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PRIVATE SECTOR DEVELOPMENT AND ACCELERATED GROWTH OF INDUSTRIAL ENTERPRISES IN LEAST DEVELOPED COUNTRIES: ANALYSIS AND ASSESSMENT OF INSTITUTIONAL MEASURES AND SUPPORT FUNCTIONS FOR PRIVATE SECTOR DEVELOPMENT*

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* The view expressed in this document are those of the author and do not necessarily reflect the view of the Secretariat of UNIDO. This document has not been edited

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Executive Summary

This study by the United Nations Industrial Development Organization (UNIDO) analyzes the pattern of private-sector development in the least developed countries (LDCs) in recent years and reviews policies and institutional measures and support functions to enhance the private sector's role for accelerated growth of industrial enterprises and industrial activities in these countries.

The classification of countries as LDCs has been defined by the United Nations Committee on Development Planning on the basis of certain economic indicators initially in 1971, which were further elaborated in 1990. Following the recommendations of the Committee, 41 countries were retained on the list of LDCs in 1990, with Botswana to be 'graduated' from the list and new countries to be added, namely Cambodia, Ghana, Madagascar, Solomon Islands, Zaire and Zambia. Angola and Eritrea are to be confirmed in the list, while Botswana will be deleted in 1995. The increasing number of countries falling under the LDC category indicates a disturbing trend in the impact of development activities on poorer countries and regions. While there has been some improvement in infrastructure facilities, there has been little increase in industrial production in these countries and the manufacturing base in these countries continues to be very low. In recent years, major policy changes have taken place in most of these countries towards increased market orientation and emphasis on private-sector development, often within the framework of structural adjustment programs. These policy changes have largely concentrated on revision of investment codes to attract foreign direct investments, and liberalization of regulations on industrial and commercial activities and privatization of selected state-owned enterprises.

While such programs have contributed to increased macro-economic stability in most LDCs, there has been relatively little impact of such programs on foreign investment inflow or on industrial production or on an increased number of industrial enterprises. Institutional measures and support functions have generally been lacking in most LDCs and have contributed significantly to the lack of impact of policies and measures undertaken so far in LDCs.

While accelerated increase in the number of enterprises and of industrial production primarily through the private sector constitute important objectives in LDCs, such growth must also be qualitative and should bring about greater competitiveness on the part of LDC enterprises in niche areas on the one hand, and ensure maximum socio-economic impact of industrial development on poverty alleviation in these countries, on the other. The policy changes undertaken so far in LDCs will need to be substantially supported by institutional measures and support function in several fields. Such institutional support measures extend from development of local entrepreneurship to provision of credit and support in technology, marketing and external linkages, besides specialized services and industrial extension facilities for local enterprises. A new relationship of cooperation will also need to be created between governments and private-sector entities and their representative groups and associations in these countries.

Any assessment of policies and institutional measures and support functions in LDCs must be made in the light of features and trends in industrial growth and policies in these countries. These have been reviewed in the case of particular LDCs in Section 2 of the study. The review confirms that, despite major liberalizations and policy changes, industrial growth has continued to be very limited in most LDCs in recent years. There has been marginal economic improvement and increased production and private-sector development in some LDCs but in several others, particularly in Africa, there has been a decline in production and economic deterioration. This has been due, in certain countries, to wars, internal conflict and political disturbances, including in Liberia, Rwanda and Zaire. In a number of countries in Africa, however, despite greater

political stability, economic and industrial growth has continued to be slow as in Gambia, Guinea, Malawi, Mali, Mauritania, Tanzania, Uganda and Zambia. Despite liberalization in investment codes in most of these countries, foreign investment inflow has been very limited, except in minerals and resource-based industries in some countries, such as Botswana. With relatively few production enterprises in LDCs, there has also been little inflow of modern technology and knowhow through licensing and joint ventures. As a result, local enterprises have been unable to compete with imports, which have been extensively liberalized as part of structural adjustment.

