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IDENTIFICATION, FORMULATION, IMPLEMENTATION AND MONITORING OF MULTINATIONAL INDUSTRIAL ENTERPRISES (MIEs)**

Prepared by the UNIDO Secretariat

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ABBREVIATIONS AND ACRONYMS

ACP	-	Africa, Caribbean and Pacific countries
CCCE	-	Caisse Centrale du Coopération et Economique
CDI	-	Centre for the Development of Industry
FCFA	-	Francs de la Communauté Financière de l'Afrique
CIMAO	-	Ciments de l'Afrique de l'Ouest
ECA	-	Economic Commission for Africa
ECCAS	-	Economic Community of Central African States
ECOWAS	-	Economic Community of West African States
EEC	-	European Economic Community
GATT	-	General Agreement on Tariffs and Trade
IDDA	-	Industrial Development Decade for Africa
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
INTIB	-	Industrial and Technological Information Bank
KFW	-	Kreditanstalt für Wiederaufbau
MULPOC	-	Multinational Programming and Operational Centre
OAU	-	Organization of African Unity
PTA	-	Preferential Trade Area for Eastern and Southern African States
SADCC	-	Southern African Development Co-ordination Conference
UDEAC	-	Union Douanière et Economique de l'Afrique Centrale
UMOA	-	Union Monetaire Ouest Africaine
UNCTAD	-	United Nations Conference on Trade and Development
UNCTC	-	United Nations Centre for Transnational Corporations
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organization

I. INTRODUCTION

1. The difficult economic situation in Africa has long been of concern to African Heads of State and Government. The need for a joint effort by African countries has been recognized as one of the major strategies in accelerating the pace of development and reversing the current downward trend. The Industrial Development Decade for Africa (IDDA) monitored jointly by the Economic Commission for Africa (ECA), the Organization of African Unity (OAU) and the United Nations Industrial Development Organization (UNIDO) reflects the importance the Lagos Plan of Action attaches to industrial development as a driving force for economic growth and overall development of African countries.

2. The programme for IDDA is aimed at putting into operation the industry chapter of the Lagos Plan of Action. It is based on the twin principles of collective self-reliance and self-sustained development. It emphasizes the development of certain core industries such as the agro-related, metallurgical, chemical and engineering industries since they often provide effective linkages to other sectors of the economy. With the adoption of the United Nations Programme of Action for African Economic Recovery and Development (1986-1990) (UNPAAERD), the programme for IDDA has taken on added importance in contributing to the attainment of the objectives of UNPAAERD.

3. The development of core industries could have a significant impact on the overall development of African countries. In view of the substantial resources involved in the development of each of these industries (the magnitude of capital investment; the human resources in terms of management expertise and skilled manpower; foreign technology and know-how; and the size of market for the product), it is necessary that the African countries, in a spirit of co-operation, develop the core industries together. This is essential since in Africa today, socio-economic structures and levels of development as well as financial and human resources are such that most countries are not in a position to carry out core projects alone. There is thus a need to co-ordinate and harmonize national policies, plans and programmes at the regional and subregional levels, especially those that relate to the establishment of core industries and other projects of a multinational character.

4. The major core industries identified under the IDDA programme are:

- Food and agro-based industries;
- Metallurgical and engineering industries producing machinery, tools, spare parts etc.;
- Building materials and construction;
- Energy and energy related industries;
- Chemical industries - fertilizer, pharmaceutical and pesticides;
- Engineering - repair and maintenance services in the mechanical, electrical and electronic fields; and
- Forest-based and textile industries.

5. The related support areas and services also identified under the IDDA programme include:

- National, regional/subregional institutions capable of promoting regional and subregional integration;

- Entrepreneurial development programmes;

- Training facilities and centres of excellence for the training of management, technical and other skills;

- Local industrial consultancy services particularly in engineering, economics and finance;

- Industrial information and documentation services, including computerized industrial information and data banks.

6. Despite the special programmes and the facilities aimed at accelerating the rate of industrial development, particularly of multinational industrial enterprises in Africa, the pace of industrialization has been very slow indeed (See Table 1 below). The share of Africa in world manufacturing value-added has remained under 1 per cent since 1970, with the exception of 1982 and 1983 when it was 1 per cent. This compares with over 12 per cent for developing countries as a whole, and over 6 per cent for Latin America.

TABLE 1

Share of economic groupings and developing regions in in world manufacturing value-added at constant 1980 prices 1970 - 1985

Year	Developing countries	Centrally planned economies	Developed market economies	Developing Regions		
				Africa	S&E Asia	Latin America
1970	10.4	16.0	73.6	0.8	2.3	6.1
1971	10.8	16.5	72.7	0.8	2.4	6.3
1972	10.9	16.5	72.6	0.8	2.4	6.4
1973	10.9	16.4	72.7	0.8	2.5	6.3
1974	11.4	17.6	71.0	0.8	2.6	6.6
1975	12.0	19.9	68.5	0.9	2.8	6.8
1976	12.1	19.3	68.6	0.9	3.0	6.7
1977	12.3	19.5	68.2	0.9	3.1	6.7
1978	12.4	19.7	67.9	0.9	3.3	6.6
1979	12.6	19.8	67.6	0.8	3.3	6.9
1980	13.0	20.2	66.8	0.9	3.4	7.0
1981	12.9	20.8	66.3	0.9	3.6	6.7
1982	13.2	21.5	65.3	1.0	3.7	6.6
1983	13.0	21.4	65.6	1.0	3.9	6.2
1984	12.9	21.0	66.1	0.9	3.9	6.2
1985	12.8	21.2	66.0	0.9	3.9	6.1

Source: Handbook of Industrial Statistics (1988) by UNIDO (page 21).

7. The need for regional and subregional industrial co-operation and integration has received added impetus with the establishment of subregional organizations in Africa, such as Economic Community of West African States (ECOWAS), Economic Community for Central African States (ECCAS), Union douanière et économique de l'Afrique centrale (UDEAC), Communauté économique de l'Afrique de l'Ouest (CEAO), Preferential Trade Area (PTA) for Eastern and Southern African States, Arab Maghreb Union and Southern African Development Co-ordination Conference (SADCC), which have adopted special protocols on industrial co-operation. With the assistance of international organizations, notably UNIDO, the United Nations Development Programme (UNDP) and ECA, those organizations have taken steps to promote the establishment of multinational industrial projects. Some of the subregional organizations have adopted or initiated action towards the establishment of a legal framework for multinational industrial enterprises.

8. In the course of its work in Africa within the framework of the Industrial Development Decade for Africa (IDDA) and in view of the increasing emphasis attached to the promotion of intra-African industrial co-operation, UNIDO considers it opportune to take stock of previous work on and experience of the subject and to advance proposals for consideration by African Governments, organizations and public and private enterprises in the establishment and operation of multinational industrial enterprises.

9. It is expected that the exercise will result in the preparation of a brief guideline or simplified checklist in readily readable form for wide distribution in Africa. The guideline/checklist could assist African Governments, organizations and industrialists in the formulation, planning, negotiation, implementation and monitoring of multinational industrial enterprises. It would also serve as reference or teaching material in universities and management or technology institutions for the preparation of future African capabilities on the subject.

II. IDENTIFICATION AND FORMULATION OF MULTINATIONAL INDUSTRIAL ENTERPRISES

10. Multinational industrial enterprises are projects in the development of which a number of countries are involved. Co-operation can take the form of equity participation, access to member country markets, providing management support or technical expertise or sharing in sponsors' responsibility for promoting the development of the project(s) in its (their) entirety.

A. The Project Cycle

11. The identification, formulation, appraisal, implementation and monitoring of multinational industrial projects is usually carried out in a project cycle. At the identification stage, project ideas are developed from a number of sources. These include statistical data on trade, natural resources and technology; for instance, market trends in imports and exports, economic survey reports including sector studies, suggestions from experts in particular fields, and special information through contacts. At this stage, the important things to consider include the objective of the project, which should be clearly defined, the expected end result and profit. Other essential features include: (i) the type of technology; (ii) the type of raw materials and other inputs and their availability; (iii) orientation of production (for local consumption or for export); and (iv) an estimate of the total project costs.

12. The next stage in the cycle involves the formulation or preparation of the project. At this stage, the project idea is crystallized after a serious analysis of relevant preliminary data. The economic and financial viability of the project and its technical feasibility are ascertained with a view to securing financing. It is also necessary at this stage to estimate the social benefits of the project.

13. If the results at the formulation/preparation stage confirm the economic and financial viability of the project, a firm decision is taken to proceed with the project. The next stage then involves a detailed appraisal of the capital, management and work-force requirements of the project, along with its projected cash flows, operating costs, profitability and socio-economic benefits.

14. After project appraisal, the next step is implementation. This involves all activities, generally carried out by the project sponsors, connected with the completion of preparatory arrangements for project operation. Those activities include the following:

- The mobilization of the necessary funds (equity and loan capital);
- Recruitment of qualified and suitable management personnel;
- Appointment of technical partners;
- Appointment of architects, surveyors, engineers and contractors for the construction of the buildings and infrastructure required;
- Negotiation of appropriate technology;
- Arrangement for procurement of plant and machinery, raw materials and other inputs;
- Arrangement for the efficient marketing of the products; and
- Satisfactory conclusion of any other matter e.g. obtain import licence where necessary, that will contribute to the successful completion of the project, initial production and marketing of the products.

15. Prior to commissioning the project operation, it may be desirable for an independent team of experts to carry out an evaluation of the project with a view to establishing whether the project has been implemented in accordance with the approved terms and conditions of the appraisal report. In this regard, evaluation should be seen as an integral part of a continuous process of monitoring the implementation of the project throughout its lifetime.

B. Identification and formulation of multinational industrial enterprises in Africa

16. Normally, projects are identified at the country level: they become inter-country or multinational when, for any of the reasons cited below, the host country is unable to develop the project alone:

- Inability to contribute the necessary capital resources and mobilize other financial resources;
- Smallness of domestic market and the need for a larger market to support optimum level of production; or
- Lack of technology and know-how; and
- Inadequate trained manpower and administrative capabilities.

17. If, in view of the capital investment required and the complicated nature of the technology involved, the private sector is unable to promote the

project, a Government might undertake to promote its development on account of its importance to the national economy. On the basis of relevant preliminary data, the project would be formulated and the details of this preliminary study would indicate the following:

- The objective and scope of the project;
- Its economic and financial viability;
- Its technical feasibility;
- Availability of raw materials and other inputs;
- Type of appropriate technology and sources of availability;
- Estimated total cost;
- Whether the production will be for the local market or for export or for both;
- Country in which the project will be located;
- The importance of the project in terms of the national industrial priorities;
- The compatibility of prospective participating countries.

18. The invitation to the other countries should be accompanied by a copy of the pre-feasibility study, which the countries invited should study in detail. They should allow their experts sufficient time to appraise the study and comment on details with particular regard to:

- The importance of the project;
- The assumptions underlying the calculation of the economic and financial rates of return and the profitability of the project;
- The assumptions underlying the total estimated cost and the debt equity ratio; and
- The ability of the project to meet financial and other obligations related to participation in the project.

19. A positive decision on the invitation should be taken at a level that will commit the Government. The decision should be taken in the full knowledge that the economic rate of return will be applicable mainly in the case of the host country. Except where there are forward and backward linkages, very little economic benefit will accrue to the countries invited, particularly in the case of import substitutes and where the products are not competitive in price and quality. Therefore, the main factor that should influence the decision is the financial internal rate of return. In the situation where foreign exchange resources are scarce, as in all African countries, the decision by one African country to invest in another African country becomes a serious economic, social and political issue.

