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Evaluation Report

Prepared in cooperation with
the Government of Italy and the
United Nations Industrial Development Organization

* This document has not been edited.
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Value of the Italian Lira during the period of the evaluation according to the UN operational rate of exchange:

- September 1994 1 US$ = 1,580 Italian Lire
- October 1994 1 US$ = 1,560 Italian Lire

List of acronyms used in the report

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BL</td>
<td>Budget line</td>
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<tr>
<td>BORITEC</td>
<td>International Cooperation Development and Investment Exchange</td>
</tr>
<tr>
<td>COMFAR</td>
<td>Computer Model for Feasibility Analysis and Reporting</td>
</tr>
<tr>
<td>CONFINDUSTRIA</td>
<td>Confederation of Italian Industries</td>
</tr>
<tr>
<td>DGCS</td>
<td>General Directorate for development cooperation, Ministry of Foreign Affairs</td>
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<tr>
<td>DIPP</td>
<td>Data bank for the Investment Promotion Programme</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>ICE</td>
<td>Italian Institute for Foreign Trade</td>
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<tr>
<td>IDF</td>
<td>Industrial Development Fund</td>
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<tr>
<td>IPSO</td>
<td>Investment Promotion Services Office</td>
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<tr>
<td>iSIC</td>
<td>International Standard Industrial Classification</td>
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<tr>
<td>JV</td>
<td>Joint venture</td>
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<tr>
<td>PCF</td>
<td>Project Completion Facility</td>
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<tr>
<td>PROPSPIN</td>
<td>Project Profile Screening and Preappraisal Information System</td>
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<tr>
<td>SACE</td>
<td>Credit Insurance for Export Guarantee</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UTC</td>
<td>Unita tecnica centrale of Ministry of Foreign Affairs</td>
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Summary of preliminary conclusions and recommendations of the joint evaluation mission on the Investment Promotion Service Office in Milan

The IPSO Milan started its operations in September 1987 and after an initial period of two years the Italian Ministry of Foreign Affairs approved a five-year extension till December 1994. The purpose of the Office is to contribute to the identification and promotion of appropriate industrial investment projects in developing countries, with the aim of transferring know-how, technology and capitals through Italian enterprises interested in industrial cooperation abroad. The lack of knowledge among Italian entrepreneurs of the possibility of industrial opportunities in foreign countries, and in some cases the poor knowledge of foreign languages and of investment laws represent a serious obstacle for the development of the small and medium Italian enterprises abroad.

Taking into account the above, the main objective of the Office in Milan is to assist developing countries in their industrialization efforts thorough the internationalization of the Italian SMEs. The preliminary findings of the mission can be summarised as follows:

- The International Fair of Milan (the present location of IPSO) is the ideal location for the project.

In the Fair premises 90 specialized fairs per year are organized and the staff of IPSO has the opportunity to reach and be easily reached by a large number of entrepreneurs. Moreover the Office in Milan is one of the major partners of the Fair Authority for the organization of BORITEC (International Cooperation Development and Investment Exchange). This exhibition had its 6th edition this year and represents a valuable meeting point for entrepreneurs from over 70 different countries. Furthermore, the Fair Authority is offering the office premises free of charge. A relatively small contribution for electricity, cleaning, security service, heating and conditioning is required.

- Nearly 4000 projects have been promoted by the office during the last five years, of which 1000 were identified by IPSO Milan itself. More than 3000 companies interested in industrial cooperation are included in the data bank and 50 per cent of them are classified as small industries. The geographical distribution of the companies reflects the distribution of the Italian companies in the national territory (80 per cent from Northern Italy of which 35 per cent are in the Lombardy region). The evaluation mission deems that a bigger promotional effort should be made in those regions of the country that do not have easy access to the services of the project. The mission has taken note that a series of promotional activities are planned to activate some focal point or contacts in the south and the center of the country.

- The PCF (Project Completion Facility) has been highly appreciated by the Italian and foreign entrepreneurs that have benefitted from this important tool. In some cases, the feasibility studies produced through this facility have been decisive for project financing.
The mission found the criteria for the sharing of costs between entrepreneurs and IPSO of the feasibility study too loosely applied; the criteria based on turnover or paid-up capital has not always been strictly followed. It would be advisable to formulate precise guidelines in this matter.

Although in the project document, establishing IPSO, it is indicated among the immediate objectives that the Office will pay due attention to the sectorial and geographical priorities established by the DGCS of the Italian Ministry of Foreign Affairs, it appears that the identification of the target countries has not always been in accordance with these priorities.

In this respect, the mission has received a demonstration of the interest of the Italian Ministry of Foreign Affairs in producing a more intensive effort, especially with regard to "priority countries" that are beneficiary of credit line for joint ventures, through the posting of Associate Experts (with some experience) in those countries. The Chamber of Commerce of Milan and ICE have expressed their interest in the possibility to finance an Associate Expert in those countries where the demand for industrial cooperation is particularly strong.

The channelling of funds and the selection of personnel should be examined by the concerned parties.

The contribution of the projects to the use of Italian financing facilities (Art. 7 Law N. 49/87, concessional credit lines...) for joint ventures has been negligible. The DGCS considers that the cooperation with IPS-Milan should be more effective in the future in those fields that are instrumental for the smooth implementation of the Italian investment cooperation activities.

The Delegate Programme has been highly appreciated by all entrepreneurs interviewed by the mission. The rate of success in project promotion is very good because of the delegate knowledge of the country, the investment laws, the language and indication of suitability of local partners.

The evaluation team has noticed that the success in project promotion could lead to some self-financing sources such as a minimal entry fee to the data bank for the entrepreneurs or for the so called "opening of the file".

The project was not able to provide information about the actual expenditures per budget line during the five year period. Such information will be provided by UNIDO Vienna and will be an integral part of the final report.

Appreciation for the activities of the project was expressed by the Italian institutional partners such as ICE, CONFINDUSTRIA, MEDIOCREDITO, SACE, SIMEST. They stressed the importance of promoting the services of IPO-Milan among the entrepreneurs and improving the exchange of project profiles.

In particular CONFINDUSTRIA offered the possibility of inserting in their electronic network a window reserved for UNIDO project profiles. The information could reach 239 business associations and 130,000 associates quickly and efficiently. CONFINDUSTRIA expressed interest in the possibility of financing one or two delegates coming from countries among their priorities.
INTRODUCTION

a. Background of the IPSO concept

Within the Investment and Technology Promotion Division UNIDO has established an Investment Promotion Programme, whose main objective is to promote joint ventures for viable projects between partners in developing countries and interested foreign investors in industrialized countries.

Through this programme companies in industrialized countries are informed about partnership opportunities and project profiles available for sponsoring in developing countries. At the same time the interested investors receive from UNIDO assistance and advice on how to mobilize the necessary financial and technical resources for the development and the negotiation of such opportunities.

The exclusive feature of this Programme is the existence of a network of Investment Promotion Service Offices (IPSO), through which the objectives of the Programme are realized, in cooperation with focal points or investment promotion agencies in developing countries.

In 1975, in order to facilitate the implementation of this activity, the first Investment Promotion Service Office was established. The IPSO have to be in close contact with business associations, banks, ministries and development agencies in the host country. They also establish data banks with details of national companies interested in industrial partnership in developing countries. Through IPSO the interested local potential investors receive information and assistance regarding investment opportunities and business climate in the developing countries.

Through this world-wide network UNIDO has a strong comparative advantage in gaining access to valuable investment information, particularly in the marketing of pre-investment services, providing investment information and contacts, and helping in the identification, formulation and implementation of industrial investment projects in developing countries. The function of the IPSO is to promote these activities assuring the local presence and the liaison with the national economic infrastructure and the entrepreneurs.

IPSOs are financed by the voluntary contributions of the host country concerned. The guidelines for the operation of these offices are laid down in the relevant agreements with UNIDO. The central direction is provided by UNIDO Headquarters.

IPSOs normally orient their operation to a limited number of target countries, for obvious reasons, including investment promotion actions and trade related components. Following this practice investment promotion activities of an IPSO are facilitated by coordinating with the bilateral cooperation of the host country.

The performance of an IPSO is measured by the number of successfully promoted, concluded and possibly operating industrial cooperation agreements in developing countries.
It is evident that the IPSO provide UNIDO with the unique position of having "antennae" in selected developed economies, enabling them to establish mutual advantages with the local business community.

Through this network, UNIDO has the possibility to find out the needs and offers of the investors in developed countries providing them with the investment and cooperation proposals from developing countries.

IPSOs are UNIDO offices and work in a harmonized frame of operational and administrative policies and procedures.

The support provided by UNIDO Headquarters to the IPSO is very important for its performance and, consequently, the continuous interest of the host authorities. The main reason for the success of the IPSO matchmaking process is the recognized impartiality and objectivity of UNIDO, which reflects on the project quality that promotion by UNIDO involves. Poor project profiles submitted by the Headquarters to the IPSO affect negatively their promotion work.

b. Establishment of the IPSO in Milan

In August 1985, through an exchange of Notes Verbales, the Italian Government and UNIDO established in Milan an office for the promotion of industrial cooperation between firms in Italy and interested parties in developing countries.

The Office started its operations in September 1987. The terms of reference agreed upon specified that the Office in Milan would contribute to the identification and promotion of industrial investment projects in developing countries, with the aim of transferring know-how, technology and capital to industrial enterprises in developing countries.

The Office has followed the pattern of work and promotion methodology applied with success in other offices of the UNIDO/IPSO network. After an initial period of two years, September 1987 to September 1989, the Italian Ministry of Foreign Affairs, General Directorate of Development Cooperation, satisfied with the achievements of the Office during this period, approved a five-year extension of the operations of the Office.

The project document describing the objectives and the proposed activities of the Office covers the period September 1989 till end December 1994.

The development objective of the project is to mobilize financial, human and technical resources to encourage industrial business activities in developing countries promoting joint ventures between the project sponsors of those countries and Italian entrepreneurs.

The immediate objective is to help developing countries in their industrialization efforts through the promotion of Italian investments and transfer of technology. In this framework the Office shall contribute to the identification of appropriate investment
possibilities, bringing to the attention of potential Italian investors concrete project proposals.

c. The structure of IPSO Milan

According to the project document UNIDO will operate and supervise the Office. The Head of the Office in Milan is appointed by the Director General of UNIDO after consultations with the Government of Italy and in accordance with the UNIDO regulations, rules and procedures. All other staff as required for the proper functioning of the Office, is appointed by UNIDO in accordance with the same regulations and has a UNIDO letter of appointment.

The Government of Italy will place at the disposal of UNIDO a special purpose contribution for the functioning of the Office in Milan, on the basis of a mutually agreed budget. The above mentioned special purpose contribution will be drawn by UNIDO from the United Nations Industrial Development Fund. UNIDO is responsible for the administration of this contribution in accordance with its financial rules and other applicable regulations.

The Head of the Office manages the operations of IPSO Milan and with the assistance of the staff implements the work programme of the Office for the promotion of industrial investments in developing countries. UNIDO keeps the Government of Italy informed on the activities of the Office, through the Italian Permanent Mission to UNIDO in Vienna. However, the Head of IPSO maintains direct contacts with the Ministry of Foreign Affairs and all other Authorities involved in the activities of the project.

The project document further underlines that the Government of Italy will be informed of all investment proposals indicated in the UNIDO portfolio of investment opportunities and that the Office in Milan will be provided with whatever information is available in UNIDO.

Moreover, the project document stipulates that UNIDO shall furnish the Government of Italy with an annual report on the progress of the Office as well as an annual financial statement. The annual report on the activities of IPSO is prepared by the Office itself and covers a period of twelve months, from January to December. the annual financial statement is provided by the Financial Services of UNIDO.

d. Reasons for the evaluation

This joint evaluation undertaken by UNIDO in cooperation with the Italian Ministry of Foreign Affairs three months before the scheduled completion of the period covered by the approved budget is foreseen in the project document and shall provide the basis for a joint decision concerning the possible extension of the project.

This joint in-depth evaluation is slightly delayed due to the summer holiday period and the consequent impossibility to interview some selected final users of the project (the Italian investors), who are the persons to whom the activities of the Office are addressed.
The persons nominated to conduct the evaluation have not been directly involved in the design, appraisal or implementation of the project, and their observations are the direct result of an evaluation carried out on their own capacity. The views and opinions of the team do not necessarily reflect the views of the Italian Government or UNIDO.

e. Organization, methodology and proceedings of the evaluation

The primary purposes of the in-depth evaluation are:

1. To assess the achievements of the project against its objectives and expected outputs, including a re-examination of the project design.

2. To identify and assess the factors that have facilitated the achievements of the project’s objectives, as well as those factors that have impeded the fulfilment of those objectives.

As part of the above mentioned tasks, the mission will also review whether the approach utilized in the project has led to optimum results, or whether another one would have improved the results.

The mission was composed of the following members:

Mr. Rosario Centola
Industrial Advisor
Ministry of Foreign Affairs
General Directorate of Development Cooperation UFF. XV (UTC)
Representative of the Government of Italy

Mr. Mario Marchich
Evaluation Officer
Evaluation Section
Representative of UNIDO

It should be noted that this is the first in-depth joint evaluation made on IPSO Milan since its establishment.

Before his departure Mr. Marchich was briefed in Vienna by the UNIDO staff involved in the IPSO activities. Then the mission assembled in Rome to start its work on 26 September 1994. Ten working days were allowed for visiting a few regions of Northern Italy some Italian entrepreneurs already registered by IPSO, interviewing IPSO staff, the Ministry of Foreign Affairs, the National Institutions involved in investment promotion and the industrial associations.

The mission conducted a thorough review of the results obtained during the seven years of operations of the office. The assessment regards:

- the administrative and substantive set up of the office
the achievements of the objectives of the project, such as mobilization of the investment resources within Italy to promote investment projects in developing countries through joint ventures and other forms of business oriented partnership
- the upgrading of the information of Italian industrial entrepreneurs on investment opportunities
- the contacts with Italian institutions involved in developing, promoting and implementing investment projects.

At the initial briefing at the Ministry of Foreign Affairs in Rome on 26 September the evaluation team was specifically requested by the competent section of the Ministry to ascertain and examine during the evaluation the following points:

- how IPSO Milan has spent the funds of the contribution
- how the promotion of the office in Milan has been made
- why the office has been established in Milan and not in other Italian towns
- how many industrial companies of Central and Southern Italy are in the roster of IPSO
- explore the possibilities of partial self-financing activities, particularly taking into account that the budget of the Italian Development Cooperation has been curtailed
- activities of promotion made among the Italian small and medium industry and strategies foreseen for the future
- possibilities of strengthening the cooperation between ICE (Institute for the External Commerce) and IPSO
- implication of IPSO in operations utilizing Italian special credit lines for investments abroad

As regards methodology, this report is based on the information obtained during the visits of organizations and persons met (annex II), as well as interviews with the staff members of IPSO and review of the office records.