On the whole, the industrial growth pattern in LDCs continues to be bleak and unsatisfactory. The situation is expected to be further exacerbated as a result of the Uruguay Round Agreements which, while providing 'safeguards' for LDCs, requires the development of non-traditional exports and competitive export capability in selected fields. This is essential if LDCs are to enter the mainstream of global trade, investments and technology flows in the near future.

A major, qualitative restructuring of industry is necessary, with principal emphasis on the development of local entrepreneurial capability and promotion of local small and medium enterprises (SMEs) in fields where there is adequate demand and potential for developing competitive production capability. An extensive programme for entrepreneurial training and development of private-sector entrepreneurs and enterprises needs to be undertaken in each LDC. Extensive institutional support is also necessary for the provision of loans and credit through specialized financial institutions on the one hand, and for technology, marketing and external linkages for such enterprises with the assistance of international organizations, on the other. At the same time, socio-economic aspects of industrialization need greater attention and a programme for development of micro enterprises, specially for potential women entrepreneurs, needs to be undertaken in these countries. This should be closely linked to agriculture and agro-based industries, which will continue to be the principal growth sector in these economies.

The restructuring of industrial growth in LDCs requires an integrated package of policies, combined with a comprehensive institutional support system designed to promote and develop local production and service enterprises in various fields. The policy framework must extend beyond investment codes and must create a suitable, promotional climate for new investments, both domestic and foreign. The policy package must be country-specific and geared to the requirements and potential of the particular LDC. Major emphasis needs to be accorded to development of local entrepreneurs through training programmes and to the rapid growth of local enterprises, with adequate institutional support and in various fields and specialized services both with respect to provision of credit, and in technology, marketing and and external linkages, besides industrial extension services supported by technical expertise from UNIDO. These have been discussed in greater detail in Section 3 of the study. Substantial policy and institutional support must be provided for growth of micro enterprises in the 'informal' sector, specifically in rural regions of LDCs, to provide increased income and employment opportunities for more vulnerable areas and communities. The requirements of credit are of particular importance for micro enterprises and institutions, such as the Grameen Bank in Bangladesh, need to be promoted in other LDCs.

A dualistic growth pattern, therefore, needs to be developed for each LDCs, with the assistance of UNIDO and other international organizations. On the one hand, niche areas require to be identified in which local enterprises can develop competitive capability, including for exports. This would require substantial institutional support to local enterprises, ranging from entrepreneurial and business training to provision of adequate credit facilities, use of competitive

technologies and knowhow and achievement of quality standards in production and services. At the same time, small and micro enterprises need to be promoted, including through the 'informal' sector and dispersed in rural areas for production of goods and services required in these regions and there should be effective networking of industrial enterprises at different levels and scales of production.

The institutional measures and support functions required in LDCS for accelerated industrial growth and rapid expansion in the number of local enterprises have been highlighted in Section 5 of the study, which provides several working papers on institutional requirements and support functions necessary in LDCs. The Working Papers relate, in particular, to human resource development, particularly development of entrepreneurial capability, besides technological and managerial skills; adequate provision of finance and credit to local enterprises; provision of industrial information and development of information systems; technological support to LDC enterprises; support in marketing in internal and external markets; development of external enterprise to enterprise linkages; supply of specialized services in LDCS, specially quality, standardization and metroogy and design and packaging, and industrial extension services, particularly for small and micro enterprises, including in the 'informal' sector in LDCs.

A major role can, and needs to be played by international agencies, particularly by UNIDO as the principal specialized agency for industrial development in ensuring that appropriate packages of integrated institutional support for industrial growth can be developed for particular LDCs. It is also necessary to ensure closer co-ordination between UNIDO and the World Bank with respect to specific industrial policies and institutional support measures as part of macro-economic strategy and with ILO, UNCTAD and other international bodies in the implementation of specific institutional support programmes and services for accelerated industrial and economic growth in LDCs.