20. Government administrative systems are hierarchiecal with decisions being taken at the top. The decision-making process is, therefore, slow. This is not suited to a commercial operation, such as multinational industrial enterprises where decisions should be prompt in order to take advantage of market situations. A number of constraining factors within Government machinery are:

- Delays caused by lack of the relevant expertise in handling inter-country investment projects or multinational industrial enterprises; for instance, in analysing problems in sufficient detail to facilitate decision making;

- Delays caused by lack of co-ordination between the different governmental authorities concerned with multinational industrial enterprises. The problem is compounded in those instances where there is no coherent industrial policy; and

- Delays caused by apathy due to inadequate remuneration or other social factors.

21. Once the decision has been taken to participate in the project, it will be necessary to set up an administrative machinery to handle matters related to the multinational industrial enterprise. It would be desirable to:

- Nominate a Minister (for instance, the Minister of Planning or Industry) to be primarily responsible for the project and to report to the Cabinet or its equivalent;

- Nominate a special team that will work under the Minister, the composition of which should satisfy the legal, economic, financial, technical and administrative aspects of the project;

- Establish a channel of communication and agree on a system of consultation on matters related to the project, details of which should be clearly indicated to the other countries (see also paragraph 24 below).

22. The decision of the Government to accept the invitation together with details of the administrative arrangements to facilitate project-related matters should be communicated to the host country. In responding to an invitation to participate in a multinational industrial enterprise or to sign a memorandum of understanding with the prospective partner countries represented by Governments, the following details have to be clarified:

- The nature and object of the project;

- Capital investment involved, indicating equity capital, loans and their sources, and percentage share-holding;

- Management and its constitution. Under Algerian law, for instance, Algeria should hold a majority interest and appoint the managing director or general manager of the project. The latter is accountable to the Algerian Government through the governmental agency sponsoring the project. Other senior management positions are shared between the partner countries;

- Guarantee for loans to be furnished by the partner countries;

- Guarantee by the host country relating to transfer of loan repayments, interest charges, dividends and eventual repatriation of capital;

- Composition of the Board of Directors and nomination of representatives of the partner Governments with numbers reflecting the weight of equity holding which might also determine voting rights.

23. Upon receipt of the responses, it will be necessary for representatives of the member countries to meet to discuss details of their obligations. At such a meeting the following matters should be discussed:

- The objective of the project and its scope;

- The assumptions underlying the calculation of the economic and financial rates of return;

- The estimated total capital investment and debt/equity ratio;

- Distribution of equity capital and mode of payment - in cash or in kind. If in kind, the assets should be valued by professional valuers and the title should be transferred to the project at the time of contributing the equity capital;

- Loans to be raised, sources and terms and conditions to be identified, discussed and a position taken. Where there are standard loan agreements, copies should be studied by the countries before negotiation with the financial institutions;

- The host country's laws and taxes affecting the project;

- The host country's taxes and regulations on profits and dividends, such as the rate of tax on distributed profits and retained earnings respectively;

- Host country's laws and regulations affecting shareholders, directors, management and workforce;

- Appointment of directors. Whether the number of representatives of each country and shares held should determine the voting rights;

- The identification and selection of a foreign technical partner with suitable technology for purposes of negotiation. Advice in this regard can be sought from international institutions including UNIDO, the United Nations Centre for Transnational Corporations (UNCTC) and the ACP-EEC Centre for the Development of Industry (CDI) and the request should be supported by relevant information as in all the items above;

- Marketing and pricing policies:

    - If total production is for member states' markets, the basis for allocation should be discussed and agreed;
    - Export markets should be identified;
    - Export market prices and trends should be examined and compared with the prices of the products of the project;

- A system of consultation among the member countries indicating the points of contact in each country, and deciding on convener for meetings of member country representatives; and

- A system of settlement of disputes: whether by arbitration or by the International Chamber of Commerce or the Centre for Settlement of Industrial Disputes.

24. Administrative arrangements at country level should take into account the following factors. Each country should indicate clearly to the other countries its channels of communication and agree on a system of consultation on matters related to the project. Each country should also inform the other

countries of the Minister to be primarily responsible for the project, as well as of any special teams set up to work under the Minister, the composition of which should satisfy the legal, economic, financial, technical and administrative aspects (see also paragraph 21 above).

25. The above points should be discussed by the member countries at their initial meetings and if they are satisfied, they will take the decision to participate in the development of the project. At this stage, it is recommended that the member states sign an agreement which may be entitled "Memorandum of Understanding" or "XYZ Project Promotion Agreement", (XYZ refers to the name/title of the project). The agreement should embody the following points:

- The decision to undertake the feasibility study and finance the cost thereof i.e. whether to share the cost or part thereof according to an agreed formula and/or to seek financial assistance and professional advice from international institutions such as UNIDO and the ACP-EEC Centre for the Development of Industry (CDI);

- Select the firm or institution to undertake the study - either the technical partner, an independent private firm or a financial institution based on recommendations from international institutions such as UNIDO. If the prospective technical partner is selected, a letter of intent indicating the cost of the project and payment arrangements and the intention to appoint that partner should be signed. In the other cases, an agreement to cover the cost of the project would be signed;

- The committee appointed in each member country under the chairmanship of the Minister should assist the consulting organization and monitor its progress.

C. Elaboration of the feasibility study

26. Once a decision has been taken in principle to establish the project and positive reactions have been received from co-operating countries and financial services, the next major activity is the preparation of a detailed feasibility study. The study should, among other things, give a detailed analysis of the following major aspects of the project:

- Macro-economic considerations
  The importance of the project to (primarily) the host country's economy and to the economies of the other participating countries. It should indicate the linkages between the project and other sectors, the existing policies and strategies that will affect the project and the project's impact on the economy. It is necessary to explain prevailing pricing policies e.g. system of price control, and tax laws and regulations such as import and excise duties, as well as incentives and subsidies.

- The financial aspects
  The detailed analysis in the feasibility study involves estimates of a series of revenues and operating costs in order to establish which alternative will generate the highest operating income before depreciation. It will also enter into such details as interest charges

and income tax, indicating profit after tax which accrues to shareholders. The analysis should also develop a financing plan that indicates when financial resources, including equity and loan capital as well as short-term credit facilities, should be made available to meet expenditures during the implementation of the project. The financial internal rate of return which measures whether a project is likely to be profitable enough to cover the average cost of capital of lenders and shareholders will also be calculated. The following financial analyses also need to be made:

- Break-even analysis:
  This analysis will indicate the production level at which sales (output at unit price) will cover total costs, including fixed and variable costs. The analysis should bring out the financial strengths and weaknesses of the project;

- Liquidity analysis:
  In order to avoid unnecessary borrowing in the course of operations, it is necessary to know the inflow of cash resources (sales receipts) and match them with the series of expenditures in each year. The liquidity analysis should identify periods of surplus cash and cash deficit. The information will facilitate efficient financial management;

- Sensitivity analysis:
  This will bring out the extent to which the project is sensitive to increases in costs of production and decreases in prices of output and changes in other related factors. The information derived from the analysis will help management anticipate situations and solve problems more effectively;

- Current ratio analysis:
  The calculation of current ratio (current assets over current liabilities) offers a useful basis for structuring the financing plan. If, for instance, the current ratio is low at the initial stages of the project, it requires an increase in equity capital with less loans in order to minimize the cost of borrowing;

- Quick ratio analysis:
  This ratio (current assets less inventory over current liabilities) gives an indication of market trends. If the ratio is low, it means inventory is building up and sales are not moving.

- The economic analysis.
  This analysis will evaluate the impact of the project primarily on the host country's economy indicating the linkages between the project and other sectors of the economy. The analysis will also calculate the economic internal rate of return, indicating whether the project is using the country's resources efficiently, i.e. whether the internal rate of return is higher than the opportunity cost of capital;

- Technical analysis.
  The analysis will deal with (i) process technology, size of plant, design and layout facilities; (ii) type and availability of raw materials and other inputs, and type and quality of the products of the project; (iii) availability of utilities, such as energy and water; and

(iv) detailed arrangements for the implementation of the project including procurement of goods and services and other related activities;

- Marketing analysis.
  Irrespective of whether the production of the project is for local consumption or for export, an analysis should be made of the historical pattern of both local and international trade in and consumption of the products, and projections should be made of their future supply and demand. It should also examine the existing system of marketing the products and recommend improvements where necessary;

- Management, manpower and organizational aspects.
  The study should identify (i) the managerial requirements of the project particularly in technical, financial and marketing know-how; (ii) availability of skilled manpower suitable for the selected technology; (iii) manpower costs; and (iv) the cost of training and technical assistance.

27. Based on the above analyses, the feasibility study will contain a package of recommendations for the implementation of the project.

D. Consideration of the feasibility study

28. Upon receipt of the feasibility study, the host country will send copies to each member country for study and discussion, indicating a date for the relevant meeting. The national committees, under the chairmanship of the Minister, should organize a review of the study. One country or all countries may decide to have an independent review of the study, in which case technical assistance may be sought of UNIDO. A copy of the study should be attached to the request.

29. The important aspects of the feasibility study that the countries should discuss at their meeting include:

- The economic and financial viability of the project: the assumptions underlying the financial and economic projections as well as the laws and regulations that would adversely affect the viability of the project, such as import tariffs, tax on profits, cost of utilities, price controls, import restrictions, foreign exchange availability, and supply of raw materials and other inputs;

- The total cost of investment broken down into equity capital and loan capital. A highly geared equity/debt ratio would reduce the amount of loan necessary and thereby minimize the financial costs of the project;

- Distribution of the equity capital in terms of the percentage and amount each share-holder would have; the mode and time of payment; penalties attached to delayed payments; voting rights (whether based on percentage equity holding); medium- and long-term loans from international and development finance institutions for the acquisition of plant and machinery; suppliers' credit for machinery and other imputs; and overdraft for short-term credit for working capital;

- Loan amounts and credit facilities: the terms and conditions (interest and other charges, repayment periods); guarantees necessary (in the case

of joint and several guarantees, each guarantor's contingent liability will be equivalent to the total loan amount plus interest and other charges); a formula should be agreed upon for relieving one another of the proportionate amount of liability in case the joint and several guarantee is invoked;

- Appointment of a team to negotiate the loans. Advice and technical assistance may be obtained from UNIDO in this regard;

- Selection of technology and technical partner. If a technical partner has already been identified at the project formulation stage and member states are satisfied with that partner's suitability and appropriate technology, selection is confirmed;

- Appointment of a team to negotiate acquisition of technology. UNIDO and other relevant international organizations could offer useful advice in this regard. A request for assistance may, therefore, be addressed to them;

- Incorporation of the company for the project and deciding on its legal entity, i.e. whether it should be a partnership, a limited liability company, or a company limited by guarantee. It is advisable that a limited liability company be incorporated;

- Management: if management responsibility is to be shared with the technical partner, the relevant managerial positions should be specified and allocated. For political reasons, the participating countries would like to appoint the managing director or general manager. The key management personnel, including the managing director, director of administration and financial controller should be appointed as early as possible so that they can assist in implementating the project. The following are ways in which the management of a multinational industrial enterprise may be appointed:

    - Nomination by the host country; or
    - Nomination by a member state on the basis of rotation; or
    - Selection from a number of applicants who are citizens of the member states only, after competitive interviews; or
    - Selection from African as well as non-African applicants after competitive interviews.

30. It is recommended that if, for any reason, the appointment has to be by nomination, the member country should put up at least three candidates for interview by an independent panel. Once selected, the management team should be introduced to the representatives of the member states. Arrangements therefore have to be made for the interviews. If there is no successful candidate, the net should be cast much wider.

