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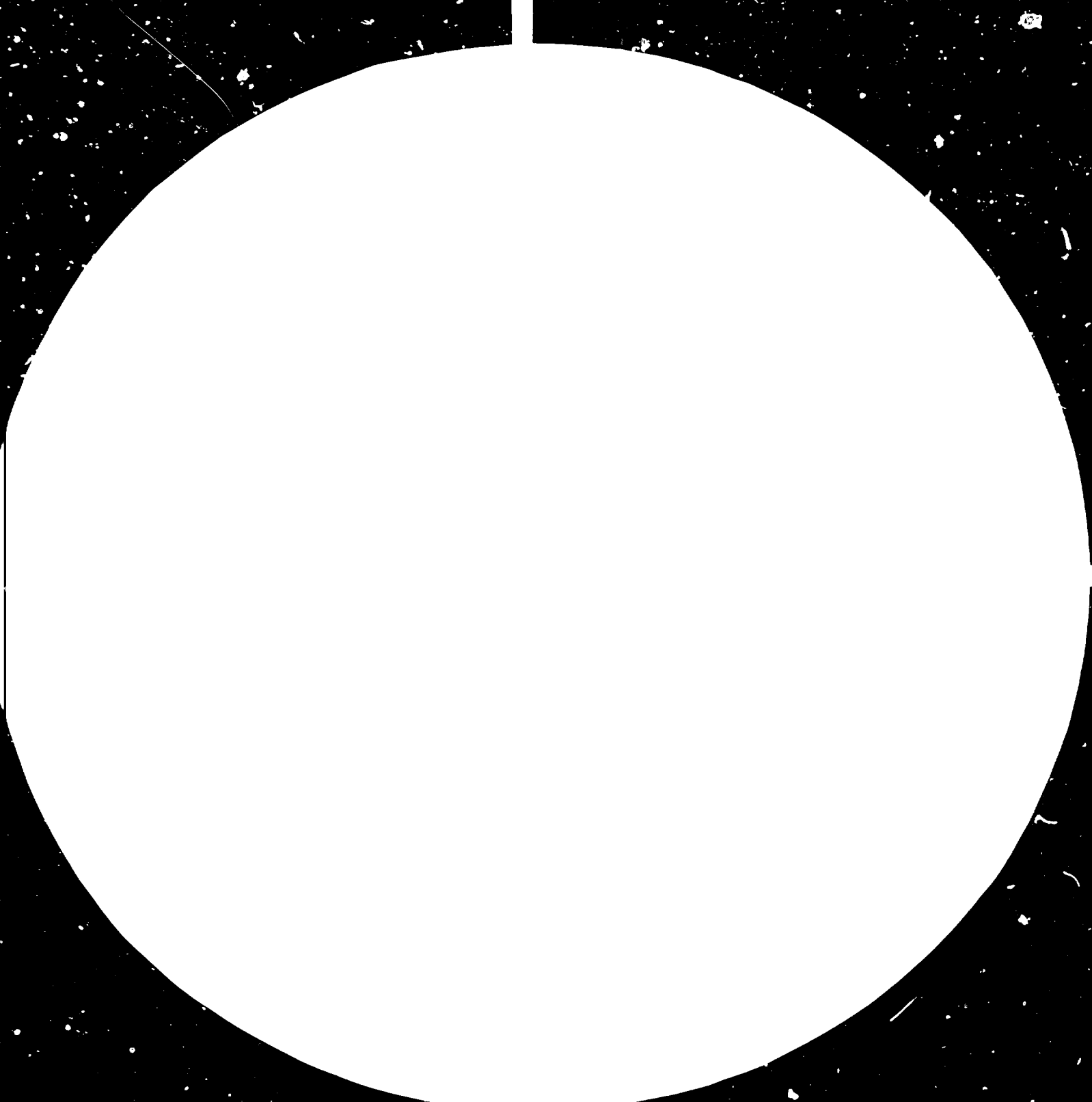
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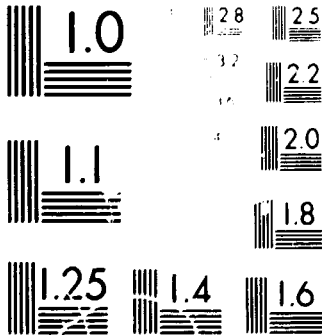
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## Industrial Development Board