I. INTRODUCTION AND OVERVIEW

This study by the United Nations Industrial Development Organization (UNIDO) analyzes the pattern and trends in private sector development in the Least Developed Countries (LDCs) and reviews policies, institutional mechanisms and support functions to enhance the role and potential of the private sector to achieve accelerated growth of industrial enterprises and production in these countries. An assessment is made, in particular, of the institutional mechanisms and support functions for private sector development which relate to human resource development; industrial information; institutional finance and credit; technological and marketing support; external linkages, and supply of industrial services such as standardization, design and packaging and industrial extension services. While it is recognized that the private sector must play an increasingly dominant role in the process of industrialization in the LDCs, as in other developing countries, the implication in terms of policies, institutional mechanisms and support functions have often not been fully appreciated and elaborated, nor does the response from private-sector entities represent any uniform pattern. A variety of factors and constraints come into play, resulting in changing situations and results. This is particularly so in the LDCs, where the need for socio-economic and industrial development is most pronounced.

Classification

The classification of 'least developed countries' was defined by the United Nations Committee for Development Planning on the basis of several economic indicators in 1971. The classification was extended to 25 countries initially and increased to 41 countries by 1990. The original criteria were modified in 1973 and again in 1981, when three specific indicator levels were provided, namely upper cut-off levels for per capita GDP; a manufacturing level of 10 per cent or less in total GDP and a literacy rate of 20 per cent of less. A country was considered for LDC status if it met two of the three criteria. There was considerable dissatisfaction regarding these criteria, and in 1990, the Committee adopted a broader classification for LDCs as being countries with low income, low levels of human resource development and/or severe structural weaknesses. The specific criteria used by the Committee included: (a) a poverty index level measured in terms of per capita GDP; (b) augmented physical quality of life (APQLI), comprising life expectancy, per capita calorie supply, school enrolment, and adult literacy rate; (c) economic diversification index (EDI), comprising share of manufacture in GDP, per capita annual electricity consumption, export concentration, and proportion of labor force in industry; (d) natural handicaps, such as small population, geographical isolation, high risk of climatic disasters; and (e) structural weaknesses, including natural endowments, instability of agricultural production, exports of petroleum as percentage of exports, and official development assistance as percentage of GDP. The benchmarks for the composite indicators were set at per capita GDP or US$ 600 or less; population of 75 million or less; APQLI of 47 points or less and EDI of 22 points or less. Countries would be included as LDCs if all the four criteria were met and would be taken off the list or 'graduated' if they exceeded the per capita income criteria and the cut-off points on either the APQLI or EDI for three years. On the basis of the above new criteria, the Committee recommended that all 41 countries on the list of LDCs in 1990 be retained, except Botswana, which should be 'graduated' while 6 new countries should be included, namely Cambodia, Ghana, Madagascar, Solomon Islands, Zaire and Zambia.[1] The list is subject to review every three years by the Committee. A list of the countries is provided in Table I, which indicates the annual growth rate of value added for LDCs during 1985-90.

Overall Trends

The increasing number of countries falling under LDC classification reflects a very disturbing trend in terms of the impact of developmental programmes in the poorer countries and regions. Not only has there been a significant increase in the number of countries classified as LDCs, but the value-added of economic sectors in most of these countries has tended to be very marginal during 1985-90, as seen in Table I, and continues so at present. While there has been some improvement in infrastructure, particularly utilities and transport facilities, there has been little increase in industrial and manufacturing activity, and the initial base of manufacture continues to be very low in most of these countries. Several of the countries, particularly in Africa, have continued to undergo long periods of conflicts and civil disturbances, with little economic stability. In several other LDCs, earlier governmental policies concentrating on state ownership of industrial and commercial enterprises, resulted in highly inefficient operations, adding to the financial burdens on the public exchequer.