31. At the end of the discussion, if a firm decision is taken to implement the project, an agreement embodying the points discussed and agreed as contained in paragraph 29 above will be signed, and a Board of Directors will be appointed by the sponsors.

III. IMPLEMENTATION OF THE PROJECT

32. Implementation is the responsibility of the project sponsors, and it involves all activities associated with the completion of the project for operation:

- The mobilization of the necessary equity and loan capital;
- Recruitment of qualified and suitable management personnel;
- Selection of technical partners where necessary;
- Appointment of architects, surveyors, engineers and contractors for the construction of necessary buildings and infrastructure;
- Negotiation for appropriate technology;
- Arrangement for procurement of plant and machinery, initial raw materials and other inputs;
- Arrangement for the efficient marketing of the products of the project; and
- Satisfactory conclusion of any other matter e.g. obtain import licence, that will contribute to the successful completion of the project and start of production and marketing of the products.

33. If there is a technical partner, the team appointed (see paragraph 29) should negotiate with the partner. It should be noted that at this stage a technical partner might have already been identified, i.e. during the formulation of the project with the assistance of institutions such as UNIDO, CDI, IFC or a development finance institution. Indeed, sponsors of inter-country projects or multinational industrial enterprises are encouraged to seek the advice of the above institutions on the identification and selection of technical partners.

A. Responsibility for the implementation programme

34. If the foreign technical partner is responsible for the implementation of the project, the foreign technical partner as a corporate body will be the project manager; otherwise, a project manager should be appointed by the sponsors. The project manager will be responsible for:

- Project planning, including site selection, detailed engineering design, costs estimating procurement of plant and machinery, construction and start-up, and co-ordination of all relevant activities to ensure that the project is completed on schedule;

- The establishment of letters of credit, or any other form of payment acceptable to the suppliers, for the procurement of plant, machinery and other necessary items;

The foreign technical partner will be accountable to the board of directors.

B. Negotiations with the technical partner

35. Depending on the needs of the project and the interests of the technical partner, a mutually beneficial form of partnership could be negotiated. The form of partnership may, therefore, differ from project to project, but basically there are three forms:

1. The transfer of technical know-how whereby technical assistance, a licence or franchise is given for the manufacture of specific products;

- In the case of technical assistance, the technical partner provides information and skills for application by the project, as well as staff to train the project personnel over a specified period and for a specified fee;

- In the case of a licensing agreement, the sponsors of the project acquire the right to use the technical partner's processes and product specifications. The technical information thus acquired is not to be passed on to third parties. Licence fees are charged by the technical partner;

- Under a franchise agreement, the project sponsors undertake to manufacture the products developed by the technical partner but under the trade name or trade-mark of the project. The fees charged for the franchise may be in the form of royalties based on turnover;

2. A marketing agreement whereby the technical partner is responsible for the sale of the project's products in export markets;

3. Equity investment in the project by the technical partner. In order to protect his investment, the technical partner would usually prefer to be responsible for both technical management and marketing.

36. The team appointed by the sponsors to negotiate the project could obtain very valuable advice from UNIDO and other relevant international organizations. Thus, before meeting the technical partner, the team should undertake an in-depth examination of the feasibility study, identify the specific aspects that should be negotiated, obtain relevant information and adopt an appropriate strategy highlighting the following:

- Advantages that could accrue to the partnership:

  - Production of products that are already well-known, in which case sales/marketing will be facilitated;
  - Production of good quality products at competitive prices;
  - Benefits of training and management which can sustain the project on a long-term basis.

- Points that could pose problems to the project:

  - Restrictions on the use of the technology;
  - Royalty and other charges which could be expensive. As far as possible they should be linked to profitability;
  - Period of partnership. In cases where improved technology is available elsewhere, this would render the technical partner's technology less competitive;
  - The capability of the technical partner to perform satisfactorily. Emphasis should be placed on management and training requirements, engineering assistance, production and quality control, finance and accounting and marketing arrangements.

C. Partnership Agreement

37. Depending upon the form of partnership negotiated, a partnership agreement embodying detailed aspects of the relationship will be signed. The following details may be relevant:

- Capitalization: contribution of equity capital and raising of loans to finance the project;

- Technology
  - Process and/or product involved;
  - Capacity of the plant;
  - Type of equipment, plant and machinery, raw materials and other inputs, product design and quality control;
  - Details of technological information in the form of drawings and technical documents;
  - Technical operating skills necessary;
  - Training;

- Representation on the board of directors;

- Treatment of profits and payment of dividends;

- Financial management and accounting system;

- Fees and other charges

- Period of agreement;

- Law that is applicable;

- Language;

- Settlement of disputes - arbitration.

38. The fees and charges to be paid to the technical partner usually consist of royalties, lump sum payments and payment in kind. Given the lack of foreign exchange resources, it will be necessary to negotiate payment of fees and charges in forms other than cash and to spread payment over a period of time - for instance, as a loan repayable on specific terms and conditions. Payment in kind could be made in the form of products supplied to the technical partner for sale and retention of the proceeds.

D. Financial Arrangements

39. The project implementation programme should indicate details of the financial requirements in form of a financial plan. That plan should show the schedule of amounts and due dates needed in order to ensure completion of the project on schedule. It will also indicate also the dates on which equity capital should be paid as well as the disbursements of loans and credit. It is, therefore, necessary that loans and credits from financial institutions and suppliers respectively are negotiated at the beginning of the implementation programme.

40. The negotiating team representing the sponsors of the project should include the technical partner if he is a shareholder, otherwise he should act in an advisory role. The points to note during negotiation are outlined in paragraph 29 above.

IV. AGREEMENT BETWEEN COUNTRIES PARTICIPATING IN MULTINATIONAL INDUSTRIAL ENTERPRISES

41. During the implementation phase of the project, a detailed agreement should be concluded between the participating countries. It should relate, in particular, to marketing, financing, management and technology acquisition arrangements as well as legal, technical and commerical considerations.

A. Marketing arrangements

42. Marketing the products of a multinational industrial enterprise is an important subject for negotiation among member states. The feasibility study should indicate whether the products of the multinational industrial enterprise are for export or for local consumption, i.e. whether for the markets of the member states or for both export and domestic consumption. Whatever the case may be, member states should ensure that costs of production and quality are such as to make the products competitive. The projection of cost structure and market trends as contained in the feasibility study should be critically examined before a firm commitment is made since price and quality will, in the long run, determine the size of the market for the products.

43. If total production is for the markets of the member states, they should agree on the issue of distribution. For instance, in the case of Société d'Exploitation des Industries Chimiques du Sénégal, a multinational industrial enterprise based in Dakar for the production of fertilizer, phosphoric and sulphuric acids, the member states - Nigeria, Cameroon, Côte d'Ivoire and Senegal - have since refused to buy the products of the company because they are 50<per cent more expensive than comparable products from other sources. The explanation is that in the feasibility study prepared by the African Development Bank, the prices of the finished products were estimated at much higher levels than current market prices. Secondly, the current high cost of production has been caused by the following:

- High fixed costs;
- Expensive electrical power supply; and
- Substantial increases in the prices of raw materials, particularly sulphur.

44. Another example which emphasizes the importance of marketing, and hence the need for a critical examination of related arrangements, is the case of Ciments d'Afrique de l'Ouest (CIMAO) which started production in 1980. As early as 1975 the three member states of CIMAO signed a treaty to ensure the sale of the project's entire production to the three member countries. In addition, the member states agreed, when necessary, to entrust CIMAO with the responsibility for importing clinker and cement into their respective territories as a supplement to the project's production.

45. Despite the undertakings which the member states had given in the form of a treaty, they refused to purchase clinker from CIMAO, when the (subsidized) price in 1983 was more than 60 per cent higher than the CIF price

of imported clinker. The subsidy accounted for about 40 per cent of the subsidized price as the cost per ton of the local product was more than double the CIF price of imported clinker.

46. These experiences show that shareholders/owners of a project are not prepared to buy their projects' products at any price. It cannot, therefore, be emphasized enough that the survival and profitability of an inter-country project or multinational industrial enterprise depends on the competitiveness of its products, in terms of both price and quality.

47. Another important aspect of marketing related to multinational industrial enterprises is the mode of payment for the products. For instance, agreement must be reached on a common currency which should be convertible, and payment should be at sight, i.e. on presentation of shipping documents. If, however, the products have to be sold on credit, the pricing should be done in such a way as not to impose additional credit costs on the multinational industrial enterprise, i.e. the cost of the credit should be included in or added to the price. Similarly, delayed payments should be subject to appropriate interest charges. If these policy measures are not strictly enforced, the defaulting member state will benefit at the expense of the multinational industrial enterprise and, in turn, at the expense of the other member states. In the case of CIMAO, these measures were not strictly enforced. Payment for the clinker was made in US dollars or FCFA (Francs de la Communauté financière africaine) at the prevailing exchange rate. There was no penalty for delayed payments.

48. Furthermore, if payment arrangements are not strictly enforced, the mutual trust between the member states is undermined and with it the spirit of co-operation.

49. Given these problems, it is strongly recommended that, in future, the concept of multinational industrial enterprises should be changed, the primary objective being to export products to non-member African countries in particular. This would also help to enhance existing technology and the acquisition of new technology, particularly in product design. The concept of import substitution should be re-examined as it has come to connote the manufacture of inferior and expensive products.

B. Financing arrangements

50. The inability of African countries to meet their financial obligations on inter-country projects and multinational industrial enterprises has been due to their weak economic and financial position resulting from the implementation of certain policy measures. Constant features have been:

- Budget deficits;
- Balance of payments deficits;
- High inflation;
- Over-valuation of the currency; and
- "Remedial" measures in the form of price and distribution control, and restriction on the use of foreign exchange.

51. In order to reverse the trend and mobilize resources for investment, it will be necessary for the African countries to pursue policies that will:

- Balance their budgets and create a surplus;
- Maintain equilibrium in the balance of payments;

- Maintain price stability, and at worst the annual rate of inflation should be single-digit;
- Adjust the exchange rate of the domestic currency from time to time so as to reflect, as far as possible, the market situation.

52. The stabilization of the general price level will guarantee savers a reasonable return on their savings. As part of the savings drive, the tax laws may be modified to encourage corporate institutional savings and this should be supported by a capital market. It is recommended that African countries pursue policies aimed at economic stability in order to generate resources that will enable them to finance, on their own, the cost of pre-feasibility and feasibility studies, in addition to meeting their equity obligations.

53. If, however, for one reason or another, payment or contribution of equity is delayed, appropriate interest charges, at a rate specified in the memorandum of understanding, should be levied. If a member state is unable, for want of resources, to make its contribution or meet its financial obligations for the time being, it is recommended that the member state concerned should issue a short-term financial instrument endorsed by the central bank discountable at any of its national banks. The inter-country project or multinational industrial enterprise should receive the face value of that instrument so that the amount of discount is paid direct to the discounting bank by the Government.

54. It is further recommended that as a way of spreading the financial burden and in order to involve the private sector, shares of successful multinational industrial enterprises should be sold to the private sector in member countries. The development of the capital market will facilitate this, and this recommendation should be brought to the attention of ADB.

55. In the case of joint and several guarantees for loans, it is recommended that the member states sign an agreement or embody a clause in the memorandum of understanding that in cases where guarantees are invoked against a member state, the other member states will relieve the affected state of their respective proportionate obligation, together with interest and all other charges.

56. Normally, it is part of the responsibility of the project manager (i.e. the company planning and executing the implementation programme) to design and establish a suitable financial and accounting system.

57. During the early stages of the project cycle, the financial requirements for the project usually consist of the following:

- Cost of promoting the project, including the cost of the pre-feasibility study;
- Cost of the detailed feasibility study after the formulation stage;
- Equity capital contribution; and
- Loan capital and credit facilities.

