts needed for the follow-through of projects;

(f) Establishing an effective system of project development to facilitate timely decisions to accept or reject projects at the various stages of project preparation;

(g) Creating and strengthening national investment promotion machinery to assume the role of active promoters and apply the methods of marketing in the promotion of projects;

(h) Developing local industrial consulting capacity by setting up national consulting services, collaborating with foreign-based consultants, creating feasibility study units in development banks, providing in-service training, setting up local counterpart teams during project studies, and organizing training programmes to upgrade skills;

(i) Developing effective methods of selecting, briefing, supervising and guiding consultants;

(j) Developing regional consulting services to identify and promote multinational projects and establishing links to national consulting services;

(k) Providing information and advisory services on alternative technologies to foster domestic entrepreneurship and to strengthen negotiating capabilities in matters of licensing and transfer of technology;

(l) Searching actively for reinvestment projects for rehabilitating, diversifying and expanding existing industries.

With regard to specific mechanisms related to pre-investment studies, the participants considered the following measures to merit attention:

(a) Identifying potential investors as early as possible - perhaps at the prefeasibility study stage - and involving future management in the subsequent stages;

(b) Selecting and using consultants recognized by financial houses;

(c) Preparing feasibility studies in accordance with the requirements of financial institutions;

(d) Standardizing the contents of feasibility studies laying down minimal requirements and conforming to plan priorities;

(e) Providing bilateral and multilateral financial assistance in the preparation of prefeasibility studies;

(f) Providing loans for conducting feasibility studies;

(g) Securing the commitment to the project of the ultimate beneficiaries of a feasibility study through a financial contribution and/or ensuring that an identified potential investor shall take full responsibility for preparing the study.

The role of UNIDO

The participants listened to statements on UNIDO activities in feasibility studies, investment promotion, industrial planning and factory establishment. They examined the possible areas of further assistance by UNIDO in the framework

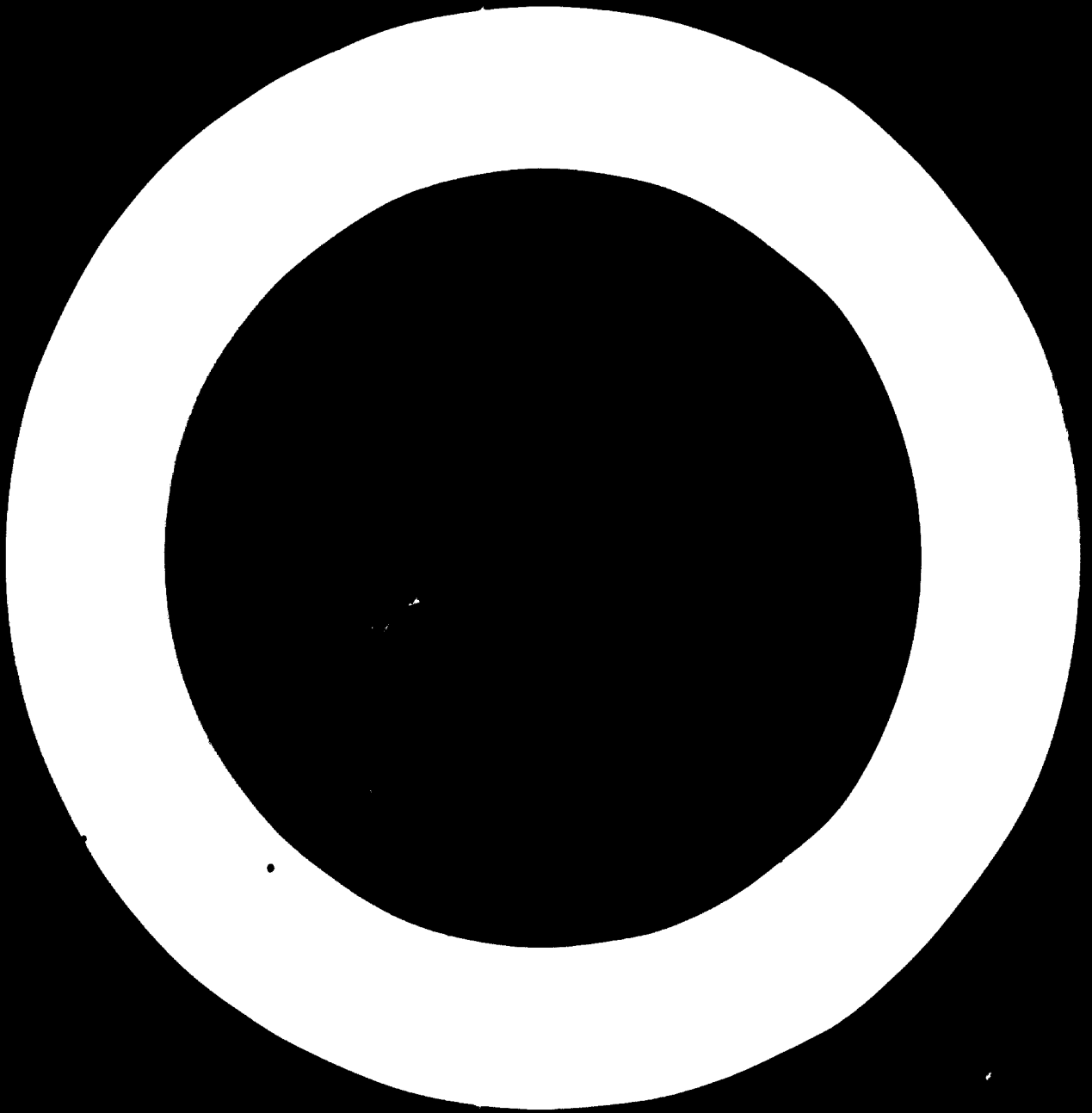
of the Lima Declaration and stressed the need for an integrated approach from conception through preparation to implementation of industrial projects. The specific priority areas for UNIDO assistance were the following:

