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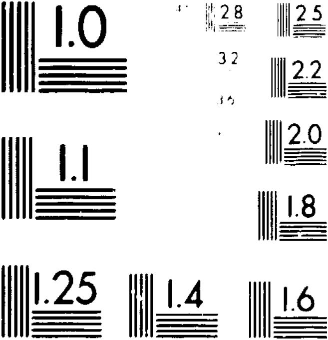

MICROCOPY RESOLUTION TEST CHART

Item 5(h) of the provisional agenda

INTERNATIONAL CO-OPERATION, RELEVANT NATIONAL ACTIONS INCLUDING INDUSTRIAL POLICIES, AND UNIDO'S CONTRIBUTION IN CRITICAL AREAS OF INDUSTRIAL DEVELOPMENT 1985-2000:

The least developed countries: implementation of the Substantial New Programme of Action

Background paper prepared by the UNIDO secretariat

V.83-64969

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INTRODUCTION

1. The aim of this paper is to discuss the implementation of the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA). Of special concern is the role of the United Nations Industrial Development Organization (UNIDO) in the implementation of the SNPA and the impact it has had on the least developed countries (LDCs) (listed in the annex).

2. All developing countries are facing grave economic problems. However, because of the extreme paucity of their resources and their remoteness, the problems of the LDCs are even more severe. In recognition of this, the United Nations has, during the last decade, initiated special measures to meet the specific needs of the LDCs.

3. The Declaration on the Establishment of the New International Economic Order was adopted by the General Assembly in its resolution 3201 (S-VI) in 1974. It sought to promote the growth of the developing countries, and to reduce the gap between them and the developed countries. At both the Second General Conference of UNIDO, held at Lima in 1975, and the Third, held at New Delhi in 1980, the problems of the LDCs received special attention. It was emphasized that, consistent with the Declaration and Programme of Action on the Establishment of a New International Economic Order (General Assembly resolutions 3201 and 3202 (S-VI)), industrialization in these countries must take place at a more rapid pace. Special measures of assistance for the promotion of industries in the LDCs were proposed. They included the establishment of industrial estates and pilot plants, creation of integrated production units, implementation of agrarian reform and increases in technical and financial assistance.

4. The various efforts by the United Nations to highlight the plight of the LDCs culminated in the United Nations Conference on the Least Developed Countries which was held in Paris in 1981. There the SNPA was adopted. This was subsequently endorsed by the General Assembly. 1/

5. The aim of the SNPA is to transform the economies of the LDCs, so that they can achieve self-sustaining growth and so provide their people with internationally accepted minimum standards of nutrition, health, transport and communications, housing, education and job opportunities. To try to ensure the attainment of these objectives, the Conference made specific proposals on growth rates, financing, monitoring of implementation and the roles of particular sectors. It was felt that the LDCs should try to achieve a growth rate of 7.2 per cent per annum. It was recognized that while the LDCs must make every effort to raise the level of domestic savings, the low level of income would preclude this from being the sole source of investment funds, and therefore considerable assistance would be needed from the international community. It was hoped that the developed countries would allocate at least 0.7 per cent of their GNP to official development assistance (ODA); subsumed in this would be 0.15 per cent, which would be devoted to the LDCs. The multilateral agencies, in particular the World Bank and the regional development banks, were called upon to devote more of their concessional resources to the LDCs, and the developed countries in turn were requested to increase their contributions to the concessional funds of these banks. The SNPA urged that the flow of resources to the LDCs would be in the form of grants, be untied and be available not only for the foreign cost of projects, but also for local cost and even recurring financing.

6. As industry accounted for such a low proportion of GDP of the LDCs, generally less than 9 per cent but in some cases less than 4 per cent, this sector was expected to grow by at least 9 per cent per annum. Industrial growth would be based on the processing of agricultural commodities and other indigenous raw material, as well as on the establishment of cottage and consumer industries to supply the domestic market.

7. Governments of the LDCs were urged to strengthen their planning machinery and, after consultations as appropriate with relevant United Nations and intergovernmental agencies and donor countries, to establish aid consultative groups or other arrangements where these do not already exist, as mechanisms to follow up and monitor the implementation of the SNPA. Considerable emphasis was placed on economic co-operation among developing countries, particularly as a means of getting around the constraint that the smallness of their individual markets posed for industrialization.

8. The SNPA contained measures that were of direct relevance to many subprogrammes of UNIDO and its future activities. Keeping this in view, an addendum to the medium-term plan of UNIDO activities covering the period 1984-1989 was prepared and considered by the Industrial Development Board. 2/ This addendum infused into the medium-term plan the approaches that the SNPA brought to bear upon issues related to the industrial development process of the LDCs indicating possible refinements of practical programmes and initiatives to contribute to the implementation of the SNPA should adequate resources be made available to UNIDO.

I. THE CONTRIBUTION OF UNIDO TO THE IMPLEMENTATION OF SPECIAL MEASURES FOR THE LDCs, AS CALLED FOR BY THE INTERNATIONAL COMMUNITY

9. It is clear from the review in the preceding section that the adoption of the SNPA at the Paris Conference in 1981 represented not so much the initiation, but rather the intensification of the efforts of UNIDO to assist the LDCs to accelerate their economic development. Certain measures were taken in 1976 following the decisions of the Second General Conference of UNIDO, for instance, the Least Developed Countries Section was established in January 1976, as part of the policy co-ordination programme, to act as the focal point within the UNIDO secretariat for mobilizing the necessary efforts and inputs, co-ordinating and monitoring the activities of UNIDO in favour of the LDCs. In parallel, an in-house task force was established to consider special measures and policies for the benefit of such countries. Frequent consultations were held with government representatives and Resident Representatives of the United Nations Development Programme (UNDP) in order to develop the programmes and projects that best respond to the specific needs of those countries. Moreover, efforts have been made to have Senior Industrial Development Field Advisers (SIDFAs) and Junior Professional Officers (JPOs) cover most of the LDCs. At present, there are 5 SIDFAs and 11 JPOs stationed in LDCs while the other LDCs are covered by SIDFAs posted in neighbouring countries.