58. The greater part of the cost of the feasibility study may be in foreign currency, particularly where a foreign consultant with the relevant expertise, is involved. This also depends upon the nature of the project. The total amount of these preliminary expenses could be capitalized after verification.

59. For the implementation phase of the project, there should be a master plan indicating the time of every activity necessary for the timely completion of the project or in accordance with the approved recommendations in the feasibility study. The master plan should embody a financial plan indicating the amounts of equity capital and their due dates. In addition, an indication should be given of the loan amounts to be raised (domestic as well as foreign, including suppliers' credit), and the dates by which loan negotiations should be concluded, as well as the amounts and dates of disbursement.

60. To ensure efficient co-ordination of the activities and thereby minimize costs, it is necessary that financial obligations are met promptly. The multinational industrial enterprise will face problems, if capital contributions or loan negotiations are delayed. If the capital contribution is in kind, the assets and/or services should be valued or verified and the title, net of transfer charges, passed to the multinational industrial enterprise at the appropriate scheduled date.

61. Given the weak financial position of many member states, financial institutions usually insist on joint and several guarantees from the respective states against loans for the project. The negotiation of loan terms and conditions, including joint and several guarantees, could create a political problem for member states and frustrate promotional efforts. It is, therefore, important that the implications of loan clauses are explained to member states before they commit themselves to the project.

62. In order to avoid a situation whereby a number of financial matters are referred to member states for decision, a suitable financial reporting system should be put in place which will enable the member states to monitor the financial position of the project. In addition, sufficient authority should be delegated to the board of directors and management so that they can handle working capital facilities and other day-to-day financial matters.

C. Management arrangements

63. In view of the complex nature of production processes in modern industrial establishments, it is necessary to enter into a contract with a foreign technical partner who will also be responsible for management, at least, for a specified period. Under such an arrangement, a training programme is launched to train personnel from the participating countries, and some of the trainees understudy management staff in certain specified positions. Some of the problems encountered in this connection are the following:

- Appointment by nomination. Management personnel are nominated by their respective Governments to fill positions on the multinational industrial enterprise. Such appointments are invariably made on the basis of considerations other than merit and suitability. The appointees, therefore, tend to extend their loyalties to their respective Governments and not to the corporate enterprise employing them. This makes lax for discipline and inefficiency. Furthermore, in some cases, the number of employees engaged from each participating country is based on a quota system, and not necessarily on merit;

- Outside interference in management. In view of the high status accorded to participating Governments and the manner in which management

personnel are appointed, individual members of Governments (not the Governments as such) exert a major influence on the management of the enterprise. These problems contribute significantly to the inefficiency of African management in multinational industrial enterprises.

64. It is recommended that in the first instance, the member state should put up at least three candidates for interview by an independent panel. If there is no successful candidate then the net should be cast wider as in the second instance. Furthermore, it is recommended that the recruitment of the work force, particularly the skilled personnel, should not be a question of quotas, but of merit.

65. It is hoped that by adopting objective methods of appointment and recruitment, supported by a system that recognizes and rewards merit and good conduct and discourages incompetence and indiscipline, the corporate spirit within the multinational industrial enterprise organization will be strengthened and outside interference minimized.

66. The main administrative problem is the inordinate delay in decision-making. This can seriously affect the implementation of an inter-country project or a multinational industrial enterprise. As explained earlier, delays are caused by a number of factors arising mainly from bureaucratcy or incompetence. It is, therefore, necessary to institute an administrative arrangement to short-circuit the normal procedure. Accordingly, the following arrangement is recommended:

- Upon receipt of an invitation to participate in an inter-country project or a multinational industrial enterprise, the Minister should, after carefully considering the pre-feasibility study accompanying the invitation, submit a recommendation to Cabinet (or its equivalent) for a decision;

- The decision to accept the invitation should be taken in such a way as to authorize the Minister to liaise with the relevant ministries and departments in all matters related to the project, except on issues related to:

  - Finance: the total cost of project, equity capital, and terms and conditions of loan; and
  - Technical partner and terms and conditions of technology transfer.

67. As part of that decision, a committee, comprising senior officals with a grounding in economics, finance, trade, industry, law, engineering, banking and the relevant technical expertise, be constituted under the chairmanship of the Minister. The members of the committee should be given a business orientation and made to appreciate the need to execute all matters with despatch. The minister will be required to submit to the cabinet recommendations related to finance and technology as and when necessary.

D. Technology acquisition arrangements

68. Modern industrial technology has yet to develop in Africa. Therefore, it is necessary at the formulation stage of a multinational industrial enterprise to enquire of foreign sources about suitable or appropriate technology for the proposed project. The project sponsor (the host country in the case of a multinational industrial enterprise) needs expert advice on

sources of appropriate technology. In the case of import substitutes, it is easier to identify and contact manufacturers. As indicated earlier, international institutions, such as UNIDO and CDI have relevant information on manufacturing companies in developed countries who are willing to transfer their technology to developing countries. The relevant information is made available to developing countries upon request.

69. The problems to be considered in connection with the acquisition of technology for multinational industrial enterprises include the following:

- The suitability of the technology in terms of market size and whether for a smaller capacity the plant should be modified;

- The terms and conditions governing the acquisition of technology, including:

    - The industrial property rights, i.e. patents, know-how, trade marks and trade names, owned or licensed by the foreign partner which affect the products to be produced by the multinational industrial enterprise;

    - Relevant licenses granted by the foreign partner to third parties, their dates of expiration, geographical area covered, conditions under which they can be terminated by the foreign partner, the products and industrial property included in each licence, and the royalties payable under each licence;

- Whether the foreign technical partner has the management skills needed to assist the multinational industrial enterprise develop an efficient and effective local management and, in addition, upgrade the technical competence of the multinational industrial enterprise so that it can master the technology within the specified period; and

- The cost and financial terms and conditions of acquiring the technology.

70. The project sponsor would need expert advice on eliciting the relevant information from two or three identified sources of appropriate technology and evaluating it so as to be able to estimate the total cost of investment.

71. On approval of the feasibility study for implementation, the foreign technical partner will be selected and negotiations entered into on the terms and conditions for the transfer of technology to the multinational industrial enterprise. The latter would relate to:

- Product specifications;
- Manufacturing methods;
- Equipment;
- Use of trade marks;
- Management skills;
- Training; and
- Financial implications.

Member states need expert advice from international institutions such as UNIDO and UNCTC and the services of a consulting firm to provide expert advice during negotiations as well as during implementation of the project up to

start-up, at which stage the project, as a whole, should be evaluated by an independent group.

72. Transfer of technology could involve some or all of the above facets in a package deal suited to the requirements of the recepient project. Most important in this regard is the ability of the recipient to master the necessary skills and benefit from the facilities. It is, therefore, recommended that the means by which technology is acquired should be reinforced at the national and subregional/regional levels, and African countries should exchange information on technology transfer programmes. In this connection, it is further recommended that the African Regional Centre for Technology (ARCT) and development finance institutions in African countries should be assisted by UNIDO to develop "industrial and technological information banks" to link up with INTIB in UNIDO, particularly in regard to technologies and equipment for the industrial subsectors and branches selected.

73. The thrust of the recommendation, however, lies in enabling the development finance institutions in Africa to develop the databank facility since this will both enhance their co-operation with UNIDO and facilitate their work. The development finance institutions have been selected because, as financial institutions, they generate income, operate for profit and have their own budgets. They should, therefore, be able to allocate funds to the development and maintenance of such a facility. Development finance institutions could readily provide relevant information from their databanks at the formulation stage of an inter-country project or a multinational industrial enterprise, thus facilitating the preparation of pre-feasibility or feasibility studies. In the process, the database of the institutions would be enhanced.

74. In order to enhance its position when negotiating for technology acquisition, it is recommended that the multinational industrial enterprise put up a team with the requisite expertise from the member countries and solicit assistance from UNIDO and/or UNCTC which would act in an advisory capacity.

E. Legal considerations

75. Usually, each participating member state nominates a law officer(s) from its legal ministry or department to handle the legal affairs of an inter-country project or a multinational industrial enterprise. These officers meet from time to time during the project formulation stage to discuss the relevant laws of the host country as they affect the proposed project, and they submit comments and recommendations to their respective Governments. In order to facilitate the group's work and obviate areas of conflict, it is recommended that, in addition to the group, the services of a reputable law firm specialized in international commercial law be engaged to handle all legal matters, once a decision has been taken to implement the project. It is hoped that by resorting to an independent legal consultant, legal matters will be handled objectively. The group of legal officers representing the member countries will, however, continue to be consulted by the law firm.

76. In order to create the legal expertise and develop law firms of international stature in African countries, it is further recommended that the African Development Bank (ADB) and/or subregional institutions such as ECOWAS, PTA and ECCAS, request the bar associations to ask the law firms that are

interested in this special field to register with them. Through seminars and workshops, subregional institutions should encourage such law firms to develop further in the field. It should be possible, through the registration arrangement, to get two or three law firms from different African countries to form a team that can handle complicated assignments such as technology transfer negotiations.

77. At the national level, the Government need not restrict itself to law officers within the Government machinery. National law firms or individual private legal practitioners with the relevant specialization and experience could also be engaged.

78. There appears to be no serious areas of conflict between the legal provisions of different African countries governing industrial projects. However, where there were, compromise solutions have been found. Under normal circumstances, the laws of the host country apply to inter-country projects and multinational industrial enterprises located in that country. In few cases, however, the laws of another country could apply: for instance, if a foreign currency loan is raised for the project, the relevant laws of the country of the lending institution would apply and the extent to which these laws would affect the project should be clearly understood before the loan transaction is concluded. In the same way, the extent to which the existing laws of the host country affect a multinational industrial enterprise should be clearly understood and modified, where necessary, so as to ensure that the profitability of the project can be achieved, before the prospective participating member states commit themselves.

79. The relevant laws are those that affect:

- The legal personality of the project.
- Its tax liabilities, including customs tariffs such as import and excise duties; and
- Availability of foreign exchange whether by import licensing or any other method of allocation for raw materials and other inputs;

- The shareholdings.
- Legal recognition of the rights of shareholders as owners of the project's assets and, therefore, their rights and powers in regard to:
  - Share in the project's profits; and
  - Appointment of directors to the board of the project.

- Management and work-force.
- Restrictions on employment of non-nationals;
- Their remuneration and other facilities.

80. The multinational industrial enterprise should be incorporated under the laws of the host country as a legal entity that can sue and be sued. Its relationship with the host Government and other organizations and persons should be interpreted in this context. The rights and responsibilities of the shareholders (member states) as owners of the project, as well as the powers

of the board of directors and those of management in the day-to-day administration and management of the project should be acknowledged.

81. Where the effect of the tax laws is adverse to the project, i.e. it unduly reduces the net profit, the project becomes unattractive for investment purposes. The effects of current taxes, including import and excise duties, on the financial viability of the project should be brought out in sufficient detail in the feasibility study. Before committing themselves, the other participating member states should ensure that the host country's tax laws are appropriately amended to make the project viable. An undertaking should also be obtained from the host country that subsequent to the decision to implement the project, the laws would not be amended in a way that would worsen the financial state of the project or the benefits of the project's shareholders and employees.

82. In a situation where dividends, as opposed to retained earnings, attract high rates of tax, the participating member states as shareholders would need to examine the relevant tax laws for purposes of review by the host country. Furthermore, under rigid foreign exchange restrictions, a firm undertaking from the host country is necessary that repayment of loans together with interest charges, payment for imports and remittance of dividends, personal incomes, and other payments in foreign currency would be effected without delay. These points should be embodied in a legal document to be styled "A memorandum of understanding", spelling out the interrelationships that will develop around the multinational industrial enterprise.

