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of Selected Countries of the Middle East

Beirut, Lebanon, 25 - 29 November 1974

INDUSTRIAL DEVELOPMENT IN THE LEAST DEVELOPED  
ARAB COUNTRIES <sup>1/</sup>

prepared by  
the Secretariat of UNIDO

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I. The needs of the least-developed Arab countries in the field of industrial development planning - UNCTAD's role

To initiate and accelerate the industrialization process in the least-developed countries, the formulation of development strategies, plans and programmes and policy measures is of particular importance. Planning in a broad sense does not only cover the development of large- and small-scale industries but also takes into account a number of related activities such as training, industrial administration, institutions and legislation, domestic and foreign marketing, management as well as the financing and promotion of industrial investments.

The primary aim of this exercise is to review what has already taken place in this context and, together with the least-developed countries, examine proposals for solutions of the problems they encounter in their process of industrialization. Such a programme may necessitate the reformulation of industrial development strategies, plans and policies at the national and the regional levels, and call for the preparation, evaluation and implementation of industrial projects.

At the macro-level such activities will relate to studies on strategies and policies of industrialization including research, industrial surveys, comparative analyses of policy instruments and measures geared to promoting industrial development.

At the project level the identification of investment opportunities, market research, industrial project preparation, project evaluation and project contracting and execution will be dealt with.

In order to combine the various aspects of technical assistance required, it would be advisable to choose a multi-disciplinary approach at the very beginning of such a programme. At the initial stage this type of multi-faceted assistance could be covered by a single Industrial Advisory Unit. In addition, the three industrial activities which should receive priority attention, i.e. maintenance and repair, industrial training and food technology are described separately in more detail

to show how assistance will develop from the proposed general advisory unit to branch-oriented programmes. Advice will be equally needed in other fields such as domestic marketing and distribution, industrial legislation and small-scale industries, etc. Small-scale industries in particular play a special role in the industrialization process of the developing countries, especially in the least-developed among them. This assistance is generally aimed at building up a national machinery for the promotion of small-scale industries. It usually includes an industrial extension centre to stimulate the establishment of new small industrial enterprises and to rehabilitate and modernize existing ones through assistance in technology, management and marketing; the implementation of a system of financing; and the planning and construction of a demonstration industrial estate with standard factories and common service facilities, as it is presently being undertaken in the Yemen Arab Republic (Annex).

The proposed programme of assistance will take into account possibilities for investment promotion and, where appropriate, co-operation among developing countries including exchanges between development banks and international financing institutions. These activities will be oriented to facilitating the establishment of direct contacts between the respective governments and institutions, government agencies of other developing countries and potential investors. Through a network of contacts, the least-developed countries will thus have wider access to the various external resources (finance, know-how, services, markets) that they may require for their industrial projects.

Co-operation among regional groupings can also play an important role in the process of industrialization. Thus, sectors of industry suitable for regional co-operation should be identified and the feasibility of specific projects determined in order to achieve some degree of industrial complementarity, an aspect which might also be of particular relevance for the least-developed countries of the region.

The financial question has also to receive special consideration as the funds so far put at the disposal of the three countries by multi-lateral and bilateral sources are not sufficient to cover the most urgent needs.

The aim of this outline is to pinpoint the broad lines of assistance and to leave the details to further negotiations with the respective governments.

A. People's Democratic Republic of Yemen

1. Country background paper

The country background paper provides a detailed description of the recent structure of industry, the institutional framework, industrial development planning and the problems of industrial operation and development.

The country's drive for its industrialization will require strong co-ordination between different government institutions with regards to industrial development planning and plan implementation. At the project level feasibility studies and the drawing up of contracts should be carefully examined as well as the estimation of manpower requirements and of potential markets in order to achieve the plan targets.

Some of the obstacles the country is facing can be removed over time, while others are of a more permanent nature. A shortage of skilled manpower, financial limitations, insufficient physical infrastructure, limited size of the domestic market and lack of planning data are limiting factors.

2. UNIDO assistance projects under implementation and negotiation

The ongoing and "pipeline" UNDP projects in the field of industrial development are given in a separate document.

