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SOME MEASURES TO DEVELOP THE INDUSTRIAL SECTOR IN LEAST DEVELOPED COUNTRIES*

prepared by

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SOME MEASURES TO DEVELOP THE INDUSTRIAL SECTOR IN LEAST DEVELOPED COUNTRIES

The main purpose of the present meeting is to discuss the most appropriate ways and means to ensure additional resources from bilateral and multilateral finnncial and technical assistance institutions, with a view to developing the industrial sector in the LDCs.

It is evident that in this respect, there exist three main parties which are involved in the process of developing the industrial sector in LDCs. One party is the LDC, including its public and private sector, the second is the bilateral, financial and technical assistance institution or institutions in the donor developed country or in the more advanced developing country whatever the case may be. The third party is the multilateral, financial and technical assistance agency. For the efforts of all parties concerned to be successful, there should be a co-ordinated action. For example, if the push from the bilateral or multilateral agency to channel resources, be it financial or technical - to the LDC is much stronger than the pull from the LDC - due to its inability to absorb these resources, the result is a frustrated effort and the unsuccessful outcome "the same would be if the "pull" is stronger than the "push". Accordingly, this short paper will attempt to discuss some of the important aspects and measures that may be considered in the maximization of the efforts of these parties mentioned above to obtain the desired objectives.

The LDCs Level:

The LDC plays an important role in the whole transfer of resources process towards the industrial sector. The reason is that the LDC in question is the focal point towards which these resources are flowing ~~following~~. For any resources to flow to a certain region, sector, programme, on project within a developing or LDC or even within a developed one, (be it a capitalist or a socialist) certain steps have to be taken by inducement or by direction in case of the latter, to ensure successful flow of these resources. These steps are:

1. identification of the region, sector, programme or project to which these resources should be directed;

2. providing for the necessary measures, whether by incentives or direction, to mobilize the required resources to meet the needs of the identified region,sector, programme or project;

3. ensuring necessary support and direction for these rescurces to facilitate its proper "plugging" into the identified region, sector, programme, or project;

4. maintaining the favorite climate that encourages the continous and smooth flow of the required resources.

It appears that for the LDCs, to obtain additional resources to develop their own industrial capabilities, there should be before any programme and project identification process, complete stocktaking of the available resources on a community, regional or national basis.

Since the LDCs do not have the required capabilities to undertake such stocktaking, bilateral and multilateral and organization may be called upon to assist in this respect.

Having prepared the informational infrastructure related to the industrial sector, the next step assuming a reasonable infrastructure exist - is to identify viable industrial programmes and projects.

The investment process whether by the public or the private sector starts with an intuitive reaction to an economic need. This can be based on a raw materials situation, on an unsatisfied market demand and is a legitimate function for organized "industrial" development "activity". Having identified a need of the physical possibility of satisfying it in a local production facility, the next step is to compile the basic data which will be required in the future evaluation phase. Whether it is called an inventory or basic data, it is well-known exercise in compiling concise information on population, salary levels, utility resources (power fuel, water, drainage, etc.) transportation and communication facilities, taxes, pertinent laws, land values, union activity, training facilities and so forth. Accordingly, governments in the LDCs interested to strengthen the industrial sector must concentrate on maximizing their project identification capabilities, preparing complete inventories "on a community", regional and national basis and limiting feasibility study output to request for help from private and public entities on specific projects. On the other hand, pre-feasibility studies of selected projects should be prepared. Pre-feasibility studies differ from full feasibility studies in that they do not contain cost analysis, engineering plans or schedules, plants layouts or profit projections. However, they do include:

a) a full definition of the project;

b) its scope in terms of the function, to be performed (i.e. manufacturing, marketing, servicing, etc.) at its proposed scale;

c) all available data on the market for such an industry;

d) information about other interested agencies or firms, technical or financial (this would include interested potential partners, either governmental or private);

e) information on current potential competitions;

f) current degree of interest on the part of the government of the LDC; the priority given to the project and the forms of government helps available. This would include any prior commitmente by the host government with respect to specific incentives;

g) proposed sites for the project;

h) advice regarding infrastructure and utilities at each site, labour availability, climate, or other pertinent factors for this particular project. (the latter might include soil or mineral analysis);

i) availability of raw material where this is pertinent.

Some of the reasons why "pre-feasibility" studies are to be preferred at this stage are:

1. investors or donors insist on conducting their own analysis;
2. the cost analysis are the most expensive part of any survey, since they must be conducted by experts. Such expenditure should, therefore, be reserved for projects which do not only look promising but, for which a potential investor or donor has bean found;
3. pre-feasibility studies are within the capacity of reasonably trained staff, while full feasibility studies require the insights of experts;
4. pre-feasibility studies are all that is required for effective promotion. Businessmen usually prefer simple typewritten fact sheets rather than fancy printed brochures. The latter of it like general, hand-outs, whereas the former suggest a measure of exclusivity and so inspire greater interest from investors or donors.