10. Consultation and co-ordination were also maintained with other United Nations agencies that resulted in agreements to jointly develop or implement about 16 national and regional projects in the field of industry. For

instance, the United Nations Financing System for Science and Technology for Development has already approved two projects in two different LDCs to be executed by UNIDO (at an approximate cost of $US 1 million). There was also considerable progress with the co-operation of UNIDO with the United Nations Capital Development Fund as far as the financing of large equipment components in several LDC projects is concerned in combination with UNDP and United Nations Industrial Development Fund (UNIDF) resources.

A. Resources available for providing assistance to the LDCs

11. The resources that UNIDO is using to finance activities in favour of the LDCs come primarily from four sources, namely, the UNDP indicative planning figures, the UNIDO regular programme of technical co-operation, the Special Industrial Services programme, and UNIDF.

12. UNIDO depends mainly on UNDP resources that cover approximately 80 per cent of its technical assistance activities in the LDCs. However, every effort is made to allocate to the LDCs a reasonable share of other resources available to UNIDO for the implementation of various technical co-operation programmes and projects. About 33 per cent of the total regular programme funds and 30 per cent of the total resources available under Special Industrial Services were earmarked in recent years for the LDCs. The total value of approved projects in 1982 showed an increase of over 100 per cent under the regular programme and 300 per cent under Special Industrial Services compared to 1981. The total value of the resources made available to the UNIDF in 1982 reached the level of $US 11.5 million, of which 24 per cent were allocated to technical co-operation projects and promotional activities in the LDCs.

B. Technical co-operation activities

13. For several years there has been a considerable expansion in the demand for technical assistance and other services to be provided by UNIDO in support of industrialization efforts made by the LDCs. The technical co-operation activities of UNIDO with these countries have increased in quantity and quality and there has been, in general, an upward trend in terms of project approvals and delivery of technical assistance. The following table shows the funding of UNIDO technical co-operation activities in the LDCs from 1977 to 1982, including all sources of financing (millions of US dollars):

Year	Approved	Delivered
1975	-	4.7
1976	-	6.9
1977	7.1	7.5
1978	17.7	12.8
1979	22.0	16.6
1980	20.0	19.0
1981	15.0	20.0
1982	24.0	20.0

Source: Annual reports of the Executive Director.

14. It may be noted that project approvals in the LDCs increased from $US 7.1 million in 1977 to $US 24.0 million in 1982, indicating an overall increase of approximately 238 per cent in five years. This increase in approvals was continuous except for the years 1980 and 1981, which were the last years of the second UNDP Country Programming Cycle. The delivery of technical assistance increased, however, without exception from $US 7.5 million in 1977 to $US 20.0 million in 1982, marking an overall increase of approximately 166 per cent in five years. If the technical assistance delivery figure for 1976 ($US 6.9 million) is taken as the base, the increase will be approximately 190 per cent by the end of 1982.

15. In keeping with the relevant United Nations resolutions and in particular also with the SNPA, the technical co-operation activities in which UNIDO has been involved in the LDCs have been mainly in the field of agro-industries, small-scale and rural industries, industrial planning, training, and industrial consultancy and management.

(a) Agro-industry

16. In the field of agro-industries, the thrust of the efforts of UNIDO has been the preparation of master plans for agro-industry. Cape Verde, Ethiopia, Guinea-Bissau, the Lao People's Democratic Republic, Nepal and Somalia have all benefited from this type of assistance. Sugar, perhaps the major agro-industry in developing countries, has received special attention, with production technology projects in Bangladesh, Somalia and the Sudan. Assistance has also been given to the leather industry in the Bangladesh, Democratic Yemen, Ethiopia, Somalia, the Sudan and the United Republic of Tanzania. Nor has forestry been neglected. Timber processing projects have been implemented in the Lao People's Democratic Republic and Uganda.

17. In the textile industry, UNIDO assisted the United Republic of Tanzania to strengthen its National Textile Corporation and Bangladesh to improve the efficiency of its cotton industry. The World Bank subsequently requested association with the technical advisory service established by UNIDO in Bangladesh. Significant assistance was also given to the jute industry sector in Bangladesh - covering production and quality control as well as research and development. In Haiti, a feasibility study was prepared for the establishment of an integrated textile factory. The implementation of the project is being discussed with potential financing sources - including the World Bank. Assistance was also provided to the Central African Republic in the evaluation of bids for the establishment of a textile complex.

18. UNIDO technical assistance has also focused on the development of new technologies to use indigenous agricultural raw materials for industrial processing such as a study for production of edible oil and animal feed in the Sahelian Zone, development of the integrated coconut processing industry in Samoa and assistance for processing cassava in the Gambia.

19. Assistance was provided to elaborate projects in accordance with the requirements of the Special Fund of Organization of Petroleum Exporting Countries (OPEC) and four projects were prepared for bilateral financing - macaroni production, biscuit production, mineral water bottling in Cape Verde and a cashew nuts processing plant in Mali.

20. Experience shows that industry-agriculture linkage has to be strengthened in most of the LDCs. There are, however, problems such as the inability of farmers to exploit economies of scale and the lack of assets that limits their borrowing capacity. Therefore it is necessary to make intensive studies in these countries to promote integrated agro-industrial development.