Fourteenth session

Vienna, 9 - 19 May 1980

Agenda item 10

### ROLE OF THE PUBLIC SECTOR IN INDUSTRIAL DEVELOPMENT

#### The public sector and the industrial development of the developing countries

Report by the Executive Director

060.000

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Summary

The report is divided into two main parts. The first part examines the role of the public sector in the industrialization of the developing countries with regard to genesis and growth of public enterprises; the public sector in the field of industrial development; government policies and strategies of industrial growth; promotion of public enterprises in industry and inter-linkages; management problems and issues; management performance and evaluation; and organizational and institutional arrangements. The second part examines the contribution of UNIDO in implementing the Lima Declaration and Plan of Action with regard to the role of the public sector. A review is made of UNIDO's research, operational activities and special programmes related to the public sector as well as co-operation with Governments and intergovernmental organizations.

### Introduction

1. At its thirty-second session, the General Assembly adopted resolution 32/179 on the role of the public sector in promoting the economic development of developing countries. Recalling the relevant provisions of the Lima Declaration and Plan of Action on Industrial Development and Co-operation, which, inter alia, recognized the importance of ensuring an adequate role for the public sector in the expansion of industrial development of developing countries, the General Assembly requested the Secretary-General to continue the study of the role of the public sector in promoting the economic development of the developing countries and to take into account, inter alia, the role of the public sector in implementing the long-term strategy of industrialization.

2. At its twelfth session, the Industrial Development Board, recalling the aforementioned General Assembly resolution, adopted resolution 48(XII) on the role of the public sector in promoting the industrialization of the developing countries. The subject was further discussed under agenda item 11 by the Industrial Development Board at its thirteenth session in May 1979.

3. The present report has been prepared in the light of the aforementioned resolutions of the General Assembly and the Industrial Development Board, particularly in response to a request to the Executive Director made by the Industrial Development Board at its thirteenth session to present a more detailed report to its fourteenth session, complying with the provision of resolution 48(XII), paragraph 3, that called for documentation incorporating:

- "(a) The role of national enterprises in the developing countries in processing raw materials and in contributing to the utilization of natural resources for the benefit of these countries;
- "(b) The draft of the contribution by the United Nations Industrial Development Organization to be incorporated in the progress report on the implementation of General Assembly resolution 32/179 to be presented to the General Assembly at its thirty-fourth session;
- "(c) The contribution of the United Nations Industrial Development Organization in implementing the Lima Declaration and Plan of Action with regard to the role of public sector enterprises in the industrial development of the developing countries."

4. Regarding the role of national enterprises in the developing countries in processing raw materials and in contributing to the utilization of natural resources, it is noted that the resolution refers to "national enterprises" which is understood to include public and private domestic enterprises as opposed to foreign enterprises. In this connection, the attention of the Board is drawn to the study undertaken by UNIDO on industrial processing of natural resources, which included an examination of recent trends in the pattern of industrial processing activities; a comparison of processing chains for various raw materials; and a survey of domestic processing and fabrication of selected materials. This analysis was published in the special issue of the Industrial Development Survey for the Third General Conference of UNIDO.<sup>1/</sup> In a related study<sup>2/</sup> on industrial processing of raw materials, UNIDO has examined the rationale and concepts of resource-based industrialization; locational determinants of processing capacity; a framework for analysing the location of processing activities; and policy measures.

<sup>1/</sup> ID/CONF.4/2, chapter X.

<sup>2/</sup> "Industrial Processing of Raw Materials" (UNIDO/ICIS.126) 6 November 1979.

5. Concerning the draft of the contribution by UNIDO to be incorporated in the progress report on the implementation of General Assembly resolution 32/179, the attention of the Board is hereby invited to the circumstance that the UNIDO contribution represented exclusively a draft of chapter X of the above-mentioned special issue of the Industrial Development Survey, entitled "The Public Sector and Industrial Development". The request made by the Industrial Development Board in this regard has thus been implemented through the wide circulation given to the Survey prior to the Third General Conference of UNIDO.