In the field of industrial planning and programming, provision has been made in the current UNDP Country Programme (1972-1976) to remedy some of the most urgent needs through the creation of the Industrial Advisory Unit of the Ministry of Economy and Industry. The objectives of this project are to assist in the formulation and preparation of the chapter on industry of the second Five-Year Plan (1974/75 - 1978/79), to prepare techno-economic feasibility studies for new industries and to render advisory services to existing industrial establishments. Due to financial limitations, the project had to be restricted to \$100,000 and a duration of only one year.

In order to assure the continuity of the assistance, the project should in UNIDO's views be extended for at least five years, in view of the tremendous tasks and problems the country is facing. Since

the present field of activity of the Advisory Unit is limited to industrial planning, pre-investment studies and extension services, it is suggested that it should in future also cover other activities such as the development of specific industrial branches (particularly fishing and fish processing and agro-based industries), maintenance and repair, domestic marketing and distribution, training, industrial standards and legislation, the establishment of a data base for industrial planning as well as the provision of information on industry to government bodies and local entrepreneurs.

The types of assistance identified in a preliminary way are multi-faceted. As it will not be possible to cope with all problems at the same time, it is suggested to provide a permanent team of experts to the Industrial Advisory Unit for a period of five years. The team should include one Industrial Economist, one Industrial Engineer, one Domestic Marketing and Distribution Expert and one Industrial Training Expert. In addition, one Industrial Planner, one Expert in Building Materials, one Food Technologist and one Expert in Maintenance and Repair should be provided for at least two years.

Such a large-scale project may be beyond the financial possibilities provided for in the next UNDP Country Programme. It is estimated that the enlarged Industrial Advisory Unit would cost approximately \$900,000.

The forthcoming opening of the Suez Canal may very well justify the provision of these funds since it is to be expected that the port of Aden will resume its former functions and that industry will develop in this context.



B. Yemen Arab Republic

1. Country background paper

The country background paper provides a detailed description of the present structure of the industrial sector, the institutional framework, industrial development planning and the constraints to industrial development.

The machinery to formulate and implement industrial development plans, to design industrial strategies and policies and to promulgate laws, regulations and incentives encouraging the industrialization of the country needs increased support. At the project level similar reinforcement is needed to identify investment opportunities, prepare pre-investment studies, assist in the negotiation and drawing up of contracts and the implementation of investments.

Industrial institution building has just started. The training of manpower should take into account the requirements of a modern industrial sector. Natural resources to serve as basic raw material for future industries have to be explored. With time the agricultural sector may become a major supplier of raw materials for industry.

2. UNIDO assistance projects under implementation and negotiation

The ongoing and "pipeline" UNDP projects in the field of industrial development are given in a separate document.

To solve some of the most urgent needs in the field of industrial planning and programming, provision has been made in the current UNDP Country Programme to assist the Industrial Promotion and Advisory Unit of the Ministry of Economy. The objective of this Unit is to provide technical and economic assistance to local entrepreneurs and to support industrial development in general through research, industrial planning and investment promotion. The Unit formulates industrial policies and prepares industrial plans, identifies investment opportunities, undertakes or supervises appropriate feasibility studies, and renders advisory services to small- and medium-size industries which represent the majority of existing enterprises. UNDP/UNIDO assistance started in 1973 for a period of three years. Two experts, one Industrial Engineer and one Industrial Economist are presently in Sana'a.

In view of the many problems faced by the country in developing its industry and in order to assure the continuity of the assistance, UNIDO suggests that the activities of the above-mentioned Advisory Unit be expanded to deal with the identification and development of specific industrial sectors (e.g. vegetable oil processing, fishing and fish processing and soft drinks), maintenance and repair, domestic marketing and distribution, industrial training, industrial standards, investment promotion and institution building. This assistance will have to be prolonged over a number of years.

To gradually approach the different aspects of the proposed assistance project, it is recommended to provide a permanent team of 4-5 experts for the entire duration of the project and to foresee a number of consultants/experts for shorter periods. The proposed team should be composed of one Industrial Economist, one Industrial Engineer, one Industrial Training Expert and one Domestic Marketing and Distribution Expert. In addition, one Industrial Accountant, one Food Technologist, one Maintenance and Repair Expert and one Building Materials Expert should be attached to the Unit.