(b) Small-scale and rural industries

21. As far as small-scale and rural industries are concerned, UNIDO has assisted with the development of a proper legal framework and of human resources and has co-operated with such agencies as the World Bank and the Swedish International Development Agency in implementing projects. Countries that have so far benefited from the assistance of UNIDO in the field of small-scale industry include Botswana, Burundi, Ethiopia, Guinea, Lesotho, Nepal and the Upper Volta.

(c) Industrial planning

22. UNIDO assistance to the LDCs in the area of industrial planning is wide-ranging. Experts have been provided to assist in the on-the-job training of local personnel who staff institutions concerned with industrial development within the LDCs. Projects of this kind are currently being carried out in Sierra Leone and Yemen. Assistance in the preparation of industrial plans has been provided to Afghanistan, Haiti, Mali and the Niger. The Upper Volta and Haiti have been helped in the identification of projects. Pre-feasibility and feasibility studies have been prepared for several countries. For example, UNIDO assisted Burundi in the preparation of a feasibility study and negotiations for a glass factory. The project, costing some $US 20 million and representing one of the biggest investments in the country, has since been implemented.

(d) Training

23. It was argued at the Paris Conference and elsewhere that one of the crucial differences between the LDCs and the developing countries as a whole is the LDCs' extreme paucity of trained personnel. Predictably, therefore, training has been one of the fields to which UNIDO has devoted considerable attention. Reference has been made to on-the-job training under the heading of "industrial planning". In addition, however, co-operation in the training field has included group training, individual fellowships and study tours.

24. Particularly worthy of note among the group training programmes have been those organized with respect to the cement industry, the foundry industry, industrial design, and the repair and maintenance of industrial equipment. The policy of UNIDO has been to shift these group training programmes to the countries where they are most needed. The repair and maintenance training programme, for example, is gradually being transferred from Belgium to the Upper Volta.

25. Under the UNIDO programme for economic co-operation among developing countries (ECDC), high-level personnel in charge of industrial development in the LDCs have been participating in carefully designed study tours. Industrial training advisers have been appointed in several countries and steps have been taken to promote co-operation among industrial training institutions in the developing countries, including the LDCs.

C. Promotional and supporting activities

26. In addition to the technical co-operation activities, several promotional and supporting activities being carried out under the various programmes of UNIDO also benefit the LDCs. These include the System of Consultations, the Investment Co-operative Programme and the above-mentioned ECDC programme.

(a) System of Consultations

27. The sectors so far covered by the System of Consultations that are of direct relevance to the LDCs are food processing, leather and leather products, vegetable oils and fats, fertilizers, pharmaceuticals and agricultural machinery. UNIDO has sponsored participation from LDCs at all these Consultations. The studies prepared for the Consultations, as well as the discussions at the meetings themselves and the contacts made can all help to further industrial development in the LDCs.

(b) Investment promotion

28. Through its Investment Co-operative Programme, UNIDO seeks to render promotional, advisory, information and other services to all developing countries, with special reference to the LDCs. These services are provided through a variety of means, including specialized activities carried out by the Investment Promotion Services (IPS) and promotional meetings.

29. The IPS located in various industrialized countries provide information to project sponsors in developing countries and potential partners in industrialized countries and create a framework for contact between them. In recent years, officials from developing countries, including several LDCs, have been invited to the IPS offices to carry out investment promotion activities for their own countries whilst undergoing training programmes. The programmes, which have a duration of up to one year and are financed jointly from UNDP/UNIDO resources and other bilateral and regional funds, provide the trainees with orientation in investment promotion techniques and guidance in the evaluation of industrial investment projects. Upon their return, the officials are expected to help their countries in building up their own investment promotion services. As part of their informational activities, the IPS organize country presentation meetings (e.g. for Lesotho) aimed at making the industrial community in their own host countries aware of the possibilities for investment in the LDCs and other developing countries.

30. As a follow-up to an earlier country presentation meeting, an investment promotion meeting was organized in 1982 in Bangladesh, with financial and technical support from UNIDO. The portfolio covering more than 40 industrial investment project proposals, with a total value of $US 800 million, was distributed to and discussed with about 300 private investors and financial institutions from 26 countries. Three projects, with a total investment value of $US 600 million, have reached an advanced stage of negotiation. A similar investment promotion meeting is planned for Nepal in 1984.

(c) Economic co-operation among developing countries

31. As part of its efforts to promote economic and technical co-operation among developing countries, UNIDO launched, inter alia, a programme supporting the accelerated industrialization of the LDCs with the assistance of other interested developing countries. The mechanism consists of preparing specific project proposals in areas where the host LDC seeks co-operation from other developing countries and, subsequently, presents these proposals to a meeting of ministers from selected developing countries. Eight such "solidarity" meetings have been held since 1979: in Afghanistan, Bangladesh, Haiti, Lesotho, Nepal, the Sudan, the United Republic of Tanzania and the Upper Volta. Similar meetings are planned for Burundi, Mali, Rwanda and Yemen.

32. Although the immediate impact of this programme on the flow of resources to the industrialization efforts of the LDCs concerned is rather modest, the programme does offer considerable potential for the flow of both technology and trade. It is felt, moreover, that it provides some of these countries with the initial experience required for launching the larger consortium-type meetings, covering all socio-economic sectors, suggested in the SNPA. However, although experience has proved the usefulness of these "solidarity" meetings, UNIDO has been forced to keep the programme at a modest level, on average two meetings per year, owing to resources constraints.

33. Specific projects and activities are also carried out through the Joint Centres established by UNIDO with some developing countries. For instance, a long-term programme for agro-industrial development, initially involving six African LDCs (Benin, Ethiopia, Guinea, Mali, the Sudan and the United Republic of Tanzania), was initiated through the Joint UNIDO/Yugoslavia Centre. Several activities relating to the utilization of medicinal plants, including a pilot plant for the extraction of active principles and the distillation of essential oils in Rwanda, have been developed through the Joint UNIDO/Romania Centre.