6. The present report thus focuses on the contribution of UNIDO in implementing the Lima Declaration and Plan of Action with regard to the role of public sector enterprises in the industrial development of the developing countries. The following chapter examined the main conclusions and recommendations emanating from the UNIDO Expert Group Meeting on the Role of the Public Sector on the Industrialization of the Developing Countries, held in Vienna in May 1979. It is felt that these recommendations set a stage for a programme of action for the public industrial sector both at the national and international level. Chapter II analyses the contribution made by the research, operational and special programmes of UNIDO in implementing the Lima Declaration and Plan of Action with regard to the role of the public sector in industrial development.

#### I. THE ROLE OF THE PUBLIC SECTOR IN THE INDUSTRIALIZATION OF THE DEVELOPING COUNTRIES

7. The Expert Group Meeting on the Role of the Public Sector in the Industrialization of the Developing Countries was convened by UNIDO in Vienna, 14-18 May 1979, in collaboration with the International Centre for Public Enterprises in Developing Countries, Ljubljana, Yugoslavia.

8. The deliberations of the Expert Group Meeting were organized around six main areas: genesis and growth of public industrial enterprises; the public sector in the field of industrial development; government policies, strategies of industrial growth, promotion of public enterprises in industry and interlinkages; management problems and issues; management performance and evaluation; organizational and institutional arrangements. The following is a summary of the main conclusions and recommendations of the Meeting which, in effect, comprise a programme of action for developing countries and for UNIDO on the subject.<sup>3/</sup>

9. The Meeting noted that there had been a massive increase in public industrial enterprises throughout the developing world in recent years. However, an effective study of the contributions that public enterprises were making to industrial growth and development is made difficult by the lack of a reliable and systematic data base. At present, statistical data are either not available at all or are out of date, not accurate and in some cases conflicting. Developing countries should improve data collection and management information of their public industrial enterprises. This would help to measure the significance of the public sector's role in industrial development and to plan and control the sector.

10. Changes in the role of public industrial enterprises in developing countries during the last two decades were caused by historical events, by the reluctance of private enterprises to enter certain fields of economic activity and by social and political attitudes. It was noted,

However, that in many developing countries public industrial enterprises had been set up in the priority sectors indicated in the Lima Declaration and Plan of Action.

11. It was considered necessary for developing countries to enunciate a clear rationale for creating public industrial enterprises and to identify specific roles for them. A precise definition of their objectives was urgently needed in order to achieve a high level of sectoral effectiveness and managerial efficiency. Commercial and socio-economic objectives had to be reconciled. Social responsibilities by public industrial enterprises could not and should not be made an excuse for inefficiency. If such enterprises were run efficiently, their ability to discharge social responsibilities would be greatly improved. Objectives of the public industrial sector and enterprises needed to be defined at three levels: first, at the national level related to national strategies and plans; secondly, at the sectoral level to ensure co-ordination; thirdly, at the enterprise level. These objectives would differ from one country to another, depending upon historical, political and socio-economic factors.

12. In some developing countries there was inadequate co-ordination among public industrial enterprises and between those enterprises and other entities. There was a need for well conceived national industrial development policies and strategies covering objectives, plans, priorities and definition of the respective roles of public industrial enterprises, private enterprises, co-operatives and direct government activity. It was necessary to harmonize and establish the appropriate co-ordination or co-operation mechanism between public industrial enterprises and (a) the national planning body; (b) private industrial enterprises; and (c) small- and medium-scale industry.

13. Public industrial enterprises, instead of competing with small-scale industry, could play a role in fostering the growth of such industries, through linkages relating to technology, management and marketing. The public sector could also make a contribution to rural development and the satisfaction of basic needs.

14. In relation to development of national technological capabilities, public industrial enterprises had a significant role to play in developing appropriate technologies that would harness local resources of both raw materials and labour. Such enterprises were a good vehicle for negotiating the purchase and import of technology from foreign countries on equal terms. Moreover, since public industrial enterprises were expected to take a long-term view of their operations, an essential aspect of their management philosophy was research and development leading to national self-reliance in technology.

15. It was not possible to prescribe a uniform management style for all public enterprises, since there were considerable differences among developing countries in levels of managerial sophistication, political and socio-economic philosophies and administrative and planning structures. Nevertheless, public industrial enterprises should be managed and operated at the highest possible levels of efficiency. They should also be competitive in international markets; the standards required would, inter alia, provide an excellent yardstick for their performance. Corporate plans for public industrial enterprises with a long-term view of the economy and with an integrated view of all management functions, finance, personnel, production, materials and technology, should be encouraged. The corporate plans would need to be dovetailed into the national planning strategy for enterprise operations to be successfully executed.