In the last two decades major policy changes have taken place, in most LDCs. There has been significant liberalization of economic and industrial policies in most of these countries, with growing emphasis on market-oriented activities and on the role of the private sector. Controls over industrial production and activities have been gradually reduced and programmes for privatization of state-owned enterprises have been adopted in a number of LDCs. Most of these measures have been undertaken in LDCs within the framework of structural adjustment programmes under the guidance of the International Monetary Fund (IMF) and the World Bank. At the same time, comparatively little attention has continued to be accorded in these countries to institutional mechanisms and support functions both with respect to human resource development and provision of industrial information; institutional finance facilities; technological and marketing support; and external linkages, and with respect to specialized industrial services such as quality control and standardization development. Such support functions constitute the essential pre-requisite for accelerating the pace of growth of local enterprises in LDCs but have received little priority so far. In some countries, banking and institutional finance facilities have been recognized after varying degrees of privatization but, except in some LDCs, such as Bangladesh, there has been hardly any emphasis on meeting the specific financial needs of local enterprises. The assessment of the role and potential of the private sector in accelerated growth of industrial enterprises in LDCs has to be viewed in the context of, firstly, the objectives sought to be achieved; secondly, the policy framework for private-sector development and privatization, together with the changing role of Governments in these countries; and thirdly, the institutional support functions and industrial services that need to be provided to meet industrial objectives.

Table 1/ average annual growth rate of value added of economic sectors, LDCs, 1985-1990, (per cent)

Country	MVA	Agriculture	Mining	Utilities	Construction	Services*	Transport	Other
Afghanistan	0.0	-6.5	0.0	0.0	-2.9	-6.6	-1.9	-3.9
Bangladesh	4.2	1.9	1.5	16.7	6.4	4.0	5.4	8.0
Benin	5.0	4.2	-10.1	2.5	-3.2	1.6	0.7	-3.7
Bhutan	5.9	5.9	19.8	114.3	1.6	5.6	7.6	9.6
Botswana	10.4	6.4	8.9	11.8	9.2	11.3	9.7	11.8
Burundi	3.7	-0.4	4.2	0.0	6.6	-1.9	2.9	2.1
Burkina Faso	4.8	6.6	8.6	4.7	2.7	0.1	2.9	0.0
Cambodia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cape Verde	1.9	10.2	4.3	-24.7	7.3	2.4	1.8	12.4
Central African Republic	3.5	3.2	3.6	1.7	5.5	0.8	0.7	-3.7
Chad	4.0	1.6	7.4	8.8	7.2	2.7	0.0	5.6
Comoros	2.2	4.5	0.0	5.7	0.4	3.6	2.8	-1.3
Djibouti	1.2	3.5	0.0	0.8	1.5	1.7	2.4	1.7
Equatorial Guinea	-9.7	3.5	0.0	5.3	-1.4	-3.1	-9.1	4.6
Ethiopia	3.5	5.3	0.6	5.6	0.6	3.8	5.0	6.9
Gambia	9.0	2.5	2.7	5.0	6.1	3.6	10.6	0.9
Guinea	-6.9	0.3	7.0	7.2	15.1	2.4	1.7	1.7
Guinea-Bissau	-5.2	6.6	0.0	66.6	-7.7	1.0	-0.3	21.9
Haiti	-0.8	1.4	2.5	5.0	0.1	-0.5	5.7	0.9
Kiribati	-4.0	5.2	0.0	-6.0	-4.1	-1.8	-2.2	0.6
Lao P. D. R.	8.0	3.0	0.4	-2.7	6.6	6.9	12.5	9.8
Lesotho	15.7	15.2	15.8	8.4	9.9	4.6	16.4	5.5
Liberia	2.0	3.7	-3.9	1.8	-3.4	-4.3	-2.2	-0.3
Madagascar	1.9	3.3	2.2	4.1	2.0	1.5	1.4	4.3
Malawi	5.7	1.2	0.0	7.3	2.2	1.3	3.1	5.1
Maldives	12.7	4.9	5.0	0.0	9.6	13.8	-16.4	9.9
Mali	1.9	-2.9	-13.8	6.0	2.4	1.8	3.0	6.5
Mauritania	-1.2	4.2	6.6	0.0	5.0	5.2	1.0	1.6
Mozambique	5.1	-1.5	0.4	4.8	11.5	0.6	10.0	7.0
Myanmar	-2.1	-0.2	0.4	0.3	-0.9	-1.6	0.7	-2.5
Nepal	2.5	4.7	-12.1	16.8	-0.9	5.6	0.1	5.4
Niger	0.5	3.4	-6.6	-4.2	-5.8	2.2	-1.0	-7.9
Rwanda	0.7	-3.9	-4.3	3.7	-2.6	2.5	3.7	-1.6
Samoa	1.2	-0.1	2.9	6.9	0.0	0.3	0.8	-1.3
Sao Tome and Principe	3.0	0.3	0.0	5.9	1.60	3.9	4.7	1.3
Sierra Leone	-3.1	1.2	6.5	15.1	-5.7	2.2	-11.0	1.8
Solomon Islands	7.8	1.0	0.0	5.8	1.4	1.0	3.7	5.7
Somalia	2.7	1.6	0.3	-4.6	-0.6	0.7	1.2	2.0
Sudan	2.9	6.2	1.0	7.1	4.5	7.2	7.2	17.7
Togo	4.6	4.6	3.5	3.3	-6.4	-1.2	-0.4	16.1
Uganda	2.0	4.3	8.2	3.3	11.3	6.1	6.3	3.4
United Republic of Tanzania	-8.5	1.6	26.3	1.4	21.0	1.7	8.4	8.3