The overall evaluation was carried out, as far as possible, in accordance with the Director-General's Bulletin "In-depth evaluations of technical cooperation projects" (UNIDO/DG/B. 106).

The final debriefing of the mission was carried out in Rome with Messrs. E. De Maio, G. Ghisi and M. Betti-Berutto of the General Directorate of Development Cooperation.
I. Project concept and design

A. The context

a. Economic and institutional context

The economy of Italy achieved an impressive economic miracle during the twenty years following the end of World War II. A major programme of infrastructure investment took place in the south of the country (Mezzogiorno). During these years the south had also the strong problem of the emigration to both the north of Italy and elsewhere in Europe. In 1965-75 the economy continued to progress, but less consistently due to inflation and balance of payments problems. The first half of the 1980s saw a considerable recovery in the private sector of industry's profitability, while small and medium scale industries showed an impressive ability to adapt under difficult circumstances.

The economic problems of the south of Italy (the Mezzogiorno) are very relevant for the total economy of the country. The Mezzogiorno includes the regions of Abruzzi, Molise, Campania, Puglia, Calabria and Basilicata, plus the islands of Sicily and Sardinia. Its land area represents 40 per cent of Italy's total. In 1984 the population of Mezzogiorno was 35 per cent of the total and its participation to the GDP (Gross Domestic Product) 24 per cent. Growth rates of Mezzogiorno, Central and North Italy were more or less the same from the 70s until mid 80s. Since then the growth in the south slowed down and it has concentrated more in services, while agriculture has declined and the industrial output is stagnant.1

The Italian agriculture accounts for twice the proportion of employment as in the north-centre but is manufacturing for only 13 per cent of value added compared with the 30 per cent elsewhere in the country. The employment disparity between the Mezzogiorno and the rest of the country grew rapidly in the 80s. At the end of 1991 the unemployment rate in the south was around 20%. Investment levels as a proportion of the outputs have tended to exceed those in the north-centre. Infrastructure constructions as roads, highways, railways and telecommunications have been impressive. However, the failure of past policies has been recognized and the old investment fund (Cassa per il Mezzogiorno) has been abolished. A new approach for the south, with flexible funding designed to encourage individual and cooperative enterprise, was enacted in legislation by Parliament in March 1986 (Law nr. 64). The funds provided have been substantial but the implementation has not come up to the expectations. The parts of the south which have made most progress are the east coast of Sicily, Sardinia and Puglia. The Fiera del Levante, an international trade fair held in Bari every September, underlines the success and the development reached by the Puglia region.

The State's presence is widely spread in the Italian economy, although the public sector deficit and debt, plus the European Union restrictions on state aid to industry, have contributed to gradual shift in government policy on public ownership. The largest of the state holding companies is I.R.I. (Institute for Industrial Reconstruction). Its subsidiaries

1 The Economist Intelligence Unit, 1993.
include not only manufacturing companies, but major international construction companies (Italstat and Italimpianti), the national shipping company (Finmare), the national airline (Alitalia), the telephone company (SIP), the highways and three major banks. Another giant holding company is ENI (Ente Nazionale Idrocarburi), which is very powerful nationally and internationally in the energy sector.

In late 1992 the Italian Government introduced a privatisation programme which intended to dismantle the production state sector. The main achievement of the Government at that time was to transform the major state shareholders into joint-stock companies, as a preliminary step towards their privatisation.

The role played by the Italian private small industries in the development of the country after World War II has been of high importance and several Italian small entrepreneurs look now with interest at the possibility to extend their business in an international context through the creation of joint ventures with entrepreneurs of developing countries. Confindustria (Confederation of Italian Industries) represents the interests of all the small, medium and large industries of the private sector operating in Italy. Confindustria covers around 130,000 firms of every size, dealing with all kind of products. Confindustria is structured as follows:

- 105 Territorial Associations which cover enterprises in a particular area of the country (usually a Province) and deal with problems of common interest to business in that area.

- 104 Branch Associations which cover the firms operating in a specific sector and deal with the problems of that sector of industry.

- 30 Sectoral Federations which deal with the problems of the industry at regional level.

b. National infrastructure regarding the project

The office has relations with the following authorities and institutions:

1. Central administrative authorities:

- Ministry of Foreign Affairs
  Directorate General for Development Cooperation, (DGCS)
  Directorate General for Economic Affairs

- Ministry of Foreign Trade
  Italian Trade Commission, (ICE)

2. Government Financing Institutions:

- MEDIOCREDITO CENTRALE, entrusted with the disbursement of soft loans for export, joint ventures, concessional financing for developing countries
- SIMEST, merchant bank entrusted with promotion, development and financing of joint ventures in developing countries and Eastern Europe

- FINEST, created to facilitate investment activities in Eastern Europe of Italian companies based in Friuli-Venezia-Giulia

- SACE, entrusted with the task of providing insurance for political risks linked to export credit

3. Associations

- Chambers of Commerce and in particular Milan Chamber of Commerce

- Milan Fair Authority

- CONFINDUSTRIA, federation of Italian industries

- API (association of small manufacturers) at regional level

c. IPSO Milan in the UNIDO context

UNIDO assists developing countries in promoting inward investment flows and, for this purpose, has established a network of Investment Promotion Service Offices, mainly in industrialized countries, to identify, promote and mobilize technical, financial and managerial resources needed to implement industrial joint-ventures in developing countries.

The main activities of IPSOs are:

- to contact in their respective countries enterprises willing to consider a business partnership in a developing country establishing a data bank with records of the potential investors;

- to analyze project profiles and investment proposals, coming from UNIDO Headquarters or other sources, in order to determine whether a potential entrepreneur can be found in the country;

- to establish contacts with the local associations of enterprises for the promotion of the above mentioned investment projects;

- to provide information, utilizing the UNIDO network, on the climate for investment in the developing countries concerned. In some offices it is possible to have the assistance of a delegate of the concerned developing country, if the delegate’s programme is foreseen in the office activities;

- to bring the local investor and the prospective foreign partner into direct contact through UNIDO investment promotion meetings and fora;
- to assist the parties in their negotiations and in completing the preparation of
preinvestment studies, up to the stage at which the parties can conclude a written
agreement to implement the project;

- to assist delegations from developing countries in contacting potential local
entrepreneurs as well as industrial and financial institutions of the host country;

- to assist local entrepreneurs in their negotiations with banks and financial
institutions regarding credits for industrial joint-ventures in developing countries;

- to disseminate information on the available technologies and on the possibility of
transfer of technology from the host country;

- to organize presentation meetings and symposia in order to familiarize the host
country companies and institutions with investment opportunities in developing
countries;

- to diffuse modern methods and techniques for the evaluation and preparation of
investment projects and disseminating UNIDO software created for this purpose;

- to undertake all additional necessary activities aiming at the achievement of the
foreseen objectives.

IPSOs are financed by their host countries, which make appropriate voluntary
contributions to UNIDO in order to meet the operational costs involved. The staff
appointed to work in the office has the status of technical cooperation project personnel
under the 200 series of the staff rules.

B. The Project Document

a. Analysis

1. Brief Outline

The project document governing the activities of IPSO Milan during its first
extension was prepared in May 1989 and covers a period of 64 months (September 1989
to December 1994). (Annex Nr. IX)

The initial biennium (September 1987 to September 1989) was covered by a
previous project document which expired in September 1989.

Following a letter of the Director-General of UNIDO dated 5 March 1990 (Annex
Nr. III) the Italian Permanent Representation to UNIDO, satisfied with the results of the
first phase of the operations, approved the present extension of the project with a letter
dated 5 March 1990 to the Director-General of UNIDO. (Annex Nr. III)

The structure of the document is in three parts as follows:
- Part A: Basic Data

- Part B: Narrative
  1. Background information
  2. Objectives
     a. development objectives
     b. immediate objectives and activities

- Part C: Institutional structure of the UNIDO Industrial Promotion Office in Milan

Attached to the document there is a project budget dated 13/12/1989 (Annex Nr. V) for total US$ 5,496,100 covering the five years with a justification for each budget line. The overheads agency support costs are not included:

13% on personnel costs (US$ 2,874,200) US$ 373,646 and
5% on all other costs (US$ 2,621,900) US$ 131,095
TOTAL US$ 504,741

These figures bring the total cost of the project to US$ 6,000,841 equivalent in April 1989 to Italian Lire LIT. 8,101,135,350 at the exchange rate of US$ 1 = LIT. 1,350. (See first page of project document - Annex IX.)

2. Detailed considerations

The background information provided is very general and gives a brief description of IPSO and of the chronological administrative progress during the initial two years of activities.

The project document does not specify any outputs and, therefore, the office operates without pre-determined targets.

The long list of project activities does not lead to a precise formulation of specific results to be attained. However, it has to be noted that activities such as provision of information, advice and assistance, which may or may not lead to concrete results in terms of projects concluded, can have strong effects in form of awareness creation, regarding the existence of the Office and its activities.

The promotional nature of the Office and the impossibility of making precise forecasts for the number or the value of the promoted or concluded projects does not allow the team to define the outputs in concrete terms.

The project objectives and the activities of the project can be summarized as follows:
to mobilize financial, human and technical resources for promoting joint business activities through international cooperation between Italian entrepreneurs and sponsors in developing countries.

- to assist UNIDO in its programmes of industrialization, which involve promotion of investments and transfer of technology, Italy makes available a special purpose contribution for the continuation of the activities of IPSO in Milan.

- to help in the industrialization efforts, IPSO will contribute in the identification of industrial investment opportunities in developing countries, bringing them to the attention of Italian potential investors, inserted in a data bank established and continuously updated by IPSO.

- IPSO Milan will pay due attention to the sectorial and geographical priorities established by the Italian Development Cooperation matching them with the priority sectors in UNIDO's work programme.

- to prepare in cooperation with UNIDO Headquarters analysis of socio-economic situations in priority countries selected in consultation with the Ministry of Foreign Affairs, in order to identify priorities and potentialities.

- to bring to the attention of Italian enterprises proposals for project profiles with special regard to small and medium scale industries.

- to identify potential partners in Italy, assisting them by providing information and advice regarding joint-ventures, subcontracting, limited partnership and any other form of transfer of resources.

- to organize visits in Italy for partners from developing countries, providing information on the available technologies existing in Italy.

- to provide information to Italian entrepreneurs on the developing countries concerned regarding policies and procedures governing foreign investments.

- to develop cooperation with Italian institutions, including banks, concerned with the strengthening of industrial development cooperation with developing countries.

- to advise on the financing, especially from public Italian authorities and from national and international financial institutions involved in the financing of industrial projects in developing countries.

- to organize participation of Italian entrepreneurs in UNIDO's Investment Project Promotion meetings.

- to organize seminars in Italy for industrial projects and technology transfer.

- to help the entrepreneurs in the analysis of the financial and economic feasibility of proposed projects through the UNIDO computerized programmes.
to assist selected joint-venture partners with project completion facilities, which aim at alleviating their financial burden in implementing the initial stage of the joint-venture, by co-financing pre-investment studies.

- to provide on-job orientation programmes in the field of industrial promotion for nationals of developing countries in Italy. The so-called "delegates programme", which consists of delegates from developing countries who operate as advisers for investment promotion in their own country at the Milan premises.

The last part of the document (Part C) deals with the institutional structure of the office and can be summarized as follows:

- UNIDO will operate and supervise IPSO Milan in accordance with the UNIDO regulations, rules and procedures and the Head of IPSO shall manage the operations.

- From its contribution to the Industrial Development Fund, Italy will place at the disposal of UNIDO a special purpose contribution for the functioning of IPSO Milan, on the basis of a mutually agreed budget.

- UNIDO shall, according to its financial regulations and rules, establish a project account to be used exclusively for this project and accordingly administered. All financial accounts should be expressed in US$ and all transactions should be converted in US$ at the official UN rate of exchange at the date of the payment.

- The project account shall be charged with an amount equivalent to 13% for all personnel expenditure and 5% for all other expenditure as administrative overhead costs for UNIDO.

- The project account will be charged with an amount equivalent to 1% of the net salary of the persons whose engagement is financed by the project account. This provision aims at providing a reserve for coverage of any claim involving service incurred death, injury or illness, under the UNIDO regulations governing the contracts. This reserve will not be refunded to the Government.

- UNIDO shall keep the Government of Italy informed on the activities of IPSO Milan, through the Permanent Mission to UNIDO in Vienna. The Head of the Office shall maintain direct contacts with the Ministry of Foreign Affairs in Rome.

- UNIDO shall furnish Italy with an annual report on the progress of the Office, as well as an annual financial statement. UNIDO will also submit a work programme for each year of operation of the Office. This work programme shall be in line with the objectives of the Office.

- The Government of Italy and UNIDO shall carry out a joint evaluation prior to the completion of the period covered by the approved budget, to decide whether or not to continue the programme.
The above mentioned paragraphs of the document do not indicate a monitoring mechanism for the tracking of major project milestones and recognition of any difficulties that would require management action to be undertaken by UNIDO.

Although mentioned in the document, no work plan or other means of scheduling project activities were included in the document. The absence of this plan does not give the possibility to establish to what extent the implementation of the main activities have followed the initial project plan.

The target beneficiaries and the project strategy are stated. However, the approach and the modalities of execution could have been outlined more specifically, indicating with which national institutions the ties should have been strengthened or established.

The design of the project did not indicate the results of the previous two year phase. Based on the two year experience the objectives and the outputs could have been indicated in some verifiable and quantifiable terms.

b. The staffing of IPSO Milan

The project document indicates that the staff of the Office will be recruited by UNIDO according to its rules and regulations. Regarding the international professional personnel the budget attached to the document foresees three professionals including the Head for the entire duration of the project, one professional for three years and 60 man/months for short term consultants.

Regarding the administrative support personnel to be recruited locally four general service staff are foreseen for a total cost of US$ 850,000 over the total five year period.

For the delegates programme US$ 408,000 are budgeted over the five year period.

Due to the fact that some positions have not been filled in or that some staff has left earlier, some budget revisions have been made among budget lines and at the time of the evaluation (end September 1994) the staffing situation of the Office was as follows:

4 Internationally recruited professional staff and consultants.

2 Internationally recruited associate experts, financed by the Italian Government under another budget source, not related to IPSO Funds. Of these two associate experts in investment promotion one is of Iranian nationality and based in Milan, while the other is Italian and is based in Manila/Philippines.
3 Delegates from: China, Poland and Czech Republic. One new delegate from India is expected in October 1994. Budget line 11-31.