16. In this connection, a major issue to be vigorously pursued was management development and building up a pool of professional, technical and managerial skills within the public



industrial enterprises that would contribute towards their efficient operation. Further, many decisions concerning public industrial enterprises were taken at high levels of public administration including investment decisions, pricing policies and the establishment of goals. Clearly therefore, the efficiency of public industrial enterprises was affected by that of public administration and there was a need to improve the professional quality of the bureaucracy charged with handling and controlling the affairs of public industrial enterprises.

17. There was a need for adequate systems for evaluating the efficiency and performance of public industrial enterprises and it was necessary that such systems be suited to the nature of, and responsibilities entrusted to, public industrial enterprises. While the classical system of financial profitability had drawbacks, it would be desirable to use financial criteria as a starting point. At any rate, the success of public industrial enterprise on a continuing basis would largely depend upon its ability to generate surplus. Any shortsighted view on that matter might damage the growth of public industrial enterprises and their ability to meet social objectives in the long run. However, in the light of the multiple objectives usually entrusted to public industrial enterprises, there was a clear case for working out an evaluation system that would assess their response to social objectives as well. There was also a need for developing management and accountancy systems for public industrial enterprises along with the establishment of standards of performance.

18. The formulation of strategies and the declaration of objectives needed to be operationalized and mechanisms, organizations and systems of management had to be created for the running of public industrial enterprises. Several organizational forms and structures had evolved in developing countries including departmental undertakings, statutory corporations established under law and companies registered under company law. There were also sectoral corporations and holding companies with subsidiaries. However, it was not sufficient merely to set up suitable organizational structures for public industrial enterprises; of far more importance was the establishment of mechanisms to ensure interrelationships between enterprises and public authorities, including those for control, co-ordination and the evaluation of performance. Moreover, it needed to be recognized that political changes and philosophies would affect the organizational patterns of public industrial enterprises.

19. Regarding the question of autonomy versus accountability, there would be no rationale for establishing autonomous public industrial enterprises if they were not granted an adequate measure of managerial autonomy. Nevertheless, since they are state enterprises, there are certain parameters within which they have to work. Management systems, organizations and mechanisms should provide for motivation and commitment of the employees of public industrial enterprises in an environment of trust.

## II. THE CONTRIBUTION OF UNIDO IN IMPLEMENTING THE LIMA DECLARATION AND PLAN OF ACTION WITH REGARD TO THE ROLE OF THE PUBLIC SECTOR IN INDUSTRIAL DEVELOPMENT

### Industrial studies and research activities

20. Although most of the studies undertaken by UNIDO are relevant to both public and private industrial enterprises, touching upon their activities, performance and problems, it has initiated a programme of studies that are specifically designed to focus on the particular problems facing public industrial enterprises as opposed to private enterprises both domestic and foreign.

21. An analysis of the public sector and industrial development was contained in chapter A of the special issue of the Industrial Development Survey prepared for the Third General Conference of UNIDO. The analysis focused primarily on the main trends, issues and problems of public industrial enterprises including, in particular, the role of the State as entrepreneur and catalyst; objectives and rationale; major issues; contribution to industrial development; organization; and performance of the public industrial sector. This analysis also served as UNIDO's contribution to the Secretary-General's study on the role of the public sector in promoting the economic development of developing countries.

22. In the light of resolutions 32/179 and 33/144 adopted by the General Assembly and resolution 48(XII) of the Industrial Development Board, on the subject of the public sector, UNIDO convened the Expert Group Meeting on the Role of the Public Sector on the Industrialization of the Developing Countries. The Meeting, held in May 1979 in Vienna, was attended by 20 experts from developing countries in Africa, Asia and Latin America, from developed countries with both centrally-planned and market economies, and from international and regional organizations. All the experts were associated with the public industrial sector, either in government, management, finance, research or international organizations. The main conclusions of the Meeting have been outlined in chapter I of the present document. The Meeting also provided guidelines for UNIDO's future research and operational activities on this subject. Regarding research, the Meeting recommended a comprehensive programme of action to provide more insight into the role of public industrial enterprises, their socio-economic responsibilities, organizational environment and managerial problems. The purpose of these studies is to provide guidance for developing countries in promoting their public industrial sectors and to strengthen the operational activities of UNIDO in this field.