(d) Other programmes

34. There are other special programmes of UNIDO, such as those covering energy and technology, which pay special attention to the LDCs. Activities in these fields will be continued and increased as the resource situation improves.

35. The need for various forms of energy as well as the rapid depletion of traditional energy resources place serious constraints on both the short-term and the long-term development of the LDCs - a point which was noted with particular concern at the Paris Conference. With the publication in 1982 of the report "Energy development and industrialization" (UNIDO/OED.135), a major step towards defining a comprehensive integrated and balanced UNIDO energy programme was completed. The report contains a blue-print for future UNIDO activities in this field which takes into consideration, among other things, the recommendations contained in the Plan of Action adopted by the United Nations Conference on New and Renewable Sources of Energy, held at Nairobi in 1981.

36. Within its technology programme, UNIDO provided preliminary assistance to the Government of Ethiopia in assessing information needs for a more co-ordinated Government involvement in the importation of technology. Plans were also finalized for assisting the Government of the Sudan in the establishment of a national centre for technology to supervise both the acquisition of imported technology and the development and transfer of indigenous technologies. With UNIDO assistance, a project was completed in 1982 involving co-operation between selected Nepalese and Indian enterprises for the transfer of technology in the field of small-scale metal-working industries and light engineering industries. Under the same programme, preparatory work was finalized for establishing a small demonstration plant, at the village level, for processing coir and coir by-products in Samoa. The Symposium on Industrial Technology in Africa, held in the Sudan in September 1980, put forward seven recommendations of particular relevance to the LDCs. The Symposium stressed the need for each developing country in Africa to implement at least a minimum programme in technology.

D. Contribution to the periodic review of the implementation of the SNPA at the country, regional and global levels

37. Arrangements for the implementation, follow-up and monitoring of the SNPA envisaged that a sustained process of co-operation and review would be established at the national, regional and global levels.

National level

38. The Governments of the LDCs, after discussion with the relevant United Nations and intergovernmental agencies and donor countries, were to establish consultative groups (or make alternative arrangements) where such did not already exist. It was left open to the LDCs which were not covered by existing arrangements to invite the participation of potential donors, United Nations organizations and other international, governmental and non-governmental organizations in establishing suitable consultative arrangements to follow up the implementation of the SNPA. Country reviews were to take place at appropriate intervals upon the initiative of the LDC concerned, which might seek assistance from the lead agency in its aid group, as well as from other United Nations agencies, in organizing the reviews. Therefore, the involvement of UNIDO and other United Nations agencies in this exercise depends first and foremost on the wishes of the Governments concerned.

39. In Africa, a region with 26 LDCs, World Bank consultative groups have been established for three countries. Of the remaining 23 countries, 21 have requested UNDP assistance in organizing Round Table meetings as their mechanism for reviewing the country-level implementation of the SNPA. Despite financial difficulties, UNIDO has been able to provide country-level assistance to six LDCs (Benin, Cape Verde, Chad, the Comoros, Uganda and Yemen) in the preparation of industrial project profiles and other documentation for presentation at the Round Table meetings organized with logistic support from the UNDP. This assistance, which had to be provided in most cases at very short notice, was rendered by extending the assignment of UNIDO experts already working in the countries concerned or by recruiting new consultants. As a further step towards assisting the LDCs to prepare their country reviews of the SNPA implementation, UNIDO completed five country studies on the potential for resource-based industrial development (Botswana, Burundi, Malawi, Mali and the United Republic of Tanzania) and finalized industrial development profiles or briefs for several countries including Afghanistan, Haiti, the Central African Republic, Chad and Rwanda.

40. In co-operation with the World Bank, UNIDO carried out a survey of the industrial sector in the Lao People's Democratic Republic and also surveyed selected economic sectors of the Comoros, focusing on various aspects of industrial policy planning. Studies were also completed in Yemen on glass manufacturing and construction material industries. On the basis of such studies, the World Bank in 1982 approved (a) a loan of $US 5.2 million to assist in the development of the local construction industry in Yemen and (b) a loan of $US 35 million to Uganda from various international financing institutions.

Regional and global levels

41. The Paris Conference emphasized that continuing interaction between implementation at the country level and monitoring of progress at the regional and global levels would be of vital importance to the overall success of the SNPA. The United Nations Conference on Trade and Development (UNCTAD) was to play the focal role in the global monitoring process. A medium-term global review was scheduled for 1985 inter alia to adjust the SNPA for the second half of the decade in order to ensure its full implementation.

42. UNIDO participated in the First and Second Inter-Agency Consultations on Follow-up of the SNPA (Geneva, 1982 and 1983) as well as the Second Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions (Geneva, 1982). With regard to Africa's LDCs, UNIDO actively participated in the Fifth Regional Meeting of UNDP Resident Representatives in Africa, convened in Togo in July 1982. During the meeting, various aspects of UNIDO programmes in the African LDCs were reviewed with the UNDP Resident Representatives in those countries in the light of the recommendations of the SNPA. Within the programme for the Industrial Development Decade for Africa (1980-1990) UNIDO makes every effort to ensure, in co-operation with the Economic Commission for Africa (ECA) and the Organization of African Unity (OAU) that special attention is given to the industrial needs of the African LDCs.

43. The <u>Statistical Review of the World Industrial Situation</u> prepared annually by UNIDO provides information on present and future trends in the manufacturing sector in the least developed and other developing countries and could be considered as an input to the global monitoring exercise. With regard to the mid-term global review, in accordance with proposals emanating from the preliminary discussions at the Second Inter-Agency Consultation, UNIDO will make an assessment of industrial development in the LDCs which will provide up-to-date statistical information, chart recent developments and trends, and indicate corrective measures and actions which might be required both at national and international levels to ensure accelerated industrial development in those countries.