The funds needed to finance the enlarged assistance to the Industrial Advisory and Promotion Unit will probably be beyond the means provided by the UNDP Country Programme. Additional sources may therefore be required for a proposal which could extend to an estimated period of 5 years and which would amount to approximately \$700,000.

C. Sultanate of Oman

1. Country background paper

The country background paper provides a detailed description of the present structure of industry, its institutional framework, industrial development policies, the initial prospects and the basic problems faced by the Sultanate.

In order to lay a foundation for the industrial development of Oman it will be necessary to set up an adequate institutional framework. Measures have to be taken against the severe scarcity of skilled manpower, the shortage of information and data on markets, consumption as well as on the country's land, water, fisheries and mineral resources. Only if these conditions are met it will be possible for the Government to draw up a comprehensive industrial development programme.

2. UNIDO assistance projects under implementation and negotiation

The ongoing and "pipeline" UNDP projects in the field of industrial development are given in a separate document.

The Department of Industry of the Ministry of Development is presently receiving the assistance of an Industrial Adviser for twelve months who assists in drafting an industrial investment law and advises on the identification of investment opportunities, the formulation of investment priorities, the elaboration of industrial programmes and measures for follow-up action, the evaluation of feasibility studies and the organisation of the Department of Industry.

Although one expert is actually in the country, UNIDO suggests the creation of a multi-disciplinary Industrial Advisory Unit which should provide more specific advice in the various fields. Such an Industrial Advisory Unit would necessarily widen the industrial development prospects for the Sultanate.

The objectives of the Advisory Unit will be multi-faceted covering the formulation of an industrial development plan, industrial branch studies, investment identification, project preparation, evaluation, promotion and execution, contracting, extension services, construction of industrial estates, licencing, industrial standardisation, maintenance and repair, domestic marketing and distribution, etc. Industrial branches

with a development potential currently under consideration by the Government are cement, building materials, flour milling, sugar industry, date processing, vegetable oil and fish industry, oil paints, dairy products and soft drink bottling.

In order to provide effective assistance, it should be envisaged that the advisory team remain for at least five years. It is suggested that a permanent team of 5 experts (Industrial Economist, Industrial Engineer, Industrial Planner, Domestic Marketing and Distribution Expert, Training Adviser) should be attached to the Industrial Advisory Unit. In addition, one Food Technologist, one Expert in Building Materials and one Expert in Maintenance and Repair should be provided. Provision should also be made for short-term consultants.

Such a large-scale project may be beyond the financial possibilities provided for in the next UNDP Country Programme. It is estimated that the Industrial Advisory Unit would cost approximately \$1,000,000.

II. The experience of UNIDO and proposals for technical assistance in the field of industrial planning

a) By far, the largest project in the Middle East is the Industrial Studies and Development Centre in Riyadh, Saudi Arabia, which has received UNDP/UNIDO assistance since 1966. The project assists the Government to achieve its development objectives through the diversification of the economy, substitution of nationally-manufactured goods for imports and intermediates, expansion of exports of manufactured goods, better utilization of existing industrial capacities and the increase in productivity. To achieve these long-term objectives, the Centre's activities are divided into four groups:

- i) economic studies, branch and project planning, industrial policies and industrial programming data;
- ii) extension services and management development;
- iii) creation of an Industrial Testing and Development Laboratory;
- iv) assistance to special industrial branches.

Particular emphasis is laid on the training of local counterparts.

The project has already achieved some of its original objectives and others will be reached soon. Thus, assistance for the design, establishment and management of industrial estates is no longer required. The Centre's staff can now undertake pre-investment studies and has also gained sufficient professional experience in other fields such as extension services. It may be of interest to note that the private sector and a number of other ministries and financing organizations are fully taking advantage of the services offered by the Centre.

With the envisaged growth of the economy and industry of the country, the Centre will have to provide more sophisticated expertise.

b) Since 1971 UNIDO is rendering assistance to the Industrial Development Centre for Arab States (IDCAS) in Cairo in activities which cannot be efficiently and profitably carried out at the national level, but which can only be economically undertaken on a co-operative basis by the member countries. Such activities include the harmonization of industrial development policies and plans of member countries, the upgrading of the IDCAS staff to formulate and implement techno-economic studies for the promotion of regional enterprises and industries, to develop criteria for the equitable distribution of benefits among the participating

countries in joint enterprises, to unify concepts of national accounting and to establish a joint industrial information and research service.

