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07227



Distr.
LIMITED
ID/WG.237/4
12 November 1976
ENGLISH

United Nations Industrial Development Organization

Meeting of Top-Level Industrialists
on Factory Establishment Projects
in Developing Countries

Vienna, Austria, 18 - 20 November 1976

IMPLEMENTATION OF A NEW MANUFACTURING PLANT WITH
SPECIAL EMPHASIS ON FINANCIAL ASPECTS^{1/}

by

Gündüz Pamuk*

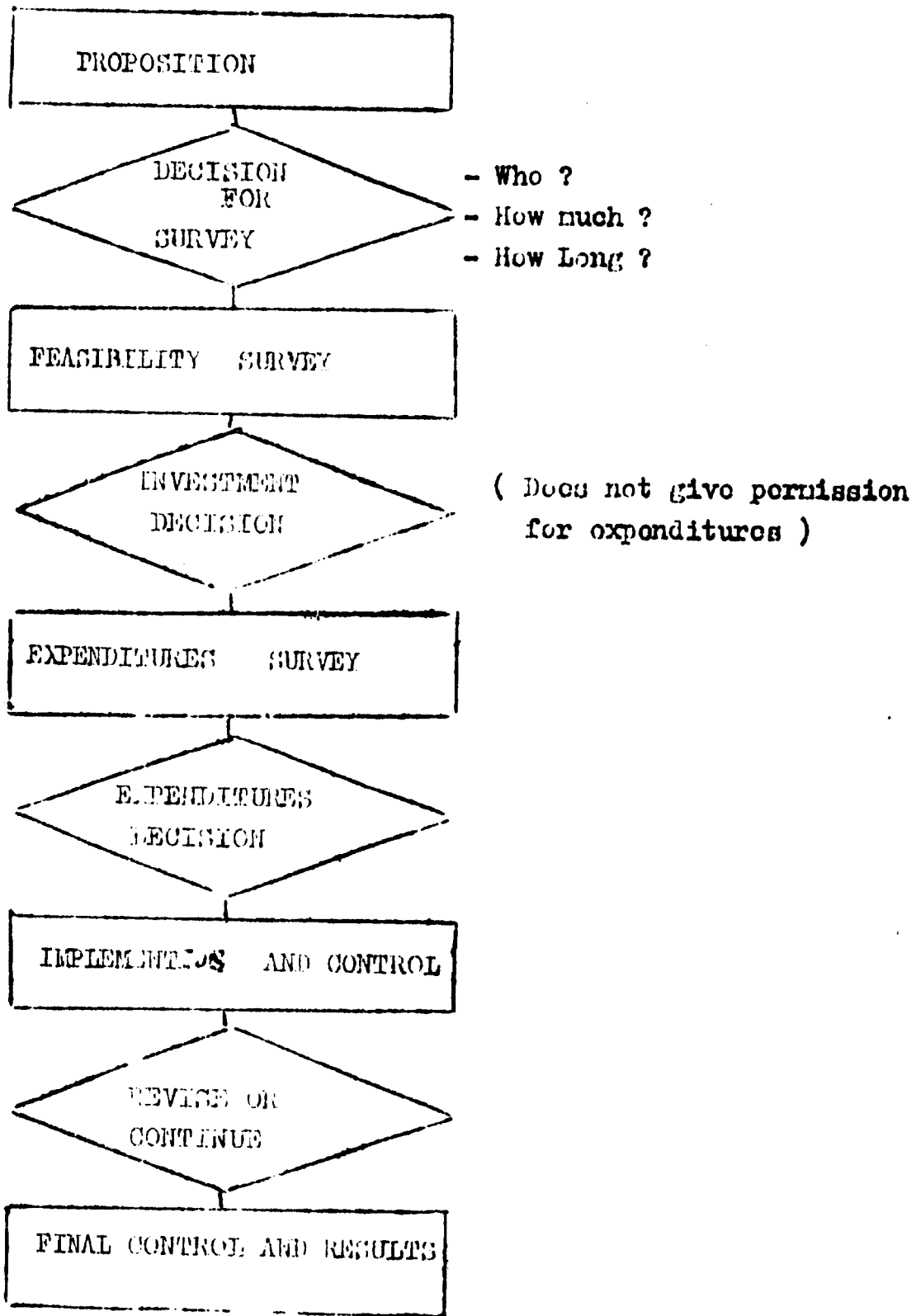
Different phases in the task of "A new manufacturing plant going into production" will be studied by adopting the chart used in our group.