7 General Service staff, of whom 2 part time. Budget line 13-00.

The present situation of the staff given by IPSO Milan to the evaluation team is as follows:

1. Officer-in-Charge Mr. Stefano GIOVANNELLI (from 01/06/88)
2. Investment Promotion Officer Latin America Programme Mr. Graziano BERTOGLI (from 15/09/87)
3. Investment Promotion Officer Eastern Europe Programme Ms. Monica CARCÓ (from 01/05/91)
4. Asia Programme Mr. Francesco MANDELLI (from 05/04/94)
5. Associate Expert Ms. Ramina SAMII (from 01/11/92)
6. Associate Expert (based in Manila) Mr. Giuseppe MESSUTI (from 08/02/93)
7. Chinese Delegate Mr. SONG Xianfeng (from 23/06/93)
8. Polish Delegate Mr. Grzegorz BYCHAWSKY (from 07/02/94)
9. Czech Delegate Mr. Petr JAROS (from 09/02/94)
10. An Indian Delegate is being selected to take up duties before the end of 1994.
11. Secretaries Ms. Luisa CAPELLA
    Ms. Joelle CAPPELLETTI (from 02/10/89)
    Ms. Aileen TOAL (from 08/01/90)
    Ms. Roberta TORZA (from 02/12/91)
    Ms. Sonia CUESTAS (from 02/01/93)
    Ms. Marina REBORA (from 06/01/93)
    Ms. Donatella PERROTTA (from 05/09/94 part-time)
We have to add that the Head of IPSO Milan, who was directing the Office from its beginning in 1987, came back to the Headquarters in Vienna early 1994 and that a delegate of Vietnam, who according to the interviews with the Italian entrepreneurs worked successfully on promotion and assistance for the investments in this country, is no longer in IPSO having completed his period of assignment.

II. Project implementation

A. Delivery of inputs

a. Government/UNIDO inputs

The activities of IPSO Milan are financed for five years, 1989 to 1994, with funds allocated by the Italian Government to the Industrial Development Fund of UNIDO, as a special purpose contribution.

The financial resources are provided by the Ministry of Foreign Affairs, which is the Government Counterpart Agency. The total initial budget of the project was US$ 5,496,100 without overheads agency support costs. (Annex no. V).

Due to several revisions on 11 November 1993 the Italian Permanent Mission to UNIDO approved a fourth revised project allotment document for US$ 5,611,938 (Annex no. VI)

It has to be noted that while the initial budget document has to specify the breakdown of costs for each year and each budget sub-component, the revision of the project budget does not require the specifications of the sub-totals for each budget line.

The detailed report on project expenditure as on 30 September 1994 (date of the evaluation mission) shows a total expenditure of US$ 3,560,209 for the period from September 1989 to end December 1993 and US$ 471,394 for the first nine months of 1994. This brings the total expenditure of the project until end September 1994 to US$ 4,031,603. (Annex no. IV).

While taking into account that some expenditure occurred before this date has not yet been recorded, from these figures the mission gathered that, three months before the completion date, the project has a positive balance of more than US$ 1.5 million.

All the global accounts are kept in UNIDO/Vienna and the office in Milan is sending a monthly report of the local expenditures.
b. Steering by UNIDO Headquarters and the Ministry of Foreign Affairs

UNIDO operates and supervises the Office in Milan. The IPSO reports to UNIDO, namely to the Investment and Technology Promotion Division. According to the IPSO's operation manual, IPSOs have to report to UNIDO on their substantive activities on a quarterly and yearly basis, using model reports which are the same for all the offices.

The compliance of the office in Milan with these requirements is good and regular.

The last yearly report presented covering the activities for 1993 elucidates well the context in which IPSO is operating, the results of the investment promotion activities, the databank programme and the special and public relation activities undertaken by the Office.

UNIDO keeps the Ministry of Foreign Affairs informed on the situation of the project through the Italian Permanent Mission in Vienna. The Head of the Office should maintain direct contacts with the Ministry of Foreign Affairs regarding the sectoral and geographical operational priorities, established by the General Directorate or Development Cooperation.

The evaluation team found that the office does little in support of Italian small and medium industries to complement the strategy of the Ministry over the national territory.

The project proposals from UNIDO Headquarters have been widely distributed and promoted among the Italian potential entrepreneurs. According to the data available, at end 1993:

- 3,635 investment project profiles were distributed
- 799 of which formulated by IPSO Milan itself.

c. General management of the Office

The fact that since its beginning in 1987 the Head of the Office in Milan was a UNIDO staff member with twenty years of experience in the organization, it has assured the proper establishment of the office, which is now operating in accordance with the UNIDO rules and regulations.

The evaluation mission during the two days spent at IPSO Milan gained the impression that the office is well organized and the tasks are precisely assigned. The mission had no time to ascertain whether the job descriptions of the local administrative support staff reflect the duties discharged by each staff member.

The DIPP (Databank for Investment Promotion Programme), which is a software package designed to automate all the information necessary for an investment promotion programme, is updated and maintained mainly by one general service local staff. This programme has been designed and developed by IPSO Milan and is today an integral part
of the worldwide network of the UNIDO Investment Services, ensuring that all promotional activities undertaken by all IPSOs are immediately recorded.

B. Implementation of activities related to investment in developing countries

a. General promotion of the activities

The main task of an IPSO is to identify, promote and mobilize managerial, technical and financial resources to implement industrial joint-ventures in developing countries, helping in the finalization of partnership agreements.

In order to fulfil its tasks the office has to develop certain activities. The matching of the possible partners and of the proposed project profiles is certainly one of the most important. In this context, the utilization of the DIPP is one of the most interesting instruments.

More than 80% of the project profiles in the Databank of IPSO comes from the Headquarters in Vienna, which centralize and screen the requests received from developing countries.

DIPP gives the possibility of extracting the information by the databank listing the projects and identifying the potential investors.

The DIPP is structured as follows:

- investor records of all Italian entrepreneurs entered in the programme in alphabetical order, classified as per ISIC (International Standard Industrial Classification), the countries of interest and the type of cooperation envisaged

- project archive of the main elements of project investment proposals, such as the products, capacity, estimated investment, type of cooperation envisaged and counterpart of the proposal

- potential sponsor, who is automatically inputted when making the matching in the project archive

Since all information regarding the projects inserted in the programme is stored, a continuous monitoring of the progress of the negotiations is possible. The project profiles inputted in the DIPP and inactive for more than two years are periodically deleted.

Another important channel utilized by IPSO Milan for the promotion and divulgence of their activities is the participation in a number of meetings and seminars organized by Chambers of Commerce, Regional entrepreneurs associations, financial institutions, etc. These participants gave IPSO the opportunity to reach several industrialists, financial operators and associations of small and medium entrepreneurs, presenting UNIDO and the activities promoted. Most of these activities were developed in
the regions of Northern Italy, but this reflects the distribution of the Italian entrepreneurs in the national territory. It is known that 80% of the factories are in Northern Italy, 35% of which are in the Lombardy region.

However, the evaluation team deems necessary that IPSO makes a bigger promotional effort in those regions of Italy that do not have easy access to the services of the office. Namely the promotion efforts should be strengthened in the following regions: Marche, Toscana, Lazio, Campania, Puglie where there is a strong concentration of small industries, which could be very interested in small industrial joint-ventures.

To promote its activities in these regions IPSO should elaborate a plan of action, strategically adapted to the particular needs and priorities of the country in coordination with the national public infrastructure (ministries, financial institutions, Chambers of Commerce, Foreign Commerce Institutes, banks ...) and the local and sectoral associations of entrepreneurs.

Several of these meetings were organized in the organizational framework of Boritec, the international cooperation development and investment exchange. Boritec is organized once per year in the premises of the Fair of Milan by several institutions and organizations, among them also the UNIDO IPSO in Milan.

Boritec is a highly qualified opportunity for entrepreneurs since over three days a large number of projects and business opportunities from all over the world are presented, identified, examined, assessed and quantified. These projects, in the majority of cases, are related to business representatives who are personally participating, as they are involved by the organizers of exchange. This is a very good opportunity to have access to all major subjects actively operating in the world of industrial cooperation, joint ventures, know-how transfer and development cooperation in general.

The birth of the idea of Boritec goes back to the General April International Trade Fair of Milan and its services such as SAL.CO.EST (Foreign Trade Show) and CIS (International Exchanges Center) which for more than twenty years were the predecessors of Boritec.

The big development for this kind of international exchange was the end in 1989 of the April International Fair. The operators were more and more participating in sectoral and specialized exhibitions (in the premises of the Milan Fair Area 90 specialized fairs are organized every year). The first edition of Boritec was in 1988 and thanks also to the active interest of the first Head of IPSO Milan, it has since then become an increasingly important center of exchange for industrial investment opportunities in developing countries, becoming a yearly multilateral meeting point, where the presence of UNIDO IPS Office as organizer and promoter is of paramount importance.

This kind of international industrial investment exchange represents the best way to contribute to the development of developing countries, participating in the creation of new job opportunities.
In the light of the above and considering that Lombardy is the region of Italy with the highest concentration of industries, it is unquestionable that the location of IPSO in Milan and particularly within the premises of the Fair of Milan is the best possible and most economic location to operate in Italy for this kind of office.

b. Information dissemination

Further to its participation in investment and business promotion meetings and in Boritec, to reach potential Italian entrepreneurs IPSO also considerably utilizes the press specialized in economic and industrial activities and daily newspapers presenting regional industrial events.

To the nearly 3,000 entrepreneurs inserted in the DIPP, IPSO periodically sends, free of charge and according to their sectoral classification, the project profiles that could be of potential interest to them.

A concise and well prepared leaflet has been prepared, explaining in English and Italian the purpose, the programme of activity and the services given by IPSO Milan.

The evaluation team considers that the promotional information activity and material distributed by IPSO Milan is very good, however, additional efforts should be made, also according to the priorities and the interests of the Ministry of Foreign Affairs, to extend the information to central and southern parts of the country, utilizing more intensively the bulletins and the facilities of the industrial sector and local associations. This approach will bring to the attention of all small and medium enterprises of all industrial sectors operating in the national territory, the existence of the services given by IPSO Milan.

c. Identification and selection of potential partners

Initially the potential Italian entrepreneurs were included in a roster, later called DIPP, with the help of lists provided by the Chambers of Commerce, the Institute for the Foreign Trade, local Associations of small entrepreneurs, etc.

According to the interviews held by the evaluation team with the selected entrepreneurs, several of them contacted IPSO directly having learned of its existence through the press, friends, local entrepreneurs associations, presentation seminars, Italian Institutions, etc.

As we have seen in the previous chapter Boritec has also been a very good source for identifying partners on both sides: the Italian investors and partners in developing countries.

Considering that Confindustria, the Italian association of industrialists has 130,000 associates and that IPSO Milan has inserted in the DIPP around 3,000 entrepreneurs,
identifying and contacting all potential Italian partners for industrial cooperation in developing countries is far from being completed.

The 130,000 industrialists associated in the Confindustria are divided in 104 sectoral associations, 105 territorial and 30 sectoral federations.

IPSO, in order to achieve the objective to identify as many Italian entrepreneurs as possible, established at the beginning of 1994 a promotional unit. This unit is composed of one associate expert and one general service staff. Their main tasks is to contact the exhibitors during the 90 specialized fairs organized every year in the compounds of the Milan Fair Authority. This procedure to identify potential partners is very effective considering the dimension and the reputation of the Milan Fair and the fact that a large share of Italian companies in a specific sector are grouped together for a few days during the exhibition in the same compound where IPSO is located.

The databank of IPSO is more oriented to enterprises located in Northern Italy, because it reflects the distribution of the industrial companies in the country, however, the trend of IPSO is now to extend its focal points in other parts of Italy. The main focal points are the Chambers of Commerce and the local associations of small industries.

It has been brought to the attention of the evaluation team that the associations of entrepreneurs are not very helpful in this particular exercise, because in order not to discriminate against anybody they simply give the list of their associates without making any selection. Therefore, it is up to IPSO to carry out the proper screening. IPSO Milan is including in its roster around 1,000 new enterprises per year and 700 are cancelled.

The immediate target regions for IPSO to enlarge their inclusion in the DIPP are those in Central Italy and the region of Naples.

d. Identification and selection of projects

IPSO Milan gives advice to Italian entrepreneurs on investment climate, practices and procedures in developing countries.

Advisory services on project financing for the implementation of the investment possibilities in Italy, like funds for industrial cooperation of the Ministry of Foreign affairs, international banks, national institutions to support export credits, commercial banks.

An additional function is to advise Italian companies on UNIDO operations, i.e. on procedures, referring to UNIDO staff who are handling specific projects or in providing technical advice for the evaluation of investment projects through the computerized programme of UNIDO, PROPSPIN (Project Profile Screening an Pre-appraisal System).

Another special advisory service is to provide some entrepreneurs with project development facilities for joint ventures, through co-financing of pre-investment studies. This facility will be analyzed in detail in the next chapter.
The activities related to the project cycle concentrate mainly on promotion and pre-investment negotiations if the partners request the assistance of IPSO.

From 1990 to the first quarter of 1994 IPSO has included in the DIPP 3.989 project profiles of which 977 have been generated by the Milan office itself, through participation in exhibitions, bilateral meetings, seminars, fora in developing countries and factory visits. During 1993 according to the interest shown nearly 1,200 project profiles have been distributed to Italian entrepreneurs divided as follows:

- 35% in Eastern Europe
- 28% in Asia
- 20% in Latin America
- 17% in Africa, including the Mediterranean area

IPSO is also promoting jointly to other IPSOs selected bilateral projects in a framework of work cooperation.

The project profiles received by UNIDO Headquarters are not particularly screened because it is assumed that this has been done in Vienna by the Investment Services Division, which has to check whether the project sponsor in the developing country can meet the financial requirements, otherwise the project will be unable to attract investors. Fundamental for the promotability of project proposals is the "raison d'être" of the project as well as the accuracy and reliability of the data provided in the project questionnaire. The potential investor gets a first decisive opinion on the project's attractiveness on the basis of the presentation and the quality of the project information. The information should, therefore, be conveyed in a clear and concise way.

Another issue in the selection process of a project is its age. If a profile has been prepared more than one year ago and has not been updated, it is unlikely that it is still relevant and therefore promotable.

IPSO Milan is assisting the entrepreneurs in the technical appraisal of the projects in several ways:

- through the "Manual for preparation of industrial feasibility studies" (which has been sold to several entrepreneurs) and by setting up an internationally recognized methodology for elaborating market, technical and financial feasibility aspects of investment projects at different levels of their development cycle

- through the PROPSPIN (Project Profile Screening and Pre-appraisal System) which is a simple tool for fast project proposals screening to provide technical advice regarding the financial viability of the investment project. PROPSPIN presents a business plan with only the financial results of a given project's operations in the form of tables and ratios.

- through co-sharing of complete feasibility studies. These studies are carried out through the utilization of Comfar, which is a computer software package developed
by UNIDO for financial and economic feasibility analysis. The use of Comfar is requested when comprehensive pre-investment studies, through outside consultants, are undertaken. The Comfar, developed in 1983, is now at its 4th version. It gives the user the possibility to choose the level of depth of financial and economic appraisal of the investment project, depending on the stage of project development and the quantitative information available.