83. For the implementation of the multinational industrial enterprise, a number of other legal agreements/documents will be necessary. These include:

- Site for the factory of the project, establishing title to the land and its acquisition;
- Factory buildings: contract agreements with a number of firms are necessary, such as architects, surveyors and contractors;
- Plant and equipment: selecting a foreign firm or company with the suitable technology and negotiating the acquisition of technology;
- Contract agreement for supply of raw materials and other inputs;
- Finance: mobilizing equity contributions and negotiating loans;
- The utilities: supply of power, telecommunications, water and necessary infrastructure.

F. Technical considerations

84. The full range of technical expertise for the development of a modern industrial project is not available in many African countries. Moreover, it does not appear that much is known about the engineering and other technical consulting firms available on the continent. There is the need to mobilize the available expertise in order that it can be used as and when necessary.

85. The enterprise needs to develop and operate its own training programme. Such a programme should consist of on-the-job training, especially for maintenance and production operators, training abroad for senior management and technical staff, and exchange programmes with similar multinational industrial enterprises in other countries. To be effective, the structure of the multinational industrial enterprise should include a training unit with a competent training officer and adequate funds. The enterprise may also develop an incentive scheme to encourage career development.

86. It is also recommended that professional associations and bodies should be made aware of the need to register their firms at the subregional and regional levels. From their own contributions, they should maintain secretariat(s) at the subregional and regional levels to co-ordinate their activities and act as liaison between members from different countries. They should also be made aware of the need to upgrade their capabilities to an international level. In the meantime, African consulting firms should be assigned certain technical aspects of inter-country projects or multinational industrial enterprises, including sub-contracts. Firms on the registers should be invited to quote for projects. With the support of ADB and the development finance institutions granting credit facilities to such firms and companies, the upgrading of African capabilities could be expedited.

87. It is also recommended that, in order to accelerate development of technical expertise, ADB* should support the formation of a company (incorporate a subsidiary) to provide consultancy services related to project appraisal and other technical aspects. The company should be self-financing, but from the outset, it could be financed partly from seed capital put up by ADB and partly from individual members' own capital. The capital from ADB should attract interest if it is considered a loan, or dividend if it is equity. It might be better to have it treated as a soft loan.

88. This consulting firm should be subregional or regional in character, and it should be encouraged to develop international capabilities. It should be invited to quote for projects alongside with foreign companies. If this firm is successful, it is expected that similar private firms aspiring to maintain international standards will also be established.

G. Commercial considerations

89. The cardinal point to consider here is the competitiveness of the project's product(s) in both price and quality. For instance, if the size of the market turns out to be smaller than estimated or if, for one reason or the other, the member countries are unable to buy the total production, it should be possible to export the products elsewhere provided they are competitive in terms of price and quality.

90. It is therefore, recommended that the primary object of any multinational industrial enterprise should be to export in order to maintain its competitiveness in price and quality. In fact, member states should not be under an obligation to buy the products. But, if for purposes of assuring the creditor institutions an adequate market, they have to sign a treaty or a marketing agreement, then it is further recommended that the undertaking to buy the product(s) should be related to the price and quality. There should be defined in such a way that immediately the price exceeds international prices, the member states would call for a re-appraisal of the whole project.

91. With respect to restrictive measures, such as import licensing and price controls, each member state should give an undertaking to be embodied in the Memorandum of Understanding that it would grant the necessary approvals to facilitate the marketing of the products in the respective countries.

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* This proposal has not been discussed with ADB.

92. Any system for monitoring multinational industrial enterprises should be such that it would give early warning signals of increasing production costs compared with market price trends.

V. MONITORING OF MULTINATIONAL INDUSTRIAL ENTERPRISES

A. Need for, levels and objectives of and framework for monitoring

Need for monitoring

93. With a view to ensuring that any multinational industrial enterprise (MIE) fulfils its objectives and purposes satisfactorily, it is necessary to include an appropriate monitoring system so as to watch the signals received as a result of such monitoring and to take, well in time, any corrective or remedial action necessary. The outcome of monitoring of successful MIEs would also help to promote the culture of MIEs in the larger interests of African development.

Levels of monitoring

94. Monitoring is required at different levels. Whereas, in practice, there can be various levels, the following three are of critical importance to the success of the enterprise:

- M-level - Multinational ownership level
- B-level - Board of directors level
- P-level - Project or plant level

95. Monitoring at the M-level will be done by the multinational owners of the MIE as per its articles of association. The entity may be a committee of ministers from the participating Governments, a committee of chiefs of co-operating and participating corporations or enterprises, or a body of shareholders who might be private citizens.

96. Monitoring at B-level will be done by the Board of Directors as constituted under the articles of association of the MIE.

97. Monitoring at P-level will be done by the person in charge of project execution or in charge of plant or enterprise operation, such as the project or plant director, general manager or executive or managing director.

98. Amongst the various auxiliary levels of monitoring which could be useful, particular mention may be made of two levels:

(a) Monitoring at the international, regional, subregional and national levels: United Nations organizations (such as UNIDO, UNCTAD and UNCTC), international financial institutions (such as the World Bank, International Monetary Fund and International Finance Corporation), regional agencies (such as ECA, ECCAS, ECOWAS, CCE, CDI and IDEP), and national financial institutions (such as Kreditanstalt für Wiederaufbau KFW) could make a considerable contribution with data based on their own regular monitoring.

(b) Monitoring at the industry group level: industrial enterprises having common interests, features, products or makrets may get together within a national, regional or international setting, such as the Fertilizer Industry Association, Thermal Power Project Groups, Cement Manufacturers Association, Brick Manufacturers Association. They may monitor the entire group in terms of achieving their common goals and sharing their common interests; they may make (or assist in making) inter-firm comparisons (codified, if need be, in those instances where identities are not to be disclosed). These could provide valuable input into the process of evaluation at various levels during monitoring.

Objectives of monitoring

99. The objectives of monitoring are:

- To know quickly, regularly and clearly, in a manner appropriate to the level of monitoring, the current status of an industrial enterprise when under implementation and when in operation;

- To evaluate the extent to which the enterprise is achieving the set objectives and to take timely corrective steps if an where necessary;

- To permit comparison with other enterprises and to take steps to improve performance and, in certain cases, even secure higher performance levels than those originally envisaged or projected;

- To provide an effective tool for ensuring that an enterprise: (i) fulfils the goals and objectives set for each level; and (ii) serves the social and economic interests as envisaged at the time of setting up the multinational enterprise.

Framework for monitoring

100. The framework for monitoring should include consideration of the following issues:

(a) The effectiveness of monitoring multinational enterprises will depend upon management's commitment to monitoring and the linkages established. The first linkage is with the overall monitoring system for economic development in general and industrial development in particular which the respective Governments will have established within their own countries. Regardless of whether the multinational enterprise is in the public, private or joint sector, it has to draw upon appropriate supportive systems for gathering and processing information and data. Decision-makers at both the macro- and micro-economic levels would need assistance from the information and data disseminated by those systems; at the same time, their own monitoring activities would provide inputs for those systems and this complementarity should lend strength to the framework.

(b) In view of the rapid technological advances taking place and the need to monitor both the micro- and macro-economic issues on a sound scientific basis, it is of critical importance that the support services to the enterprise are soundly interlinked; the support service may be in the area of industrial information, standardization and testing, research and development, and training and continuing education. The African regional, subregional and international organizations, such as those indicated in paragraph 98(b), can play a vital role in providing this linkage for the monitoring system by harmonizing and co-ordinating their inputs; mutual competition and differences in approach which run counter to the developmental efforts should be replaced by more effective co-ordination and meaningful linkages between multinational industrial enteprises and these institutions. Whereas consultancy services can play an important role in some facets during the development of an enterprise, their role in terms of monitoring is rather limited, especially once effective horizontal and vertical linkages have been established.

(c) In the case of MIEs, three elements are involved. First, monitoring is in relation to an industrial enterprise; this is much the same as in any other industrial enterprise. Second, the enterprise is multinational, using the resources from and/or serve the markets of more than one country; this makes it necessary to monitor certain special aspects. Third, the multinational enterprise is in Africa; thus the African environment has to be realistically taken into account and fully integrated into the details being monitored.

(d) No monitoring system should be too rigid or cumbersome. It should be flexible enough to adjust to the unexpected, especially under African conditions; it should be simple enough to achieve the monitoring objectives. Since those engaged in the implementation of a project or operation of an enterprise will ultimately be those participating in the monitoring, it is necessary that they receive appropriate training in monitoring.

B. Monitoring to cover the entire life cycle of MIEs

101. Every stage in the life cycle of an enterprise needs monitoring. These can be grouped in two major phases, with each phase having two stages:

(a) Project implementation phase

Initial stage

The initial stage in the project implementation phase is the one where the various aspects of the project are still at the docments and negotiations stage before committing substantial expenditure on physical progress. At this stage, changes can be easily incorporated with little wasteful expenditure, if the monitoring system detects new parametres of deviations from original assumptions or expectations. The COMFAR (Computer Model for Feasibility Analysis and Reporting) System of UNIDO may be used to advantage.

Execution stage

The execution stage in the project implementation phase is the one where commitments on expenditure have been made and physical progress on ground has started. At this stage, any changes indicated as a result of monitoring should be looked into in order to establish whether already committed expenditure would be wasted. The project would have to be reviewed to the extent considered desirable, renegotiated with all concerned and the shares in investment redistributed to the extent called for and agreed upon.

(b) Enterprise operation phase

Pre-stabilization stage

The pre-stabilization stage in the enterprise operation phase is the initial period after commissioning when operations and production are being stabilized and mastered, during which relatively lower norms of operational results would be acceptable.

Post-stabilization stage

The post-stabilization stage in the enterprise operation phase is the one when the required degree of operational stability and production maturity has been attained and designed capacities are being utilized. Within this stage, there could be a substage when financial debts have been cleared as from that juncture onwards the balance-sheet and financial picture of the enterprise may change substantially.

Appropriate details on standard formats

102. Although the basic principles and framework may look similar at various levels, details have to be appropriate to that level; the parametres and the way they are dealt with at different levels have to be complementary to each other within the total system. A single detailed elaboration of the monitoring system cannot be applied to all types and sizes of the enterprises in all situations; a separate format for monitoring of specific multinational enterprises thus has to be formulated, using the above guidelines. Such formats should include the aspects described in paragraphs 109 to 123.

Monitoring machinery

103. The machinery for collecting and analyzing monitoring data should, as far as possible, be the same machinery as that responsible for executing the project or operating the MIE. In fact, it is envisaged that monitoring is an integral part of the implementational, executional and operational activities of the enterprise. The data to be collected are indeed a necessary part of the information that those executing or operating the enterprise should normally have for the proper management of their own functions and responsibilities. The critical overview of some of these data by the identified levels is a part of the supervisory process as well as part of the process of identifying shortcomings and securing remedial actions. However, in such cases where discrete machinery to assist in monitoring is considered necessary, and the enterprise can afford it, a separate cell or section can be set up.

Verification and audit in monitoring

104. The most important tool in monitoring are the detailed data in the format. Since the analysis of the data and the conclusions derived therefrom can only be as good as the data, it should be ensured that the data provided are correct and complete.

105. From time to time, the monitored information or data may also have to be verified or re-checked. For this purpose, some simple and convenient measuring devices may on occasion have to be provided to the monitoring teams. There should, however, always be systems of formal and informal internal autditing, as well as external auditing so as to ensure that the data being included for monitoring at each level are indeed factual and fair.

