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Prepared by Frank A. Flower, USAID/IND
June 25, 1971

INVESTMENT OPPORTUNITIES IN MR-2

How to Find and Evaluate Them

AGENDA

Sunday, June 27, 1971:

1300 — Depart Saigon by Air America - Flight 521 - for Nhatrang.

Personnel: G. Edward Thompson
Frank A. Flower
Richard L. Kranker
Walter E. Pierce
Nguyen Dang Khoi

Accommodations and transportation to be provided by DEP/CORDS/Nhatrang - MR-2.

Monday, June 28, 1971:

0800 - 0810 — Welcome and introduction by DEP/CORDS.

0810 - 0830 — G. Edward Thompson: Opening statements:

The USAID Industry Division description, and general explanation of agencies for promotion of industries.

0830 - 0915 — Mr. Nguyen Dang Khoi: The IDC (IDB) and MOE, their mission and operation.

0915 - 1000 — Frank A. Flower: Assessment of Industrial Possibilities in MR-2.

1000 - 1015 — Coffee break.

1015 - 1115 — Film "Vietnam on the Road of Industrialization".

1115 - 1215 — Richard L. Kranker: The Commercial Import Program.

1230 - 1430 — Lunch

1430 - 1530 — Walter E. Pierce: The AID Forestry Program.

1530 - 1630 — Frank A. Flower: Case Study, project writing "Analyzing An Investment Project".

1630 - 1645 — Coffee break

1645 - 1800 Frank A. Flower: Case Study, project writing "Analyzing An Investment Project".

Tuesday, June 29, 1971:

0800 - 1000 Frank A. Flower: Review and analysis of class case study.

1000 - 1015 Coffee break.

1015 - 1215 Frank A. Flower: Review and discussion of Case Study.

1215 - 1230 Closing Statements: DEP/CORDS and G. Edward Thompson

1230 - 1400 Lunch.

1400 - 1500 Staff available for consultation.

1500 End of Seminar.

1600 Depart Nhatrang for Saigon.

1730 Arrive Saigon.

Handouts.

CICGC Flow Chart.
Application for Equipment Procurement.
OSB Notice.
MOE Communique of July 18, 1970.
USAID Order 11.15 of 8/27/70
Economic Indicator of Vietnam.
List of Industrial Priorities.
IDB Technical Assistance.
IDB List of Current Prices and Fees.
Doing Business in Vietnam.
Potential and Development of Forestry Resources in MR-2.
Case Studies.

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MR-2: ASSESSMENT OF INDUSTRIAL POSSIBILITIES

[illegible]

MR-2 is well off in terms of natural resources. MR-2 timber stands include not only hardwoods but commercially important pine stands as well. MR-2 has a truly remarkable range of land elevation and climate so that tropical crops may be raised along the coast, subtropical to mid-latitude species in the highlands. This diversity has been tested and proved at commercial scale; e.g., in the Ninh Hoa, Ban Me Thuot, and Dalat areas with crops ranging from bananas to coffee and strawberries.

Then, of course, there is glass sand, or better, at Cam Ranh Bay along with the makings for the finest harbor in Vietnam; excellent saltern sites along the coast, widely distributed deposits of limestone and clay good enough for a variety of building materials, may be the best bottom fishing in S.E. Asia or crabs and lobsters and certainly the largest marine fish catch in Vietnam with nearly 170,000 MT landed in CY 1970.

Cattle Raising

One must now add to this the potential of the Central Highlands in cattle raising. Preliminary indications are that MR-2's Central Highlands could rank with the world's best cattle producing areas. Ten native cattle feed grasses grow in abundance and this feed is of excellent quality. The overall temperature and rainfall is ideal for high profit cattle raising. The estimated productivity potential of grains, feeds and cattle is estimated to match that of Iowa.

Experts performing the survey consider this semi-tropic area one of the world's best for cattle raising. The terrains and land holdings are conducive to large scale modern farming.

Animal Feeds

Cattle raising obviously leads to the subject of animal feeds. Feeds are also required for chickens, ducks, and swine which are being raised in quantit . There appears to be reason to emphasize the immediate desirability of extensive cultivation of sorghum, peanuts, and so , Contract farming on sorghum has started in a small way and the farmers are reali ing a greater return on sorghum than on any other cr p type. The recently imposed imported corn tax has been a factor in this important development.

Recent experimental tests on the use of crushed limestone on pean ts, soyabeans and sorghum by USAID/ADFA and the GVN/MLRAFD have produced excellent results. An in-depth study indicates agricultural limestone production would be a profitable venture requiring modest ca ital. The military may have unused or - plus rock crushing facilities that could be used for this purpose. Rock crushing is an industry requiring modest technical skil s.

In MR-2 limestone deposits exist at Nha-Trang, Phan-Rang, Ninh-Hoa, Phu-Bon. Pleiku and 30 miles west of Ban-Me-Thuot. Some of these deposits are located close by highway, water and rail facilities. These factors are important because transportation within MR-2 but may be important for shipment of agricultural limestone to MR-3 where no known limestone deposits exist.

Edible and Industrial Oils

The edible and industrial oil component of animal feeds, i.e. oil derived from the cake or bran used for feeds, may be almost as important in economic impact, as the feeds alone. Tied into the problem of human food, animal feed and feed mills and, even less obviously, into leather tanning, paper and textile processing, glue, metal working, paint and ink manufacturing, pesticide and medicinal solvents and other industrial uses, the production of these oils is almost totally neglected except for the use of coconut oil in local soap manufacturing, very limited use of peanut (groundnut) oil for cooking and peanut oil cake, and raw rice bran for animal feeds.

Cooking oil is a food staple in Southeast Asian countries. Sesame, soya and lard were the earlier staples, peanut oil is a later arrival.

Peanut oil is pressed by the crudest imaginable methods in Vietnam and growing areas have suffered especially from VC activities. Lard supplies are increasing with USAID's swine development program, but it is still in very short supply at exorbitant prices. Coconut oil (from the dried copra) apparently goes almost entirely into local soap production or is exported as copra. Neither soya nor sesame oils are found in any commercial quantities in local markets.

Rice bran is the only frequently listed oil bearing product used in animal feeds and there is no currently operating rice bran oil extractor on record. A plant in Cholon has never been in commercial production. A peanut oil extraction plant, also in Cholon and equipped in 1967 with U.S. manufactured machinery, is inoperative claiming lack of raw materials.

In the face of food and feed shortages and in view of the immediate utility of both soya and peanut oil for human consumption and the waste cakes for animal feed, it does seem that investment opportunities would exist in these areas.

Rice bran merits a special investigation. Already used as it comes from the mill as hog, chicken and duck feed, quantities will increase linearly with the new rice, which means it will soon be an excess by product. The only known profitable method of extracting oil from rice bran is by petroleum solvents in a sealed and less than simple system of carefully designed process piping. The rewards, however, if the extractor is properly designed, built, and operated, and the bran is not so old as to be rancid, are a stable, high grade premium salad and cooking oil. The process will also yield an equally stable bran cake that has been considered the equivalent of the best feed corn for cattle; finally, the extracting of fish oils, high in vitamins even from waste fish, is another entirely neglected possibility.

Brick, Cement Block, Aggregates and Other Building Materials

MR-2 has ample clay deposits to produce high quality brick, tile and aggregates for many types of building construction. A survey conducted several years ago indicated a great need for increased capacity and improved quality of fire cement block and firebrick.