- (a) Identifying international markets for exportable industrial products of interest to the developing countries;
- (b) Assisting national and regional institutions to make their pre-investment studies more effective;
- (c) Upgrading local skills in project management and promotion;
- (d) Developing methods of identifying investors and acting as a focal point of contact in locating potential investors for identified industrial projects;
- (e) Improving local negotiating capabilities for the transfer of technology;
- (f) Providing information and advisory services on sources and choice of technology;
- (g) Preparing and disseminating standardized manuals on feasibility studies.

In view of the accumulation of (a) unimplemented pre-investment studies and (b) the magnitude of the industrialization programme envisaged by the Lima Declaration, the current operational activities of UNIDO in the area of pre-investment studies should be intensified, particularly with regard to project identification and preparation, at the request of developing countries. UNIDO should also assist in creating national and regional machinery for project development, including, in particular, industrial consulting services.

The participants stressed the importance of having UNIDO provide high-level specialized expertise at short notice to assist developing countries in maintaining a constant flow of implementable industrial projects. For this purpose a pool of experts should be made available to UNIDO, based either at its headquarters or at the appropriate regional organizations, or both, to assist existing institutions in preparing industrial projects and in promoting and reinforcing national capabilities in this area. Such a service would be instrumental in fostering action on dormant projects and of resolving specific problems together with clients and investors.

The Meeting agreed that the success of such a service depended on its having at its disposal, particularly in its initial stages, a pre-investment fund.



Annex I

LIST OF DOCUMENTS

<u>Symbol</u>	<u>Title and author</u>
ID/WG.235/1	Issues in the organization and follow-up of feasibility studies Note by the secretariat of UNIDO
ID/WG.235/2	Programme of discussions
ID/WG.235/3	A study on the feasibility of institutionalizing a UNIDO technical service in pre-investment by G. Wagner
ID/WG.235/3 SUMMARY	A study on the feasibility of institutionalizing a UNIDO technical service in pre-investment studies A summary prepared by the secretariat of UNIDO
ID/WG.235/3 Add. 1	Draft proposal for the setting up of a UNIDO pre-investment advisory service by Christoph Wagner
ID/WG.235/4	Review of current methods and practices used by Egypt for conducting industrial feasibility studies by K. Maksoud
ID/WG.235/5	Methods for generating and maintaining constant flow of bankable industrial projects with specific reference to Tanzania by G.F. Mbowe
ID/WG.235/6	Flow, acceptability and promotion of industrial pre-investment studies in India by S.R. Mohnot
ID/WG.235/7	List of documents
ID/WG.235/8	La promoción de proyectos industriales por J. Palomino Roedel
ID/WG.235/9	Review of current methods and practices for conducting feasibility studies - the Malaysian experience by Zaïn Majid
ID/WG.235/10	Methods for generating and maintaining a constant flow of bankable investment projects - the Irish experience by F. Flanagan

Symbol

ID/WG.235/11

Quelques considerations relatives aux
études de factibilité économique industrielles
en Afrique
présenté par La Commission économique pour L'Afrique