I shall try to make short comments for every phase giving special attention to financial matters. I shall not repeat methods and things already known, but will try to give some account of our own experience and results.

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DI GRAM FOR PROJECT MANAGEMENT



PHASES



DECISIONS

As you will see each phase in [] is followed by an official decision \diamond and all ends in final control .

1. In (Proposition Phase) a detailed description of project in a formal way before going into the work of preparing a detailed feasibility report is of utmost importance. The decision makers and technicians must have an idea of the scope of the project (sales, total investments, technology, etc....) before deciding on a costly feasibility survey. For big projects Feasibility Study budget and "time span " must be decided upon.

This procedure saves a lot of money, time and misunderstanding.

2. Feasibility Study must contain all necessary information for possible alternative decisions. Environment, Economy of the country, Demand Projections, Sales, Competition, Technology Investments, Machinery, Costs, Proforma Balance Sheets, Financing, Organization and Personal ; Training, Follow up, etc... must figure in the final presentation.

Studies by different groups and there after can be more fruitful if the reader and member of meeting find answers to their questions in the Feasibility Study Report.

3. Financing of projects have become the major critical point because of the high interest rates especially during the last 2-3 years. In my country rates of tax free Government bonds being % 11 this leads to % 18 for private company bond rates and up to % 20 for bank rates with special taxes and other taxes levied upon loans.

Profitability of a project is seriously threatened especially during the initial years of the production where loans too are to be repaid in installments.

In order to operate efficiently at the start up the firms have to evaluate their needs for working capital accurately and should be prepared to finance this need.

Usually in the initial stages of a project, the main goal is to invest in land, buildings and machinery. The working capital that is required during the first years of operation is assumed to be readily available through bank loans. There is also the effort of the project director to lessen the capital requirements to make the venture more attractive to decision makers. In many cases, this works against him.

The calculation of the working capital changes with respect to the production and sales pattern of the industry; for example, in agricultural industries production may be seasonal; purchasing may have to be done at very large scales or may depend on traditional customs of trade; sales financing may have to be done by firm or by other independent customer firms. All these effects are the entries of a balance sheet with varying significance. We will not analyse the methods and calculation of such effects in different industrial sectors. But we shall advocate the investigation of firms in similar industries (horizontal surveys) and their balance sheets in time (vertical surveys) and try to adopt a similar pattern as model.

If the project is a new plant, preparation of the model of a critical and seasonal balance is absolutely essential. It is also possible to assume that the expected balance sheet will have the composition of the previous balance sheets, if the degree of integration is not changed in the firm or if, the project covers the building of a second plant or an expansion of the production capacity. Of course it is necessary to make relevant changes of the balance sheet entries implied by new automation, different sales condition, etc.. But for most cases these have secondary effects.

In this fashion , taking into consideration the balance sheet entries , a projected balance sheet should be developed. Usually, in real life, this approach is ignored and the plant and machinery becomes the central problem. For this reason from the very start, such a new production facility suffers from the shortage of working capital. Unfortunately, in Turkey the attitude of the financial institutions and the government encourage projects to estimate the working capital at unrealistically low levels; this gap is then tried to be closed by cash advances from customers. (If the product is a good one)

In all government investments total capital expenditures mean the sum of land building machinery and erection costs.. Working capital is not mentioned at all and does not enter in total sum.