One phase of construction worthy of consideration is mechanization of cement block making on machines now available via CIP import at a variety of prices and capacities to fit the buyer's pocketbook.

Handcraft

Handcrafts could be of great importance to MR-2 if the industry were organized and properly directed. There is great demand for good quality handcraft items of all kinds, especially those with a Montagnard background.

Wooden Fishing Boats

As has been pointed out, MR-2 accounts for the largest catch of marine fish in Vietnam. Recent developments favor the construction of larger improved design wooden fishing boats. These are:

1. The CIP program now makes it possible to purchase machinery and gear.

2. The USAID/IND steel boat plans are now being adapted by the Fisheries Directorate for wooden boat construction. These adapted plans will be made available to wooden boat builders in Vietnam.

3. CARIC shipyard has agreed to cost wooden fishing boats of various sizes in accordance with USAID/IND boat plans and state they can construct wooden boats without interference with now on-going steel boats both as to yard facilities and labor supply.

4. Agricultural Development Bank of Vietnam (ADBV) has an interest in modernization of wooden boat building and will consider financing power tools and construction of larger wooden boats.

5. Investors now are considering wooden boats up to 110 ft. fully equipped with refrigerated holds, salt water ice making machines, flash freezers for shrimp trawlers, fish finders and on board packaged fish meal grinding units.

6. Fortunately, the cost of power tools is moderate and wooden fish boat building is not Saigon concentrated.

7. The necessary labor skills are available in many fishing ports. Reports from reliable sources indicate excellent fish catch potential in the South China Sea. It is important therefore that Vietnam muster a modern fishing fleet in these waters. Reports indicate increased fishing competition in Vietnamese waters by boats from Thailand and Cambodia.

Present situation

1. Because of steadily increased lumber production, the availability and cost of lumber has made wooden boat building competitive with other materials.

2. The recent price increases in cement and rebar have taken some of the competitive edge from ferro cement boats.

3. Vietnamese fishermen have been convinced of the merits of larger boats, modern equipment, mechanization, new fishing techniques, and deep sea fishing.

Miscellaneous Opportunities

Other possible private sector investment projects having a base in MR-2's natural resources are:

Slaughterhouses-swine, chickens, duck & beef

Match factory

Motorbike and scooter assembly

Fish meal plants

Button making (mother of pearl)

Aluminum scrap conversion (pots & pans)

Attached is a list of studies prepared by IDC which includes these projects and others of possible interest to MR-2 entrepreneurs.

PROBLEMS AND PARTIAL SOLUTIONS

In view of MR-2's considerable agricultural and industrial potentials the question of what has retarded or prevented their development immediately

comes up. Some answers are all too obvious - (1) security, especially economic stabilization problem, shortage of capital, unrealistic exchange rates.

Fish Port Development

The need for better fish landing and handling facilities at all VN fishing ports is all too obvious. IND's plan to mount a survey of some ten port areas (to indicate cost/benefit ratios for possible future port improvement projects) will get under way in the next few months. Five MR-2 ports are now included in the study of the initial survey:

Qui-Nhon

Ninh-Hoa/Nha-Trang

Cam-Ranh

Phan-Rang/Phan-Ri-Cua

Phan-Thiet

Edible Oils and Feeds

It should be possible to set up a pilot operation feeding steers on local grasses and then moving them into special feed lots before slaughtering. Based on preliminary indications of the feasibility of cattle raising, it would appear that feed lot operations might be profitable. Information is already available from IND regarding a variety of oil seed presses and extractors, on board and on shore fish meal processing equipment and markets for edible or industrial oils. A USAID funded report on limestone processing for fertilizer and road building is available from USAID/IND.

Wooden Fishing Boats

Initiative should be taken in the wooden fishing boat construction project as follows:

1. Suggest to ishing ventures attem ting to purchase boats that they might consider wooden boats.

2. Promote the idea with several of the larger boat building yards who have expressed interest in constructing wooden fishing boats.

3. The larger yards can build standard size and style boats in volume more economically by the use of templates. Promote this method of construction which will materially reduce costs.

4. Keep in touch with the architectural section of the Direct rate of Fisheries which is enthusiastic as to the merits of this project.

5. By means of the Fisheries Provincial Service Chiefs, disseminate to boat builders throughout Vietnam the progress made in the Saigon pilot operations.

6. Work with GVN and the USAID/IND Forestry expert to determine he availability of the best boat building lumber at the lowest prices.

Salterns

As early as November 1965, IND had recommended to MR-2 CORDS, steps t t might be taken to improve the qualit; and productivity of the Ninh Hoa (upper peninsula) salterns. These were simple, inexpensive improvements to be implemented following a survey by a still available incountry team of experts to be recru ted from the GVN Bureau of Mines, the Long Khanh Rubber Lab, VIS, d IDC.

Since then two comprehensive reports have been written and distributed through IDC or IND on the larger dimensions of completely modernized salt

production systems, one by the Japanese for the Cana salterns between Phan-Rang and Nha-Trang and the other, USAID funded, at Ba-Ria near Vung-Tau. Still another study by an ROC team published in 1965 is also available. reports are available at IND. Either report could be applied in some substantial part to several other saltern sites on the VN coast.

Seminar, MR-2, June, 1971

ANALYZING AN INVESTMENT PROJECT

A. PURPOSE

Provide U.S. field personnel with an insight of how and what to look for in an industrial project proposal, how to bring it to life, how to judge its strengths, weaknesses, and practical feasibility.

B. SCOPE

The discussion will be centered primarily upon industrial projects to be submitted to USAID/CICCC (Commercial Import Capital Commodity Committee) applying for equipment import valued at US$100,000 and over.

During the discussion, the underlying principles will be broadly presented so as to enhance their applicability to all branches and sizes of manufacturing and non-manufacturing industries.

C. GENERAL

1. Pre-investment surveys:

Before an investment is made in a plant a feasibility analysis should be conducted. This requires some skilled economic and engineering experience, but mostly good business judgment and common sense. The following illustrates the range of questions to which answers must be obtained, whether the project is small or large.

What is the extent of the present demand for the product? How is the market now being satisfied?

Will the market absorb the production of the new plant?

Will the estimated sales price and quality of the product make it competitive?

What is the marketing and distribution plan, and to whom will the product be sold?

What is the nature of the plan to finance the plant? Complete details required.

Has a realistic time schedule for construction, delivery of equipment, obtaining of materials and supplies, training of personnel, and the start-up of the plant been developed? A time chart should illustrate this.

Have arrangements been made to obtain needed materials and supplies?

Are trained personnel available?

Do adequate transportation, storage, power, communications, fuel, water, and other facilities exist?

Has a sound plan for equipment, design, construction, and operations been developed?

Have proper management controls for design, production, quality-control, and other factors been developed?

Will the industry fit into the development plans for the area?

Fully documented information to these and other additional technical questions should be available to the investor before he proceeds with implementation of an industrial project.

The first essential part of this paper will cope with this basic problem of "how to start a business" with special interest in "pre-investment feasibility study".

2. Project writing:

Conditions in different areas vary and many affect the optimum plant size, the type of plant and equipment, the kinds of materials used, utilization of power, organization of transport, etc. Local costs may also vary for raw materials, labor, plant and equipment. Thus, the very first step of how to start a business is to put the project on paper in an orderly manner. Often, several successive drafts of a project may have to be undertaken by the investor, for his own sake, to ensure proper assessments of actual situations and to help make proper investment decisions.