Vanuatu	14.2	-2.7	0.0	2.7	19.4	-1.3	2.9	-6.0
Yemen	10.2	7.9	84.2	43.5	14.1	17.0	18.3	14.0
Zaire	4.3	3.2	1.2	6.5	5.0	-0.1	-3.1	2.3
Zambia	4.5	2.7	-0.5	-3.9	-5.7	0.1	0.0	1.2

Source: UNIDO, PPD/IPP.REG
Note: *Includes wholesale, retail trade and tourism

Objectives: The basic objective in LDCs is to achieve rapid increase in the number of industrial enterprises and an accelerated pace of industrial growth and service functions in order to provide substantial increase in income and livelihood to the local population and to ensure sustainable development. Such growth must also be qualitative and should, on the one hand, be concentrated in fields and niches where these countries may have potential to achieve competitive capability in larger, external markets, and on the other, to meet essential socio-economic goals in these countries. This can be achieved only through adequate mobilization of resources, both foreign and domestic, for productive investments, including privatization of state-owned industrial enterprises. It is also necessary to achieve substantial human resource development, particularly entrepreneurial skills and capability in technological fields and in enterprise management. This has to be combined with adequate institutional support for credit, technology, marketing, and external linkages, together with industrial services to achieve competitive production and marketing. It will also be increasingly essential to harmonize industrial growth with environmental objectives and requirements in each country.

Policies: The policy framework for private sector development in most LDCs has largely concentrated on revision of investment codes to promote investments, particularly foreign investments, and measures for privatization of selected state-owned enterprises in several of these countries. In some LDCs, institutional facilities are being developed for private-sector banking and financial services and for investment promotion, particularly of foreign investments. These functions and services will be required to be substantially expanded not only to cover promotional measures for development of local enterprises and entrepreneurial, technological and managerial capability in these countries but must be combined with the development of institutional capability and services to support local enterprises on a sustainable basis. A conducive climate for new investments has to be created, not only for foreign investors, but for local investors and entrepreneurs, which must constitute the core of private-sector initiative in each LDC and legislation and regulations including tax regimes, fiscal incentives, and guidelines and procedures must be suitably adjusted to provide necessary support and incentives for local investments. Most importantly, however, the institutional base of support functions and services needs to be substantially strengthened. Informational support with respect to markets, investments and technology have to be provided, particularly to local investors and entrepreneurs, in identifying potential areas of investments; obtaining access to finance and credit; securing suitable technology and expertise, and in developing capability to compete effectively in internal and external markets.