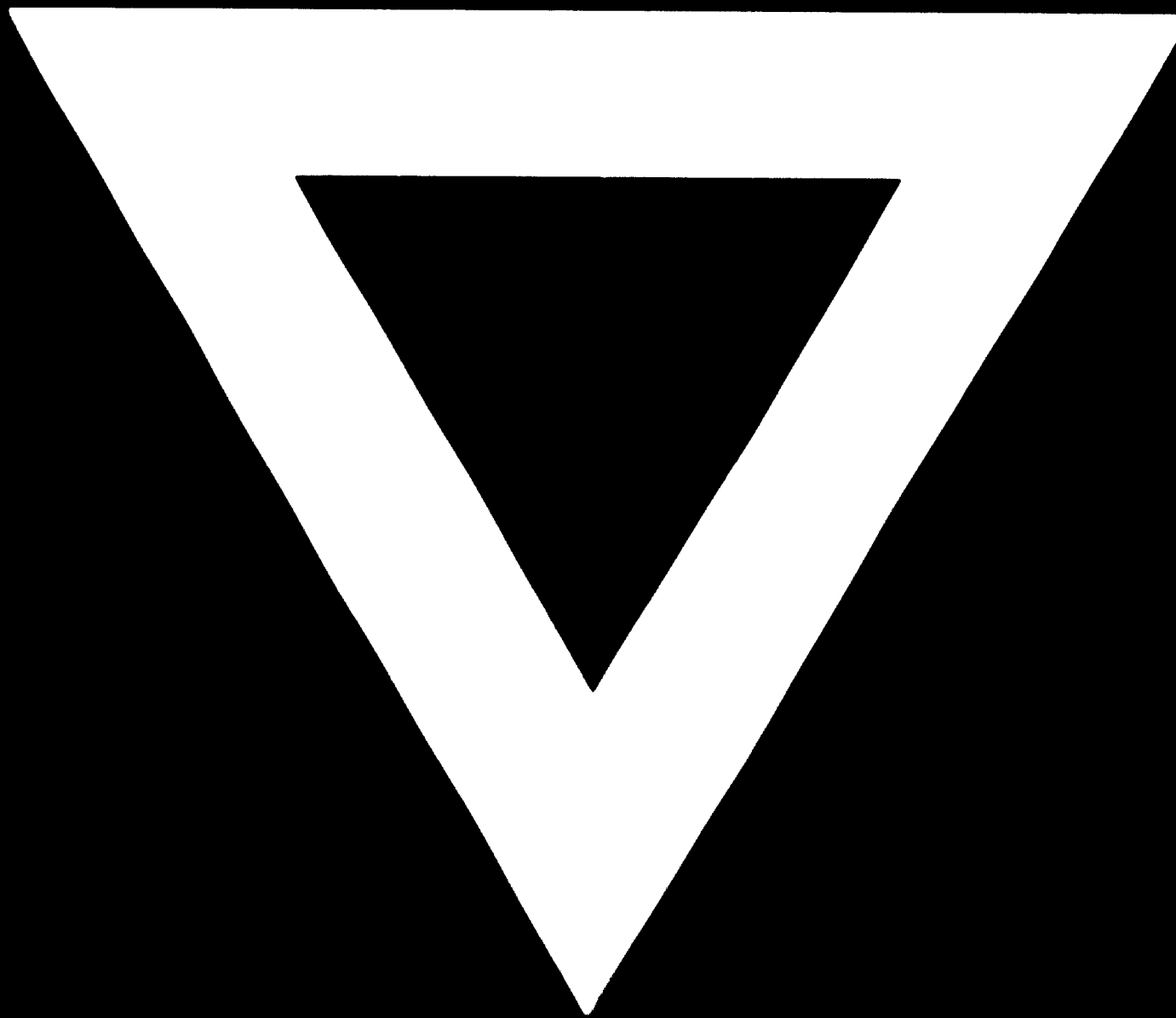
4. The expenditures survey is followed by decisions for buying and execution together with special types of training programmes for all levels of technicians, workers and engineers should be studied especially in new technology using plants.
5. General report for simple follow-up should be given regularly by the project director to all concerned . New Techniques can be used if necessary. The simple (GAND) type, time and work diagram, is the most used and easy to understand . However, during last years OPM is also favored because of many advantages, such as seeing the critical path and points, having a visual idea of the situation , and easy transformation of the model and the problem in mind etc...

The cooperation and follow up of high level management for this "Follow up " reports is of great importance.

6. With production (Production Cost Control) also begins. Here we again come back to the importance of a correct calculation of working capital. Cost analysis and comparison with initial figures should be done at soon as possible even in succesful running plant. This can give additional useful information for future project making and the industry itself.



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