The more the LDCs are able to identify projects and programmes in the industrial sector, the easier it is for them to attract needed financial resources from within the country as well as from outside. Bilateral and multilateral aid agencies feel more confident and hence, more willing when they realize that there exist defined industrial plans, programmes and projects. It is far more professional to approach these aid agencies with specific requests for financing rather than to ask them for blanket or no specific grants or soft loan basis.

As to the attraction of financial and technical resources from private sector sources to participate in the expansion of the industrial sector in LDCs, the Government in question has to ensure that:

1. A proper and favourable investment climate prevails in the country. An acceptance investment climate consists of two major aspects:

   a) a full approval and encouragement from the governmental authorities of the capital, technology or know-how of the exporting country. Nationals, of latter country, wants assurance that such participation is approved, and that it will receive not only sanction but official support and necessary inducements;

   b) readily available investment incentive benefits from the host LDC, along with a receptive attitude toward private investment. As mentioned before, there must also be adequate infrastructure, market (whether domestic or export), labour, etc.

2. The presence of institutions capable of representing the host LDCs financial and social interest (i.e. development banks, industrial development corporations, etc.)

3. Adequate machinery for obtaining data and for assisting foreign and local companies to make the transition to new and possibly, strange environments. Such assistance would include help in

locating and negotiating with potential partners, guidance through governmental channels, and advice regarding the best methods of obtaining further financial help.

Again, bilateral and multilateral agencies may be called upon by LDCs governments interested to attract foreign investment to provide some of the necessary technical assistance that ensures the successful implementation of the government plan with regard to the promotion of foreign investment. A large number of developing countries interested in attracting foreign investment since over 10 years ago established the necessary investment promotion machinery at home and abroad.

For example, Governments of Brazil, Colombia, Barbados, Jamaica, Trinidad and Tobago, in Latin America and in the Carribbean, Ivory Coast, and more recently Egypt and Tunisia in Africa, India, Indonesia, Korea, Singapore, the Philippines, Hongkong in Asia, have all established the required machinery which would have as its major function the direction of the industrial promotion effort, usually such machinery being called "Investment Promotion Centre" or authority. It is a promotional nerve centre which can serve as a fact-gathering Centre, as an investor reception centre and as a directing agency for promotional efforts in the capital exporting countries. It could be a department attached to development banks, Ministry of Industry or Economy, the Prime Minister or even the president's office.

Specifically, the home functions of the Investment Promotion Centre/Dept. would be the following:

1. Preparing an Investors' Handbook or Guide on the Country, should one not already exist. Such a handbook or Guide, which can be loose-leaf in form to facilitate the entry of current changes, should include the following:
   a) complete data on the laws and conditions governing the conduct and welfare of firms investing in the country;
   b) all pertinent data on the country's climate, geography, infrastructure, utilities, labor supply, management

skills, schools and other training facilities, growth trends and other indicators of the country's present economic strength, etc.

2. Working with other co-operating agencies in the country (bilateral and multilateral aid agencies, other departments of Governments, existing private and public firms, etc.) in identifying projects;
3. Preparing pre-feasibility studies of selected projects;
4. Dissemination of already existing pre-feasibility or feasibility studies;
5. Receive potential investors from private or public sectors; help them to obtain additional desired data; introduce them to potential partners in the public or private sectors; provide "good offices" in helping the partners towards mutual understanding at final agreement. The latter would include help with filling out and submitting forms, applying for the various incentive benefits, negotiating with local lending institutions,etc.

To expose their investment plans and put forward their needs to overseas investors, many of the above-mentioned countries opened overseas offices in Europe, North America and Japan to reach sources of capital, technology, know-how and invite them to participate in the implementation of these plans and the fulfillment of those needs. These overseas offices cost about $200,000 to maintain with a staff of three. They are guided by the Head Office in their promotional activities, not in terms of their day to day operations, but with respect to the country's priorities and with the data to be used. They are fully dependent on the Head Office for their pre-feasibility studies, and for guidance on current government policy,etc. They could not be expected to be active unless they received from their Head Office necessary data and support. In other words, the overseas office to the Head Office is like the marketing department to the manufacturing facility. Both have to work together through a two way traffic that keep each other well acquainted of the related developments that goes on. The overseas offices to the country is in the field of investment, technology and know-how transfer, like the "Eyes and Ears" to the body.

These offices keep close contacts with the Banks, trade associations in order for them to reach their corporate clientile.