Timely feedback

106. It is not uncommon to see that certain enterprises monitor very well. Extensive data are generated but those who have to review these give it such a low priority in their work that it becomes too late to do anything by the time the analysis is complete. Any monitoring system therefore has to be accompanied by a timely feedback system which has to be appropriate to each given case.

Implementation of corrective steps

107. Even after good monitoring and the presentation of competently analysed cnd timely feedback is given, the benefits may not be fully realized unless effective corrective steps, remedial measures, or effective methods for further improvement are taken. Each superintending level has therefore to oversee this aspect by what may be termed "super-monitoring" to monitor the monitoring activity and implementation of related steps appropriate to that particular MIE.

108. At the time of considering the data derived through monitoring and the results of the data analysis, it is important to remember the primary objectives of monitoring. The data and the results of their analysis should be compared with the targets originally set and not with targets imagined later as more apprioriate. Of course, whenever the data and the analytical results so indicate, the original targets should be reviewed and revised targets set after taking into account their implications and effects on the MIE as a whole and after ensuring that the re-evaluated benefits and/or redistributed shares are acceptable to all partners in the MIE. At this stage, it is not merely the monetary or economic aspects of returns on investment, but the whole gamut of other benefits, including social benefits, that should be kept in mind.

The basis for formulating monitoring details

109. Collecting the data required and presenting them in prescribed formats along with their anlayses are to be considered part of the normal functions and duties of the executive, operational and managerial officials concerned, except where a separate machinery is considered necessary and the MIE can afford it. Those who have to monitor the MIEs at different levels use these data and analyses, supplement them with such additional information as may be required either from specialists or from audit, and then draw their conclusions and initiate needed actions.

110. In the intitial stages, until the articles of association of the MIE are adopted and the body of shareholders or owners is created, the promoters themselves do the required monitoring and this is included as part of M-level monitoring in the initial stages.

111. The following paragraphs outline those details that should be monitored at the different levels; though the titles of the outline may look substantially similar, it is important to remember that the perspective and purpose of monitoring at the three levels are different; hence the details to be provided within that outline will also be different.

112. At the multinational ownership level (M-level), the monitoring details should provide owners with a comprehensive and total overview of the MIE at that stage indicating the type of actions required in terms of share redistribution, market support, foreign exchange and customs regulations, social benefits, etc. and, indeed, ensuring that the very structure and functioning of the Board of Directors itself are satisfactory.

113. At the Board of directors level (B-level), the monitoring details should enable the Board to take an overall view of the performance and functioning of the MIE vis-à-vis its objectives. The Board being the highest level of management of the MIE should be able not only to ensure that the MIE is being run in the best manner within the existing rules and regulations of the countries involved, but also to draw the attention of the owners at M-level to the need for any changes in rules, regulations and policies in the best interest of MIE as well as of their collective or joint owners.

114. At the executive or operating level (P-level), the monitoring details should enable the MIE to reach the targets set by the Board and, at the same time, provide such feedback to the Board as would enable the Board to take action to improve the functioning and performance of the MIE.

115. UNIDO can provide separate auxiliary documents to illustrate the above aspects.

C. M-level monitoring

116. Monitoring at the initial stage of the project implementation phase shall include the following aspects:

- Whether the various data used for carrying out the feasibility study are realistic of need any modification;
- Whether the feasibility study has been done following the guidelines in the UNIDO Manual for the Preparation of Industrial Feasibility Studies (No.E/78/II/B/5);
- The extent of agreement on who will participate in the MIE;
- The extent of agreement on distribution and form of shares in investment among the participants;
- The extent of agreement on market share and distribution of profits, assets and liabilities;

- Whether a suitable software package, such as UNIDO COMFAR, has been used to simulate short-term and long-term financial and economic situations;

- Whether the software package referred to above has been applied to various possible situations such as changes in input costs, changes in foreign exchange rates, charges in sales realization due to changes in market situation and prices;

- Whether particular attention has been given to:

  (a) inter-country differentials in prices of goods and foreign exchange;
  (b) solutions to divergencies in fiscal, administrative, customs, and regimes followed in the participants' countries;
  (c) imports and exports among the participating countries and outside;

- Even though the country where the MIE is located seems to gain the maximum economic benefits, whether detailed consideration has been given to:

  (a) benefits to each participant due to regional development;
  (b) benefits on account of import substitution, if any;
  (c) economic benefits to each or other participants resulting from an MIE in one location succeeding another MIE in another location over a period of time;

- Whether suitable articles of association have been drafted and appropriately registered;

- Whether steps have been taken in regard to technology inputs to the MIE in order to ensure that the UNIDO Guidelines on Technology Transfer Negotiations have been followed.

117. Once the initial stage as above is well monitored and a decision has been reached to go ahead with the execution stage of the project for the MIE, and once the planning and negotiations are carried out in accordance with the guidelines described in Chapters II, III and IV, the monitoring shifts its attention to actions on the ground which include:

(a) <u>Financial monitoring</u>, covering:

- Mobilization of investments
- Preparation of balance sheet of the project
- Analysis of the planned and actual cost of the project

(b) <u>Resource monitoring</u>, covering:

- Technology transfer arrangements (with the assistance of organizations, such as UNIDO)
- Mobilization of human resources
- Mobilization of materials
- Mobilization of machinery (with the assistance of organizations, such as UNIDO)

(c) Physical progress monitoring, covering:

- Expected deviations in time targeted and costs of completing and implementing the project
- Measures suggested to meet the shortfall in infrastructural requirements
- Project schedule chart showing the project status as a whole

(d) Quality monitoring, covering actual quality being achieved in the various facets of the project vis-à-vis quality as originally envisaged

(e) Social responsibility fulfilment monitoring, covering:

- Status of environmental pollution prevention measures
- Status of human resource development
- Status of the local infrastructural development
- Status of any other social responsibility the project has envisaged

118. On completion of the execution of the project, the plant is commissioned and then put into operation. Even though the enterprise will have reached its operational phase, it will initially still be at the pre-stabilization stage. Monitoring during the pre-stabilization stage will give attention to almost all the parametres which will also be monitored during post-stabilization stage with particular attention to the following aspects:

(a) Problems arising out of the technology or technology transfer arrangements;

(b) Relatively lower norms of operational results will be acceptable which, in any event, will have been anticipated in the detailed project report;

(c) For the success of the MIE, the plant must be stabilized at the earliest possible juncture and efforts will have to be directed to that end;

(d) Once the plant is stabilized, the product or service can sometimes be of varying quality; it is therefore important to ensure that products or services which could shake the confidence of the consumers in that product or service are not marketed;

(e) In the initial period, special attention should be given to building up the market so as to secure a good response to the product or service from the consumers or the clientele;

119. Monitoring at the M-level during the post-stabilization stage of the operational phase shall include:

(a) Financial progress monitoring, covering, in terms of currencies as per previous arrangements and in equivalent "hard" currency:

- Income and expenditure statement
- Summary of cost of production, cost of sales and sales revenue, including prices

- Balance sheet
- Fund (cash) flow statement
- Various financial ratios
- Whether there have been any changes in the regimes of foreign exchange, customs and preferential buying
- Cost-benefit analysis for the modernization/expansion of the unit, if proposed (increase in production, cost-benefit ratio, net present value, internal rate of return and pay-back period)

(b) Social and economic responsibility fulfilment monitoring, covering:

- Extent of fulfilling the needs for ecological balancing and evironmental protection
- Net benefit achieved by the nation in the form of direct and indirect employment
- Increase in the availability of production for national use
- Extent of benefit to the nation in terms of human resource development
- Quantum of foreign exchange earned and/or saved by import substitution
- Other indirect benefits derived by the partners in the MIE

(c) Physical progress monitoring, covering:

- Quarterly production, despatches and stock status
- Quarterly capacity utilization
- Quarterly loss of production (owing to shortage of input material, shortage of fuel, shortage of power, stoppage of plant on account of planned maintenance and/or repair, unplanned (break-down) maintenance and/or repair, faults/problems)
- Status of technology transfer (implementation status in terms of agreement; extent of transfer of necessary skill)
- Technology support services provided (research and development; information; testing and quality control and productivity)
- Quantum of export
- Quantum of import
- International trends in market, product, servicing, etc.
- Analysis of share of MIE in the national and international markets vis-à-vis the targets

D. B-level monitoring

120. Monitoring at B-level in the project implementation phase shall include:

(a) Financial progress monitoring, in terms of currencies agreed to, including "hard" currency:

- Total expenditure actually incurred on the project vis-à-vis targeted expenditure
- Measures taken to tackle the over-run/under-run cost of the project

- Evaluation of the proposal for revised expenditure targets
- Mode of financing, including mobilization of investments (total equity (promoters and public) and total debt)
- Imports (variation in CIF price and variation in exchange rates and their effect)

(b) Resource monitoring, covering:

- Technology transfer arrangements mobilization (with the assistance of organizations, such as UNIDO)
- Mobilization of human resources
- Mobilization of materials
- Mobilization of machinery (with the assistance of organizations, such as UNIDO)

(c) Physical progress monitoring, covering:

- Suggestions, if any, for changes in the design and engineering
- Revised schedules for various activities under the project
- Revised BAR chart/CPM network and/or PERT network chart
- Adherence to the new programme schedule

(d) Quality monitoring, covering:

- Evaluation of various corrective steps recommended for quality improvement in respect of materials and workmanship
- Further suggested measures for quality improvement

(e) Social responsibilities fulfilment monitoring, covering:

- Environmental improvement achieved
- Results of the efforts towards human resource development
- Status of any other social responsibility the project has envisaged

121. Monitoring at B-level in the enterprise operational phase shall include:

(a) Consumption norms monitoring, covering:

Rate of consumption (of raw materials, man-hours, fuel, electrical power, lubricants, refractories, grinding media and so on depending on what is being consumed in that particular enterprise) per month as well as per unit of production (tons/kgs, etc.)

(b) Physical performance monitoring, covering:

- Monthly production, despatches and stock satus
- Deviation in monthly production and despatches vis-à-vis planned
- Monthly capacity utilization of the plant and how it compares with break-even point and also with performance in earlier periods
- Monthly loss of production in the plant (owing to shortage of input materials, shortage of fuel, shortage of power, stoppage of plant on account of planned maintenance and/or repair, unplanned (break-down) maintenance and/or repair, and faults/problems in mechanical aspects, electrical aspects, instrumental aspects, and operational aspects)

- Actions taken to meet the shortfall in production/despatch
- Demand for the product - present, projections for the future, and identification of demand centres (i.e. status of market-survey)
- Supply (i.e. inputs) - present, projects for the future and identification of supply centres
- Export potential in the international market as well as in the markets of participating countries - price-wise, quality-wise and demand-wise and the international market trends

(c) Quality monitoring, covering:

- Raw materials
- Semi-processed goods
- Finished product, services, software, customer satisfaction
- Improvements in quality through quality circles
- Recommendations for the creation of new quality circles

(d) Financial progress monitoring, covering in currencies of the participating countries as has been agreed to and in equivalent "hard" currency:

- Income and expenditure statement
- Cost of production
- Cost of sale
- Sales revenue (including prices)
- Balance sheet - assets and liabilities
- Fund (cash) flow statement - sources and applications
- Financial ratio (current ratio, asset turnover ratio, inventory turnover, return on sales, return on equity, and return on total capital)
- Effects of changes in foreign exchange rates, customs levies and any other loans in the participating countries
- Effects of changes in preferential buying agreed to originally by any country

(e) Social and economic responsibility fulfilment monitoring, covering:

