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CLOSING THE FACTORY ESTABLISHMENT GAP <sup>1/</sup>

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### Factory Establishment: The Gap Can Be Closed

Officials of many developing countries are striving to strengthen or revitalize their industrialization programmes. They may cite the following unhappy conditions:

- Many project proposals never get beyond the idea stage;
- Many favourable project studies are never acted upon;
- Many projects which are implemented turn out to have been poorly designed, poorly negotiated, untimely, or otherwise inappropriate.

Several theories are advanced to explain the above. For example, we frequently hear that there is a severe shortage of good quality bankable projects in developing countries because the markets are "too small" to support diversified industrial development. But this simplistic statement falls far short of explaining the situation. UNIDO's experience strongly suggests that (1) every country has project opportunities which can be developed and (2) industries which are established can be designed and managed to contribute strongly to a cumulative "snowballing" of industrial development in future years.

Certainly the developing countries expressed their belief in this positive assessment through the Lima Declaration.<sup>1/</sup> And the ambitious target of increasing developing countries' share of industrial production to 25% by the year 2000 requires reliance on every available linkage among industrial branches to achieve a cumulative growth rate higher than in past years.

The UNIDO analysis indicates that proven techniques, if applied energetically - and adapted as necessary to each country's unique circumstances - can increase the effectiveness and results of national industrialization programmes. Examples of the benefits available to developing countries are the following:

#### Accelerate Factory Establishment

- avoid "wasted" feasibility studies
- speed up the investment decision
- attract outside participants sooner
- reduce the time for planning and erecting the plant facilities

<sup>1/</sup> Lima Declaration and Plan of Action on Industrial Development and Co-operation, especially paragraph 58(f).

Reduce Cost

- ensure economical technology selection and plant design
- negotiate more favourable financial and commercial arrangements
- reduce foreign and local exchange costs for assets and financing.

Improve Project Quality

- speed up job creation, management development
- increase use of local materials
- increase linkages with other industries and development of national technological capacity
- increase industrial contribution to rural and urban development.

UNIDO has already helped developing countries obtain such benefits in various projects, e.g. a tractor factory, an aluminium plant and a fertilizer production unit.

In considering the process by which industrial projects are created in developing countries, we can observe a "system" involving various institutions and resources, and including a number of more-or-less discrete steps and decision points. The actions of the participants are usually influenced by natural endowments of the country, by legal and administrative requirements, by the often-mentioned "investment climate", and by their own special needs and objectives.

There seems to be at least one situation which many countries experience in common. A number of "old" project studies exist in a country but have not been acted upon, while at the same time there is said to be a shortage of bankable projects. At the risk of oversimplifying, it may be convenient to consider two related questions as a means of trying to solve this apparent impasse. The first is "how can the decision and action machinery be speeded up so that project studies are acted upon before they are outdated? Second is "how can the quality of project preparation be improved so that host country officials and foreign or local investors can make decisions with reasonable confidence that they will not have regrets later?" Perhaps a third question should be added: How can the essential factor of trust based on personal relationships be used to gradually strengthen the system?

### UNIDO's Factory Establishment Services

UNIDO has the responsibility of coordinating the technical assistance activities of all the United Nations organizations in the field of industrial development. It also faces the direct challenge posed by its member states to provide operational and supporting assistance for industrialization to the developing countries. The current challenge posed in Lima is to multiply UNIDO's impact at the project-implementation end of the industrialization process. Yet in view of the evident shortage of bankable projects and the serious defects in many of those which are technically "bankable", UNIDO must approach the challenge as a systems problem, and not only as a series of compartmented functional tasks. In the light of developing countries' experience, it does little good to "identify" projects or to "promote" them or to "implement" them, or to "rehabilitate" sick plants, unless the other complementary tasks are performed to an acceptable level of competence and unless the decision and action mechanisms operate before project studies become obsolete. Thus UNIDO has begun to identify and attack the problem areas - and to exploit opportunities - in what is conceived to be a systematic manner.

### Assistance for Creating or Strengthening Factory Establishment Systems

UNIDO offers comprehensive assistance for systematically establishing new industrial enterprises and expanding existing ones. The objective is to help ensure that good project ideas and favourable project studies lead smoothly and promptly to new factories, not just volumes of "paper".

Requirements for implementation assistance vary greatly, and UNIDO's service is tailored to meet specific needs, according to a Government's request. For example, an organization such as a development bank, development corporation or 'department of industry' may be helped to accelerate its new-project operations. This may be done by assisting in the establishment of individual enterprises and by setting up or strengthening the national factory establishment system.

**The Design of Assistance Projects**

In each case, an integrated package of assistance is offered, to avoid administrative and financing difficulties associated with fragmented, isolated tasks. As appropriate, the UNIDO service may concentrate initially on finding ways to help the national organization make maximum and timely use of existing project studies.