Further, without a written project, it is practically impossible for an investor to obtain outside assistance, whether it be financial, technical, legal, or administrative. He would waste his own and other persons' time and efforts by just presenting his project verbally.

Generally speaking, an industrial project includes the following items to be developed in as much detail as possible:

a. General information about the future company setup and the investor and his qualifications.

b. Market analysis.

c. Product and production planning.

d. Financial and economic study.

e. Time frame for project implementation.

The second part of this paper will deal with the matter of how to fill out the currently used format "Application For Equipment Import under USAID/CIP" which by itself is a condensed industrial project proposal.

3. Project analysis:

The project once comprehensively written is normally submitted to a credit institution for a loan, to the local administration for the operating permit, to GVN for investment privileges, to USAID for equipment import, and to other persons or agencies for various reasons. In most instances, solicited people will look very closely into the information, data, statements, and estimates contained in the project, and decide whether or not they will support the venture or grant the favor requested.

The third part of this paper will show how USAID specialists normally analyze an industrial project proposal and cause it to be approved or disapproved.

During the course of discussion, the whole procedure for application for equipment import under USAID/CIP will also be presented.

D. PRE-INVESTMENT SURVEYS

1. Identifying an Investment Opportunity:

To be sure, starting a business, you need to have money. But, for all practical purposes, money should not be the foremost important factor in investigating an investment opportunity. Before deciding how much money will be required for a certain type of business and who will be the stock holders, or partners, an investor should worry about something else. To begin with he needs to have a "good idea".

The "good idea" may be a new or better product, a new or unexploited source of raw materials, an undeveloped invention, or new needs due to technical and economic progress, or providing a service, etc. We all know that no amount of money will start a business and keep it going

if this particular business does not satisfy some need or demand. Beyond the ability to secure sufficient capital, the most fundamental requisite is the statement of the reason why the founders of the business think the venture could succeed.

a. New and Better Products: A product not manufactured and marketed anywhere else is sometime called a novelty. The capability of releasing such product can be the basis for the business. However, the basis for a new venture need not be a new product. A better, improved product may also justify the start of a new business. It is often difficult to distinguish between novelty and improvement or a combination of both in a product which is new, at least, to the market. This is unimportant for, if the product or service meets certain requirements and if there is a potential market, there is a basis for the business.

b. New or Unexploited Sources of Raw Materials: If a new source of materials that supplies a manufacturer at a lower cost becomes available, a business can be developed about this circumstance. If the new source of raw materials is so much cheaper than existing supplies that new domestic or foreign markets can be opened, this will favor a new venture. If the new sources supply materials that make an improved product possible, this will contribute to new or better products. Sometimes a new source of materials is essential because previous sources of supply have been exhausted. Development of unexploited sources at home, thus relieving dependence upon imports, is another important factor justifying the pursuit of a productive activity.

c. Inefficiency of Existing Operations: Study of the operations of existing businesses often leads to the conviction on the part of an entrepreneur that the business could be so operated as to expand the market, reduce operating costs, and thus show a greater annual profit. Often the entry of a new business makes the older businesses study their operations and determine on long-overdue improvements.

d. New needs due to technological and economic progress:

With the progress of modern technology and/or an increasing standard of living, a wide range of products can now be marketed which a few years back would have been available only to the wealthy. Technological and economic progress often calls for numerous investment opportunities.

e. Peculiar Personal Experience of Promoters: The individual or collective experience of a group sometimes furnishes the principal motivation for a business venture. Many former government employees who have served in various tax units or other specialized functions enter into businesses such as importing and exporting, tax consulting, or other specialized technical services. Similarly, a former employee of a hat manufacturer may open his own shop to repair, clean, and block hats.

f. Caution to General Optimism: No one would ever start a business if he were not optimistic about the sucess of the venture. Ventures that have no other justification but optimism seldom succeed; instead, they contribute to the large number of business failures. Unjustified optimism as the principal reason for a venture makes a poor substitute for a well developed idea and a proper investigation of possible markets for the product or service.

2. Market Analysis:

Many an inventor or promoter "falls in love" with his product or service. If the public does not share his enthusiasm, there may be no market. Consumers must buy the product because of a readily apparent need or must be induced to want the product through advertising and sales promotion. Product analysis or the study of the marketability of a product should be the first important consideration when undertaking market analysis.

In addition to gaining a clear comprehension of the advantages and limitations of the proposed product or service, the market (nature, size, geographic distribution, etc.) must be determined. Too often the public fails to share the promoter's enthusiasm for his product or service even after a great deal of money has been spent in advertising and sales promotion. Statistical information regarding population, local production, past imports, trends in consumption, etc. should be extensively utilized to make a first estimate of market demand.

The price obtainable must be decided upon given proper consideration to competition, and cost of manufacture. The price at which the product or service is offered indicates what income groups may be considered as markets. The nature of the product will also determine what educational level group can be interested. Prejudices and practices of racial, age, sex, professional or religious origin may create or eliminate markets. Some preferences and prejudices of the public are difficult to analyze, but must be taken into consideration when analyzing the markets.

Legislation, patent rights, local regulations, disrupted communications, etc. also affect the market

Besides analyzing the product and market, the method by which the product reaches the purchaser requires study. Ordinarily, the choice of the distribution channels is not compelling at the time of organizing a new business because of the many possibilities and the constantly changing pattern. However, it is important to have an idea of the channels available at the early stage of the project conception.

3. Size of Operation:

Businesses may start very small and grow, or they may start immediately as large ventures. In starting a business on a very small scale, obviously very little initial capital is required, and it is relatively simple to raise this capital through various sources. This is especially true for the small venture which raises capital by taking in a number of partners or investors. However, it is possible that the very small enterprise will never live to grow up, due to market decline, competitive pressure, money tightness, disruption of supply, etc., it may go into the red and end up in bankruptcy.

On the other hand, to start a business on a large scale is not a guarantee of its success. Unless all the principles of good organization have been followed and there is real merit in the proposition, the business will not succeed merely because it has been founded on a large scale. To found a business on a large scale requires a huge, immediate aggregate of capital. This involves a much more complicated procedure than the start of small business and may involve public financing.

There are certain types of business which cannot be started small, for the highly technical nature of the processes is such that the

large and expensive equipment required cannot be bought cheaply on a small scale basis. Modern mass production requires large scale organization because of the large expensive equipment needed, high labor cost, and keen competition.

However, every day a small business is started which, if the product lends itself to mass production, will someday grow into another industrial giant. On the other hand, certain industries, by their nature, function best remaining as a smaller organization. This is true particularly in distribution and servicing industries. Small manufacturing plants may often start if the equipment needed is not too technical and is available in relatively small size production units, and if the cost of transportation and importance of prompt service are such that in many cases the smaller operator has a distinct advantage over the larger plant. In other instances, larger operations rely on smaller plants to supply them with needed materials and components, or to process further their products into diversified end use consumer products.

4. Locating the business:

Business may locate in a particular town simply because the founder or founders of the business live in that town, are familiar with its environs, and find it easy to secure financial and other types of assistance from the people who know them. For a small business, this may be a very sound way of looking at the problem. However, there are certain types of industries which cannot survive unless specific conditions are favorable.