In addition UNIDO and UNDP, in co-operation with IDCAS, are in the process of establishing a regional centre for small-scale industry development in the Middle East. The activities of this Centre are designed to foster co-operation among Arab countries, in research, training and development activities for small-scale industry. Special emphasis will be accorded to the least-developed countries of the region.

c) UNIDO is in the process of rendering assistance in the field of management development to ECWA countries through the Arab Institute for Social and Economic Planning in Kuwait. Provision should be made that this project could eventually also be expanded to include also assistance to the Yemen Arab Republic, the People's Democratic Republic of Yemen and Oman.

In order to implement the above, additional financial resources would be required as the means anticipated from the UNDP are below the requirements.

The Arab Institute for Social and Economic Planning in Kuwait has in the past been more concerned with economic and social planning and development. It is suggested to investigate whether it would be prepared to host in future also trainees from the least-developed Arab countries in such fields as industrial planning and programming.

III. Summary of suggested priority actions and means of implementation

i) As a first step towards accelerated industrialization, it is recommended that the Governments of the Yemen Arab Republic, the People's Democratic Republic of Yemen and the Sultanate of Oman support the proposal of establishing new or of reinforcing existing Industrial Advisory Units which deal with the overall industrial development of the respective countries. The need for other types of technical assistance projects focusing on particular industrial branches and activities should also be identified during the meeting in order to enable ECWA and UNIDO to initiate appropriate follow-up action.

ii) Once the possible areas of co-operation with given Governments have been identified, ECWA and UNIDO could immediately field missions to the respective countries to define and promote the exact type of assistance the Governments want and subsequently assist in negotiations with individual Governments for any follow-up action needed.

iii) To assist and reinforce the ECWA/UNIDO mission, all participating Governments could agree to release for subsectoral studies UNIDO experts working in their countries for a period not exceeding two to three weeks at no cost to the least-developed Arab countries.

iv) Consideration could be given to financing the proposed projects from funds made available from donor countries of the region. These funds could eventually be converted into funds-in-trust if the assistance of the UN is sought. Regional financing institutions could also be approached. In addition, UNIDO and ECWA will try to secure financing of the identified technical assistance projects from traditional UN sources.

v) Since the training of local staff is of imperative importance, the support of Governments and national or regional institutions could be sought of expanding their existing facilities to absorb at their cost or through subsidies a number of trainees from the least-developed Arab countries.

ANNEX

Example of UNIDO Technical Assistance Leading to Financing by a  
Financing Institution

In April 1972, a joint UNIDO/UNDP Evaluation Mission visited the Yemen Arab Republic to review the work of the UNIDO Industrial Engineer (small-scale industry) in the Ministry of Economy during the past 1 1/2 years and to formulate proposals for further assistance. A staff member of the World Bank's Industrial Project Department participated in the mission as an observer.

The mission recommended the establishment of an industrial estate at Sana'a, the capital city, together with common facilities and extension services and financing of enterprises to be established. The pre-feasibility studies carried out earlier by the UNIDO expert and the report of the mission evinced interest in the World Bank and following a meeting between the Executive Director of UNIDO and the Head of the Industrial Projects Department of the World Bank, UNIDO was requested to prepare a feasibility study for the industrial estate project in the format required by the World Bank. This study was undertaken by a UNIDO expert during December 1972/January 1973. The feasibility study prepared by the expert was accepted by the World Bank in principle. The World Bank sent out an appraisal mission in April 1973 and subsequently negotiated the terms of a loan with the Yemeni authorities. A loan of \$ 2,3 million was approved by the World Bank early in 1974 and the project is now in implementation with the co-operation of the UNIDO experts in the Industrial Promotion and Advisory Unit in the country. The loan from the World Bank to the Yemeni authorities consists of