- Extent of fulfilling the needs for ecological balancing and environmental protection
- Net benefit achieved by the local in the form of direct and indirect employment
- Development of the region
- Increase in the availability of the product to the local marekt
- Status of human resource development (number and details of training programmes conducted, number of participants benefited, level of participation, participation in seminars and workshops, etc.)
- Extent of import subsitution - if this is identified as one of the objectives of MIEs
- Extent of foreign exchange earnings
- Other social and economic benefits envisaged at the time of embarking on the project and its subsequent reviews

E. P-level monitoring

122. Monitoring at P-level in the project implementation phase shall include:

(a) Financial progress monitoring, covering:

- Status of mobilization of investments
- Actual expenditure vis-à-vis planned expenditure
- Original estimated cost of the activity vis-à-vis the revised
- Anticipated cost over-run or under-run if any, and the reasons thereof
- Proposals for any revisions in planned expenditure

(b) Resource monitoring, covering:

- Issues arising out of technology transfer activities
- Mobilization of human resources
- Mobilization of materials
- Mobilization of machinery

(c) Physical progress monitoring, covering:

- Basic infrastructure for the project
- Progress of various items of work in the form of BAR chart, CRITICAL PATH (CPM) network, or PROGRAMME EVALUATION REVIEW (PERT), network indicating both planned progress and actual progress; these may also include: critical milestones; scheduled completion date; latest allowable date for completion; assessed likely completion date; event slack in terms of (+) or (-) (weeks); description of problems; impact of problems; actions recommended to Board level; cost implications, if any, and additional remarks, if any.
- Proposed amendments to the BAR chart, CPM network and/or PERT network
- Starting date and completion date vis-à-vis planned schedule with reasons for deviations, if any
- Draw attention to any specific issues coming in the way of achieving the planned physical progress

(d) Quality monitoring, covering:

- Quality of materials vis-à-vis scheduled specifications
- Quality of workmanship vis-à-vis specified standards
- Impact of the deviations on the total quality of the project
- Recommended corrective steps

(e) Social responsibilities fulfilment monitoring, covering:

- Effect on environment vis-à-vis what is envisaged
- Extent of training of employees of different categories
- Any other social or economic aspect which the P-level is required to take care of as part of its responsibilitiy

123. Monitoring at P-level in the enterprise operational phase shall include:

(a) Consumption norms monitoring, covering:

- Rate of consumption (of raw materials, man-hours, fuel, electrical power, lubricants, refractories, grinding media, etc. depending on what is being consumed in that particular enterprise) per day as well as per unit of production (tons/kgs, etc.)

(b) Physical performance monitoring, covering:

- Loss of production in each unit operation as compared to the norms set as well as the previous performance (owing to shortage of input materials, shortage of fuel, shortage of power, stoppage of unit on account of planned maintenance and/or repair, unplanned (breakdown) maintenance and/or repair, and faults or problems in mechanical aspects, electrical aspects, instrumental aspects, and operational aspects)

- Possible improvement of production

(c) Quality monitoring, covering:

- Quality of raw materials vis-à-vis specifications
- Quality of semi-processed materials in the process line vis-à-vis what they should be
- Quality of finished product or service vis-à-vis specifications
- Quality of services, software and consumer satisfaction issues
- Effectiveness of quality circles and/or other mechanisms forming part of the total quality system of the enterprise
- Recommended corrective steps

(d) Financial progress monitoring, covering:

- Status of working capital and cash flow
- Inventory (in terms of days of stock and its cost) (raw materials, fuel, stores and consumables, goods in process, finished goods, and packaging materials)
- Variable costs (raw materials, fuel, power, and packaging)
- Fixed costs (salaries and wages, repairs and stores, overheads, depreciation, and interest)
- Sales costs
- Variation in market prices and sales realization

(e) Social responsibilities fulfilment monitoring, covering:

- Measures taken to control environmental pollution and the results thereof
- Measures taken towards human resource development (number and details of training programmes conducted, number of participants benefited, level of participation, participation in other seminars, etc.)
- Any other social and economic benefits envisaged for the MIE.

VI. SUPPORT SERVICES FOR MULTINATIONAL INDUSTRIAL ENTERPRISES

124. The absence of a strong spirit of co-operation in the development of multinational industrial enterprises in Africa is primarily due to the countries' weak economies. The main economic and financial constraints are:

- Budget deficits;
- Balance of payments deficits;
- High inflation; and
- Over-valuation of the exchange rate.

125. The reaction of the Governments to these problems has invariably been to adopt corrective measures which have had rather negative effects and resulted in a spiral of economic decline. The measures introduced included price control in an effort to fight inflation, and the allocation of foreign exchange through import licensing in order to contain foreign exchange resources. The implementation of these measures has distorted the countries' economies.

126. As a result of this situation, there has been very little intercourse between the peoples of different African countries. Private travel is on a very modest scale and direct telecommunication between the peoples of different African countries is minimal also on account of infrastructural problems. As a result, African Governments have become inward-looking and accord inter-country projects or multinational industrial enterprises low investment priority. Furthermore, because of the premium placed on foreign currency, investments in other African countries are less attractive.

127. In order, therefore, to promote the development of support services for multinational industrial enterprises, an enabling economic and industrial environement should first be created at the national level. To that end, the policies outlined below are recommended:

- Growth-oriented policies that will
  - Dontribute to the elimination of budget defictis and reduction of Government borrowing;
  - Maintain convertible currency and eliminate price control and administrative allocation of foreign exchange to encourage exports;
  - Introduce tax laws to encourage savings and investment;
  - Create a financial structure that can mobilize short-, medium- and long-term resources to be made available particularly to the private sector; and
  - Strengthen support services for export promotion; and
- Labour policies that will encourage, not force, employers to hire and fire as and when necessary, and to train the work-force. Wages should be negotiated between employers and employees, and not imposed by Governments.

128. In order to achieve the primary objective of economic growth and stable prices, a number of African countries are implementing structural adjustment programmes sponsored by the International Monetary Fund (IMF) and the World Bank. A crucial factor at this juncture is that these countries need to develop the expertise and capability in order to continue managing their economies and maintain economic stability and growth.

129. Without ensuring continuous availability of that expertise and capability, it will be difficult to expect that the achievements of the programmes can be sustained in the future. In this connection, it is recommended that

- Crash training programmes on economic management should be introduced by Governments, with the assistance of IMF, the World Bank, UNDP, UNIDO and ADB; and

- Universities, polytechnics and business schools should incorporate economic management in their syllabi and organize short courses on economic management.

130. In order to ensure that future politicians respect and pursue growth-oriented economic policies, a country's basic law should provide for ways in which Government will respond positively to certain significant changes in the economic situation. For instance, they should obtain the approval of the electorate for their corrective policy packages, if inflation exceeds a certain level.

131. These recommendations are made in the light of the need to ensure that stable economic conditions are sustained over long periods of time. Only through such programmes will African economies grow and various sectors, particularly the manufacturing sector, expand.

132. Given stable economic conditions at the national level, it will be comparatively easy to foster co-operation at the multinational level. For instance, if the manufacturing sector expands at the national level, some degree of expertise will have developed in terms of project identification, formulation, feasibility studies/project appraisal, implementation, project management, production and marketing. This will promote understanding and co-operation among the nationals of member states in a multinational industrial enterprise at various stages of the project cycle. The present situation is such that the few who possess the expertise enjoy insufficient opportunity to apply their knowledge because of the decline in the economy and lack of business openings.

Industrial training

133. The basis for co-operation should be laid at the level of national educational institutions through exchange programmes, seminars and workshops. Language problems, such as those in West Africa, should be solved by the educational systems introducing official languages at an early stage. In an ideal situation West Africans would be bilingual, French and English. This would enable them to meet more frequently at seminars, workshops and subsequently on projects. It is unfortunate to observe that, at the moment, the ADB training school organizes separate courses for English- and French-speaking participants. Such an arrangement will ultimately deepen rather than bridge the existing division between the two groups of West Africans and make co-operation difficult.

134. The accelerated development of human resources for industrialization is a subject that has been a priority concern of UNIDO since its establishment. Recent papers entitled "Strengthening the scientific and technological capabilities in African countries for industrial development" (document

ODG.3(SPEC.)) and "Development of human resources for industrialization in Africa" (document ODG.4(SPEC.)) prepared by UNIDO and presented at the ninth meeting of the Conference of African Ministers of Industry analyse the situation in Africa and advance a wide range of proposals for action.

135. One problem which deserves particular mention relates to funding. It is important that the training institutions established in support of industrialization programmes are adequately funded on a permanent basis, otherwise they will be of no benefit. Permanent sources of funding should be identified, and a firm financial structure put in place when establishing the institution. The arrangement whereby African countries are required to contribute periodically to the financing of an institution has not been successful as a number of countries have defaulted, despite written undertakings to the contrary.

136. This holds true for the African Institute for Higher Technical Training and Research (AIHTTR). Only fifteen African countries constitute the membership of AIHTTR, and of these only three or four pay their annual contributions. This poses a major financial constraint and as a result the Institute has not been effective despite its laudable objectives. It does not have the required complement of staff and equipment nor the necessary logistics and facilities to make it functional. The plight of the AIHTTR is similar to that of other regional institutions such as the African Regional Centre for Engineering Design and Manufacturing (ARCEDEM), ARCT and the African Regional Organization for Standardization (ARSO), all of which are expected to provide training. Major remedial measures are urgently required.

137. It is thus recommended that, in addition to the periodic contributions by the countries, financial arrangements such as an endowment fund should be established. The fund should be supported with fund-raising activities in a number of countries, including African countries. In order to encourage business houses to participate positively in these activities with generous donations, Governments should be requested to grant tax exemption on cash and other donations. These exemptions will allow donation to be deducted before tax is paid on profits. In addition, it is recommended that organizations such as chambers of commerce and associations of industry be persuaded to sponsor technical and business schools at the national level. Such schools can be linked up, at a later stage, and given a multinational character. These recommendations should be seen as being complementary to those contained in UNIDO documents ODG.4(SPEC.) and ODG.5(SPEC.).

Consultancy services

138. During the subregional meetings organized by UNIDO within the framework of IDDA, recommendations were made for promoting intra-African co-operation in the area of industrial consultancy and engineering services. Furthermore, a recommendation has already been made in paragraphs 87 and 88 that the ADB should sponsor the development of a multinational African consultancy firm as a demonstration project. It is also recommended that in support of this, the development financial institutions should sponsor the development of consultancy services at the national level by granting loans to the firms so that they can acquire the basic infrastructure, including computers and other equipment. The development finance institutions should also organize seminars on project promotion and invite the consultancy firms and other institutions so that the participants have an opportunity to sharpen their skills.

139. The above recommendations are being made in the full knowledge of the current impression that the development finance institutions in Africa are bankrupt and ineffective as a result of mismanagement. Even though there may be some cases of mismanagement, this cannot be said to be generally applicable. The macro-economic problems that have contributed to the decline of the African economies have also affected the development finance institutions. For instance, having borrowed long in foreign currencies and lent short in domestic currencies, the massive devaluation of domestic currencies will create devaluation losses. The clients of the development finance institutions are also affected by macro-economic problems. This has resulted in their inability to repay their loans, thus reducing the loan recovery rate of the development finance institutions to a minimum.

140. Under these circumstances Governments and central banks have to find ways of rehabilitating the development finance institutions as they are very important vehicles for the development of the industrial sector in African countries. Their management should be upgraded or replaced, if necessary. If the development finance institutions were to support the development of consultancy firms at the national level and if regional or subregional development banks, such as ADB, were to support their development at the multinational level, it should be possible, in a comparatively short period, to develop a reasonably adequate consultancy capability in Africa.