Factors that commonly influence location are:

Raw materials

Power

Labor

Capital

Markets

Transportation

Climate

Local restrictions and inducements

Urban versus suburban area

Other special situations.

a. Raw materials: Of importance in the location of many industries are raw materials and their transportation, for these items may comprise a very considerable portion of the manufacturing cost of a product. For example, deep freezing plants and canneries are normally located where the crops are available; mining operations are carried on at points where the mineral is located.

Water is not only a source of power but also an important raw material in many industries; thus an ample supply of water is often a factor in determining location.

b. Power: Most industries require large quantities of power in order to operate machinery. The installation of independent generators is sometimes costly. The question of power has been simplified by the fact that a great many industries run their machinery with purchased electric power. It is essential for these industries that they be within the reach of power lines of public utility systems. As a rule, where

electric power is one of the principal costs, as in calcium carbide production starting from limestone, location may depend principally on availability of cheap power with proper overload capacity and adequate current frequency and voltage.

c. Labor: The quantity of labor available may be quite important, for while it is possible to transport labor from one community to another, this is not feasible if there are no living accommodations for employees in the new locality. An industry that employs a large number of people must consider this problem carefully. Another consideration in connection with labor is the problem of highly skilled personnel who may prefer not to work in remote, unsecure areas. Industries not requiring highly skilled labor may find no labor problem, provided that the location has sufficient population to work the plant, and provided that the labor force is not contaminated by undue religious or political agitation.

d. Capital: Capital is more readily available in large centers than in small centers. Capital is more easily obtained for a business with which the banks are thoroughly acquainted than for a new venture. Hence, there is an advantage in locating in a center where many other firms in the same line of business are established because this will make it much easier to obtain capital.

e. Markets: One of the biggest factors that make it necessary for certain types of industries to be located near a market is product perishability and transportation costs.

The distance people will travel to a market is another important consideration. In this respect, certain regional small industries have a distinct advantage over larger operations located far away and having to rely upon inefficient distribution networks.

f. Transportation: Transportation can be accomplished by water, rail, air and truck. Very bulky materials or products make it necessary to choose locations on water because of the relative cheapness of that method of transportation. For many other items, the selection of a location serviced by a good ground transportation system is required. For any business that has a large problem in connection with means and costs of transportation (of materials, supplies and finished products), careful selection of plant site must be considered.

g. Climate: Climate may or may not be a factor in determining plant location. Natural climate is never so satisfactory as artificial climate which can be created through air conditioning systems. Many businesses such as cotton weaving and chocolate manufacturing require certain specific conditions of temperature and humidity. Today these can be all secured artificially. In the case of agricultural products, climate is still a very important factor, and this in turn determines the location of dependent industries such as canning and deep-freezing.

It is difficult to determine the exact effect, if any, of climate on the productivity of workers. Many studies have been made which seem to indicate that excessive heat or cold reduces productivity. In the small plants without air conditioning facilities, this may be a factor.

It is noted that within a given area, there may be one plant site more suitable than another for industrial operation.

h. Local restrictions and inducements: Restrictions are usually legislative, such as zoning which bars certain industries from specific areas. Inducements usually consist either of a reduction or elimination of taxes for a certain period of time in order to develop a given city or area, or of lower rates for the electric power, or of the promise of cheap and abundant labor, or of the promise of cheap and abundant space for the erection of factory buildings. Inducements such as these may cause many industries to migrate from one section of the country to another. It must be remembered that many of these advantages are purely transitory.

i. Urban versus suburban area: The essential factors in the choice between an urban and a suburban location are the relative costs and availability of labor, land, transportation, services and utilities, the overall costs of construction, and the possibilities of expansion. Expansion possibilities are greater where land is cheaper and where space is available. Cheap land is essential for one story construction. The question of utilities such as water, power, and sewage disposal may or may not be serious, depending upon the nature of the business.

j. Special situations: For certain types of operation, it is not only important to pick a city but also to pick a specific location in that city, within a certain district. The side of the street on which the shop is situated is sometimes a factor.

Other businesses may want to be associated with other firms in the same industry and in related industries. Association may be of a number of firms offering the same line of products, or of firms whose products or services are complementary. This factor may also determine the selection of plant location.

5. Initial problems of plant engineering

In the organization of a business venture, the next problem after location is building design or selection. Admittedly, this can be best done after the functions of the business; e.g., manufacturing, selling, purchasing, personnel, accounting, etc., have been studied. However, building design is not completely possible at the inception of a business. It is the old problem of which comes first, the chicken or the egg. Despite the desirability of constructing the building around a going successful business, this is obviously impossible. At the inception of a business, some rough design is necessary to determine the order of magnitude of investment and/or the annual charges for space, although the design may be altered many times before actual construction. Some consideration of the production function is essential for this purpose. The following serves as a quick check list for initial plant engineering problems to be resolved.

a. Product Study: The term "manufacturing" is not a conclusive descriptive one, and is often loosely applied. It may cover firms that produce items starting with the basic raw materials on through to the finished product. In the case of many small ventures, however, it may cover purely an assembly operation for which the manufacturer buys all

prefabricated component parts and merely puts them together to form a finished product.

Any manufacturer engaging in business or engaging in the manufacture of a new product must first consider which parts he will make in his own plant and which parts he will buy. There can be, of course, no general rule. The more prefabricated parts the manufacturer buys, the less space, equipment, and labor he will require; hence the initial capital requirements and the initial risk are materially reduced. However, in buying products already manufactured by other people, the manufacturer indirectly pays their overhead costs and their profit. It is reasonable to assume that if the manufacturer is efficient, he can at least gain the benefit of the profit of the other people by undertaking to make the products himself. Also, if he is more efficient than the other suppliers, he may be able to manufacture the products at a lower cost than his suppliers. It is noted that, often, many large manufacturers find it much cheaper to buy certain parts made by other people than to make them themselves.

Considerations as to which parts to manufacture and which parts to buy already manufactured are not static, and a review of this situation is necessary at frequent intervals. However, in the preliminary planning stage, the investor must firmly decide upon this matter since it will affect all other planning regarding technical process, inventory, equipment, labor, utilities, and construction requirements.

b. Raw materials requirements: More generally, in determining the manufacturing process of a product, consideration must be first given to the raw materials which are going to be used. The materials used will

also determine storage requirements dependent on the units of purchase, weight, and bulk, and the inventory that must be stored.

Products may be made by widely different methods. It is also perfectly possible to consider different materials for the same product. For example, a chair can be made of wood, rattan, bamboo, steel, aluminum, magnesium, and plastic; and a wooden chair can be made according to different processes and designs.

The choice of the material that is used depends upon many factors: (1) the choice of material will affect the technical process and the required know how; (2) the cost of the material plus the cost of operation may have a profound effect on the selling price; (3) the type of material chosen may affect the end use or function of the product, which is a very important factor in product design; and (4) the choice of material, to a large extent, may be dependent on style considerations, which is another important factor in product marketability.

c. Equipment required: Intimately tied up with the problems of raw materials selection and technical process to be adopted are equipment requirements. The equipment needed varies, depending upon considerations regarding raw materials, technical process, capacity of production, quality of product, availability of skilled labor, capital requirements, etc. The equipment selected will materially influence plant layout and building design, and hence the total cost of investment.

In establishing the equipment list, attention is focused on the following: (1) besides the main process equipment, careful selection

of preparatory, finishing, packaging, material handling, laboratory testing, quality control, water treatment, power and steam generating, and other auxiliary equipment is often required; (2) the proposed equipment should be of modern design, properly sized, and standardized so as to facilitate the resupply of spare parts for subsequent repairs and maintenance; and (3) the proposed equipment should allow for future plant expansion and/or product diversification.

d. Labor required: Once having determined the necessary equipment, based on considerations previously discussed, the labor required must also be determined, not only with respect to quantity but also with respect to skills which are essential to do certain types of work. This raises further questions of the availability of labor and/or its training.