44. At the sixth session of UNCTAD 3/ it was reconfirmed that a mid-term implementation review of the SNPA would be carried out in 1985 and it was recommended that all necessary steps be taken to ensure that the review be carried out in depth.

45. As described earlier in this section, UNIDO has consistently tried to improve and expand its programmes of assistance to the LDCs. However, in the absence of additional financial resources, it will not be able to respond fully to the call for increasing services involved in the follow-up, monitoring and implementation of the SNPA.

II. ECONOMIC TRENDS AND PROSPECTS IN THE LDCs

A. General

46. The economic performance of the LDCs in recent years has not been heartening. In the decade 1970-1980, per capita GDP grew by only 0.8 per cent per annum (although this was somewhat higher than the 0.3 per cent recorded in the previous decade). By comparison, in 1970-1980 the per capita GDP of the developing countries as a whole grew by 3 per cent per annum; that of the developed market economies by 2.5 per cent; and that of the centrally planned economies of Eastern Europe by 4.4 per cent. If the present trend continues, the gap between the LDCs and the rest of the world will continue to widen. In 1980 the GDP per capita in the LDCs was $US 226 compared to $US 1,091 for other developing countries, $US 4,503 for socialist countries of Eastern Europe and $US 9,675 for developed market economies. 4/ The width of the gap, however, is not as important as the degree of poverty implied by the abysmally low levels of income involved. This is made explicit by such basic indicators as: per capita daily intake of 1,980 calories as against the 2,300 considered necessary; a life span of a mere 45 years; one doctor for every 16,000 persons; and two thirds of the population without access to safe water and sanitary conditions. Much worse than this, per capita GDP growth in the LDCs actually fell to 0.1 per cent in 1981, and although it recovered slightly in 1982, the prospects are now so poor that the World Bank is predicting that per capita income in many LDCs will be less in the 1980s than it was in the 1960s.

47. The LDCs' poor resource endowment apart, several interrelated factors have been responsible for the failure of these economies to grow more rapidly. They include rapid population growth, adverse terms of trade, low rates of investment, poor performance of the agricultural sector and the failure of the manufacturing sector to make a significant contribution to the economy.

B. Population growth

48. Over the period 1970-1980 population growth in the LDCs averaged about 2.6 per cent per annum. While this rate of increase was not higher than the average for the developing countries as a whole, obviously it meant that if per capita incomes were to increase, then GDP would have to grow by more than 2.6 per cent per annum, which many LDCs could not achieve. The relationship between population growth and expansion of the GDP, however, is a complex one. Decline in the rate of population increase is a result as much as it is a cause of growth in per capita GDP. No doubt as their economies expand, as more job opportunities become available and as health and education facilities improve, the rate of population growth will tend to fall in the LDCs as it has tended to do elsewhere.

C. Adverse terms of trade

49. The LDCs depend upon a narrow range of exports for the bulk of their foreign earnings. One crop accounts for at least 70 per cent of the earnings of Burundi, the Gambia, Guinea and Uganda. Manufactures comprise about 11 per cent of the exports of the LDCs. The bulk of their imports, however, 60 per cent to be precise, consist of manufactured goods. The reliance upon earnings from a narrow range of commodity exports did not constitute an unmanageable problem in the 1960s or the first half of the 1970s as commodity prices tended to increase, even though not as rapidly as those of manufactures.

50. Two developments in the mid-1970s, however, altered the situation grimly for the LDCs. First, the adjustment in oil prices was directly reflected in the cost of the LDCs' imports, since all LDCs are oil importers. Moreover, the effect of the new oil prices was shifted to the LDCs and other developing countries through inflationary trends in the developed countries, causing a steep rise in price of the LDCs' imports of manufactures from the developed countries. There was no compensating rise in commodity imports from the LDCs, nor did the LDCs possess the flexibility of some other developing countries which were able to expand their exports of manufactures, thereby countering to some extent the increase in the price of their imports. Consequently, the LDCs have been faced with severe balance-of-payments problems which have made it difficult to import not only consumer goods but capital goods. Even though oil prices have fallen recently and the developed countries have managed to reduce their rates of inflation, the situation in the LDCs remains desperate as commodity prices have tended to fall. The current account deficit of the LDCs is now estimated at about $US 8.5 billion.

D. Low rates of investment

51. Over the period 1970-1980, gross capital formation per capita in the LDCs grew at the rate of 4.5 per cent per annum compared to 6.8 per cent for other developing countries. Over the same period, gross capital formation averaged 15.7 per cent of GDP compared to 23.7 per cent for the other developing countries. But perhaps the most disturbing aspect of the investment trends was the tendency of the rate of growth in investment to be less in the second half of the decade than in the first. There are several reasons for this. Prior to 1975, ODA to the LDCs was growing in real terms. However, the recession in the developed countries altered that pattern. As Governments in the developed countries cut public expenditures in an effort to solve their own problems, ODA ceased to grow in real terms and the flow of funds from developed to developing countries took, more and more, the form of syndicated loans through commercial banks. Since the LDCs had little in the way of foreign reserves, faced severe balance-of-payments problems and generally offered poor prospects, they did not readily commend themselves to the bankers, and thus received only a small proportion of the loan funds made available. Servicing the comparatively small loans they did receive is itself now posing problems for some LDCs.

52. At the best of times, it is difficult for the LDCs to mobilize domestic resources for investment, because of their low levels of income. Recurrent revenue is often insufficient to meet recurrent expenditure and much less to contribute to capital expenditure. It was partly in recognition of this that the Organisation for Economic Co-operation and Development (OECD) agreed to adopt a more flexible attitude towards the financing of local cost and recurrent expenditure. The higher energy prices and the decline in the demand for the LDCs' exports made the situation even worse. The LDCs could hardly cut consumption, already at or near subsistence levels, so the rate of investment inevitably suffered.