Institutional support: Adequate institutional support functions and services constitute the essential prerequisite for successful private-sector development in LDCs where the initial

industrial base is very limited. Critic. nstitutional support functions range from (a) providing initial guidance and information to investors, including extensive entrepreneurial training and support to local entrepreneurs, particularly women entrepreneurs. Most importantly, however, the institutional base of support functions and services needs to be substantially strengthened; (b) provision of industrial information through institutions and information systems on potential sub-sectoral markets, both domestic and external, size of investments, nature and sources of technology, equipment and material requirements; trends in production and technology usage for particular products or subsectors; (c) supply of loans and credit from institutional financing agencies, both for and small and medium enterprises(SMEs), and for micro units, often in the 'informal' sector; (d) assistance in securing technology and equipment; and (e) development of external linkages for technology and for marketing and distribution. It will also increasingly be necessary to achieve quality standards, in improved designs, packaging and marketing skills,particularly in export markets, and institutions and support functions for standardization and metrology on the one hand and for designs and packaging, on the other will also have to be developed.

Attitudinal changes: A new relationship between governmental bodies and private-sector entities in LDCs needs to be developed which will necessitate major attitudinal changes. Governmental agencies, including politicians and bureaucrats will need to shed past attitudes towards local industry and work jointly with local enterprises in developing competitive capability in selected fields. Private-sector enterprises, on their part, will need to participate and contribute effectively to policies and institutional support facilities designed to increase local production and competitive capability and the achievement of sustainable development.

This study is composed of five principal sections. The first section comprises the Introduction and Overview, covering definitions and classification and highlighting some of the principal issues covered in the study. Section 2 deals with the major policy and institutional changes introduced in these countries in recent years. The principal focus in this section is on policy changes and experience and impact of such changes on private-sector growth in LDCS, largely because institutional developments and support services, with the exception of privatization of banking in several LDCs, has been fairly limited. At the same time, a review of policy changes and developments in these countries constitutes an essential background material for assessment of institutional support functions and services in the immediate future. The countries covered include LDCs in Africa, which constitute the largest number, and those in Arab countries and in Asia and the Pacific and Haiti in Latin America and the Caribbean. In Section 3, an assessment is made of the impact and effects of policy changes on private-sector development in LDCs so far and the specific institutional support functions required in LDCs in order to achieve accelerated growth of private sector enterprises and development of production and exports in these countries. The institutional support functions are reviewed under the categories of, firstly, entrepreneurial development and promotion of human skills and management capability, secondly, supply of industrial information through institutional facilities involving the private sector; thirdly, provision of institutional finance and credit to local small and medium enterprises (SMEs), besides micro enterprises in LDCs; fourthly, provision of technology and marketing support, including external linkages for local enterprises and, finally, the provision of specialized industrial services, such as standards and metrology, designs and packaging to compete in external markets, since these functions and services are related to various sectors, sectoral priorities and restructuring requirements in LDCs are also examined, including the likely impact of the Uruguay Round Agreements and the need for developing competitive export capability in selected fields. An analysis is also made of the socio-economic

dimensions of industrial growth in LDCs, including generation of increased income and employment in the 'informal' sector and greater involvement of women in industrial development, including in rural communities. Section 4 discusses the potential role of UNIDO and other international agencies in providing essential support for development of institutional capability for specialized industrial services in order that LDCs can achieve accelerated growth of competitive private sector enterprises.

The fifth section comprises a services of Working Papers on institutional mechanisms and support functions for private sector development. These relate to (a) human resource development, particularly the development of entrepreneurial capability, besides technological and managerial skills; (b) provision of industrial information; (c) development of financial institutions and adequate provision for credit to local enterprises; (d) provision of technological support, including support for applied technological research in selected fields; (f) development of external linkages, including foreign participation in investment, technology and export development; (g) supply of specialized services such as standardization and metrology, designs and packaging, and (h) institutional extension services, particularly for small and micro enterprises, including the 'informal' sector in LDCs.

The study has been prepared by UNIDO, with the assistance of Dr. Katherin Marton, Professor of Business Economics, Fordham University, New York.