141. The capabilities of the development finance institutions could also be upgraded for purposes of promoting project development at the national, subregional or regional level. As financial institutions, the development finance institutions, do not depend on Government budgets to finance their activities; they operate for profit, they publish accounts at regular intervals and hire expertise when necessary. On the other hand, because of budgetary constraints, ministries of industry and investment centres have not been effective in project promotion. Furthermore, co-operation between development finance institutions in the promotion of a multinational industrial enterprise can avoid political involvement until the formulation stage when discussions are held with the potential participating countries. This recommendation should, however, not be seen as undermining ministries of industry or investment centres whose role in project promotion is likely to increase in future.

Entrepreneurial capabilities

142. The development of industrial entrepreneurial capabilities is another area which is receiving increasing attention not only in African countries but also in international organizations, notably UNIDO and the International Labour Organisation (ILO). UNIDO has, for example, prepared a document (ODG.5(SPEC.)) on "Accelerated development of indigenous entrepreneurial capabilities for small- and medium-scale industries in Africa" which puts forward recommendations for accelerating the development of entrepreneurial capabilities for small- and medium-scale industries in Africa. Furthermore, the World Bank has also accorded high priority to the development of entrepreneurial capabilities in its proposals for long-term economic development in Africa.

143. The development of entrepreneurial capabilities in African countries has been adversely affected by political and macro-economic problems rather than by the lack of entrepreneurship. For instance, in the 1960s and early 1970s,

a number of peasant farmers made Ghana the leading producers of the best quality cocoa in the whole world. At the time, there were no state farms and the marketing board was not as powerful as it subsequently became. Ghana is still producing good quality cocoa, but the tonnage has dropped to less than a half of the peak annual production of over 500,000 tons. The entrepreneurial spirit has been demonstrated in various other ways in other African countries: it will flourish only in a favourable economic and political environment.

144. Various economic policies have contributed to the decline of the African economies. Import trade, for example, became lucrative because local currencies were over-valued. On the other hand, local manufacture became unprofitable and, as a result, private entrepreneurs were discouraged from continuing with manufacturing operations. Under a regime of import licensing and administrative allocation of foreign exchange, private entrepreneurs are less favourably treated. As a result of massive devaluations by some African countries, cash resources in the local currency have substantially depreciated and private entrepreneurs now find it difficult to raise equity capital to rehabilitate existing projects or invest in new projects.

145. As part of a programme to create the enabling environement, the Government and the central bank of each African country should introduce a scheme, to be implemented by the development finance institutions, to mobilize medium- and long-term resources. For instance, a good insurance system and pension fund schemes would attract such resources which could be mobilized by the development finance institutions and lent to the private sector. In this connection, capital markets could be developed to facilitate mobilization and flow of long-term capital resources. In the same way as the chambers of commerce in West Africa came together to establish the Ecobank Transnational Incorporated, a multinational holding company which has established a subsidiary bank in Togo and plans this year to open branches in Nigeria, Ghana and Côte d'Ivoire, other multinational projects could be developed by the private sector, as long as the environment is conducive. Emphasis is, therefore, placed on the enabling environment, including economic stability with growth, appropriate tax laws and incentives, efficient and adequate financial infrastructure and labour laws which favour production rather than consumption.

VII. ROLE OF UNIDO AND OTHER RELEVANT INTERNATIONAL ORGANIZATIONS IN THE IDENTIFICATION, FORMULATION, IMPLEMENTATION AND MONITORING OF MULTINATIONAL INDUSTRIAL ENTERPRISES

146. Several international organizations have, over the years, developed important programmes that could be of assistance to African countries in the identification, formulation, implementation and monitoring of multinational industrial enterprises. These include, in particular, UNIDO, UNCTC, UNCTAD, World Bank, ILO, the United Nations Educational, Scientific and Cultural Organization (UNESCO), ADB, the Economic Commission for Africa (ECA) and ARCT.

A. Role of UNIDO

147. Since its establishment, UNIDO has developed an important programme of assistance to developing countries in the identification, preparation and promotion of industrial investment projects. Within the framework of its various programmes, especially the industrial investment programme, technical co-operation activities and the System of Consultations, UNIDO assists

developing countries, as well as private and public sector enterprises, in the preparation of investment project profiles. Some of these project profiles are maintained by UNIDO and promoted among potential investors and financing institutions directly through the UNIDO network of Investment Promotion Services and/or during investment project promotion fora. UNIDO has also published a series of project profiles in a document entitled "How to start manufacturing industries". Each of these profiles lists the pre-requisites for a particular process: raw materials, machinery and equipment, labour, initial investment and some elements of production cost. The profiles are intended for use by development finance institutions, the business enterpreneurs, and other individuals interested in investing in industry.

148. UNIDO also provides assistance to firms and companies in developed countries in the formulation of project ideas which they are seeking to implement with a partner in a developing country. Such firms may have technology, know-how, financial resources or plant and machinery suitable for redeployment in countries with a lower cost structure. In this regard, UNIDO is often called upon to assist in promoting investment projects identified by other development agencies with which it has established co-operation arrangements, e.g. CDI in Brussels (Belgium) or the International Trade Centre (UNCTAD/GATT) in Geneva (Switzerland).

149. Within the framework of its investment promotion programme, UNIDO has established a network of investment promotion services in major cities in nine countries: Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington, and Zurich. The main function of these services is to identify foreign partners for investment projects in developing countries. They are funded by a special contribution of their host country Governments and/or business community such as the chamber of commerce and industry or the association of manufacturers. The investment promotion services keep in close touch with business communities and development agencies in their host countries and have established data banks with details of companies seeking overseas industrial partnership opportunities. Such companies receive information on investment projects in the countries and subsectors they have specified, as well as general information on business conditions, such as the procedures for registering investment projects, details of tax and other incentives in those countries.

150. The investment promotion services have developed a delegates programme which enables officials from investment promotion agencies, ministries of industry and other institutions in developing countries to participate in the day-to-day work of the Service and develop contacts with the host country industrialists as well as with development and financing institutions. The delegates are a valuable source of up-to-date information on investment conditions in their home countries. During their secondment, many of them receive from their home countries details of priority investment projects for promotion among suitable partners in the host country.

151. UNIDO has also developed and maintains an Investment Promotion Information System (INPRIS) data base at its Headquarters in Vienna. The INPRIS data base is related to industrial investment in developing countries. In addition to details of active investment projects, the INPRIS system contains records of firms in countries with no IPS and which have expressed interest in investment projects in developing countries. Such firms receive details of all new projects that meet the criteria they have specified and are kept informed of UNIDO project identification and promotion programmes.

152. In arranging direct contacts between local project sponsors and potential foreign partners, UNIDO uses a number of tools. The most important of these tools are the investment project promotion fora (also known as investor's fora) organized in the developing countries to enable local project sponsors and potential foreign partners to discuss investment projects that have emerged from UNIDO investment project identification and promotion activities. Prior to attending the fora, the foreign industrialists are usually supplied with advance information by UNIDO on the projects to be promoted at the fora. New project ideas may also be generated at the fora themselves.

153. UNIDO also organizes country presentation tours arranged by the investment promotion services in their host countries for delegations from developing countries. Such delegations usually include: ministers of industry, senior government officials, executives of industry associations and businessmen. The delegations call on potential partners to provide them with information on investment conditions and opportunities in their home countries and to discuss specific investment projects previously promoted through the network of the investment promotion services.

154. Advantage is also taken of non-UNIDO-sponsored activities such as trade fairs to arrange business discussions between entrepreneurs from developing and developed countries, especially between project sponsors and potential technical and financial partners with financial support from an independent source, such as Government of an industrialized country.

155. In addition to the mechanisms described above, UNIDO also assists individual countries in identifying their natural resource endowments or other available raw materials suitable for processing. With UNDP funding, a number of countries have been assisted in the preparation of their economic and physical profiles. In Kenya, for example, such an exercise was carried out for the 41 provinces of the country. In each case, an indication was given of existing opportunities for development and recommendations advanced for future development. The detailed information provides a good basis for project identification.

156. At the subregional level and under the IDDA programme, UNIDO and ECA have intensified their efforts in assisting African countries in identifying, formulating and promoting industrial projects at the subregional and regional levels. Since 1982, UNIDO has organized, in co-operation with the ECA and the lead subregional organizations, a series of subregional meetings on the promotion of industrial co-operation within the framework of IDDA. During each of the meetings, agreement is reached on the priority areas and sub-sectors of subregional co-operation, a set of investment projects in the core industrial sub-sectors, support projects in such priority areas as training, industrial consultancy and engineering services as well as on the strategy for the implementation of the programme. Several of the projects retained in each subregional programme are promoted at the UNIDO-sponsored investment fora or directly among potential investors and financial institutions.

157. An important feature of the UNIDO subregional programme is the assistance it provides in strengthening subregional institutions such as ECOWAS, ECCAS, PTA, SADCC and UDEAC aimed at enhancing their capability in promoting industrial co-operation in their respective subregions, as well as

in promoting and monitoring the implementation of the subregional industrial promotion programmes.

158. Furthermore, within the framework of the UNIDO regional programme for Africa, the following subregional projects have also been identified:

- Development of fertilizer industry in the PTA subregion;
- Institutional support to UDEAC;
- General investment opportunity study in the development of the pharmaceutical industry in the Union monétaire Ouest Africaine (UMOA);
- General opportunity study on the possibility of establishing a refractory industry in the SADCC subregion;
- Industrial rehabilitation; and
- Promotion of multinational industrial enterprises;

Under these programmes a number of subregional industrial investment projects will be identified and promoted.

159. In this connection, UNIDO has extended the scope of its workshops, seminars and co-operation with these subregional intergovernmental organizations to include assistance in project identification, formulation, feasibility studies, project implementation including negotiation of transfer and acquisition of technology, mobilization of foreign investment, and plant commissioning and evaluation.

160. In connection with its subregional programmes, UNIDO has also actively participated in establishing of and/or supporting the following institutions:

- The African Regional Centre for Engineering and Design and Manufacturing (ARCEDEM) in Ibadan, Nigeria;

- The African Regional Centre for Technology (ARCT) in Dakar, Senegal;

- The African Regional Organization for Standardization (ARSO) in Nairobi, Kenya;

- The Eastern and Southern African Management Institute (ESAMI) in Arusha, Tanzania;

- The African Institute for Economic Development and Planning (IDEP) in Dakar, Senegal;

- The African Institute for Higher Technical Training and Research (AIHTTR) in Nairobi, Kenya.

B. Role of other relevant international organizations

161. In order to assist African countries achieve the industrial development and other objectives contained in the Lagos Plan of Action, ECA has established, in addition to ARCEDEM, ARCT, ARSO, IDEP and AIHTTR, a number of centres, known as the Multinational Programming and Operational Centres (MULPOCs) for member states within the respective subregions. A MULPOC meets at the level of Ministers of State and Government officials to discuss policies and strategies aimed at translating the development objectives, including the industrial development objectives, contained in the Lagos Plan of Action. Each MULPOC has set up a committee charged with the specific

responsibility of implementing the IDDA programme for developing the core industries as multinational industrial enterprises within its particular group of countries. The MULPOC secretariats are located at Lusaka for the Eastern and Southern African subregion, Niamey for the Western African subregion, Yaoundé and Gisenyi for the Central African subregion and Tangiers for the Northern African subregion.

162. In addition to the special roles of UNIDO and ECA described above, other international institutions including UNDP, UNCTC, the World Bank, the International Finance Corporation (IFC), CDI for the EEC/ACP countries, and national agencies and financial institutions of certain developed countries such as Kreditanstalt für Wiederaufbau (KFW) and Caisse Centrale du Coopération et Economique (CCCE), assist in the development of multinational industrial enterprises in Africa.