E. Agriculture

53. The share of the agricultural sector is so large in the economy of the LDCs that its performance tends to determine that of the economy as a whole. It is not merely that it accounts for a significant portion of GDP, supplies most of the foreign exchange and employment opportunities - it is also that it provides the sub-structure, inputs and markets that often make it possible for the manufacturing sector to emerge.

54. While the paucity of statistics makes it difficult to quantify trends in the agricultural sector, the rapid growth in food imports - about 14 per cent per annum in 1970-1980, compared to food exports growth of 9.8 per cent per annum - strongly suggests that food production per head in the LDCs is declining and that those countries are moving away from, rather than nearer to, the goal of self-sufficiency. The position was made worse by harvest failures in 1973-1974, caused in South Asia by the monsoon and in the Sahel by prolonged drought. However, a constellation of factors are responsible for poor performance: lack of research on agronomic conditions, particularly in the Sahel; lack of transport facilities; inadequate systems for delivering inputs (particularly fertilizers and pesticides) and collecting output; and pricing policies that favour urban as against rural areas.

F. Manufactures

55. Predictably, the rate of growth in the manufacturing sector has been as dismal. In 1970-1980, the rate of growth in manufacturing value added (MVA) averaged a mere 4.2 per cent per annum, as compared to 7.7 per cent per annum for the previous decade. When account is taken of the rate of population growth, MVA in per capita terms is seen to have grown by only 1.5 per cent per annum, as compared to 4.9 per cent in the previous decade. The share of MVA in GDP in LDCs is less than half of that for other developing countries - an average of 8.6 per cent as against 18.6 per cent during 1970-1980. More significantly, whereas the share of other developing countries in world MVA rose from 8 per cent in 1970 to nearly 11 per cent in 1980, that of the LDCs has stagnated at about 0.2 per cent over the entire period.

56. As is common in the early stages of industrial development, the agro-industries account for the bulk of manufacturing in the LDCs: food products 24 per cent, beverages and tobacco 14 per cent, textiles 32 per cent, wood products 6 per cent, chemicals 9 per cent, non-ferrous metallic mineral products 4 per cent, and engineering metal-based 6 per cent. Not surprisingly, whereas the share of agro-industries in manufacturing is three times as high in the LDCs as it is in other developing countries, the share of other industries is much less: for instance, in engineering products it is only one-tenth that of the developing countries as a whole.

57. The overall poor performance of the industrial sector in the LDCs and the failure of those countries to achieve structural transformation should not be taken to imply that no progress has been made. The industrial sector in Malawi, for example, grew at an annual rate of 11 - 13 per cent between 1964 and 1975, declined in 1976, and resumed growth again in 1977, at the rate of 10 - 12 per cent. Thus, in 1977 manufactures accounted for 10 per cent of the GDP, as against 5 per cent in 1964. This was achieved without the benefit of mineral resources; the production of food in particular (sugar, beverages and tobacco) was responsible. Malawi's industrial success has been attributed to several factors. First, the relatively high levels of remuneration and the high status of industry in the country attract the best local skills. The scale of operation is such that plants can work at high levels of capacity utilization. Plants and equipment are uncomplicated and schedules for preventive maintenance are rigorous. Finally, it has been possible to import, fairly readily, equipment spares and technical know-how.

58. In Yemen, whereas virtually no industry existed in 1970, total manufacturing output is now estimated at over $US 200 million, accounting for 5 per cent of the country's GDP. Expansion in food processing and building materials (particularly cement, gypsum, tiles and bricks) has been mainly responsible for this. Proximity to Saudi Arabia has also been a significant factor in the rapid development of Yemen. Huge remittances from the former country have helped to provide both the capital and the market for the latter's industries. The entrepreneurial class in Yemen is to a large extent composed of returned emigrants.

59. In the Maldives, GDP grew by 12 per cent per annum between 1978 and 1980. While fisheries, tourism and construction were the major sectors contributing to this growth, the establishment of garment factories and electronic assembly plants also made a significant contribution.

60. The successes of Malawi, Yemen and the Maldives, however, are exceptions to the general rule. The manufacturing sector in most LDCs has been afflicted by numerous ills, much of them reflected in underutilization of capacity.

61. Severe shortages of foreign exchange have meant that it has not been possible to obtain imported inputs, spare parts for machinery repair, or capital goods for replacing outdated and damaged plant. Poor performance of the agricultural sector has meant less raw material being available for processing. It has also meant that farmers have had less money to spend and hence it has curtailed the market for the industrial sector.

62. There have also been infrastructure problems. As the general economic situation has worsened, governments have been unable to maintain water supply systems and transport networks, and this has adversely affected the manufacturing sector. The increase in energy costs has increased operational costs and some industries have had difficulty in meeting their energy bills.

63. The tendency has been to expand the parastatal sector and in many cases, however, because of insufficient managerial capabilities, this has had an adverse effect on efficiency, and particularly on manning levels. So well recognized has this phenomenon become and so serious an impact has it had on many countries' recurrent budget that a marked swing away from centralized control of industries to a more decentralized management is beginning to develop. The Sudan, for instance, has taken steps in this direction.

64. Industry in the landlocked LDCs faces an additional problem. These countries have to rely on ports and rail and road systems not under their direct control for the transport of manufacturing inputs. As the flow of such inputs can become seriously disrupted, manufacturing enterprises in many LDCs are obliged to carry large stocks of inputs to ensure continuous production. This increases their working capital requirements, and where working capital is provided through commercial bank loans (as it often is), high interest charges further inflate the costs involved.