This tool is part of the package called "Project completion facility", for which the entrepreneurs have to pay at least one third of the study's costs, considering, however, that UNIDO/IPSO contribution cannot exceed the total amount of US$ 80,000. The evaluation team has some reservations on the use of the terminology "Project completion facility". It would be more appropriate to call it "Project development facility", because in some cases only a pre-investment study is carried out. Moreover, a feasibility study will not give any assurance that a concluded project arrives at an operational stage. The feasibility study will only supply additional and important information enabling the parties to decide whether to continue the negotiations. From the completion of the feasibility study to the start of the operation of the joint-venture there is still a long way to go.

e. Some successful project stories

IPSO Milan is well managed and operates efficiently. The former Head and the other professional staff often have taken initiatives, not exactly specified in the Terms of Reference of the project, to interpret with enthusiasm the tasks of such an office, considering that several Italian entrepreneurs have the interest and potential for joint-ventures in developing countries, but encounter various difficulties such as finding the right partner, problems with the language, insufficient knowledge of the investment climate in the developing country, lack of information on the local legislation, etc.

All the selected entrepreneurs interviewed by the evaluation team have expressed their satisfaction with the establishment of such an office and their "surprise" for a structure very efficient for the assistance and the services rendered. Additionally, it has been noted that, unlike other national institutions entrusted with analogous tasks and having similar purpose (to support the development of industrial joint-ventures with developing countries), the services offered by IPSO Milan are free of charge. The evaluation team noticed that several entrepreneurs after initial surprise (the entrepreneur is not used to receive free of charge such a valuable service that involves time consuming in assistance, international phone calls, utilization of software, translations, etc.) are now so enthusiastic that they are ready to be charged for services rendered by IPSO.

In order to have a more effective and selective service some entrepreneurs have proposed to introduce some financial contributions such as:

- an entry fee for the DIPP
- a fee for opening the file in case of concrete proposals
- a percentage on the value of the concluded joint-venture

The report will analyze more deeply these issues in the next chapter.
The evaluators will now report in the following tables some successful stories which have been prepared by IPSO Milan during the evaluation. The entrepreneurs of the three sample cases reported have been interviewed by the evaluation team and have all expressed their appreciation for the valuable assistance given by IPSO.
# SUCCESS CASES

<table>
<thead>
<tr>
<th>MEXICO</th>
<th>INDIA</th>
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<tr>
<td><strong>MEX/085/M/93-01</strong></td>
<td><strong>IND/013/M/92-02</strong></td>
</tr>
<tr>
<td>Production of chocolate and sweets</td>
<td>Tropical fruit processing lines, canning lines, distillation lines</td>
</tr>
<tr>
<td>Capacity: 33,000,000 pcs/year</td>
<td>Joint-venture agreement signed September 1990</td>
</tr>
<tr>
<td>Joint-venture agreement signed on 25/5/93</td>
<td>Partners: BERTUSI - FERWALT INDIA LTD</td>
</tr>
<tr>
<td>Partners: SOCADO - CERERO</td>
<td>Total investment: 4.5 M US $</td>
</tr>
<tr>
<td>Total investment: 1.7 M US $</td>
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<tr>
<th>THE PHILIPPINES</th>
<th>INDIA</th>
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<tr>
<td><strong>PHI/004/M/91-04</strong></td>
<td><strong>IND/088/M/91-02</strong></td>
</tr>
<tr>
<td>Manufacturing of high fashion garments</td>
<td>Nylon monofilament for fishing</td>
</tr>
<tr>
<td>Capacity: 300,000 units/year</td>
<td>Capacity: 150 t/y of monofilament</td>
</tr>
<tr>
<td>Joint-venture agreement signed on December 1991</td>
<td>Joint-venture agreement signed on January 1991</td>
</tr>
<tr>
<td>Partners: DRESSING/PIEMETTI - BANLAGUITA GARMENT CORPORATION</td>
<td>Partners: NUOVA COVENA - COVENA FILAMENTS</td>
</tr>
<tr>
<td>Total investment: 2.0 M US $</td>
<td>Total investment: 4.8 M US $</td>
</tr>
</tbody>
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SUCCESS CASES
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ECUADOR
ECU/015/H/90-03
Production of tagua buttons
Capacity: 40,000 grosses/year
(1 gross = 144 units)
Joint-venture agreement signed on 26/11/91
Partners: CO.RE - CONTECOA
Total investment: 9.6 M US$ $

THAILAND
THA/001/H/91-01
Production of finished leather
Capacity: 9,000,000 sq. ft./year
(1 gross = 144 units)
Joint-venture agreement signed on May 1990
Partners: CAVALINI FREIANSI - BANGKOK RUBBER
Total investment: 16.0 M US$ $

VIETNAM
VIR/023/V/90-08
Frozen seafood and shrimp shell powder
Capacity: 3,175 t/y of frozen seafood
Joint-venture agreement signed on 20/3/1991
Partners: EUROFISH - CAN BAO FROZEN ENTERPRISE
Total investment: 5.8 M US$ $

MEXICO
MEX/018/H/91-01
Dehydrated vegetables production and packaging
Capacity: 300 t/year of radish/lettuce
Joint-venture agreement signed February 1993
Partners: RONSELCO E TIGERCO - FREXPORT
Total investment: 1.3 M US$ $

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### SUCCESS CASES

**Page 3/3**

#### RUSSIA
- **RUB/030/H/92-10**
- Disposable hospital and industrial uniforms
- Capacity: 648 units/year
- Technology transfer with sub-contracting signed on 23/07/92
- Partners: FORNIGO-INDUSTRIAL - TCHAIKA
- Total investment: 0.4 M US $

#### VIETNAM
- **VIR/140/V/90-01**
- Manufacture of refrigerators and household appliances
- Capacity: 50,000 units/year
- Joint-venture agreement signed July 1991
- Partners: SADONI - ELECTRONIC GOODS AND SERVICES
- Total investment: 1.0 M US $

#### SLOVENIA
- **SVN/002/M/93-04**
- Production of cold meats
- Capacity: 2,000 t/year of mortadella
- Joint-venture agreement signed on 29/1/92
- Partners: ALCISA - KRAS
- Total investment: 2.0 M US $

#### BULGARIA
- **BUL/020/M/94-01**
- Production of professional spray guns
- Capacity: 750,000 u/year
- Joint-venture agreement signed on 10/3/94
- Partners: ZELIGERBA ZELEKRA - SERVASENI
- Total investment: 2.2 M US $
EXAMPLES OF ASSISTANCE RENDERED TO SMALL AND MEDIUM ENTERPRISES

(Case number 1)

EUROFISH

FROZEN FISH IN VIETNAM

1. The project was promoted in the framework of Vietnam Investmart:

2. The Italian investor was accompanied to survey project site during the Forum

3. Assistance was provided throughout negotiation phase, encompassing:
   . developing business plan
   . drafting J.V. contract
   . mobilization of funds from Italian Government (Art. 7)
   . clarification of issues related to local practises through intervention of counterpart organization, S.C.C.I.

4. The Italian sponsor was accompanied by one IPO officer and by the Vietnamese delegate with the IPO for the final round of negotiations in Vietnam which were concluded with the signature of the joint-venture contract.
EXAMPLES OF ASSISTANCE RENDERED TO
SMALL AND MEDIUM ENTERPRISES

(Case number 2)

1. The project idea was developed by the Italian company, as an attempt to establish a
foothold in China.

2. As a number of potential Chinese counterparts were identified by the Chinese delegate
with the IPO.

3. The Italian proponent was accompanied to survey alternative project sites.

4. A Chinese counterpart was accordingly selected and invited to participate in BORITEC.

5. Assistance to the Italian sponsor was provided in order to develop a business plan.

6. Assistance to both partners was provided for the drafting of a JV agreement.

7. The Italian sponsor has now required the IPO to develop a fully-fledged feasibility
study through the use of P.C.F.
EXAMPLES OF ASSISTANCE RENDERED TO SMALL AND MEDIUM ENTERPRISES

(Case number 3)

SOCADO

CHOCOLATE PASTE IN MEXICO

1. The project idea was collected in Mexico during screening mission in the framework of the IPO-Mexico programme.

2. The Italian investor was identified through IPO's databank.

3. The project was introduced to Italian investor.

4. Assistance was provided throughout negotiation phase, encompassing:
   - evaluating proposal from Mexican sponsor
   - developing business plan
   - drafting joint-venture contract

5. The Italian sponsor was accompanied by one IPO officer for the final round of negotiations in Mexico which were concluded with the constitution of joint-venture and the definition of an agreement covering the brand name and the share of export markets in the USA, Hong-Kong and Canada.
f. National Institutional Partners

The evaluation team appreciates that the project has been able to establish working relations with the major institutional partners in the national context, except the Italian Ministry of Foreign Affairs (Directorate General for Development Cooperation, DGCS) with which it had virtually no relations at all. The project has been able to provide qualified services to all major public and private institutions in the field of Investment Promotion through the exchange of information, production of Business Plans and pre-feasibility studies and the rare use of the Project Completion Facility; unfortunately the project has not been able to provide promotional services to one of the most important Italian institutions, the DGCS, involved in the financing of industrial projects in developing countries.

The evaluation team deems that IPSO should support and give priority to the use of the financing facilities outlined by the Italian Cooperation Law and be more effective in those fields that are instrumental for the smooth implementation of the investment cooperation activities.

The major Italian institutional partners in the context of the IPSO Milan are:

**Italian Ministry of Foreign Affairs**

The Italian Foreign Ministry covers the financing requirements of IPSO Milan through its voluntary contribution to UNIDO.

Through the General Directorate of Development Cooperation, the Italian Ministry of Foreign Affairs has put in place a series of instruments to promote the internationalization of the Italian enterprises in developing countries.

In particular Art. 7 of the Italian Cooperation Law and the use of credit facilities for joint ventures in selected countries are in need of extensive promotional efforts especially for the production of comprehensive documentation to assess the viability of the initiatives. The PCF has never been used to support projects financed through Art. 7 of the Italian Cooperation and the team found that the Italian entrepreneurs interviewed during the mission, especially the smallest, knew very little about these financing facilities.

Going through the past documentation it is clear that the annual review of the project called for closer collaboration between the DGCS and IPSO Milan as well as the use of the Project Completion Facility and the harmonization of the instruments for the assessment and the evaluation of joint venture projects (PROPSPIN, COMFAR, Manual for preparation of Industrial Feasibility Studies). However, this has never happened.

According to the information received during the evaluation, since 1990, through the Art. 7 of the Italian Cooperation Law, the Italian Foreign Ministry has finalized more than 30 projects and more than 20 are currently under appraisal.
A credit facility of USD 30 million in Tunisia is in need of promotional activities and will facilitate the conclusion of more than 20 new joint ventures. In Egypt a new credit line for joint ventures amounting to Lit. 10 billion is under negotiation. In Morocco a new credit line of USD 30 million will be soon finalized.

All these new activities will require an adequate promotional effort and their implementation will depend very much upon the quality of the documentation provided by the partners of the j.v. Taking into account the above, the evaluation team deems necessary that IPSO Milan should focus on and give priority to the financing activities promoted by the DGCS through the technical assistance instruments at its disposal. The DGCS of the Italian Foreign Ministry, being the only financial sponsor of IPSO Milan, also represents the most important institutional partner.

**Italian Institute of Foreign Trade (ICE)**

The primary mandate of this government institution is to promote the export of Italian goods throughout the world. The institute, through its network in foreign countries, can play an active role in investment promotion; in fact it has recently strengthened its Industrial Promotion Section at the headquarters where 15 employees work full time and absorb a substantial proportion of the 1.5 billion lira allocated for promotional activities.

IPSO Milan has established a good working relationship with ICE which regulates the exchange of information related to investment projects, organization of workshops, seminars and fora for investment opportunities in selected countries and exchange of software related to the monitoring of investment activities.

ICE represents one of the most important partners of IPSO and of the Milan Fair Authority for the organization of the annual edition of BORITEC.

**Mediocredito Centrale**

This is the Italian state financing institution responsible for soft loans related to the Italian export and joint venture investments, as well as financial support to developing countries.

Since April 1993 Mediocredito has become a company and the privatization process will soon characterize the bank as a commercial institution. The Foreign Section of the bank is composed of three branches: Concessional Export Credit, Joint Venture, Commercial Export Credit.

In the framework of Art. 7 of the Italian Cooperation Law which provides financial support to the Italian joint ventures in developing countries, Mediocredito Centrale provides the Italian Foreign Ministry with an evaluation of the reliability of the partners and their financial capability.
After a training exercise for two officials of Mediocredito on project feasibility and appraisal methodology held in November 1992 at IPSO Milan, working relations were strengthened in the field of project financing schemes, investment promotion seminars, training of officials in the use of PROPSPIN and COMFAR and all activities related to the promotion of the SMEs.

SIMEST

This institution was established by the Italian state law n. 100/1990 to support Italian entrepreneurs in their joint venture activities in foreign countries. SIMEST whose activities started in 1991 works as a merchant bank with the mandate of a) promoting joint venture projects, b) developing industrial activities, c) subscribing up to 15% of the equity.

SIMEST considers negligible the past collaboration with IPSO Milan except for the cooperation in the promotion of some j.v. agreements in Eastern Europe and Latin America. SIMEST officials deem that the Project Completion Facility has hardly been used to support investment projects at all.

FINEST

FINEST was created by the state law n. 19/91 with the mandate of facilitating the establishment of investment activities in Eastern Europe by Italian companies based in Friuli Venezia Giulia. FINEST provides:

- financial assistance up to 25 per cent of the total investment
- technical administrative and management assistance

Cooperation activities between IPSO and FINEST have been of minor entity.

SACE

SACE, created in 1977 by the law n. 227, is the Italian institution entrusted with the task of providing insurance for political risks linked to export credit. Very recently SACE has established a new line for project financing to private companies interested in direct investment in developing countries. SACE has established a series of criteria to release this insurance: the preparation of a feasibility study and an accurate financial analysis is an essential requirement for access to this facility.

IPSO Milan has established good working relations with SACE and has already prepared three feasibility studies for private investments and one is under preparation.
Milan Chamber of Commerce and Milan Fair Authority for the organization of BORITEC

UNIDO has participated as co-organizer of six BORITEC events along with Milan Fair Authority, Milan Chamber of Commerce, Italian Ministry of Foreign Trade and the Italian Ministry of Foreign Affairs.

BORITEC is a forum to promote international cooperation and investment between Italian enterprises and the participating countries, in particular developing countries.

During the six events, delegations from 57 different countries were invited and participated; 23 seminars on different investment topics were organized; more than 2,200 projects were presented; 310 entrepreneurs from developing countries and Eastern Europe and 132 government officials have participated.