Estimates of manpower requirements and costs can be summarized for convenient reading under the headings of management, technical, administrative, skilled and unskilled personnel and their annual remuneration.

e. Land and building requirements: In determining the land area and building requirements, thought should be given first to possibilities of future expansion of the business.

With this in mind, the next paramount consideration is costs. Land can be rented or purchased. Besides its cost, industrial land usually requires site improvements. Buildings can also be rented, purchased, or specially constructed. Industrial construction can be made of wood, concrete or steel, with one story or multi-story design.

In determining the building requirements, consideration should be given to the following factors:

a. The plant/equipment layout adopted.

b. The floor characteristics required by the process and/or equipment.

c. Safety and comfort of workers.

d. Codes and ordinances applicable to the area.

e. Cost of subsequent alterations/modifications.

6. Financial organization

Of the various problems to be solved in starting a business, the question of its financing is naturally of decisive importance.

When only a small amount of capital is necessary, the methods of obtaining it may be quite informal.

When relatively large amounts of capital are required, public financing may be necessary. Under these circumstances, strangers to the original entrepreneur (s) are solicited to furnish capital and become owners or creditors of the enterprise.

a. Types of financial organization: there are many types of financial organization possible under existing laws and regulations. However, only three forms are in wide current use: The individual proprietorship, the limited liability partnership, and the corporation.

The choice of a specific organization depends upon many factors: Size of operation, personal financial strength of promoter (s), expense of organization, possibility of high income tax, and the extent of liability.

It is outside the purview of this paper to be involved in a detailed analysis of advantages and disadvantages of a specific type of financial organization. For further reading, please refer to the publications released by the GVN Industrial Development Center under booklet forms.

b. Fixed Capital Requirements: The capital used for land, buildings and equipment procurement is commonly called fixed capital. These tools of industry are expected to last for some length of time and are not immediately consumed in production as are raw materials, supplies, and labor. Also, under existing regulations, the following expenses can be capitalized as amortizable fixed assets: Organizational and preliminary expenses such as legal, technical and architect fees; training and start up expenses; financial organization expenses; interests on borrowed money for the year of plant construction (as opposed to financial burden incurred during the years of actual commercial operation).

If the project has been properly analyzed and if competent counsel, including engineers and architects as well as attorneys, is employed, fixed capital requirements can be estimated with reasonable accuracy. The preparation of proper plans for all buildings and equipment, and the obtaining of firm bids or serious quotations on equipment and buildings are essential in determining the capital required. Bids or quotations for building and equipment often come under the form of pro-forma invoices. It should be remembered that poor initial planning which required changes during construction in building, equipment, or layout of equipment will lead to extra expenditures, and thus to an overwhelming financial burden for the investor(s).

Working capital requirements: In contrast with fixed capital, working capital is required for the day-to-day operation of the business, without regard to the fixed assets such as building, equipment and machinery. Working capital finances the purchases of materials and supplies, and the wages of the workers. Working capital is necessary because the income and the expenditure do not coincide. There is an elapsed time between the start of production and its completion. There is still another time interval between delivery to and payment by the customer. In the meantime, materials and supplies must be purchased and payroll, taxes, and public utilities bills, etc., must be paid immediately.

Necessary working capital often requires a detailed study. Despite possible difficulties due to underestimating fixed capital, a project may still be completed. However underestimation of working capital may plunge a venture into difficulties from which extrication is difficult if not impossible.

d. Sources of fund: The most common method of financing an industrial project in Vietnam, in addition to the entrepreneur's equity contribution, is to secure short-term loan from bank(s), and medium or long-term loans either from the "Industrial Development Center (IDC)" or from the "Societe Financiere Pour Le Development Industriel du Vietnam (SOFIDIV)".

Commercial banks usually loan out money for a three to six month period. Interest charges vary from 18% to 24% per year plus a variable commission averaging 1% of the loan amount. IDC and SOFIDIV can grant credit assistance with a five to ten-year repayment period, one to two-year grace delay, and 12% to 15% interest rate plus a commission of 1% per year.

Except in special cases, commercial banks will only loan out money to match the working capital requirements, while IDC and SOFIDIV can financially assist up to 70% of the fixed capital requirements.

7. Economic study:

Now comes the time for evaluating the economic feasibility of the project. In order to properly assess the economic value of a project, one should undertake some comprehensive computations.

The first calculations are intended to show the profitability of the future business. These are normally included in a proforma profit and loss statement projected over at least three years of productive and commercial operation. Detailed study of this data will be discussed during the second essential part of this paper.

The ensuing calculations are designed to show the benefits to the national economy through foreign exchange savings or earnings, and through taxes and salaries paid, incremental purchases of local goods and services, and generation of increased economic activities, etc.

8. Estimation of time requirements:

Please refer to the attached chart which can served as a starting point for an actual estimate of time requirements for setting up an industrial undertaking.

E. WRITING AN INDUSTRIAL PROJECT: (HOW TO DO IT)

1. Format:

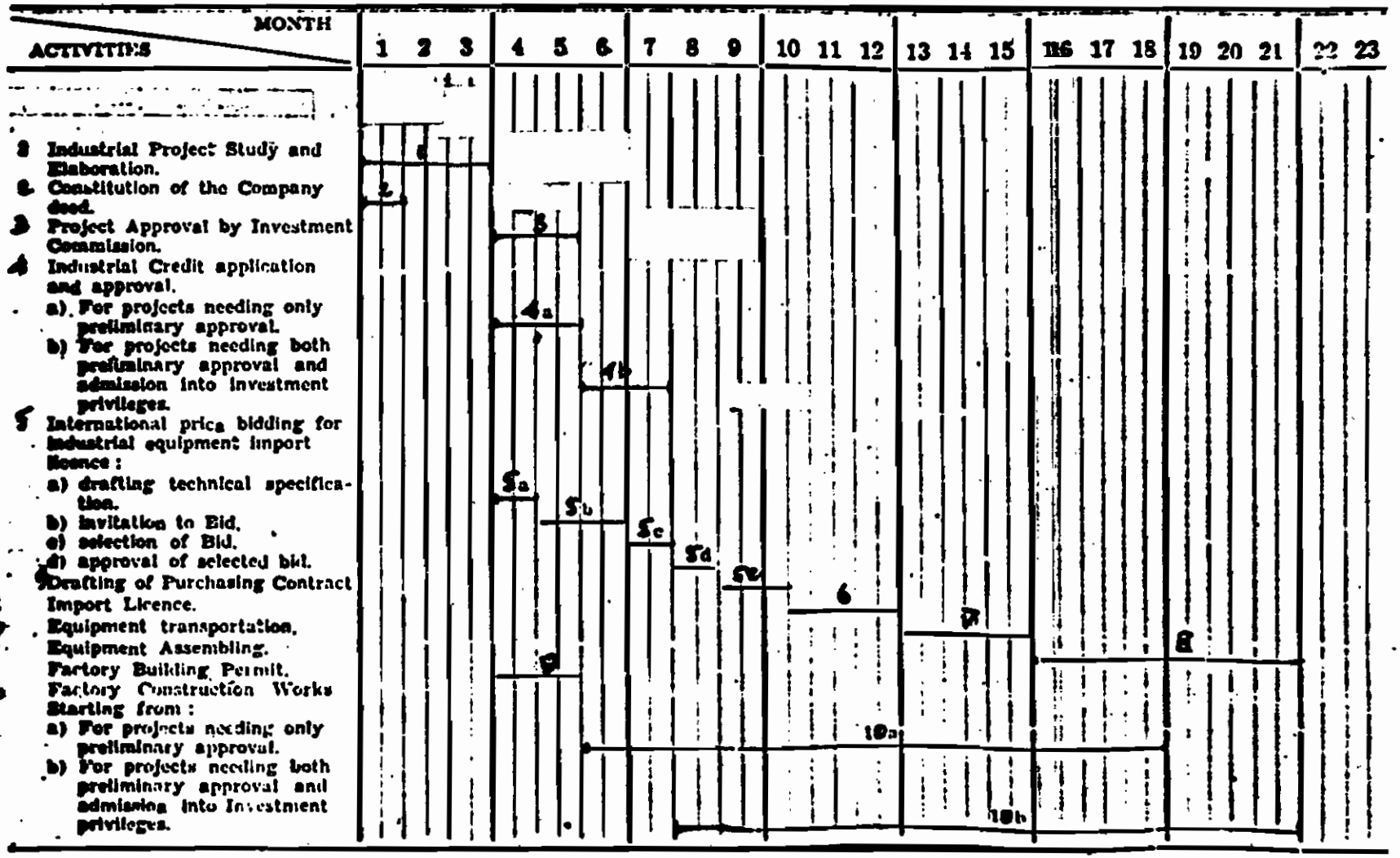
Under existing regulations, there are several formats applicable, should an investor desire outside assistance.