ID/WG.235/12

Technical assistance in pre-investment studies

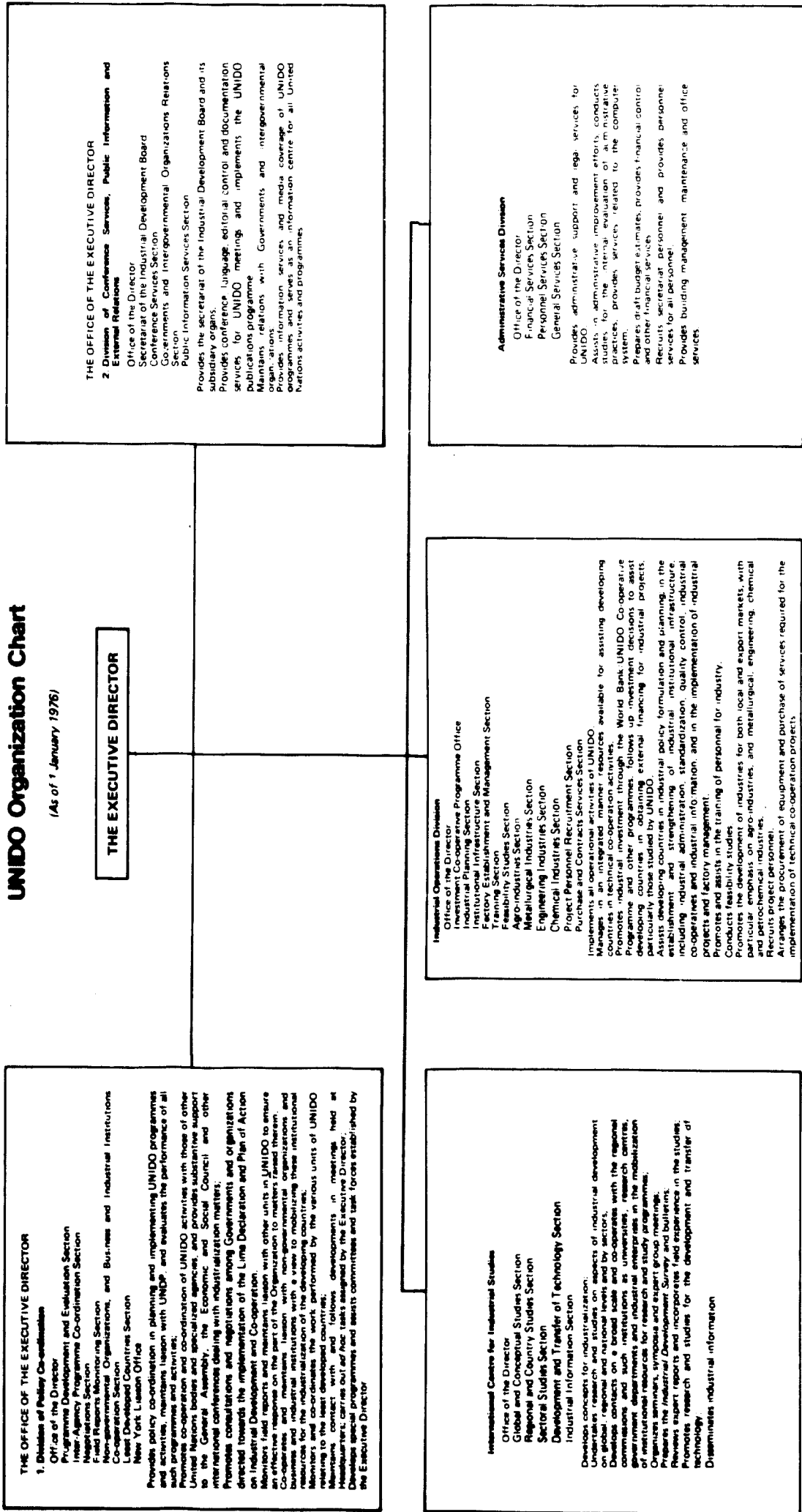
FUNCTIONS OF THE SECRETARIAT OF UNIDO

- Provides assistance to developing countries in the promotion and acceleration of their industrialization, in particular in the development, modernization and expansion of their industries, including agro-forestry and basic industries.
- Undertakes operational activities in least developing countries, including measures to ensure the effective application of modern methods of industrial production, project development and planning, the establishment and strengthening of industrial institutions, the development, adaptation and transfer of technology, and the training of technical and other personnel.
- Provides a forum and acts as an instrument for the developing and the industrialized countries in their contacts, consultations and negotiations connected with the industrialization of the developing countries.
- Offers advisory services, in co-operation with other United Nations bodies, on the exploration and efficient utilization of natural resources, industrial raw materials by-products and new products.
- Co-operates with the regional commissions in industrial development planning and in regional consultations, with particular attention to the needs of the least developed countries.
- Develops concepts and undertakes action-oriented studies and research programmes designed to facilitate the foregoing activities.
- Reviews and promotes co-ordination of all activities of the United Nations system relating to industrial development.