The organization of BORITEC represents one of the most important activities of IPSO Milan and an important opportunity to support industrial cooperation through the pragmatic approach based on project promotion.

CONFINDUSTRIA

CONFINDUSTRIA is the most important federation of Italian manufacturers representing more than 130,000 enterprises. Of course, investment promotion is one of the major activities of the organization and its officials deem the collaboration with IPSO Milan very important because they share the same priority objectives.

IPSO Milan is always invited to all promotional activities organized by CONFINDUSTRIA while in exchange CONFINDUSTRIA is ready to disseminate information among the subscribers on the investment opportunities and projects that IPSO Milan and UNIDO have screened around the world.

G. Status of projects identified

The number of investment projects concluded thanks to the promotional action of IPSO, is one of the most important criteria for evaluating the performance of an Investment Promotion Service Office. To have some indicators to measure the progress of the activities of an IPS Office, the investment projects can be divided as follows:

- promoted
- under negotiations
- concluded
- operational

These stages represent the phases of a project development, going from:
the promotion through seminars and meetings, searching for partners, etc.
- to the assistance at the negotiations between partners who have signed a preliminary letter of intention, providing information on country laws, developing business plans, helping in drafting contracts, feasibility studies, etc.
- to the conclusion of the joint-venture, (the formal contract signed by the partners defining the financial commitments) "concluded project"
- and the subsequent operational stage when the factory starts its production.

Analysing this project development the definition of "concluded project" should be well specified and this stage should be a milestone of the investment promotion process rather than a goal. In fact, the signature of a contract, if all the financial obligations cannot be realized, does not mean that the factory will start to produce.

According to the information received by IPSO Milan, from 1990 to the 1st quarter of 1994, the office has:

- promoted 3,989 projects, which constitutes the portfolio
- of which 977 were identified and originated by IPSO itself in cooperation with the delegates and the Italian entrepreneurs
- 600 negotiations have been followed
- 103 projects have been "concluded"
- 25 projects are operational.

The above mentioned figures show the importance and the dimension of this activity.

The geographical distribution of the projects concluded is as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>41%</td>
</tr>
<tr>
<td>Asia</td>
<td>39%</td>
</tr>
<tr>
<td>Africa</td>
<td>10%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>9%</td>
</tr>
</tbody>
</table>

The 25 operational projects are divided as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>6</td>
</tr>
<tr>
<td>Asia</td>
<td>13</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>6</td>
</tr>
</tbody>
</table>

for a total volume of investment of US$ 193.97 million, which represent the following investment generation ratio:

Each US$ spent from the budget of IPSO Milan has generated, during the above mentioned period, US$ 49.23 of investment in projects already operational.
h. Delegates programme

The delegates programme is one of the peculiarities of the IPS programme and its impact varies according to the nationality, the professional experience and the enthusiasm the delegates have utilizing the programme for the development of their own country.

The characteristic of the programme is to have in IPSO a national of a developing country in which the Italian entrepreneurs could be interested in joint-ventures. The advantage of having somebody of this country who possesses the knowledge of the language, of the investments legislation, of the administrative institutional structure and of the local business climate is of paramount importance.

The basic objectives of the programme are:

- to strengthen investment promotion through the familiarization of country delegates in the techniques and tools of investment promotion of IPSO
- to promote individual industrial projects from the delegate's country among potential Italian investment partners

The major tasks of the country delegate during the stay at IPSO are:

- informing appropriate institutions and companies in Italy about the delegate programme, inviting to make use of the services offered
- promotion in Italy of the project proposals coming from his/her country
- serving as a focal point in Italy for businessmen of the home country wishing to get in touch with Italian Institutions or entrepreneurs, establishing appointments and preparing programmes of visits
- informing the home country periodically and upon request on aspects relevant to industrial cooperation in Italy

The programme gives the country the opportunity to host delegates of countries where the Italian cooperation is weak, but can also complement the bilateral cooperation for countries where there is a particular interest on the part of the Italian entrepreneurs. Presently three delegates are working in IPSO Milan and they come from China, Poland and the Czech Republic.

During the last five years IPSO Milan has utilized the services of seven delegates in all. An Indian delegate is presently under selection. The duration of their programme is different; one stayed in Milan over two years and some others four months. They are recruited under the budget line 31 (training) and the stipend is the same for everybody - Lit. 3.5 million per month. They promote the projects following the IPO methodology, utilizing DIPP, Chambers of Commerce, seminars, visiting missions of their countries. They are selected by IPO Milan according to the budget available. The focal point in the developing countries sends to IPSO three or four curricula and IPSO after an interview selects the most suitable candidate.

The following is the list with the duration of the delegates who have worked in IPSO Milan:
It has to be noted that, while all the delegates have been paid out of the IPSO budget, the two delegates of Tanzania and for the Andean countries have been sent on training to Milan and financed under the funds of the projects on which they were working, at no cost to the IPSO.

Regarding the delegates programme the evaluation team has to underline that several interviewed Italian entrepreneurs have expressed their appreciation for the services rendered by the delegates, particularly as far as information regarding the country, the business climate, the local legislation and the local administrative and banking structure. All the interviewed entrepreneurs were very satisfied with and even surprised by the quality of the service, especially taking into account that it was free of charge.

Another important point on this programme has to be mentioned and brought to the attention of the responsible persons in UNIDO and IPSO. During the discussions at Confindustria (the Confederation of the Italian Industries) their potential interest in financing the placement at IPSO Milan of delegates of countries in which they have priority targets emerged. The evaluation mission informed Confindustria about the costs of each delegate and Confindustria pointed out that if office space in Milan should be difficult they would have no problem in providing hospitality at their Headquarters in Rome.

The proposal seems interesting and the evaluation team recommends to UNIDO the necessary follow-up.

### III. Project results and objectives

#### a. Outputs

The project document does not specify any outputs. The detailed list of project activities does not lead to a precise formulation of results to be expected. This can be acceptable only for activities such as provision of information and advice, which may or may not lead to concrete results in terms of concluded projects, but rather aims at creating increased awareness regarding the existence of the office. However, some of the fifteen listed activities should lead to concrete results and, therefore, should have been stipulated as outputs in the project documents. The activities can be grouped into the following main areas:
(i) information dissemination
(ii) advisory services
(iii) promotion and match-making of projects
(iv) databank (DIPP)
(v) project development facilities
(vi) training in investment promotion

According to the interviews with the staff of IPSO Milan the quality of the project profiles transmitted from Vienna has only recently improved. Due to better screening done by Headquarters Vienna the profiles are now more realistic and precise and the investment fora (Investmarts) are organized in countries which have a certain institutional structure to attract foreign investments. Apparently, the quality of the profiles screened by Vienna has not always met the highest standards and, if a proper screening was not done by IPSO, the project proposals did not receive much attention from the Italian entrepreneurs.

Although the outputs have not been specified in the project document we will now summarize in figures the achievements of the project during these years (January 1990 to April 1994), providing in this way a comparison between the objectives, the outputs, the activities and the results.

1. Development Objective

Mobilize financial, human and technical resources to stimulate industrial cooperation by promoting joint business activities between project sponsors in developing countries and Italian entrepreneurs.

Results attained

* 3,989 projects promoted and included in Database bank (DIPP).
* 977 of the above mentioned projects have been originated directly by IPSO
* 4,152 projects profiles distributed to Italian Entrepreneurs who expressed interest.
* 100 country seminars held in Italy (including Boritec). The seminars concerned around 80 countries, where investment possibilities exist.
* 33 other meetings and seminars held in Italy, to promote projects, investment methodologies, financing opportunities, etc.
* 15 fora held in developing countries and Eastern Europe. These "Investmarts" have been organized by Vienna with the participation of IPSO.
* 2,794 companies included in DIPP (as of 30 April 1994)
* 1,645 of the companies included in DIPP have attended the investment seminars and the meetings organized by IPSO or UNIDO Headquarters.
* 229 companies have participated at their own expenditures in UNIDO Fora.

50% of the companies included in DIPP are classified as small industries. As already said in the summary of preliminary conclusions, the geographical distribution of
the companies in the national territory (80% are from Northern Italy, of which 35% are in the Lombardy region).

The project profiles in which the Italian entrepreneurs have been more interested can be divided by geographical areas in the following percentage:

- Eastern Europe 35%
- Asia 28%
- Latin America 20%
- Africa, including the Mediterranean area (the latter is the priority target of Italian cooperation) 17%

2. Immediate Objectives

- Contribute to the identification of industrial investment possibilities in developing countries.
- Bring to the attention of potential Italian investors concrete proposals.
- Promote the activities, paying due attention to the sectoral and geographical priorities established by the Ministry of Foreign Affairs.
- Assist and advise joint venture partners in negotiations, development and arrangement of financial and legal matters.

Since no precise outputs to be produced are indicated in the project document, the evaluation team considers that a large part of the indicated objectives have been attained. However, it has to be noted that the cooperation of the IPSO Milan with the Ministry of Foreign Affairs has been low, because IPSO did not always operate in accordance to the sectoral and geographical priorities of the Ministry.

b. Project completion facility and results attained

The project completion facility (PCF) is one of the instruments of IPSO Milan to achieve the main project objectives, i.e. the realization of an operational industrial joint venture between an Italian entrepreneur and a partner in a developing country.

PCF offers the possibility of co-financing the feasibility study, once a binding contract has been signed by an Italian entrepreneur and a project sponsor in the developing country.

The feasibility study is carried out applying UNIDO methodology and the COMFAR software. This methodology is accepted by development finance institutions and banks of 113 countries.
The contract for the feasibility study is given by UNIDO on the basis of a competitive bidding open to consulting firms located in Italy or in the country in which the joint venture will be realized.

The potential investors have to provide a written statement on the intention to proceed with the implementation of the investment project in case the study's results demonstrate the project's viability. Moreover, the entrepreneurs have to agree to finance a minimum participation of between 1/3 and 2/3 of the study's cost, taking into account that UNIDO's contribution will not exceed USD 80,000. As already pointed out in the summary of the preliminary conclusions, the evaluation team found the criteria for the sharing of costs between entrepreneurs and IPSO of the feasibility studies too loosely applied. Some precise rules and conditions should be spelled out, because the team has the impression that the criteria based on turnover or paid-up capital has not always been followed.

Furthermore the evaluation team considers that this service of IPSO could be better called "project development facility", because the fact that a feasibility study is undertaken does not mean that the joint venture is completed, but only that an additional step in the way of its realization has been made.

The evaluation team came across a case of a feasibility study in Tunisia executed by FIDIMI, an Italian consulting firm, for IPSO Milan. In this case the findings of the study convinced PIAGGIO, the biggest Italian producer of motor-cycles and three wheeler vehicles, to stop the action for constituting a joint-venture in Tunisia for the production of three wheeler vehicles.

The study found out that the local production costs would have been too high and the local market possibilities too small. Therefore the Italian investor changed his strategy, shifting his interest to other regions. Details of this case can be found in annex nr. VIII.

The reported case is the best demonstration that we should talk about project development facility and not completion.

Based on the analysis of all the mentioned activities undertaken by IPSO Milan, the evaluation mission is of the opinion that the results attained are satisfactory, although the office could have operated with better coordination with the Italian governmental authorities regarding priority countries and investment policy targets.

The evaluation team, on the basis of rate between the planned allocation and actual expenditure for this budget line, deems that this important tool has not been adequately utilized; in fact only a small fraction of the total budget has been spent for that purpose. In particular up to end of September 1994 the status of project expenditure shows that a sum of US$ 176,856 has been spent over a total (five year) planned figure of US$ 771,094.
c. Sustainability, possibilities of self financing and income generation

As requested by the Ministry of Foreign Affairs at the briefing session in Rome at the beginning of the evaluation, the mission explored the possibilities of self financing and sustainability for the IPSO Milan.

The sustainability of the office depends on the financial contribution of the Ministry of Foreign Affairs and the contribution in kind of the Milan Trade Fair, which gives free the office space against a monthly contribution of one million Italian Lire (around USD 600) which includes the electricity, cleaning, air conditioning, heating, security guards and overnight parking of the official car inside the premises of the Fair.

The Fair of Milan has also declared its readiness to increase the area of IPSO, should the office necessitate additional space. According to the interviews held with the selected entrepreneurs the evaluation team has noticed that the success in investment promotion and subsequent operational joint ventures could lead to some self financing resources for the office.

Since also the Italian Institute for Foreign Trade is requesting a subscription fee, some entrepreneurs suggested charging an annual entry fee for the DIPP. It could be USD 100 per year and will also entitle the subscriber to receive a periodical newsletter that IPSO will start in 1995.

According to several entrepreneurs this fee will have the advantage of “cleaning” the Data bank, because several entrepreneurs presently in the DIPP since it is free, will be deleted if they are not really interested. This will lead to an improved efficiency of the DIPP and the services rendered by IPSO, since only the interested entrepreneurs will be included.

From the discussions with the entrepreneurs came out also other sources for possible self generating income emerged, for example:

- a fee for opening a file when the entrepreneur asks IPSO for a specific assistance.
- a minimal percentage on the value of the joint venture concluded.

The evaluation team considers the last option less desirable, because: first, it should be determined at which stage the percentage is due and second, the staff of IPSO would probably take major care of big joint ventures, pushing aside the small ones. This would be against the purpose of the office, whose most important task is to help and to assist the small entrepreneurs, who are the ones really in need of the services of an office like IPSO.

Some institutions expressed interest in financing part of the programmes of IPSO.
investment projects in those countries where the demand for industrial cooperation is very strong.

The Confederation of Industrialists (Confindustria) expressed to the evaluation team interest in financing the costs of one or two delegates' countries among their priorities. Furthermore Confindustria offered free the possibility of inserting every day in their electronic network a window reserved for UNIDO project profiles. This information could reach 239 business associations and 130,000 associates all over in Italy quickly and efficiently. The project profiles could be reproposed after one month with a reminder.

All these possibilities of self financing and cooperation with Italian Institutions and entrepreneurs should be followed up by IPSO in cooperation with UNIDO Investment Services Division in Vienna.
IV. Conclusions

- Due to the insufficient knowledge, among Italian small entrepreneurs, of possibilities of industrial investments in developing countries, IPSO Milan is generally considered a valuable window on international business opportunities, which otherwise would not be easily accessible.

- The project document prepared for IPSO Milan does not fulfill UNIDO standards for documents to guide IPS's operations. It does not contain any outputs and makes difficult a result-oriented performance evaluation. The document should provide a concrete indication of what an investment promotion office is expected to produce in term of results, quantifying the outputs. Some milestones for the activities developed should be indicated in order to enable to evaluate more precisely the results attained at the end of the project cycle.

- The office is located strategically inside of the premises of the Milan Trade Fair, which hosts ninety international sectoral exhibitions per year. Furthermore 35 per cent of the Italian enterprises are located in Lombardy.