65. In sum, the manufacturing sector in the LDCs is still at an embryonic stage of development. If anything, since the Paris Conference the prospects appear to have worsened. Overall, the growth of the sector has been adversely affected by such long-term, deep-seated problems as low rates of investment, poor performance of the agricultural sector, limited domestic markets and shortage of skilled labour. These difficulties have been aggravated by the prevailing world economic crisis. Shortage of foreign exchange has meant that industries currently experience great difficulties in obtaining imported inputs and replacing obsolete plants. Recurrent budgetary difficulties have made it difficult to maintain the water supply systems and road transport networks without which the industries cannot function. Where, as so often happens in the LDCs, the industries are run by parastatals, budgetary difficulties have meant that there have not been the means to subsidize them.

III. CONCLUSIONS

66. The SNPA envisaged a growth rate of about 7.2 per cent per annum for the LDCs. These countries were asked to improve their planning machinery and to establish appropriate aid-co-ordinating mechanisms. They were also expected to mobilize domestic resources for investment. The international community was called upon to make a substantial transfer of resources, much of it immediately. It was hoped that the developed countries would devote 0.15 per cent of their GNP to assisting the LDCs, whose agriculture was expected to grow by at least 4 per cent per annum and manufacturing by not less than 9 per cent.

67. So far the results have not been impressive. In the 1970s the growth rate in the LDCs was 0.8 per cent, and since then, far from growing by the envisaged 7 per cent per annum, it has actually declined. In 1981, for instance, it declined by 0.6 per cent.

68. The LDCs have taken steps to strengthen their planning machinery, and aid-co-ordination mechanisms have been established in most of them under the aegis of the UNDP or the World Bank. However, the substantial increase in aid flows envisaged by the SNPA has not been forthcoming. Among the donor countries, only the OPEC countries have continued to exceed 0.15 per cent of their GNP in ODA to the LDCs. In the countries of the Development Assistance Committee of OECD, the figure remains at about half of that targeted by the SNPA.

69. The SNPA had envisaged an increase in the flow of funds from Development Assistance Committee of OECD countries to multilateral institutions which would in turn increase their disbursements to the LDCs. In fact, multilateral aid faces a crisis. The International Development Association has experienced great difficulty in getting its resources renewed. The UNDP too, has faced severe problems: pledges in 1981 actually declined as compared to 1980; in 1982 they were the same as in 1981. Resources have only been available to cover 55 per cent of the indicative planning figures in the third programming cycle, the very cycle in which the allocation of UNDP resources had been altered in favour of the LDCs. Since the bulk of UNIDO assistance to the LDCs is financed from UNDP sources, the Organization's programme faces constraints in even maintaining previous levels. Indeed, whereas on the one hand implementation of the SNPA would require a greater expenditure of funds by UNIDO, the prospects of increased funding through UNDP sources do not appear to be all that bright.

70. The shortfalls in multilateral assistance are unlikely to be made good by bilateral assistance, as far as the LDCs are concerned. The tendency to use bilateral assistance as a device for increasing the exports of donor countries has been increasing. Thus, much of this type of aid will go to the larger, more advanced, developing countries that can provide markets for the donor countries. Whereas the SNPA envisaged that financial assistance to the LDCs would total $US 14.1 billion by 1985, on the basis of commitments entered into to date $US 8.1 billion seems a more realistic figure.

71. In view of the fact that additional resources for investment purposes have not materialized and that the agricultural sector has performed poorly, it is hardly surprising that the industrial sector has come nowhere near achieving the 9 per cent target set in the SNPA. This apart, however, the role of industry in the development of the LDCs needs to be thought through very carefully. In the first place, is it possible for the LDCs to achieve the structural transformation and self-sustaining growth suggested in the SNPA?

72. The industries that have so far succeeded in the LDCs are, for the most part, inward-oriented, requiring relatively little skilled labour (except for machine maintenance) and moderate capital investment. If the LDCs are to achieve structural transformation and account for a greater share of world manufactures, they will have to move into a higher level of industrialization, into the production of intermediate and capital goods. In attempting to do so, however, they are likely to come up against such constraints as small domestic markets, lack of skilled personnel, inadequate infrastructure and a general shortage of capital.

73. It has been argued that to achieve structural transformation a country needs to have a GDP of at least $US 4 billion. 5/ Of the 36 LDCs listed in the annex to this document, only 5 have a GDP of such magnitude. Partly in recognition of this, economic integration among developing countries has come into vogue. By pooling their markets, developing countries feel they can overcome the problems small domestic markets pose for their industrialization and structural transformation. For the LDCs, the solution is not all that straightforward. In any economic integration they will still be the least developed of the developing countries. It has been found that they benefit little, if at all, from becoming members of common markets that include more advanced developing countries. This situation can lead to disillusionment with the integration exercise. Therefore, if industry is to contribute to the development of the LDC through economic integration movements, attention has to be paid not merely to the identification of viable industries, but to the development of mechanisms that will ensure that the LDCs benefit from any industrialization that takes place.

74. Again, some LDCs are very small and very remote, and even when they become part of a regional economic grouping, the latter may not offer the market size necessary for structural transformation. However, it may not be necessary for all LDCs to achieve fundamental structural transformation. Many small countries have achieved fairly high levels of per capita income based on agriculture, tourism and certain light industries. Perhaps rather than emphasize targets and transformation, the resources of each LDC need to be examined to see what possibilities exist for industrialization. While domestic industrial processing of raw materials in developing countries is the theme of another Conference paper (ID/CONF.5/12), attention may be drawn here to some of the avenues that need to be explored.