23. UNIDO has already taken steps to implement the recommendations of the Meeting. Country case studies have been initiated in five countries in 1979 in close collaboration with the International Center for Public Enterprises in Developing Countries (ICPE). The studies focus on the following aspects:

- Rationale and role of public industrial enterprises
- Government plans, policies and strategies for promotion of public industrial enterprises
- Dynamics of growth of the public industrial sector
- Contribution of public industrial enterprises to the growth and development of industry
- Qualitative impact of the public industrial sector
- Organizational forms and legal structure of public industrial enterprises
- Autonomy and accountability systems of control and supervision of public industrial enterprises
- Linkages to the small-scale industry sector
- Provision of basic needs
- Role of public industrial enterprises in technological development
- Responsibility for the optimum exploitation of domestic natural resources
- International industrial co-operation between public industrial enterprises

It is expected that the research programme, focusing on the sector and begun with these country studies, will be broadened in scope and widened in geographical coverage in collaboration with concerned regional and international organizations in 1980 and 1981, subject to availability of funds. It should be noted that UNIDO is already collaborating with the Economic Commission for Asia and the Pacific (ESCAP) in a related study on the role of public sector linkages between large- and small-scale industries.

24. UNIDO is engaged in a series of world-wide sectoral studies. The industrial sectors currently under investigation are fertilizers, petrochemicals, iron and steel, agricultural machinery, leather and leather products, capital goods, food pharmaceuticals, and vegetable oils and fats. In four of these sectors a significant public sector participation has been noted in developing countries, namely the petrochemicals, fertilizers, pharmaceutical, and iron and steel. In three other sectors, namely capital goods, agricultural machinery and food processing, the involvement of the public sector is rather modest. The purpose of the studies is to provide information on the economic, technical and commercial aspects; and to assist policy makers in developing countries in the formulation of viable development policies for the setting up or developing of their industry sectors. The studies serve as basic inputs to the UNIDO consultation meetings, basic information for national decision makers, and contribute to the elaboration of sectoral development strategies.

25. As mentioned above, a number of other research studies are being carried out by UNIEC which are pertinent to the problems facing public industrial enterprises, although these studies do not necessarily make a distinction according to ownership. Reference should be made in this connection to the study entitled "Industry 2000. New Perspectives",<sup>4/</sup> prepared for the Third General Conference of UNIDO as well as the series of studies on industrial redeployment from developed to developing countries and on structural adjustment in developed countries.<sup>5/</sup> These studies on international industrial co-operation have important implications for public industrial enterprises in developing countries and their role in the wider context of a new international economic order. Additionally, in the area of methodological studies, UNIDO published in 1978 the "Manual for the Preparation of Industrial Feasibility Studies",<sup>6/</sup> and a study on project formulation and evaluation entitled "Guide to Practical Project Appraisal, Social Benefit-Cost Analysis in Developing Countries",<sup>7/</sup> which are relevant to the problems of public industrial enterprises, particularly in connection with their multidimensional responsibilities in achieving national goals.

#### Operational activities

26. Classification of UNIDO's operational programmes for information purposes, as for example in the "Annual Report of the Executive Director", is usually made according to source of funds, project component, geographical regions, countries, field of activity and main industrial sector. No distinction is made in classification between assistance given to the public and private sectors. In 1979 UNIDO implemented operational programmes for a total of \$70 million, an increase of \$14.9 million over the figure of \$55.1 million in 1978.<sup>8/</sup>

27. It should be noted that, at the outset, UNIDO's operational activities are based upon requests from Governments of recipient developing countries. Thus, the amount of UNIDO technical assistance provided to the public sector of a particular country is largely conditioned by three factors: first, the country's strategy of economic and social development, i.e., centrally-planned, mixed or mainly market-oriented economy; secondly, by the strength of the

<sup>4/</sup> ID/237.

<sup>5/</sup> See ID/CONF.4/9.

<sup>6/</sup> ID/206.

<sup>7/</sup> ID/SEP.H/3.