- The evaluation team deems that IPSO should make a bigger promotional effort in those regions of Italy that do not have easy access to the services of the office and where there is a strong presence of small industries which are very important in the industrial network of the country, particularly the regions of Marche, Abruzzi, Lazio, Campania and Puglie. The mission has taken note that promotional activities are planned to activate focal points or contacts in these regions. In the project document for the third cycle of the project these outputs should be indicated and quantified, to allow the next evaluation mission to analyze the concrete results attained. In view of its geographical position the office fulfills the function of liaison between UNIDO and the Italian companies.

- The cooperation with the Department for Cooperation and Development of the Ministry of Foreign Affairs should be strengthened, particularly in regard to target countries. The mission has noted firm interest of the Ministry of Foreign Affairs in strengthening the relations with IPSO, particularly with regard to "priority countries" that are beneficiary of special credit lines for industrial joint ventures, through the extra financing of Associate Experts positions for mediterranean countries. IPSO involvement in the implementation of Italian financing facilities (Art. 7, Law Nr. 49/87, concessional credit lines) for industrial joint ventures has been negligible.

- The PCF (Project Completion Facility) which is explained in chapter III could be better called "Project Development Facility", because the execution of a feasibility study does not mean that the project will be implemented, has been highly appreciated by the entrepreneurs that have benefitted from this tool, which in some cases was decisive for financing the projects.
However, the evaluation mission considers that it is advisable to formulate precise guidelines in this matter, because the criteria for sharing the costs of the feasibility study between IPSO and entrepreneurs is too vague.

According to the project expenditure as at 30/09/94 nothing has been spent in 1994 under the budget line 21 for PCF, although USD 200,000 had been budgeted. Out of the USD 771,094 allocated to this facility over the five year duration of the project, until the date of the evaluation only USD 176,856 had been spent.

The Delegates Programme has been highly appreciated by all the interviewed entrepreneurs. The rate of success in project promotion has been very good because of the delegate knowledge of the country, the investment laws, the language, indication of suitability of local partners, contact actions with them and at the same time a fantastic training opportunity for persons who later will operate in similar positions in their countries of origin.

IPSO Milan is well managed and, since its first director was a staff member of UNIDO with more than twenty years of experience in the Organization, is operating in line with UNIDO rules. It plays an active role in disseminating information about UNIDO activities in general and investment promotion related initiative in particular. The information leaflets about the activities and the services of IPSO Milan are well prepared.

In spite of the lack of outputs defined in the project document, IPSO Milan has reported to the mission to have produced results such as:

* 103 memoranda of understanding for the conclusion of joint ventures have been signed.

* 25 concluded projects are already operational for a value of USD 193.97 million.

* 33 concluded projects are under implementation for a forecasted value of USD 268.24 million.

* A databank (DIPP) has been established including presently more than 3,000 companies interested in industrial cooperation. 50 per cent of these companies are classified as small industries. The DIPP is continuously updated.

* Nearly 4,000 projects have been promoted by IPSO during the last five years, of which 1,000 were identified by Milan office itself.

* 4,250 Italian enterprises have received the assistance of IPSO.

* 600 negotiations have been followed.

* 7 Delegates of developing countries have been trained at IPSO.
The evaluation team has taken note that the success in project promotion could lead to some self-financing resources for the office like:

- a minimal entry fee for the inclusion in the data bank and getting the information connected with this service or
- as suggested by some entrepreneurs, a fee for the so-called "opening of file" which is similarly requested by the Italian Institute for Foreign Trade.

The Italian market situation for renting an apartment at the end of 80's, beginning of 90's, was very difficult due to fact that the owners of apartments were reluctant to sign lease agreements with private individuals, particularly of Italian nationality, because by law it had to be fixed a certain rent (Equo canone) at some low parameters and afterwards it would have been very difficult to turn out the leaseholder. On the contrary it was not compulsory to abide by this rule in the case of companies or institutions renting for their staff, calling this system "Uso foresteria". For these reasons IPSO, in agreement with the Headquarters in Vienna and the Ministry in Rome, decided to include in its budget the rents for the apartments for the accommodation of their staff members in Milan (Annex no. V). According to the acting Head of IPSO this procedure will be discontinued in the next operational budget. This procedure is creating a disparity of treatment with other Italian staff members working with the UN in other towns of Italy.

Italian institutional partners as Institute for Foreign Trade, Confindustria, Chamber of Commerce of Milan, Mediocredito, Sace and Simest have expressed to the evaluation team their appreciation for the activities of IPSO in promoting project profiles. Some of these institutions expressed interest in participating more actively in the activities of IPSO, volunteering financial participation in some programmes. Confindustria could analyze the possibility of financing the programme of one or two delegates coming from countries among their priorities. ICE and the Chamber of Commerce of Milan could finance the costs of an expert in investment promotion in those countries where their industrial cooperation and interests are very strong.

Furthermore, Confindustria offered the possibility of inserting daily in their electronic network a window reserved for UNIDO project profiles. This information could reach 239 sectoral business associations and 130,000 members of Confindustria, giving to IPSO Milan the opportunity to reach all the Italian industrialists in every part of the country.

In view of the fact that the evaluation team was not able to visit developing countries which cooperate closely with IPSO Milan the project's development impact in its target area could not be ascertained.
V. Recommendations

- Based on the findings of the evaluation, the mission recommends that IPSO Milan should be extended for another term. It is understood that the Italian budget for cooperation faces some restrictions, but the project should be extended for at least a three year term, in order to be able to plan all the necessary actions recommended.

- The project document for the new term should be formulated according to the established design format of UNIDO, defining objectives and functions of the office, quantifying the outputs and describing the activities and the respective roles of UNIDO and the Italian Government. Some benchmarks should be established for the guidance of the project. The analysis of the figures reported on the number of projects, concluded or under negotiation compared with the staff available in the office of Milan leads to conclude that a big effort has been made.

- Closer cooperation and a more strategically oriented targeting of the countries and activities, in the context of the policies of the Ministry of Foreign Affairs, has to be elaborated. A monitoring mechanism should be worked out for the tracking of major project milestones to assess the situation and eventually give an indication on the future strategy. An annual one-day-meeting with the concerned parties in the Ministry, UNIDO and IPSO should be organized to review the activities and take the necessary actions.

- The cooperation with the Fair of Milan has to continue, in view of the good results achieved. The interest of the Fair to have IPSO located in its area will allow to solve easily some minor logistic problems connected to the access to the office, particularly during the period of exhibitions.

- Relations with regional offices in central and southern Italy should be strengthened establishing local focal points.

- The budget should be revised with the General Directorate of Development Cooperation at the Ministry of Foreign Affairs, redistributing the funds in accordance with the expenditure incurred and the programmes implemented during the last five years, taking into account that the provision under B. L. 43 (Premises) to rent the housing of the professionals of IPSO has been deleted in next budget, also because the situation of the market regarding the rental of appartments has changed in Italy during the last year.

- The Project Completion Facility should be called "project development facility" and precise guidelines regarding the criteria of sharing the costs between entrepreneurs and IPSO should be formulated. In view of the fact that until the time of the evaluation only US$ 176,856 had been utilized out of the US$ 771,094 allocated, the evaluation team suggests more efficient utilization of these funds, strengthening interactions with the Ministry of Foreign Affairs in supporting the investment cooperation activities in priority areas.
- The Delegates Programme could be reinforced with the financial support of Confindustria. IPSO should follow up on this matter with Confindustria in Rome.

- The promotional activities could be better distributed on the national territory accepting the offer of Confindustria to utilize daily a window in their Italian electronic network for the presentation of investment opportunities in developing countries.

- The interest expressed by the Ministry of Foreign Affairs, the Institute for Foreign Trade and the Chamber of Commerce of Milan in financing associate experts in investment promotion in countries where they envisage stronger cooperation activities should be actively followed up by IPSO itself in conjunction with the responsible department in UNIDO.

- A target for the regular expansion of the data bank (DIPP) should be set to encourage continuous efforts of IPSO to contact new companies.

- UNIDO Headquarters should provide IPSO Milan with better and higher quality of project profiles. The evaluation team takes note that according to the staff of IPSO this situation has already improved during this year.

- IPSO should investigate the way to develop a cooperation with the European Union utilizing the possibilities offered by the Union to encourage the industrial investments of European entrepreneurs in developing countries. For the time being IPSO has benefitted from some Union funds which have been transferred through the Milan Fair, (as European institution, because these funds are reserved only for the European firms or institutions) in the framework activities of the last Boritec.

- The evaluation team was unable to adequately consider the project's development impact in developing countries as financial limitations have prevented the evaluation team from visiting a selected number of target countries. Therefore, it is recommended that provisions be made for an in-depth evaluation (including visits to selected target countries) in the budget for the next phase.
VI. Lessons learned

From this first joint and independent evaluation of IPSO Milan, the following lessons were learned:

- The principles for an in-depth evaluation of a technical cooperation project, as indicated in the UNIDO Director-General's Bulletin DG/B. 106, are applicable to the evaluation of an Investment Promotion Office.

- The document format established by UNIDO should be used also for IPS offices not only to guide the activities but also an instrument to measure the results obtained by the project.

- The appropriate selection of the Head of the office in terms of experience in industrial economics and investment, appropriate educational background and in-depth knowledge of UNIDO and the UN system is of paramount importance for the success of the project. The fact that the office in Milan has had as its first Head an Italian staff member of UNIDO with twenty years experience in the Organization, was essential in the initial phase of the operation of the office when the structure and its functioning had to be established in a harmonious accordance with the bureaucratic, administrative and financial exigencies of the host country and the rules and regulations of UNIDO.

- IPSO Milan has demonstrated that the involvement of an IPSO office in the promotion of a project should not stop at the signature of a letter of intent but should rather continue in the negotiation phase of the joint venture until the plant is operational.

- A continuous and constant monitoring of the activities of IPSO should be carried out not only by UNIDO but also by the Ministry of Foreign Affairs in order to allow parties to rectify or clarify immediately actions or initiatives not in line with the project document or the work programmes.

- The participation of IPSO in specialized trade fairs and exhibitions is a very effective way to promote project profiles.

- The investment promotion work requires a lot of time and effort to identify, prepare and negotiate business opportunities and only in few cases achieves positive developments. This is demonstrative in the case of IPSO Milan. Over more than four years 600 negotiations were followed and until now only 25 projects have become operational, equivalent to 4.2 per cent of the negotiations.
JOINT IN-DEPTH EVALUATION OF THE GOVERNMENT OF ITALY AND UNIDO

US/GLO/89/126

UNIDO INDUSTRIAL PROMOTION OFFICE IN ITALY (IPO MILAN)

Terms of Reference

I. BACKGROUND

The project

In August 1985, through an exchange of Notes Verbales, the Italian Government and UNIDO established, in Milan, an office for the promotion of industrial cooperation between firms in Italy and interested parties in developing countries.

After the selection and the appointment of the Director and of the first staff members, the UNIDO Industrial Promotion Office began its operations in September 1987. The purpose of the office is to contribute to the identification and promotion of industrial investment projects in developing countries, with the aim of transferring know-how, technology and capital to industrial enterprises of developing countries.

The Office has followed the pattern of work and promotion methodology applied with success in other offices of the UNIDO Investment Promotion Service (IPS) network. It has concentrated its initial efforts on becoming, as quickly as possible, part of the IPS network, integrating itself with the work of UNIDO Headquarters and that of the other IPS offices already in operation.

After an initial period of two years, September 1987 to September 1989, the Italian Ministry of Foreign Affairs, satisfied with the achievements of the Milan Office during this period, approved a five-year extension of the operation of the Office, from September 1989 (when the first biennium covered by the previous project expired) till end December 1994.

The Government of Italy has placed at the disposal of UNIDO a special-purpose allocation from its contribution to the Industrial Development Fund for the functioning of the Milan IPO, on the basis of a mutually agreed budget. The project accounts and activities are administered by UNIDO in accordance with its regulations, rules and administrative instructions. The Government of Italy has been regularly informed by UNIDO of the activities of IPO Milan, through the Permanent Mission of Italy in Vienna, by annual project reports.

The objective of the Office is to assist developing countries in their industrialization efforts through the promotion of Italian investments and transfer of technology. The project shall contribute to the identification of appropriate investment possibilities in developing countries and bring to the attention of potential investors concrete project proposals. In this context, the Milan office shall pay due attention to the sectoral and geographical priorities established by the General Directorate for Development Cooperation of the Ministry of Foreign Affairs.
The Economy

Italy has a population of 57.7 million (according to the 1990 census) in a total land area of 320,000 km², with a population density of 191.7/km². In 1991, according to estimates by the World Bank, Italy's gross national product (GNP), measured at the average of the 1989-91 prices, was US$ 18,580 per person. During the 1980-90 decade, the GNP has increased in real terms, at an average annual rate of 2.4%. The gross domestic product (GDP) also increased by an annual average of 2.4%.

Agriculture (including forestry and fishing) contributed 3.6% to the GDP in 1990. In that year, about 8.9% of the employed labour force were engaged in the agricultural sector. The principal crops are sugar beet, grapes, wheat, maize, olives and tomatoes. Italy is a leading producer and exporter of wine.

Industry (including mining, manufacturing, construction and power) contributed 31.1% to the GDP in 1990 and employed 32.1% of the total labour force.

The State plays a major role in the development of heavy industry. Manufacturing contributed 23% to the GDP in the late 1980's according to World Bank estimates. About 22.3% of the employed labour forces were engaged in this sector in 1990. The most important branches of manufacturing, measured by gross value of output, are machinery and transport equipment, textiles, clothing and chemicals.

More than 80% of energy requirements are imported. In 1991 imports of mineral fuels and lubricants accounted for 9.4% of the value of total imports.

Tourism is an important source of income, and in 1990, due also to the World Championship of Soccer, it is estimated that a total of 60.3 million foreigners visited Italy.

In 1991, Italy recorded a visible trade deficit of US$ 895 million, and there was a deficit of US$ 21.5 million on the current account of the balance of payments. In 1991, the principal source of imports (20.9%) was Germany, which was also the principal market for exports (21%). Other major trading partners are France, USA and the United Kingdom. The principal exports were machinery and transport equipment, clothing, footwear, basic manufacturers and chemicals. The principal imports were machinery, transport equipment and basic manufacturers.

Following the introduction of emergency measures, the budgetary deficit for 1992 was reduced by the equivalent of 9.9% of the annual GDP. In 1992, Italy's total accumulated debt was equivalent to 104% of the annual GDP. The annual rate of inflation averaged at 9.9% during 1980-90. Consumer prices increased by an average of 6.4% in 1991, but this rate declined to 4.8% in late 1992. As a percentage of the total labour force, unemployment stood at 11% in mid-1992.