Annex II

UNIDO Organization Chart

(As of 1 January 1976)



THE OFFICE OF THE EXECUTIVE DIRECTOR

1. **Division of Policy Co-ordination**
 Office of the Director
 Programme Development and Evaluation Section
 Inter-Agency Programme Co-ordination Section
 Negotiations Section
 Field Reports Monitoring Section
 Co-operation Section
 Co-operation Section
 Least Developed Countries Section
 New York Liaison Office

Provides policy co-ordination in planning and implementing UNIDO programmes and activities, maintains liaison with UNICEF, and evaluates the performance of all such programmes and activities.
 Promotes co-operation and co-ordination of UNIDO activities with those of other United Nations bodies and specialized agencies, and provides substantive support to the General Assembly, the Economic and Social Council and other inter-national conferences dealing with industrialization matters.
 Promotes consultations and negotiations among Governments and organizations directed towards the implementation of the Lima Declaration and Plan of Action on Industrial Development and Co-operation.
 Monitors field reports and maintains liaison with other units in UNIDO to ensure an effective response on the part of the Organization to matters raised therein.
 Coordinates and maintains liaison with non-governmental organizations and business and industrial institutions with a view to mobilizing their institutional resources for the industrialization of the developing countries.
 Monitors and co-ordinates the work performed by the various units of UNIDO relating to the least developed countries.
 Maintains contact with and follows developments in meetings held at international level and/or tasks assigned by the Executive Director.
 Coordinates the work of the programmes and secret committees and task forces established by the Executive Director.

THE EXECUTIVE DIRECTOR

THE OFFICE OF THE EXECUTIVE DIRECTOR
2. Division of Conference Services, Public Information and External Relations

Office of the Director
 Secretariat of the Industrial Development Board
 Conference Services Section
 Governments and Intergovernmental Organizations Relations Section
 Public Information Services Section

Provides the secretariat of the Industrial Development Board and its subsidiary organs.
 Provides conference language, editorial control and documentation publications programme.
 Maintains relations with Governments and intergovernmental organizations.
 Provides information services and media coverage of UNIDO programmes and serves as an information centre for all United Nations activities and programmes.

Administrative Services Division
 Office of the Director
 Financial Services Section
 Personnel Services Section
 General Services Section

Provides administrative support and legal services for UNIDO.
 Assists in administrative improvement efforts, conducts studies for the internal evaluation of administrative practices, provides services related to the computer system.
 Prepares draft budget estimates, provides financial control and other financial services.
 Recruits, secretariat personnel and provides personnel services for all personnel.
 Provides building management, maintenance and office services.