Assistance is designed not only to increase the rate of establishing new factories, but to improve the quality. On the following pages you will find some examples of project outlines:

- Accelerated Factory Establishment
- Impact Teams for Factory Establishment
- Industrial Project Implementation
- Establishment of Standard Workshops



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Technical Assistance Brief

ACCELERATED FACTORY ESTABLISHMENT

UNIDO offers a comprehensive programme of assistance for establishing new industrial enterprises and expanding existing ones. The objective is to help ensure that good project ideas and favourable project studies lead promptly to new factories, not just more volumes of 'paper'. For this reason UNIDO's implementation service is available from the time of positive evaluation of an opportunity until the plant is complete and operating at economic capacity.

Requirements for implementation assistance vary greatly, and UNIDO's service is tailored to meet specific needs, according to a Government's request. For example, an organization such as a development bank, development corporation or 'department of industry' may be helped to accelerate its new-project operations. This may be done by assisting in the establishment of individual enterprises and by setting up or strengthening the national factory establishment system.

In each case, an integrated package of assistance is offered, to avoid administrative and financing difficulties associated with fragmented, isolated tasks. As appropriate, the UNIDO service may concentrate initially on finding ways to help the national organization make maximum and timely use of existing project studies.

Assistance is designed not only to increase the rate of establishing new factories, but to improve the quality. Stress is placed on increasing the 'benefits of industrialization' available to the country from each project, through careful attention to, i.e.:

- (a) Technology selection and plant design;
- (b) Negotiation of terms (e.g. for technology, management, finance, and commercial arrangements);
- (c) Employment effects;
- (d) Use of local resources (including linkages with other industries).

Means of assistance may include assignment of a project implementation adviser within a development institution; assignment of a project co-ordinator to assist a national project manager; and supplying of specialized technical, financial, or management expertise as needed.

Cost of the service may be covered in various ways. It may be included directly as a part of the enterprise financing, included within the UNDP Country Programme, or drawn from other sources such as Special Industrial Services or Funds-in-Trust.

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Technical Assistance Brief

IMPACT TEAMS FOR ACCELERATED FACTORY ESTABLISHMENT

UNIDO offers a programme of intensive short-term assistance which may help to vitalize a national factory establishment campaign. The assistance is provided by means of a one or two-man 'impact team' which works jointly with a local industrial development institution. The effort involves preparatory work both at UNIDO headquarters and in the host country, followed by an initial two-to-three-week mission and one or more follow-up missions later. The approach is custom-designed for each country but usually involves the following actions:

- (a) Identify (branch-by-branch) major existing production units, projects in the pipeline and their status, and possible additional projects - either for import substitution, export markets, or both - and indicate ranking criteria. (This can be done quickly based mainly on personal knowledge);
- (b) Prepare project profiles for selected opportunities. These may be based on available information or on only enough new analysis to provide a probable case that a viable project can be developed. Such a profile may be only half a dozen pages or may be somewhat more detailed;
- (c) Make available a published guide of factual and promotional material (something like 'Invest in Country A') which states the case for Country A as a suitable location for new industries;
- (d) Identify a network of contacts in industrialized and other developing countries among organizations of three kinds: (i) those which may directly invest and participate in technical or managerial capacities, (ii) those which may provide finance for sound projects, (iii) those which may provide technical and/or financial assistance for project preparation and implementation;
- (e) Prepare and/or adopt guidelines for negotiating participation and implementation agreements and for monitoring implementation.

The above elements can be used as the basis for a powerful yet low-cost factory establishment system. The programme could grow into a self-sustaining industrialization activity. For the most part it uses resources of the prospective investors and other outside sources, thus very little local 'seed money' is required.

UNIDO can provide continuing catalytic assistance from headquarters, and a full-time adviser can be stationed in the country, if requested. As a direct complement to this programme, detailed implementation assistance can also be provided for individual factories (please see the Technical Assistance Brief entitled 'Industrial Project Implementation'). Cost of the service may be included within the UNDP Country Programme or covered by other sources such as Special Industrial Services or Funds-in-Trust.

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Technical Assistance Brief

INDUSTRIAL PROJECT IMPLEMENTATION

UNIDO offers a comprehensive programme of assistance for establishing new industrial plants and expanding existing enterprises. The objective is to help ensure that good project ideas and favourable project studies lead promptly to new factories. Requirements for implementation assistance vary greatly, and UNIDO's service is tailored to meet specific needs, according to a Government's request. Individual projects may be aided in some or all of the following activities:

- (a) Verify and update technical, managerial, financial and commercial aspects of project studies;
- (b) Assist in finding foreign inputs including partners when required. Help evaluate offers of prospective participants. Help negotiate relevant arrangements or contracts (e.g. technology, 'know-how', management, licensing, marketing, supply, etc.);
- (c) Prepare a project implementation plan, possibly using modern critical path techniques, activity analysis, etc.;
- (d) Assist in procurement of engineering, equipment, construction, etc. Recommend suitable means of procurement such as turnkey, packages or individual items. Assist with tendering, negotiating, progress monitoring, plant commissioning and final acceptance;
- (e) Design and help implement management systems: finance, cost accounting, production and quality control, marketing and distribution.

Means of assistance may include the assignment of a project co-ordinator to assist a national project manager, and supplying of specialized technical, financial, or management expertise as needed. Cost of the service may be covered in various ways. It may be included directly as a part of the project financing, included within the UNDP Country Programme, or covered by other sources such as Special Industrial Services or Funds-in-Trust.