Incidentally, not only developing countries mentioned above, open overseas offices besides their normal trade attaches, but also developed countries eastern as well as western. For example, France, Belgium, Holland, and a number of Socialist European countries, have investment promotion and technology transfer offices in the United States. Also, 24 states in USA and a number of Canadian provinces, have investment promotion offices in Europe and Japan trying to attract European and Japanese firms to locate, within their state boundaries. The objective is to expand their industrial sector and generate employment for their labor force.

It is evident from the above that LDCs are facing competition in the attraction of foreign investment, technology and know-how not only from more developed of the developing countries but also from the developed ones. This is another reason why these LDCs should make a determined, systematic and concerted effort in their industrial promotion activities. A contribution to such efforts will be discussed at the bilateral and multilateral level which will follow at a later stage.

Another measure, which LDCs may consider to expand their industrial sector, is to facilitate the importation of second hand equipment. Usually, the governments of LDCs are reluctant to spend their limited foreign exchange resources on importing what they feel "second-hand technology". The result of such thinking is to import new equipment from advanced countries, which is designed for use in the latter countries. Such design is based on capital intensive rather than labour intensive which is the opposite of what the LDCs usually are trying to achieve.

Another measure is, that in the design of tax incentives for local and foreign investment, special attention and additional incentives has to be extended to such investment that is intended to serve export markets by taking advantage of lower labour costs. Export industries have a built-in competitive pressure to adapt their manufacturing process to local wages. It seeks to reduce costs through full utilization of low wage labour, an objective which fully coincide with the employment policy of the LDCs.

A closely related aspect is the fiscal and financial incentives that could be offered to encourage more training of the labour force. In the LDCs, one of the serious limitations on the rate of industrialization has been and still is the shortage of trained and experienced managers, administrators, and technicians for both the public and private sectors. In the developed private enterprise countries, we find that generous cash subsides and tax advantages are offered for those enterprises that allocates resources to train their manpower. In reviewing the investment laws of all these countries whether at the central government or local levels, we find that without exception, these incentives are offered. Unfortunately, very few developing countries have made such measure an integral part of their investment laws, although they need to provide such encourage to their industrial sector more hardly than the developed countries. Accordingly, LDCs may find it very useful to emphasize such measure, beside other training programmes, in their investment laws. The reason is that, a trained labor force is considered one of the important ingredients that makes a favorable investment climate and hence, attracts industrial investment.

There is no doubt that in most LDCs, the size of the domestic market is too small to permit efficient levels of capacity. This has provided a growing awareness of the need for greater co-operation in the planning of new industrial capacity. Accordingly, a multinational rather than national approach may be more pursued with a view to reaping the benefits of economies of scale. Such specialization need not lead to markedly different patterns of industrialization in the co-operating LDCs but may even be applied to different branches of a given industry.

Technical, and Financial Assistance at the Bilateral Level:

This part of the paper will discuss some aspects and measures which may be taken by governmental and non-governmental organizations at the developed and interested relatively advanced developing countries levels to ensure better flow of resources from these donor countries to expand the industrial sector of LDCs.

If we start with the private and/or public sector, whatever the case may be, depending on the political orientation of the donor country concerned, we find that there exist in these sectors a large pool of financial and technological and management resources whose owners are keen to look for profitable opportunities in LDCs. By the same token, there are those in LDCs who are in need of these resources but are unable to reach them because of the information and communication gap that exist between these countries and the LDCs. To contribute towards bringing this gap, the former countries may take an "inventory" or uundertake a "canvassing" effort to ascertain "who" is interested in providing "what" and at "which" price and "when". The provision of such information would be invaluable to those in charge of industrial development in the LDCs.

A closely related aspect in the field of technical assistance is one connected with lack of technical expertise in LDCs. There exist again in the donor countries applicable management and technical know-how to LDCs. Retired executives from the public and private sector in the donor countries could act as the vehicle through which such applicable management and technical know-how in the industrial field could be transferred. They would serve as advisers, on a short-term basis, to locally owned private and government enterprises in LDCs. Such advisers on a short-term basis work themselves "out" of the job rather than work themselves "in" the job as is sometimes the case of "professional" advisers whose continous employment depends on making themselves indispensable to aid-receiving organizations by not providing enough counterpart training.

Retired executives are well-organized in the U.S.A., Canada and Europe. They may be as well in the Eastern European countries. LDCs may find it mutually beneficial to look into such possibility as a useful source to obtain relatively inexpensive and well-experienced executives to deliver the required advisory technical assistance in the field of industrial development.