<sup>8/</sup> "Annual Report of the Executive Director 1979" (ID/B/240), chapter II.

interlinkages between the government and the public industrial sector; and lastly, by the country's decision to request UNIDO's technical assistance for a public sector enterprise.

28. Concerning the amount of UNIDO technical assistance to developing countries taken as a whole, it is perhaps apparent that a substantial proportion is being provided to the public sector, either directly or indirectly. This situation could be ascribed, first of all, to the policies of a number of developing countries designed to secure the national processing of local raw materials through the direct participation of the State and to concentrate in the public sector industries considered basic to further industrialization, with high capital and technical requirements. Within the public industrial sector in these countries, basic industrial goods (e.g., petrochemicals, fertilizers, petroleum refineries, non-metallic mineral products, iron and steel) appear to predominate.<sup>2/</sup> As can be noted from the brief outline of UNIDO's 1979 technical assistance activities given in the following paragraphs, a considerable proportion of the assistance is being provided to these industries in developing countries. Moreover, a large proportion of UNIDO technical assistance is oriented to strengthening or establishing the institutional and services infrastructure for industry (i.e., planning, management, training, research etc.), and, last, if not all, such institutions are within the public sector in developing countries, serving public and private industrial enterprises.

29. During the period 1977-1979, some 65 projects with United Nations Development Programme (UNDP) allocations of more than \$100,000 were approved for implementation by UNIDO to assist the public sector. These projects, which had a total UNDP allocation of more than \$45 million, are intended to assist a particular public sector enterprise directly (such as, for example, assistance to a pyrethrum refinery in Rwanda, a foundry in Nepal, or a steel plant in Egypt) or to assist in establishing or strengthening industrial planning, investment, research or training facilities which, in turn, assist public sector enterprises (such as a centre for numerically-controlled machine tools in Bulgaria, technical extension services at the Rangoon Institute of Technology in Burma, a specialized institute for engineering industries in Iraq, or training assistance to the Directorate of Monopolies (TEKEL) in Turkey). In addition, short-term, specialized advisory services are being provided to public sector enterprises in a wide range of smaller projects financed under the Special Industrial Services (SIS) programme.

30. In the field of chemical industries technical assistance delivery amounted to \$17.5 million in 1979. Assistance was provided in a broad spectrum of industrial branches such as fertilizers, pesticides, petrochemicals, cement, pulp and paper, construction, heavy clay, ceramics, glass and allied industries, and the pharmaceutical industry. Since a number of these industries are generally state-owned in developing countries, a large proportion of technical assistance in this field was directed to the public industrial sector.

31. Technical assistance programmes in the field of metallurgical industries amounted to \$8.2 million in 1979. Assistance was rendered in the fields of iron and steel, non-ferrous metals, foundry industry, and research and development centres. About 90 per cent of assistance rendered may be regarded as assistance to the public sector since these industries, particularly iron and steel, are generally state-owned. A number of projects are concerned with overall sectoral planning or with the establishment of research and development centres, while technical assistance to individual industrial enterprises was limited.

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<sup>2/</sup> "World Industry since 1960: Progress and Prospects" special issue of the Industrial Development Survey for the Third General Conference of UNIDO (ID/CONF.4/2) p.321.

32. In the field of engineering industries technical assistance worth \$6.5 million in 1979 was provided, inter alia, to mechanical, electrical and electronic design and testing, manufacture of machine tools, product development, quality control, maintenance and repair, and application of computer technology. The bulk of engineering projects implemented by the engineering industries section in 1979 was in the public sector.

33. Technical assistance in the field of agro-industries, amounting to \$9.6 million, covered wood processing and wood products, textiles and wearing apparel, food processing leather and leather products, rubber products and packaging. There is a small degree of public sector participation in the agro-industries sector in developing countries and a very modest share of UNIDO's programmes in this field can therefore be expected to be oriented towards the public sector.

34. Technical assistance in the field of industrial planning amounted to \$4.4 million. It covered the identification and assessment of industrial opportunities through the conduct of industrial surveys, the elaboration of industrial strategies, plans and policies, and the development of programmes for specific industrial branches. All these programmes are aimed at assisting public development administration, at the national or regional level, in implementing the long-term strategy of industrialization covering both the public and the private sector.