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Technical Assistance Brief

ESTABLISHMENT OF STANDARD WORKSHOPS

Balanced development of largely agricultural rural areas involves - in addition to the upgrading of agricultural production - the improvement of transport, power and communications infrastructure. Increased use of agricultural implements and growth of transport to agricultural market centres call for urgent establishment of repair and maintenance facilities for vehicles and implements. One approach which may save time and money is the development of a number of standardized workshops to be run by managing mechanics and staff from the local area.

An outline of a typical "standard workshop" project follows:

- (1) Number, locations, and type(s) of workshops are chosen on the basis of the region's need and resources;
- (2) A phased programme is detailed to cover training, civil construction, equipment procurement, institutional and legal arrangements;
- (3) A bankable project is prepared to obtain required foreign and local financing;
- (4) After the initial two-year operating period, the programme is evaluated and plans for further development are prepared. If feasible the second stage will incorporate production of implements and spares.

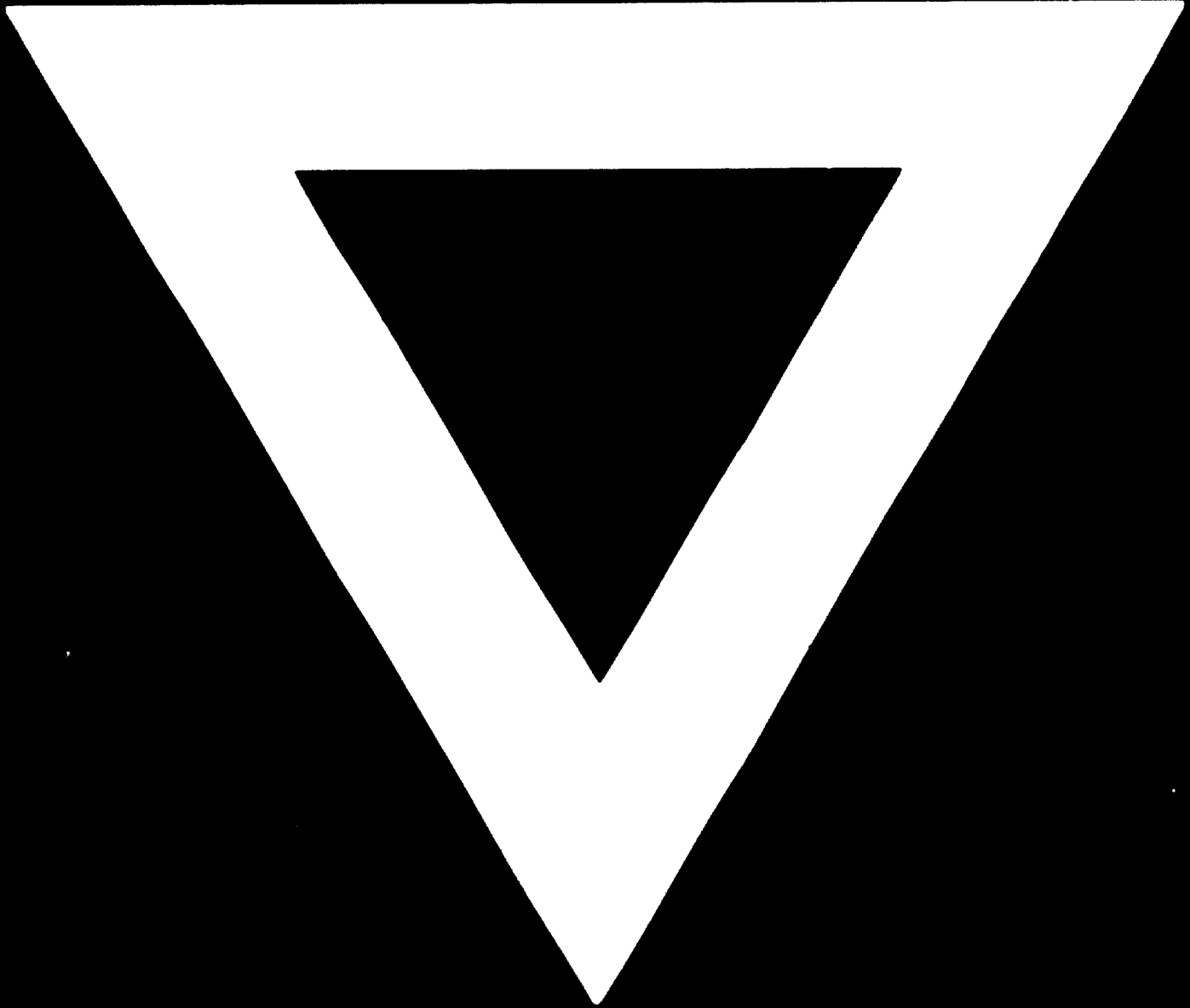
The cost of such a programme depends on design details, but may be about \$750,000 for a first stage. The standardized approach should reduce unit cost, simplify staff training and facilitate international financing.

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