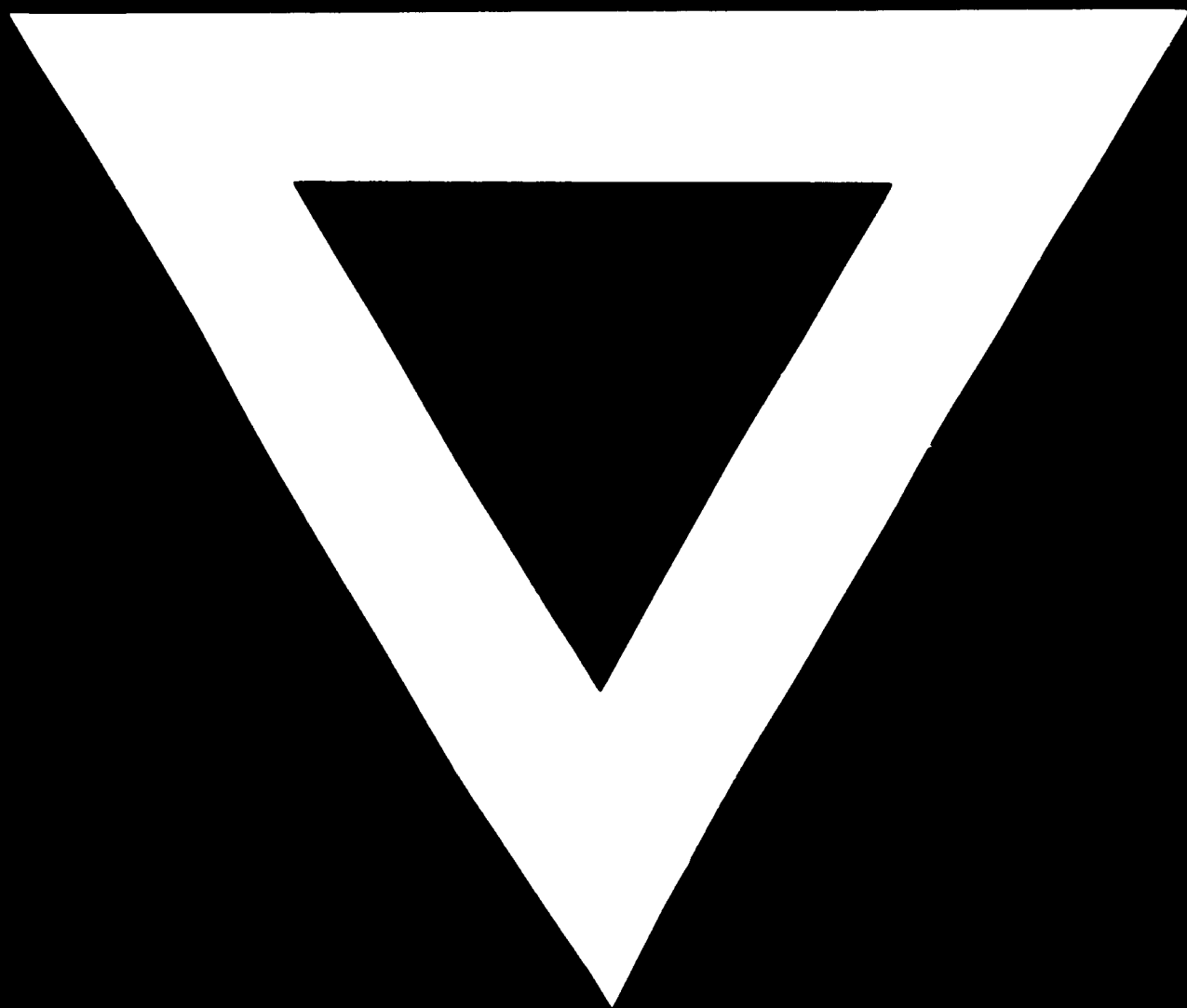
- a) \$ 1,28 million towards the construction costs of the first phase of the industrial estate;
- b) \$ 0,5 million for creating a credit facility to assist the entrepreneurs on the estate in financing their imported machinery and equipment; and
- c) \$ 0,35 million towards the cost of technical assistance.



The industrial estate will have an area of 32,500 square metres (with provisions for later extension to 130,000 square metres). In the first phase 7 standard factory buildings with plot sizes of 2,500 square metres each would be built. Each standard building would on the average accommodate three enterprises so that 21 enterprises are expected to be established in the first phase. When all the three phases are completed over a 12-year period, there will be more than 100 enterprises in the industrial estate.

Assistance in preparing such feasibility studies as bankable projects can be undertaken by UNIDO under short-term assistance.





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