35. In the field of institutional infrastructure technical assistance delivered in 1979 amounted to \$8.6 million, and covered such fields as small-scale industry development, industrial research and development, analysis and testing, standardization, metrology, quality control and certification, industrial information, product design and adaptation, subcontracting and industrial administration, legislation and patenting. The great majority of these technical assistance activities were directed towards public services and public institutions serving both public and private industry.

36. Technical assistance in the area of factory establishment and management amounted to \$2.8 million in 1979. Assistance was rendered in the fields of factory establishment, management systems, methods and development, performance improvement, and national consultancy. A large proportion of the assistance rendered, possibly as high as 80 per cent, was directed towards public sector industries or towards institutions that control, manage, monitor or assist public sector enterprises.

37. Various types of training facilities, costing \$6.1 million, were provided. They cover, inter alia, fellowships, in-plant group training, study tours and the development of local training capabilities, and training guides. A programme on training and management in public enterprises was also implemented. The proportion of training activities oriented towards the public sector can be expected to be significant in view of the sizable participation of the public sector in certain industries in developing countries.

38. Technical assistance delivered in the field of feasibility studies in 1979 amounted to \$2.6 million. A significant proportion of the programmes implemented can be expected to be directed towards assistance to public industrial enterprises, which are perhaps more likely to request public and international assistance in carrying out feasibility studies than private industrial enterprises.

#### Special programmes

39. The Investment Co-operative Programme Office of UNIDO (ICPO) is responsible for carrying out pre-investment studies in the developing countries and assisting them in obtaining foreign co-operation in the form of financing and technical and managerial know-how to supplement and

strengthen domestic investment efforts. In this capacity, ICPO acts, in both the public and the private sectors, as an intermediary, bringing together promoters of industrial projects in the developing countries and suppliers of investment resources from countries with free market economies and centrally-planned economies. Public as well as private industries have participated in investment promotion meetings arranged by ICPO.

40. The System of Consultations provides a forum in which the interdependence of interests to promote industrial development throughout the world is emphasized and co-operative efforts made to discuss and reconcile the divergent views of producers and consumers of both developed and developing countries. In the petrochemical, the iron and steel, the pharmaceutical and the fertilizer sectors, as already stated, there is a general and significant public sector involvement. Consultations are also being undertaken in three other sectors where there is a modest public sector involvement, namely, the capital goods industries, agricultural machinery industries and the food processing industries.

41. The special programme of UNIDO related to the development and transfer of technology is relevant to the problems and needs of the public industrial sector in developing countries. In this connection UNIDO has organized, in co-operation with ICPE, in Ljubljana, Yugoslavia, and the Federation of Korea Industries, Republic of Korea, workshops and seminars on special aspects of technology transfer and technology acquisition, as well as management implications of technology transfer, of interest to public enterprises in developing countries. UNIDO's publications on problems of technology transfer refer specifically to the importance of considering the role of public sector industries. The programme of technological advisory services for the evaluation and registration of foreign technology acquisitions and foreign investment transactions provided assistance to public enterprises in China, Egypt, Portugal and Venezuela. UNIDO is also providing assistance in the establishment and strengthening of national institutions to regulate the flow of foreign technology as well as assist in the formulation and implementation of national technological policies.

42. Another special programme of relevance to the public industrial sector is concerned with economic co-operation among developing countries. Illustrative of these activities is a programme which enabled officials from one developing country to visit public and private industrial establishments and research institutes in another developing country, engaged in the development of indigenous technology and the adaptation of imported technology.

#### Co-operation with Governments and intergovernmental organizations

43. In the planning and implementation of its activities related to the public sector, UNIDO co-operates with Governments and intergovernmental organizations as well as other organizations of the United Nations including the regional commissions. In this connection, it should be noted that a "Memorandum of Understanding" concerning co-operation between UNIDO and ICPE was agreed upon in early 1979. In fact, since 1976 when ICPE was established, the two organizations have fruitfully co-operated in a number of activities, particularly in training, research, management, technology and consultancy. UNIDO has recently expanded its co-operation with ICPE to include a programme of industrial studies related to the public industrial sector.

### III. ACTION REQUIRED OF THE BOARD

44. The Board may wish to take note of the above report and provide further guidance with regard to UNIDO's activities in the field of the public sector.