Estimated time requirements for setting up an industrial undertaking.

Many sequential transactions are involved from the preliminary project study to the completed construction of the planned industrial factory and to the production stage. Each transaction requires time. Here follows the Chart which attempts to estimate their time requirements.

CHART

Time requirements for setting up an industrial undertaking



The Industrial Development Center (IDC) requires different formats for application for loan depending on whether the applicant is a proprietorship, limited liability, or incorporated company; whether it is a new investment or expansion project, and whether the company is located in Saigon or in a provincial area.

The Ministry of Economy (MOE) utilizes a standard format for all projects applying for investment privileges.

SOMADEZI (Societe Nationale Pour Le Development Des Zones Industrielles) has another format applicable to any application for land allocation in the state--administered industrial parks.

For the import of industrial equipment valued at US$100,000 and over, both MOE and USAID require the use of the "Application for Equipment Procurement (USAID/CIP)" format. This particular procedure has been set forth according to MOE Communique #144 of July 18, 1970, and USAID Order #11.15 of 8/27/70. These formats and official documents are attached for reference and guidance.

The new investor should not be bewildered by these apparently cumbersome varied requirements. In fact, providing the investor knows in advance what he wants to do, he should not have any real difficulty in filling out the forms as required. In spite of some minor differences, the contents of all formats are very similar.

This paper will discuss in detail how to fill out the "Application for Equipment Procurement under USAID/CIP" format.

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after 23

REPUBLIC OF VIETNAM
Ministry of Economy
59 Gia Long, Saigon

Saigon, July 18, 1970

No. 144/BKT/NKT/TgC

COMMUNIQUE
On import of industrial machinery & equipment via AID

Ref.: Official Letter No. 810/BKT/NTLKN/CK of Feb. 4, 1970.

As provided by the above-mentioned official letter, the procedures for import of industrial machinery and equipment worth US$100,000 or over under AID, require a complete project for consideration in the fields of market, technics, finance and economic interests.

Many investors have lately submitted incomplete or inadequate files. On the other hand, consultation on the basis of these files have delayed proper consideration.

Thus, to simplify and cut short the length of time for consideration of files requesting import of machinery and equipment worth US$100,000 or over, the Ministry of Economy has, with the agreement of USAID, decided to enforce the following procedures :

I.- DRAFTING PROJECTS & BID FILES :

Trung Tam Khuech Truong Ky Nghe (Industrial Development Center) 40-42, Nguyen Hue, Saigon, will be charged with helping investors draft projects and files requesting OSB price consultation in English.

Investors may also draft projects and files requesting for OSB price consultation mentioned above if in a position to do so. Projects and files must be drafted according to model available at the Industrial Development Center and the Directorate of Technics (Economy Ministry).

II.-SUBMISSION OF PROJECTS & BID FILES :

Projects accompanied with bid files include five(5) projects and ten(10) applications for OSB price consultation (in English) must be submitted at :

- Nha Ky Thuat (Directorate of Technics), Economy Ministry
  59 Gia Long. Saigon

III.- PRELIMINARY EXAMINATION COMMITTEE :

Projects and price consultation files will be presented to the Preliminary Examination Committee for consideration on the required contents and estimate on the contribution of the project towards the development of national economy.

This Committee is composed of the representatives of the Directorate of Technics, the Directorate of Industrial Supply, the Institute of Standardization, the Directorate of Natural Resources and the Industrial Development Center.

IV.- JOINT COMMITTEE :

Projects considered and passed by the Preliminary Examination Committee are to be referred to the Joint Committee for consideration on grant of foreign exchange for import of machinery and equipment.

This Committee is composed of the representatives of the Directorate of Technics, the Directorate of Industrial Supply, the Directorate of Commercial Aid, the Industrial Development Center and USAID (Industry and CIP).

This Committee will meet twice each month.

V.- NOTIFICATION :

The results of consideration by the above Committees will be communicated by letter to investors (and the Supplement of CHKT). In case of approval, the purchase of machinery and equipment is already approved by the Economy Ministry and USAID. CSB bid files of investors already approved will be carried out promptly and machinery and equipment will be imported through AID procedures. .../...

VI.- INFORMATION :

Investors can contact:

- NHA KY THUAT (Directorate of Technics)
- TRUNG TAM KHUECH TRUONG KY NGHE (Industrial Development Center)

for advice and help.

VII.- This communique will be applicable towards investment projects with machinery and equipment worth below US$100,000. However, the Economy Ministry reminds investors that they should not divide the requirements of such projects in order to bypass these procedures. Machinery and equipment for new projects or for extending existing enterprises, must conform to these procedures if the entire machinery and equipment are worth US$100,000 or over.

Vice Minister for Craft & Industry
PHAM MINH DUONG

(Source: CHKT 21-7-67)

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID ORDER

USAID MISSION TO VIETNAM

SUBJECT: Commercial Import Capital Commodities Committee	TRANSMITTAL No. 341	ORDER No. 11.15
	ISSUE DATE 9/4/70	EFFECTIVE DATE 8/27/70
	SUPERSEDES	
RESPONSIBLE OFFICE: ADCCA/CIP	REFERENCE A.I.D. HQ 1242.1	

I. Purpose

To establish a Commercial Import Capital Commodities Committee (CICCC) in order to review, analyze and evaluate specified procurement proposals submitted to USAID for CIP funding.

II. Background

A significant increase in applications for the financing of machinery and equipment through the Commercial Import Program has made it necessary to develop and issue adequate review procedures. Prudent judgment requires that such procurement proposals be analyzed to determine that they will be effectively utilized in production activities. The recognition of this analytical requirement has resulted in the development and issuance of the procedures established herein.