Another possibility is for the donor countries to encourage their equipment manufacturers to develop new designs of plants that would be taken intensive. Such encouragement may be achieved through financial and fiscal incentives. The same applies to the encouragement of appropriate technology. Along the same line, the donor countries may consider the granting of fiscal and financial incentives to firms that export used and in perfect working order machinery for use in LDCs. This must be matched by a welcome attitude at the LDCs countries level, for example, by providing custom duty exemption and/or priority in allocating foreign exchange required for its importation. Since resources for financing private investment are inadequate in LDCs, most governments there have undertaken to supply public funds to assist in the financing of industrial investment. In providing public loans, governments have often created specialized credit institutions such as development corporations and industrial banks. They serve as channels for the disbursement of government funds. However, the amount of funds available to these organizations are not adequate to meet the demand for it. Bilateral aid in the donor countries may find that more grants and soft loans to these financing institutions have large multiplier effect in the development of the industrial sector of the LDCs. The interest rates charged by these institutions have been significantly lower than the market rates. Also most of them have participated in the establishment and operation of small individual enterprises, supplying technical expertise and managerial skills as well as capital.

Technical and Financial Assistance at the Multilateral Level:

At the Intergovernmental Expert Group Meeting organized by UNIDO in Vienna in November 1976, special attention was given to the need for finding practical solutions of bringing bankable projects, upon request of interested LDCs countries, to the attention of the industrial and financial centres as well as to ensure a continuous dialogue between these countries, the respective centres and the bilateral aid agencies. UNIDO Investment Co-operative Programme Office as mandate is to promote industrial investment, to follow-up investment decisions and to assist, upon request, interested developing and LDCs countries in obtaining external financing for industrial project. In particular, the objectives of ICPO, as well as IBRD/UNIDO Investment Programme are:

a) identifying and preparing industrial investment project proposals in a bankable form for consideration by multilateral and financial aid institutions and other potential investors;
b) mobilizing financial and other investment resources transfers from developed to the developing and LDCs interested countries;
c) assisting the World Bank Group in country studies of the industrial sector, and in the identification, preparation and appraisal of specific industrial projects for which World Bank financing is visualized.

In order for UNIDO's Investment Co-operative Programme Office to have more access to the European Economic Community, an agreement with the

Government of Belgium was reached by which UNIDO Investment Promotion and Technology Transfer Office was established and with the financial support of that government. The establishment of this office facilitates a closer co-operation between UNIDO and the EEC Commission, the European Investment Bank, bilateral agencies in several European countries and, especially, with industries in these countries. Negotiation are nearly finalized to open other similar UNIDO's offices in Federal Republic of Germany, Italy, North America and to start with an office in New York City.

These proposed offices would provide the necessary mechanism in order for UNIDO to play the role of a catalyst in fulfilling some of the foreign investment and financial objectives of interested developing and LDCs which do not have their own investment promotion offices.

Another feature for training will be added to the objectives of the proposed offices. The idea is to provide on-the-job training for a period of 1 to 2 years for one official from developing and LDCs interested countries. They would learn more about the techniques of, and approaches to, successful investment promotion in order that they can either establish their own investment promotion offices and in turn train other official in that field or return home and administer industrial promotion activities there.

In order to ensure that the participating developing and least developed countries have a proper system to back up the envisaged activities overseas, UNIDO is considering the provision of an adviser, on a short-term basis, maybe a retired executive, to be stationed in the participating developing or LDCs. The objective is to assist with guidance and advice on the organization and management of required backstopping activities.

It is suggested that the participating developing and LDC pay the salary of their national and cost of office; secretarial assistance, communication, travelling expenses would be financed from the host country.

It may be of interest to the Socialist countries to consider similar arrangements with UNIDO for those developing and LDCs interested to explore financial and technical opportunities available in the socialist countries of Europe. Through such pragmatic approach, the specific needs of LDCs would be better known to donor countries, better contacts would be established between their own nationals and the financial and technical institutions in these countries; the executive whether in private or public sector would be getting first hand information from the nationals of developing and LDCs regarding their own country,etc.

Other multilateral organization such as the International Finance Corp., the World Bank, the Inter-American Development Bank, African and Asian Development Banks, have a very important role to play in the flow of resources to the industrial sector in the LDCs. For example, through putting into effect, in co-operation with UNIDO, an International Investment Guarantee agreement, supplying financial resources to industrial financing institutions in the LDCs, providing necessary guarantees for these institutions to be able to enter the money markets as well as to be able to borrow from these financial centres at a lower interest than if they try to borrow on their own with only the backing of their governments behind them.

CONCLUSION:

To develop the industrial sector in LDCs, some suggestions were provided to contribute towards fulfilling the required objective. These should be a concentrated "attacks" from the three parties involved, the LDCs, the donor developed or advanced developing country and the multinational organizations. The crucial point is then undoubtedly played by the LDC itself.

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