II. SCOPE, PURPOSE AND METHODS OF THE EVALUATION

The joint in-depth evaluation is stipulated in the project document, which sets out the justification of the project, its objectives and foreseen activities, as well as the institutional structure of the office, the project reviews, financial reporting, evaluation and related budgets. It is specified that the evaluation will be undertaken jointly by the Government of Italy and UNIDO not later than six months prior to the completion of the period covered by the approved budget, and that it shall provide the basis for a joint decision on the extension of the project.

The primary purposes of the in-depth evaluation are as follows:

(a) To assess the achievements of the project against its objectives and undertaken activities, including a re-examination of the project design and an eventual proposal for a new design;
(b) To identify and assess the factors that have facilitated the achievements of the project's objectives, as well as those factors, if any, that have been a drawback for the fulfilment of those objectives.

As part of the above-mentioned tasks, the evaluation team will also review whether the approach utilized in the project has led to optimum results, or whether another one would have improved the results.

Specifically, the mission shall review and assess the involvement of the project in the following activities:

(a) Administrative and substantive set up of the office;
(b) Promotion and mobilization of investment resources within Italy for the implementation of industrial investment projects in developing countries through joint ventures and other forms of business oriented partnerships;
(c) Preparation of in-depth analyses of the socio-economic situation of a number of priority target countries, selected in consultation with the General Directorate for Development Cooperation at the Ministry of Foreign Affairs, in order to identify priority sectors and investment proposals of potential interest to Italian investors;
(d) Promotion with interested Italian enterprises of industrial projects that are to be implemented in developing countries and that require technology and/or financing, with emphasis on small and medium-scale industries;
(e) Identification of potential partners in Italy, organizing contact meetings for project sponsors from developing countries and sources of technology and finance in Italy;
(f) Organization of visits to interested enterprises and financial institutions in Italy for potential partners from developing countries;
(g) Provide information to developing countries on available technologies in Italy and on the possibilities of transfer of technology;
(h) Provide enterprises in Italy with information on development plans of developing countries and on their policies and procedures regarding foreign investment;
(i) Develop cooperation with Italian banks and other institutions concerned with the strengthening of industrial cooperation with developing countries, promotion of investment and related technological activities;
(j) Organization of the participation of Italian entrepreneurs in UNIDO investment promotion meetings in developing countries;
(k) Organization of seminars, workshops and symposia to promote, among Italian companies, industrial projects and technology transfer;
(l) Analysis of financial and economical feasibility of projects through the UNIDO computerized programmes, such as COMFAR and PROPSPIN;
(m) Updating of the inventory of Italian enterprises interested in industrial cooperation with developing countries;
(n) Assist selected joint-venture partners with project completion facilities aimed at alleviating their financial burden in implementing joint ventures by pre-financing or co-financing pre-investment studies;
(o) Provide on-the-job orientation programmes in Italy in the field of industrial investment promotion for nationals from developing countries, who will operate as delegates in the framework of the "delegates programme" for investment promotion at the Office of Milan.

The evaluation team should also review to what extent the planned relations with the following have been realized:

(i) Concerned Ministries in Italy;
(ii) Chambers of Commerce and Foreign Trade in Italy;
(iii) Banks;
(iv) Industrial associations;
(v) The National Institute for Foreign Trade (ICE) and the Credit Insurance for Export Guarantee (SACE).
While a careful and accurate review of the past is in itself very important, the in-depth evaluation is expected to lead also to detailed suggestions for the future.

III. **COMPOSITION OF THE MISSION**

The mission will be composed of the following:

- One representative of the Government of Italy nominated by the Ministry of Foreign Affairs;
- One representative of UNIDO.

These representatives should not have been directly involved in the design, appraisal or implementation of the project. The costs associated to this evaluation will be charged to the project US/GLO/89/126, where appropriate funds have been reserved to cover DSA and travel of the evaluation team.

IV. **CONSULTATIONS**

The mission will maintain close liaison with the Industrial Investment and Technology Promotion Division, any other appropriate organizational unit in UNIDO, the project staff and the concerned government institutions in Italy.

In the discharge of its duties, the mission is also expected to visit selected public institutions, such as:

- Ministry of Foreign Affairs
- Ministry of Foreign Trade
- Ministry of Industry
- Institute for Foreign Trade (ICE),

as well as a number of non-governmental organizations, like:

- Chambers of Commerce
- Industrial associations
- Confederations of small and medium industry
- Banks
- Cooperatives and private companies.

Although the mission should feel free to discuss with the authorities concerned all matters relevant to its assignment, it is not authorized to make any commitment on behalf of the Government of Italy or UNIDO.

V. **TIMETABLE**

(a) **Duration of the mission**

The mission should assemble in Vienna end of May/beginning of June 1994 and will be briefed by the Investment and Technology Promotion Division and the Evaluation Section. Records review and interviews in Vienna should take approximately three working days. The mission will then proceed to Italy, where another ten working days should be allowed for records, reviews and interviews in Milan, Northern Italy and Rome. The possibility of visiting one or two developing countries, which cooperate closely with IPO Milan, will be discussed during the initial briefing.

Upon completion of its work, the mission will be debriefed at the Ministry of Foreign Affairs in Rome.
(b) **Guidelines for the report**

Administrative support to the mission should be provided by UNIDO in Vienna and IPO Milan. The final report should be prepared within three weeks of completion of the field work.

The report should follow the guidelines indicated in annex II of the Director-General's Bulletin on 'in-depth evaluation of technical cooperation projects' (UNIDO/DG/B.106), taking into consideration the modifications required by the special characteristics of the project under evaluation.

The report will be submitted to the Government of Italy and UNIDO Headquarters.
LIST OF PERSONS MET

Ministry of Foreign Affairs, Rome

Mr. Gianfranco Varvesi - Plenipotentiary Minister, Chief XV Office (UTC), General Directorate of Development Cooperation
Mr. Enrico de Maio - Plenipotentiary Minister, General Directorate of Development Cooperation
Mr. Gianni Ghisi - Counsellor, Chief Multilateral Cooperation IV Office, General Directorate of Development Cooperation
Mr. Massimo Betti-Berutto - Expert for Multilateral Cooperation IV Office, General Directorate of Development Cooperation

IPSO Milan

Mr. S. Giovannelli - Officer-in-Charge IPSO
Mr. B. Bertogli - Promotion Officer for Latin America
Ms. M. Carcó - Promotion Officer Eastern Europe
Mr. R. Samii - Associate Expert Promotional Unit
Mr. Song Xianfeng - Chinese Delegate
Mr. G. Bychawsky - Polish Delegate
Mr. P. Jaros - Czech Delegate
Ms. L. Capella - General Service Staff responsible for DIPP
Ms. M. Rebora - General Service Staff Promotional Unit
Ms. J. Cappelletti - General Service Staff Secretary of Head of Office
Ms. S. Cuestas - General Service Staff Secretary Administration
Ms. A. Toal - General Service Staff
Ms. R. Torza - General Service Staff
Ms. D. Perrotta - General Service Staff

Milan Trade Fair Organization - Milan

Mr. F.G. Anguissola - Assistant to Secretary-General for Foreign Relations

PROMOS (External Service of the Milan Chamber of Commerce for the Promotion of International Activities) - Milan

Mr. P.A. Chevallard - Director
Ms. F. Pisa - International Activities Officer
UNIONSCAMBI (Foreign trade business consultancy of Milan Fair) - Milan

Mr. G.C. Marchesi - Director
Mr. G. Ventura - Consultant

I.C.E. Italian Institute for Foreign Trade - Rome

Mr. C. Frittelli - Director for Cooperation Sector
Mr. A. Negrelli - Responsible for industrial collaboration

CONFINDUSTRIA - The Confederation of Italian Industry - Rome

Mr. F. Galdi - Director International Relations
Mr. R. Renault - Head Developing Countries Dpt.

SACE (Credit Insurance for Export Guarantee) - Rome

Mr. F. Pittrle - Chief International Relations Service
Mr. R. Miccciani - International Relations
Mr. A. Massoli Taddei - International Relations

Mediocredito Centrale (Bank) - Rome

Mr. F. Anania - Manager Project Finance
Mr. M. Ortolani - Project Finance Officer

SIMEST (Financing Co. for foreign joint ventures) - Rome

Mr. C. Perotti - Director
Mr. G.C. Bertoni - Deputy Director

SVEX S.RL. (Service Center for International Development of Emilia-Romagna Firms) - Bologna

Mr. S. Mezzetti - Marketing consultant

Italian Entrepreneurs

- Mr. R.A. Grasso - Legal representatives of "Boscolo & Tiozzo", Chioggia/Venice - Agroindustrial Sector

- Mr. G. Di Paolo - Regional Manager of "Electrolux International" (former Zanussi) - Electrical Households - Porcia-Pordenone

Ms. N. Machovec - Sales assistant
Mr. S. Targa - Managers of "Reginato e Mercante" consulting for international joint-ventures Treviso
Mr. P. Jelmoni

Mr. D. Pavan - Managing Director of EDILVI Low cost constructions. Ponzano Veneto/Treviso

Mr. G. Tomatis - Owner of Socado, Chocolate candies and chocolate cream Verona

Mr. P. Zagni - Business development manager of Belleli, pressure machines, heat exchangers, construction of offshore platforms - Mantova

Mr. W. Giupponi - Financial manager of Gervasoni - high precision mechanical instruments and spray paint guns - Brembilla/Bergamo
Mr. G. Pasqua - Area Manager Eastern Europe

Mr. C. Ragni - Co-owner of Eurofish, frozen sea food - Genova

Mr. V. Sahai - Marketing Director of Covema, plastic processing machinery - Milan

Mr. R. Benvenuti - Commercial Manager of Bertuzzi S.p.A., industrial plants for food processing industries Brugherio - Milan

Ms. M. Boldrin - Owner of Torcitura di Asso, Textiles/silk - Asso/Como
Mr. Luu Van Khuong - Project partner in Vietnam

Mr. Braga-Illa - Owner of TXT, electronics - Milan

Mr. A. Fioretti - President of Fonti di Ramiola/Parma Mineral water and soft drinks.

Mr. C. Brighenti - Administrative Director F.I.I. Ferrari, industrial cranes and loaders. Boretto/ Reggio Emilia

Mr. E. Khoury - Area Manager of Intertransports S.p.A. prefabricated wooden buildings. Prato/Florence

Mr. E. Garozzo - Financial Manager Intertransports.
Sir,

I have the honour to refer to the exchange of letters dated 12 August 1985, between the Government of Italy and the United Nations Industrial Development Organization, concerning the establishment of a UNIDO Service in Milan, Italy, for the Promotion of Industrial Development in Developing Countries.

In view of the expiry of the legal and financial arrangements set out, respectively, in the above-mentioned exchange of letters and in the annexed project document, consultations between the competent Italian authorities and the Secretariat of UNIDO have resulted in agreement on extension for a further five years of the financial arrangements for the project and in the renaming of the Service as the "UNIDO Office in Italy (Milan) for the Promotion of Industrial Investment in Developing Countries."

His Excellency
Mr. Corrado Taliani
Ambassador
Permanent Representative of Italy
to UNIDO
Hoher Markt 8-9
1010 Vienna
With respect to the above-mentioned extension, I have the honour to propose the following points:

1. The Government of Italy will provide the necessary financing from its contribution to the Industrial Development Fund for the period 15 September 1989 to 31 December 1994 in accordance with the project document which is annexed hereto and made part hereof.

2. Taking into account Article 21.2(c) of the Constitution of UNIDO it is confirmed that the Convention on the Privileges and Immunities of the United Nations (1946) applies to the Service in Italy and its personnel.

If the foregoing points are acceptable to your Government, I further have the honour to propose that the present letter and your Government's letter affirming its acceptance shall constitute an agreement between the Government of Italy and UNIDO, pending the conclusion of a detailed agreement on Basic Terms and Conditions governing the legal status of UNIDO'S Office in Italy (Milan) for the Promotion of Industrial Investment in Developing Countries.

Please accept, Sir, the assurances of my highest consideration.

[Signature]

Domingo L. Jalazón
Vienna, 5 March 1990
Your ref.: XXVIII.Milan

Sir,

I have the honour to refer to your letter dated 5 March 1990, in which you made a proposal with respect to the extension of the UNIDO Office in Italy (Milan) for the Promotion of Industrial Investment in Developing Countries, which reads as follows:

"With respect to the above-mentioned extension, I have the honour to propose the following points:

1. The Government of Italy will provide the necessary financing from its contribution to the Industrial Development Fund for the period 15 September 1989 to 31 December 1994 in accordance with the project document which is annexed hereto and made a part hereof.

2. Taking into account Article 21.2 (c) of the Constitution of UNIDO it is confirmed that the Convention on the Privileges and Immunities of the United Nations (1946) applies to the Service in Italy and its personnel.

../.

His Excellency
Mr. Domingo L. Siazon, Jr.
Director-General
United Nations Industrial Development Organization
P.O. Box 300
1400 VIENNA
If the foregoing points are acceptable to Your Government I
further have the honour to propose that the present letter
and your Government's letter affirming its acceptance shall
constitute an agreement between the Government of Italy and
UNIDO, pending the conclusion of a detailed agreement on
Basic Terms and Conditions governing the legal status of
UNIDO's Office in Italy (Milan) for the Promotion of
Industrial Investment in Developing Countries*.

With the present letter I have the honour to convey the
acceptance by my Government of the above proposal and to confirm that
the present exchange of letters constitutes an agreement between the
Government of Italy and UNIDO.

Please accept, Sir, the assurances of my highest
consideration.

Corrado Taliani
Ambassador
Permanent Representative of Italy
to UNIDO
### BUDGET LINE DESCRIBT

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**NOTES:**
- **Back Stopping Officer:** Mr. Norris
- **Project Number:** US/GLO/89/128
- **Project Revision:** F
- **Project Status:** O - Ongoing
- **Project Title:** UNIDO Industrial Promotion Office (IPO), Milan, Italy
- **Donor:** I TA
- **Project Title:** UNIDO Industrial Promotion Office (IPO), Milan, Italy
- **Project Description:** Sorted by Year/Sequence of Project Number
- **Budget Line Description:** Total Allotment, Curr Yr Phasing, Prior Year Exp, Curr Yr Diss, Bal Curr Yr Diss, Committed to Future, Bal One Uncommitted, Curr Yr Balance
- **Run-Date:** 1996-10-18
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#### Back Stopping Officer
Mr. Norris

#### Project Status
P - Ongoing

#### Fund Utilization
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For "US" projects, cleared by DA/FS/HMC before submission to DONO 24/11/92.

Approval recommended:

[Signature]

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Annex VI
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</table>

Sub-total intern. experts: 250.2% 2,006,351

Including overheads 13% on personnel, 5% on others

20.8.93
### Project Budget/Revision

<table>
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<tr>
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</tbody>
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**OPAS Experts**
-01
-02
-03
-99 Sub-total OPAS experts

**Administr. Support Personnel**
-00 Clerks, secretaries, drivers
-50 Freelance interpreters
-99 Sub-total Admin. supp. pers.