75. Primary modes of production, such as mining, agriculture, forestry and fishery need to be systematically examined. Prospecting for precious metals hardly needs to be emphasized, but the possibility of converting volcanic, limestone, or other types of deposits into building material is often neglected. In agriculture, existing cropping patterns need to be looked at to ascertain the scope for processing activities. The possibilities of introducing new crops and bringing new land under cultivation in order to

establish agro-industries need to be investigated. The identification of projects for the production of basic inputs for the agricultural sector, such as fertilizers, pesticides, containers, agricultural tools and implements, should be explored. The possibilities of developing forestry-based industries producing furniture, charcoal, resins, gums, sawn timber, poles, extract medicines etc. need detailed investigation.

76. The importance of the fishery and other sea-related industries cannot be over-emphasized. The tendency has been for many developing countries to turn their backs on the sea and to regard it as a barrier rather than a spur to development. However, many LDCs are small islands who, with the coming into being of exclusive economic zones, may well find that the sea constitutes more of their territory than does the land. In fact, it may be argued that industrialization possibilities in small island and land-locked developing countries are not the same. Whereas tourism, fisheries and other developments connected with the sea may provide the best prospects for the island States, the land-locked countries may have to rely on agriculture and, perhaps, minerals. The few success stories there have been among the LDCs illustrate this point. Between 1978 and 1980 the Maldives, a small island of 298 square kilometres, achieved a growth rate of 12 per cent per annum based on fisheries, tourism and some light industries. Malawi, a land-locked country of 118,000 square kilometres, achieved a growth rate of 12 per cent per annum in its industrial sector on the basis of its agro-industries.

77. The evaluation of projects based on such primary activities as agriculture, fishing and minerals exploitation, has to be a continuous process. Changes in the economic environment as well as in technology are constantly creating new opportunities. For example, the increases in oil prices over the last decade have raised transport costs dramatically and so given another layer of protection to the LDCs. Import substitution (particularly in the building material industries where there are high weight/low value ratios) that might not have been feasible a decade ago may now be so. Not only must the possibilities of individual LDCs be studied, but comparative studies must be made with other LDCs, and, perhaps even more instructive, with more advanced developing countries. (The strengthening of economic co-operation among developing countries is the subject of a separate Conference paper - ID/CONF.5/4).

78. Despite the LDCs' poor resource endowment, and their failure to date to achieve any significant amount of industrialization, efforts to develop technology appropriate to their needs must not be abandoned. Developments such as the generation of electricity from thermal gradients in tropical seas and the manufacture of cement from volcanic material, provided they can be scaled down, hold fascinating possibilities, particularly for the island countries. An issue still to be resolved is how research to find the appropriate technology can best be carried out. Given the LDCs' present state of development, it would probably be difficult for such research to be carried out entirely in those countries. It would be more feasible to have back-up facilities provided by the more developed countries. Certain industrialized countries had this sort of relationship with developing countries with which they had historical ties. Cuts in public expenditure in the former countries, however, have led to a drastic reduction in, if not the complete elimination of, these activities. (The issue of technology is merely alluded to here as the strengthening of the developing countries' scientific and technological capacities for industrial development is given extensive coverage elsewhere in the Conference documentation - ID/CONF.5/6).

79. Apart from the raw material produced by such primary activities as agriculture, fishing and forestry, the main resource most LDCs possess is labour. In recent years, many developing countries have itensified their efforts to exploit this resource by establishing free zones where raw materials and intermediate goods are imported free of duty, processed, and then exported. It is true that the MVA of these processing or finishing industries tends to be small, but a little can go a long way, particularly in the smaller LDCs. If the LDCs are to pursue this method of industrialization, however, they will need considerable assistance from the rest of the world. One of the main features distinguishing the LDCs from other developing countries is their remoteness: some are land-locked, others are islands. To overcome this handicap and to develop viable free zones, the LDCs will first need considerable concessional assistance in establishing and operating transport facilities. Secondly, they will need assistance in identifying the products that can be handled and the markets to which they can be directed. Finally, they will need assistance in managing whatever enterprises are established and in training the staff thereof. It is generally agreed that as a country increases its amount of physical and human capital (i.e. skilled labour), its ability to compete successfully in world markets is enhanced, as is its ability to develop and eventually export new types of products.

80. Perhaps the least dissatisfying aspect about the progress made by the LDCs in their efforts at industrialization in the last decades has been the development of their human resources. Between 1970 and 1980, the level of adult literacy in the LDCs rose by 10 per cent and a greater percentage of the population is now receiving education at all levels. While basic education is not a skill, at least it provides a base on which to build. One of the main issues still to be settled is how this building on basic education can best be done. Some countries tend to emphasize the merits of formal, university-level education. UNIDO, on the other hand, provides on-the-job training, study tours and group training for specific industries. It is a matter of finding the correct balance. (The accelerated development of human resources is discussed elsewhere in the Conference documentation - ID/CONF.5/9.)

Notes

1/ General Assembly resolution 36/194 of 17 December 1981.

2/ See ID/B/C.3/107/Add.1.

3/ Resolution 142(VI): Progress in the implementation of SNPA, paragraphs 18 and 19.

4/ "Progress in the implemetation of the Substantial New Programme of Action for the 1980s for the Least Developed Countries", report by the UNCTAD secretariat (TD/276).

5/ P. Selwyn, ed., Development Policy in Small Countries (London, Croom Helm, 1975).

Annex

LIST OF LEAST DEVELOPED COUNTRIES

Afghanistan
Bangladesh
Benin
Botswana
Bhutan
Burundi
Cape Verde
Central African Republic
Chad
Comoros
Democratic Yemen
Djibouti
Equatorial Guinea
Ethiopia
Gambia
Guinea
Guinea-Bissau
Haiti
Lao People's Democratic Republic
Lesotho
Malawi
Maldives
Mali
Nepal
Niger
Rwanda
Samoa
Sao Tomé and Principe
Sierra Leone
Somalia
Sudan
Togo
Uganda
United Republic of Tanzania
Upper Volta
Yemen