III. Composition of Committee

The Committee is chaired by the Associate Director for Commercial and Capital Assistance or his designee. In addition, one representative each from the following USAID elements which constitutes the permanent members:

ADCCA/Capital Assistance (Vice Chairman)
ADCCA/Industry
ADCCA/Commercial Import Program
ADCCA/Engineering
ADPROG

At the discretion of the permanent members, the Chairman may include other appropriate representatives from the USAID. A representative of the Joint Economic Office will be expected to attend whenever substantial economic issues are involved.

IV. Functions

The functions of the Commercial Import Capital Commodities Committee are as follows:

A. To review all applications for end-user imports of machinery and equipment and/or capital commodities to be used in significant expansion of production or new production or involving equipment expenditure in excess of $100,000 or any other procurement which may be referred to the CICCC.

B. To analyze proposed procurements for suitability of AID financing in such respects as:

1. Value to the economy of the proposed added production, in light of known and established national priorities.

2. Management and financial resources of the prospective user.

3. Technical feasibility, and

4. Whether the specifications ensure the procurement of suitable equipment.

C. To report in writing the results of such analyses to the AD/CIP stating the criteria employed in the CICCC review and the findings of the CICCC with respect to these criteria.

D. In cases involving $1 million or more, prepare an action memorandum from the ADCCA to the Office of the Director requesting the latter's authorization.

E. To request by cable or airgram advance authorization by AID/W of proposals worth $2 million or more.

V. Implementation

A. CICCC analysis and findings are prepared on the basis of inputs to be provided by Industry, Engineering, Capital Assistance and other sources of USAID expertise.

B. The Chairman determines who is responsible for preparing the initial draft of the Committee's analysis and findings.

C. The Capital Assistance Division is responsible for:

1. preparing the final documents and obtaining clearances from each of the Committee members, ADEPP and the Legal Advisor;

2. presenting the final document to the Associate Director for Commercial and Capital Assistance;

3. preparing the action memorandum for the Director; and

4. forwarding all final documentation to AID/W.

D. The Chairman determines the Office represented on the Committee which is responsible for follow-up on the progress of the project and assures that the machinery or equipment is utilized in accordance with the proposal as approved by the CICCC.

Distribution: USAID X
CORDS XAB

W-205 APPLICATION FOR SBC NOTICE OF PROPOSED PROCUREMENT

To: Office of Small Business, CIP UNITED STATES A.I.D. MISSION SAIGON - VIETNAM	1. Date
2. Signature	
3. Importer	
4. Address	
5. Matriculation No.	6. Telephone No.
7. Commodity and 2-digit Code No.	8. Estimated Total C & F Cost $

DO NOT WRITE IN THIS BLOCK

9.

Quantity	Unit	10-digit Code No.	Description & Specifications

2. Application for Equipment Procurement Under USAID/CIP:

Let's assume that the investor has carefully made his pre-investment survey and decided upon what course of action to take regarding the technical and financial aspects of his venture.

With all related information and data available on hand, now let's have a close look at the official format.

The format generally contains the following items:

The heading

(1) Information about the applicant and company.

(2) Information about the principals of the business.

(3) General description of project.

(4) Capacity and process of production.

(5) Equipment required.

(6) Quality and/or standard of products.

(7) Raw materials required.

(8) Land, buildings, and utilities.

(9) Period of plant construction.

(10) Manpower requirements.

(11) Marketing.

(12) Financing.

(13) Financial estimates.

(14) Past financial records in case of an expansion.

(15) Estimated foreign exchange savings.

(16) Statement of intention of implementing the project.

The signature block.

The application will be typed and submitted in five copies. The procedure for its submission and processing will be discussed later. Attached to this application are 10 copies of an "Application for SBC Notice of Proposed Procurement", more commonly called "OSB Notice", or just "OSB". (OSB means Office of Small Business in Washington. SBC means Small Business Circular). Each OSB Notice must be typed twice as the regulations call for two (2) originals and legible carbon copies.

In filling out the application format, the following instructions should be kept in mind:

a. Follow the format as closely as possible.

b. Fill in as much detail, explanation, substantiation, and justification as possible.

c. Be consistent in your assumption and estimates throughout the project.

d. Do not hesitate to attach copy of supporting documents.

e. Do not hesitate to add new paragraphs or items, if it is felt this will contribute to a better understanding/clarification of the project.

The ensuing discussion will be concerned with features that are of importance and often overlooked in filling out, item by item, the official format.

3. Filling out the Format:

a. The Heading

Indicate whether it is a new investment or an expansion project by deleting the non-applicable item. Also do not forget to date the project application.

b. The Applicant and His Company

Clearly state the legal structure of the future company and the proposed plant location. Indicate whether or not the company has been legally established, and if land has been bought or other arrangements have been made regarding land and/or building occupancy.

c. The Principals of the Venture

USAID and MOE will welcome any background information or character reference regarding the major shareholders of the future company.

d. General Description of Project

Summarize the project in a few short paragraphs, indicating for example the proposed production capacity, the estimated equipment cost, the total requirements for raw materials and labor, the market justification, and the benefits provided by the project to the country.

e. Capacity and Process of Production

Describe the proposed technical process adopted, and attach a flow process chart. Indicate the volume of production in units which will be marketed, for both primary and secondary products, if any.

f. Equipment Required

List major items and estimated costs. If need be, attach a detailed listing. It is noted that, due to restrictive use of GVN's own foreign exchange, almost all industrial equipment will be imported with CIP funds from U.S. sources of supply. The proposed equipment should be computed C&F (CIF in some special cases) for the estimated dollar cost, and with proper import taxes and exchange rates for the estimated piaster cost. It is a normal practice that the applicant be ready to furnish a proforma

invoice or a tentative quotation from a potential equipment supplier. USAID would welcome the providing of such document.

h. Quality of Products

Whenever possible, indicate the applicable international standard. If not feasible, describe the qualities of the future products which would enhance the product marketability.

i. Raw Materials Required

Careful listing of all direct and indirect materials utilized, with their proposed sources of procurement and estimated dollar and piaster costs, is absolutely necessary. It should be remembered that a number of materials which can be obtained in Vietnam actually represent imported commodities; for example, chemicals, sugar, steel sheets, etc. Thus, their estimated dollar cost should be indicated.

j. Land, Building, and Utilities

Special care should be given to estimating the areas and costs of land and building. As mentioned earlier, land and building should be suitable not only for present operation but for future expansion as well. As for utilities, it is recommended to utilize public energy as much as possible. If the applicant wants to operate with his own electric generators, he should have obtained concurrence from the (GVN) Vietnam Power Company, and present a strong justification in the project. Water supply and waste disposal may be a serious problem. If applicable, give details of how to cope with these problems and the estimated costs.

k. Period of Plant Construction

Summarize the timing of project implementation.

l. Manpower Requirements

The estimated total annual piaster cost and the dollar component should be indicated at the end of the estimate for manpower requirements.

m. Marketing

Utilize as much statistical information as possible to support the market projections. Make a careful and realistic comparison of the product selling prices vs. prices of similar imported products and/or prices of such products on the international market.

n. Financing

Explain the sources of equity capital, and assign proper interest rates for borrowed money. Give full details for working capital requirements.