**UN Volunteers**
-01
-02
-03
-04
-99 Sub-total UN volunteers

**Other Personnel Costs**
-00 Project travel
-99 Other personnel costs

**National Experts**
-01
-02
-03
-04
-99 Sub-total National experts

**Surrender prior years' obl.**

**Total Personnel Component**
-99 TOTAL PERSONNEL COMPONENT

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<tr>
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<th>n/m</th>
<th>US$</th>
<th>n/m</th>
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<th>n/m</th>
<th>US$</th>
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<tr>
<td></td>
<td>250</td>
<td>3,186</td>
<td>379</td>
<td>142</td>
<td>793</td>
<td>007</td>
<td>54.0</td>
<td>750</td>
<td>372</td>
<td>53.5</td>
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**Notes:**
- The US$ amounts are rounded to the nearest thousand.
- The table includes the budget allocations for each component across different years (1995, 1994, 1993).
<table>
<thead>
<tr>
<th>Project number</th>
<th>TOTAL</th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>US$</td>
<td>m /m</td>
<td>US$</td>
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<tr>
<td>SUBCONTRACTS</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>11-00 Subcontracts</td>
<td>771,094</td>
<td>271,094</td>
<td>300,000</td>
<td>200,000</td>
</tr>
<tr>
<td>19-00 Surrender prior years' obl.</td>
<td>771,094</td>
<td>271,094</td>
<td>300,000</td>
<td>200,000</td>
</tr>
<tr>
<td>19-00 TOTAL SUBCONTRACTS</td>
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<tr>
<td>TRAINING</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>11-00 Individual fellowships</td>
<td>357,027</td>
<td>96,227</td>
<td>100,000</td>
<td>81,600</td>
</tr>
<tr>
<td>12-00 Study tours/UNDP gr. training</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>13-00 In-service training</td>
<td></td>
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<tr>
<td>14-00 Non-UNDP group training</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>15-00 Non-UNDP meetings</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>19-00 Surrender prior years' obl.</td>
<td>360,334</td>
<td>98,734</td>
<td>180,000</td>
<td>81,600</td>
</tr>
<tr>
<td>19-00 TOTAL TRAINING COMPONENT</td>
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<tr>
<td>EQUIPMENT</td>
<td></td>
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<td>41-00 Expendable equipment</td>
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<tr>
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<td>360,138</td>
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<td>49-00 TOTAL EQUIPMENT COMPONENT</td>
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<tr>
<td>MISCELLANEOUS</td>
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<tr>
<td>51-00 Sundries</td>
<td>423,502</td>
<td>226,478</td>
<td>125,924</td>
<td>71,500</td>
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<tr>
<td>52-00 Hospitality</td>
<td>47,493</td>
<td>27,453</td>
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<td>10,000</td>
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<tr>
<td>59-00 Support costs</td>
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<tr>
<td>59-00 Surrender prior years' obl.</td>
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<td>59-00 TOTAL MISCELLANEOUS COMPONENT</td>
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<td>250.2</td>
<td>142.7</td>
<td>2,871,875</td>
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<tr>
<td>Support costs</td>
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<td></td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>5,611,938</td>
<td>2,871,875</td>
<td>1,632,963</td>
<td>1,107,100</td>
</tr>
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### EXAMPLE OF FEASIBILITY STUDY EXECUTED BY IPO MILAN

(Case number 1)

**PRODUCTION OF THREE WHEELER VEHICLES**

<table>
<thead>
<tr>
<th>Country:</th>
<th>Tunisia</th>
</tr>
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<tbody>
<tr>
<td>Code:</td>
<td>TUN/007/H/90-11</td>
</tr>
<tr>
<td>Requisition:</td>
<td>29/05/91</td>
</tr>
<tr>
<td>Total cost:</td>
<td>80,000 US $</td>
</tr>
<tr>
<td>Italian partner's share:</td>
<td>50% (40,000 US $)</td>
</tr>
<tr>
<td>UNIDO's share:</td>
<td>50% (40,000 US $)</td>
</tr>
<tr>
<td>Study's completion:</td>
<td>June 1992</td>
</tr>
</tbody>
</table>

**Objectives:**

to evaluate possibilities for external sourcing, with the objective of reaching a high level of local integration. Particular attention was devoted to the assessment of potential for local development of special stamping operations.

**Findings:**

level of external sourcing attainable in the short/medium term appeared low. The projected production costs for local manufacturing did not confirm any substantial reduction with respect to Italian production costs.

**Outcome:**

the Italian investor changed strategy with respect to Tunisia, opting for trading based agreements. Focus on industrial co-operation was shifted to other regions of the world.
EXAMPLE OF FEASIBILITY STUDY EXECUTED BY IPO MILAN

(Case number 2)

PRODUCTION OF MINERAL WATER AND SOFT DRINKS

Country: Mexico
Code: MEX/097/H/92-07
Requisition: 26/08/93
Executed by: A team of individual experts recruited by UNIDO
Total cost: 31,000 US$
Italian partner's share: 50% (15,500 US$)
UNIDO's share: 50% (15,500 US$)
Study's completion: April 1994

Objectives:
to evaluate the precise size of the Mexican market and the problems related to the distribution of mineral water and soft drinks in Mexico City.

Findings:
to reach a satisfactory financial return. It appeared that production of both soft drinks and mineral was to be undertaken, as well as export of at least 25% of total production. On account of the peculiar structure of Mexican market, the study indicated that the setting up of an in-house sale organization would not be rewarding, being preferable relying on an external trading company for the distribution of the products.

Outcome:
the study is under the evaluation by SIMEST and MEDICREDITO in order to define a financial scheme.
PART A: BASIC DATA

COUNTRY: Global

PROJECT NUMBER: US/GLO/89/126

PROJECT TITLE: UNIDO Industrial Promotion Office (IPO)

SCHEDULED START: September 1989

SCHEDULED COMPLETION: 31 December 1994

ORIGIN AND DATE OF OFFICIAL REQUEST: n.a.

GOVERNMENT COUNTERPART AGENCY: Italian Ministry of Foreign Affairs

UNIDO CONTRIBUTION: $US 6,000.81

CURRENCY REQUIRED FOR UNIDO INPUT: Convertible

UNIDO BACKSTOPPING SECTION: Investment Promotion Section

PROPOSAL SUBMITTED BY DATE: 3 April 1989

PROGRAMME COMPONENT CODE: GO 1202
PART B: NARRATIVE

1. Background information

On 12 August 1985, an exchange of notes verbales was concluded between UNIDO and the Italian Government on the establishment of an office in Italy for the promotion of industrial co-operation between firms in Italy and those in developing countries.

The UNIDO Industrial Promotion Office (IPO) in Milan began operation in September 1987. Based on the terms of reference proposed by UNIDO and agreed to by the Italian Government, the Milan IPO has contributed to the identification and promotion of industrial investment projects in developing countries with the aim of transferring know-how, technology and capital to existing or planned enterprises in all industrial sectors of developing countries.

The Milan IPO has followed the pattern of work and promotion methodology applied and tested with success in other offices of the UNIDO Investment Promotion Service (IPS) network. It has concentrated its initial efforts on becoming, as quickly as possible, part of the IPS network, integrating itself with the work of UNIDO Headquarters and that of the other IPS offices already in operation in Austria, France, Germany, Federal Republic of, Japan, Poland, Republic of Korea, Switzerland and United States of America.

A detailed progress report, containing a careful account of the activities and achievements of the Milan IPO during the period October 1987-December 1988, was prepared. The report, which was forwarded to the Italian Ministry of Foreign Affairs, constituted the basis of the joint evaluation foreseen in the agreement on the first biennium of activities for the initial project (US/GL0/84/086).

The joint evaluation meeting for the initial project took place on 6 March 1989 in Rome. Officials from the Italian Ministry of Foreign Affairs, under the chairmanship of Minister Manfredo Incisa di Camerana, expressed their deep satisfaction with the achievements of the Milan IPO in the initial period of its operation. The meeting approved a five-year extension of the operation of the Milan IPO. The present project document covers the objectives and proposed activities for a 64-month period, from September 1989 (when the first biennium covered by the previous project document will expire) to December 1994 inclusive.

2. Objectives

a. Development objective

The development objective of the Milan IPO is to mobilize financial, human and technical resources for the stimulation of industrial production in developing countries through international co-operation, by promoting joint business activities between project sponsors in developing countries and Italian industrialists and technologists.
b. Immediate objectives and activities

To assist UNIDO in the execution of its related programmes, the Government of Italy will make available to UNIDO a special-purpose contribution for the continuation of the activities of the Milan IPO.

The objective of the second phase of the Milan IPO will be to assist developing countries in their industrialization efforts through the promotion of Italian investments and transfer of technology. It will contribute to the identification of appropriate industrial investment possibilities in developing countries and bring to the attention of potential investors concrete project proposals. In doing so, the Milan IPO will also pay due attention to the sectoral and geographical priorities established by the General Directorate for Development Co-operation of the Ministry of Foreign Affairs in Rome.

The activities of the Milan IPO will cover sectors of industry for which there is potential in Italy and will be aimed at the following, in accordance with the directives of the Secretariat of UNIDO:

(a) Preparing, in co-operation with UNIDO Headquarters, in-depth analyses of the socio-economic situation of a number of priority countries, selected in consultation with the General Directorate for Development Co-operation in Rome, in order to identify priority sectors and investment proposals of potential interest to Italian investors;

(b) Bringing to the attention of interested Italian enterprises industrial projects that are to be implemented in developing countries and that require technology and/or financing, with emphasis on small- and medium-scale industries;

(c) Identifying potential partners in Italy and, where necessary, assisting them by providing information and expert advice; organizing contact meetings for project sponsors from developing countries and sources of technology and finance in Italy;

(d) Arranging and organizing visits to interested industries and financial enterprises in Italy for potential partners from developing countries;

(e) Providing developing countries with information on available technologies and existing possibilities of transfer of technology from Italy;

(f) Providing interested parties in Italy with information and advice on forms of co-operation, such as joint ventures, leasing, sub-contracting, licensing, limited partnerships and other ways of transferring resources to developing countries;

(g) Providing enterprises in Italy with information on development plans of developing countries and on their policies and procedures regarding foreign investment;
(h) Developing co-operation with Italian banks and other institutions concerned with the strengthening of industrial co-operation with developing countries, the promotion of investment and related technological activities;

(i) Advising on and assisting in arranging financing, especially from public authorities in Italy and from financial institutions involved in the financing of industrial projects in developing countries, such as the World Bank and local or regional banks and funds;

(j) Organizing the participation of Italian entrepreneurs in UNIDO investment project promotion meetings and forums in developing countries;

(k) Organizing seminars, workshops and symposia to promote industrial projects and technology transfer;

(l) Evaluating the financial and economical feasibility of projects with UNIDO computerized programmes, such as the Computer Model for Feasibility Analysis and Reporting (COMFAR) and the Project Profile Screening and Pre-Appraisal Information system (PROPSPIN);

(m) Continuously updating the inventory of enterprises in Italy interested in and suitable for investing in developing countries;

(n) Assisting selected joint-venture partners with project completion facilities aimed at alleviating their financial burden in implementing joint-venture projects by pre-financing or co-financing pre-investment studies;

(o) Providing on-the-job orientation programmes in Italy in the field of industrial investment promotion for nationals from developing countries who will operate as delegates for investment promotion at the Milan IPO.

PART C: INSTITUTIONAL STRUCTURE OF THE UNIDO INDUSTRIAL PROMOTION OFFICE IN MILAN

UNIDO shall operate and supervise the Milan IPO. The Head of the Office shall be appointed by the Director-General of UNIDO after consultation with the Government of Italy, in accordance with UNIDO regulations, rules and procedures. Other staff required for the operation of the Office shall be appointed by UNIDO, also in accordance with UNIDO regulations.

The Government of Italy shall, from its contribution to the Industrial Development Fund, place at the disposal of UNIDO a special-purpose contribution for the establishment and functioning of the Milan IPO, on the basis of a mutually agreed budget. UNIDO shall administer the special-purpose contribution of the Government, in accordance with its financial rules and other applicable regulations.

UNIDO shall, under its financial regulations and rules governing the receipt and administration of the above-mentioned funds, establish a project account from the contribution of the Italian Government to the Industrial Development Fund, to be used exclusively for this project.
The project account and activities financed therefrom shall be administered by UNIDO, in accordance with its regulations, rules and administrative instructions. Thus, personnel shall be engaged and administered, equipment, supplies and services shall be purchased and contracts shall be entered into in accordance with the provisions of those regulations, rules and administrative instructions.

All financial accounts and statements shall be expressed in United States dollars and there shall be no accounting or reporting in other currencies. For the purpose of recording receipts and/or payments, all transactions shall be converted into United States dollars at the official United Nations accounting rate of exchange applicable at the date of receipt and/or payment.

The project account shall be charged with actual expenditures incurred by UNIDO in the performance of activities under this arrangement.

The project account shall also be charged with an amount equivalent to 13 per cent of all personnel expenditures and 5 per cent of all other expenditures from the project account for the programme support services provided by UNIDO in the implementation of the project financed under the project account.

The project account shall be charged with an amount equivalent to 1 per cent of the remuneration of the net salary of persons whose engagement by UNIDO is financed by the project account, to provide a reserve for coverage of any claim involving service-incurred death, injury or illness, under the regulations and rules of UNIDO governing contracts. The reserve cannot be refunded to the Government.

The Head of the Milan IPO shall direct and manage the operations of the Office and, with the assistance of his or her staff, implement its programme for the promotion of industrial investment in developing countries.

UNIDO shall keep the Government of Italy informed of the activities of the Milan IPO, through the Permanent Mission of Italy to UNIDO in Vienna. The Head of the Office shall maintain contact, as appropriate, with the Italian authorities through the Ministry of Foreign Affairs. The Government of Italy shall be informed of all investment proposals contained in the UNIDO portfolio of investment opportunities.

UNIDO shall furnish the Government of Italy with an annual report on the progress of the Milan IPO, as well as an annual financial statement. UNIDO will also submit a work programme for each year of operation of the Office. The work programme shall be in line with the objectives of the Office as described above. The Office shall be provided with whatever information is available to UNIDO.

The Government of Italy and UNIDO shall carry out a joint evaluation not later than six months prior to the completion of the period covered by the approved budget, to decide whether or not to continue the programme.

Not later than six months after the end of the financial year in which UNIDO makes the last disbursement on the account of the Milan IPO, a final report on the implementation of the project, including the final accounts covering the utilization of the special-purpose contribution provided by the Government of Italy, shall be submitted by UNIDO to the Italian Government. The final report shall contain an appraisal made by UNIDO of the results of the activities of the Office based on the joint evaluation, as described in the previous paragraph.