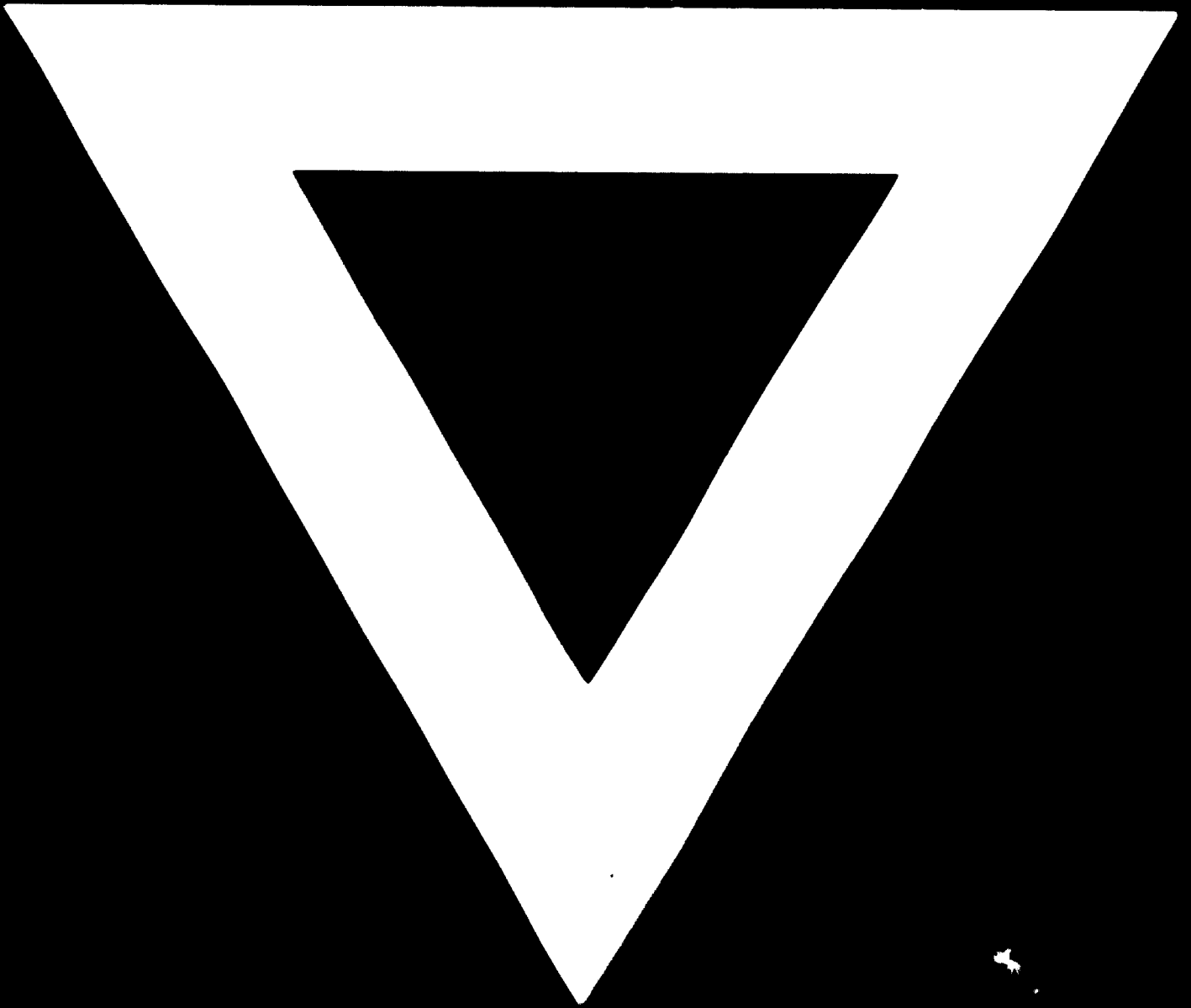
Industrial Operations Division
 Office of the Director
 Investment Co-operative Programme Office
 Industrial Planning Section
 Institutional Infrastructure and Management Section
 Factory Establishment and Management Section
 Training Section
 Agro-industrial Section
 Metallurgical Industries Section
 Engineering Industries Section
 Chemical Industries Section
 Project Personnel Recruitment Section
 Purchase and Contracts Services Section

Implements all operational activities of UNIDO.
 Promotes industrial investment through the World Bank/UNIDO Co-operative Programme and other programmes, follows up investment decisions to assist developing countries in obtaining external financing for industrial projects, particularly those studied by UNIDO.
 Assists developing countries in industrial policy formulation and planning, in the establishment and strengthening of industrial institutional infrastructure, co-operates in industrial standardization, quality control, industrial co-operation and industrial information, and in the implementation of industrial projects and factory management.
 Promotes and assists in the training of personnel for industry.
 Promotes the development of industries for both local and export markets, with particular emphasis on agro-industries, and metallurgical, engineering, chemical and petrochemical industries.
 Recruits project personnel.
 Arranges the procurement of equipment and purchase of services required for the implementation of technical co-operation projects.

International Centre for Industrial Studies
 Office of the Director
 Global and Conceptual Studies Section
 Regional and Country Studies Section
 Sectoral Studies Section
 Development and Transfer of Technology Section
 Industrial Information Section

Develops concepts for industrialization.
 Undertakes research and studies on aspects of industrial development on global, regional and national levels and by sectors.
 Develops contacts on a broad scale and co-operates with the regional commissions and such institutions as universities, research centres, international organizations and other bodies in the mobilization of institutional resources for research and study programmes.
 Organizes seminars, symposia and expert group meetings.
 Prepares the Industrial Development Survey and bulletins.
 Reviews expert reports and incorporates field experience in the studies.
 Promotes research and studies for the development and transfer of technology.
 Disseminates industrial information.

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