o. Financial Estimate

This is actually a proforma profit and loss statement. Delete all non-applicable sections. For taxes, compute 7.2% production tax over gross sales, 1% license tax over net sales, and 28.8% corporate tax over gross profit. Other local taxes may also apply. Repairs and maintenance normally account for 2-5% of equipment and building values. Depreciation can be calculated on the maximum authorized basis of 10% per year for equipment, 5% for building, 33.3% for transportation facilities, and 30% for organization and preliminary expenses. Miscellaneous may encompass sales expenses (1-5% over sales) and administration expenses (2% - 5% over cost of operation). The return on total investment is obtained by dividing net profit by total cost investment and can be expressed in percentage figure.

p. Past Financial Records

No special comments. Applicable to expansion projects only

q. Estimate of Foreign Exchange Savings

It is noted that fuels consumed should be computed as a foreign exchange demand. This is also true even if electric energy is bought from public utilities since it represents an additional demand over existing consumption level.

r. Final Statement

No comment. Just reproduce it as it is

s. Signature Block

It is amazing to note the number of applications not duly signed and dated. This necessitates the return of the application causing unnecessary delays.

t. The OSB Notice (U.S. Bidding Document)

The technical specifications of each piece of equipment must be completely described in such a way that any U.S. manufacturer can bid for the proposed procurement. Also in this respect, any too restrictive or proprietary specifications must be avoided. Concerning most new investment projects, preference should be given to "functional" rather than to "descriptive" specifications. The functional OSB does not describe each individual piece of equipment; instead it states the production performance requirements, quality or grade of finished products needed, types of raw materials used, and a tentative listing of major items of equipment. In response to a "functional" OSB, the equipment manufacturer usually makes an offer for a complete "package" including technical services for installation,

start up, and training, and a provision of spare parts for one to two years of normal operation.

To conclude this part of the discussion, it is remembered that USAID stands available to lend, free of any charge, technical assistance and advisory services to any serious investor intending to start a new industrial enterprise. The entrepreneur can, of course, call on the Industrial Development Center (Technical Department) for assistance. In this case, a nominal fee will be charged for any significant assistance provided (for example, equipment specifications book, project writing, preparation of bidding documents, pre-engineering work, etc.). Other routine inquiry services provided by IDC are free.

F. ANALYZING AN INDUSTRIAL PROJECT:

Although all applications for equipment procurement involving USAID/CIP funds are to be processed by MOE and USAID/Saigon, it will be of great assistance if those applications coming from the provinces could be first screened by U.S. field personnel actively engaged in regional economic development.

Preliminary screening of industrial projects often reveals weaknesses and shortcomings such as technical misjudgment, inadequate financial estimates, errors in calculations, and inconsistencies among data and information reported throughout the project. Early corrections of these and of others will greatly benefit the investors being advised, thus saving time and effort by all concerned.

The following, showing how USAID/Industry Division usually analyzes

an industrial project, can serve as a guideline for interested U.S. field personnel.

General Criteria Applied:

1. Technical Feasibility

a. Is this a standard and normally accepted use for the equipment being purchased?

b. Does process/equipment follow modern practice; i.e., process/equipment not obsolete or about to become so?

c. Is process/equipment adequate to meet quantity of production and quality output requirements as forecasted?

d. Is process/equipment oversized or excessive in terms of quantity and quality standard for equipment itself and production requirement?

e. Is there available, or means being made available, to provide competent installation, start-up, operation, training, and maintenance of process/equipment?

f. What is the useful life of the equipment being purchased?

2. Economic Feasibility

a. Does a market exist for the product at the quantity, quality and price levels specified and projected?

b. Are cost and selling price projections realistic in terms of productive capacity, market penetration, and profit returns?

c. Do adequate plans exist for marketing the product?

d. Is the enterprise sufficiently financed to carry long-term debt service and working capital requirements?

e. The following ratios should be identified:

Debt to Equity (Debt ÷ Equity).

Projected net profit to Net sales (Net profit ÷ Net sales).

Return on equity, (Net profit ÷ Equity)

Return on investment (Net profit ÷ Cost of investment).

f. What is the capacity of the project to generate and/or save foreign exchange? (See page 10 of "Application for Equipment Procurement")

(1) Does the project have at least a reasonable expectation of long-term economic feasibility?

(2) Is the project (a) well conceived, (b) adequately financed, and (c) properly managed?

Errors & Mistakes Often Found in Projects Submitted:

1. Equipment Required

Inadequate description either in the project or in the attached OSB Notice. Specifications too sketchy or not following U.S. standards, making it difficult, if not impossible, for U.S. manufacturers to bid on the proposed procurement. Cost of equipment, both in dollar and piaster value, under-estimated. Quality control equipment, spare parts sufficient for one or two years of starting operation, and technical services for equipment installation and start-up often overlooked.

2. Raw Materials Required

Quantities and costs under-estimated. Often indirect materials such as for packaging not being computed. The dollar costs of imported materials and their varied import rates of exchange incorrectly applied and calculated.

3. Manpower Requirements

Annual cost of personnel not correctly estimated. Dollar component for foreign technicians salary not shown.

4. Land, Building, and Utilities

Land area inadequate. Improper plant location. Cost of building underestimated. Energy consumption and cost of utilities installation miscalculated. Problems regarding waste disposal overlooked.

5. Marketing

Insufficient market research and analysis. Competition overlooked. Too optimistic pricing of products. Channels of distribution not described.

6. Financing

Insufficient capitalization due to underestimating cost of investment and especially of working capital requirements. Overestimating the borrowing capacity in the financing method of the project.

7. Financial Estimate

Inconsistent reporting of different items of cost of operation. Often, some major cost items omitted. Frequently, all figures not added up right.

8. Foreign Exchange Savings

Dollar cost of local production minimized. Costs of fuels, depreciation, foreign technicians and imported supplies overlooked.

Some Bases for a Quick Evaluation of Projects:

1. Foreign Assistance

If there is proof of foreign assistance provided by a well-established firm prior to the project submission, there will be a better chance that the project would be considered technically feasible, although this fact alone cannot warrant the final project feasibility. For a small manufacturing plant, the screening of a recent proforma invoice issued by a potential supplier for the proposed equipment can often assure the analyst that the project technical planning has started from a sound beginning.

2. Qualifications of the Investors

Industrial and/or commercial experience of the principal investor is a factor considered by the analyst in the evaluation as to whether the project could be successfully carried out. If such experience is lacking, then the planning should include evident sources of technical, financial, and managerial capabilities acquired or to be acquired. Often, some investigation on the part of the analyst is necessary.

3. Industrial Priorities

The GVN has published two lists of industrial priorities for which investment privileges are granted. If the project submitted falls into one of the categories specified, it will have a good chance to be favorably considered. These lists of industrial priorities are attached for reference.

4. Financial Ratios

There are two ratios of particular importance. The first is debt/equity ratio which shows the financial organization of the business. If this ratio approaches or exceeds 200%, the company is heavily indebted.

In this case, the business should yield a very substantial net profit in order to keep the company solvent. The second important ratio is the return on investment obtained by dividing net profit by total cost of investment. With the present rate of inflation, any return on investment ratio lower than 20% (that is pay-off in 6-9 years if one takes into consideration the distribution of dividends) is economically questionable, if not unfeasible.

5. Foreign Exchange Savings or Earnings

The net amount of expected foreign exchange savings or earnings equalling or exceeding 50% of the equipment value is a good indication that the project will be highly beneficial to the national economy.

The aforesaid considerations have actually served USAID analysts in their preliminary assessments of industrial projects to see whether a project could be technically and economically feasible, and, if not, what could be wrong with the proposal.

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