2. FEATURES AND TRENDS IN INDUSTRIAL GROWTH AND POLICIES IN LDCs

It is necessary to review the principal features and trends in industrial development in LDCs and also to assess the impact of changing policies for increased market orientation and private-sector development in recent years in individual countries. There has been a continuing decline in the economic and industrial performance of LDCs in Africa, which comprise 33 out of a total of 47 LDCs. The industrial share of gross domestic product (GDP) in these countries has remained fairly constant over the last decade, ranging from 10.1 percent in 1983 to 11.7 percent in 1991 for manufacture. FDI has registered only marginal increase and even this is largely confined to a few LDCs. There has also been little inflow of technology and expertise in various manufacturing subsectors, either through joint ventures or non-affiliate licensing. As a result, there has been little growth of competitive capability and there has only been modest increase in exports of manufactured products.[2] The trade performance of African LDCs is expected to further deteriorate during the next few years, with the implementation of the Uruguay Round Agreements and the loss of preferential treatment for products and commodities from African countries. In LDCs in other regions also, there has been marginal industrial growth in some of the countries, with little improvement in socio-economic conditions.

The stagnation in industrial growth and production in most LDCs has been the result of several factors.[3] Firstly, wars, civil disturbances and border conflicts have continued in many of these countries over several years. Secondly, policies pursued up to the 1970s in several LDCs concentrated on state-owned enterprises, which were run inefficiently, leading to heavy financial losses. Thirdly, there was a continuing decline over several years of prices of minerals and commodities exported by LDCs.

With the deteriorating economic situation in most LDCs up to the mid-1980s, most of these countries resorted to heavy borrowings from multilateral lending institutions. Concessional loans were provided by these institutions under the Structural Adjustment Programs (SAP) or the Enhanced Structural Adjustment Facilities (ESAF). SAP was initiated to foster macroeconomic stability and to promote export growth and sustainable development.[4] ESAF was provided by the IMF for assisting eligible members to undertake economic reform programs to strengthen their balance of payments and improve economic growth prospects. ESAF loans carry an annual interest rate of .5 percent and are repayable over 10 years with a 5 and a half-year grace period. Access to such concessional financing was linked with the commitment of recipient governments towards policy reforms aimed at internal and external stabilization and the achievement of quantitative targets in major economic variables, such as annual growth rates, maximum levels of inflation, reduction or elimination of budget and current account deficits. These targets required drastic cuts in government spending, including on social programs; abolition of price controls and restrictions on interest rates, besides a redirection of resources in favor of the private sector. Sectoral development strategies would largely replace import substitution policies.

Major changes in economic and industrial policies took place in most LDCs largely within the framework of structural adjustment progammes undertaken in these countries. There has been farreaching liberalization of economic and industrial policies and investment codes, particularly with respect to FDI, were drastically revised. Considerable privatization of state-owned enterprises was also undertaken in several countries. Import policies were relaxed and free-market conditions were sought to be developed.

The objectives of structural reforms were to transform the allocation of investment and

production in major spheres of economic activity so that the economy's competitiveness and long-term development could be established. In most countries, structural changes were sought in agricultural, industrial and mining sectors with a view of diversification of production and export composition. An important goal was also to achieve increased market-orientation and greater participation of the private sector and a major reduction of direct participation of the government in ownership of productive assets through privatization. In order to reduce external imbalances, reflected in chronic balance of trade deficits, overvalued exchange rates have been devalued in most LDCs. Most recently, a 50 percent devaluation of the CFA Franc has changed the currency alignment of the countries of the African Financial Community. Allocation of foreign exchange through licensing and parallel exchange rates have largely been replaced by more market-oriented approaches. In several countries, foreign exchange has been auctioned through the central banks or designated banks, and in most cases, current account transactions have become liberalized. Economic reforms have largely concentrated on privatization of state-owned enterprises and reduced participation of governments in various production and service sectors. In many cases, private sector companies were permitted in sectors which traditionally had been undertaken by government agencies, including agricultural marketing. With little inflow of FDI, most LDCs have adopted major promotional measures to increase foreign investments. Tax incentives, guaranteed profit repatriation and duty-free imports have been among the principal promotional measures. Efforts have also been made in some countries to reduce bureaucratic controls and procedures and 'one stop' investment promotion bodies have sought to facilitate new investments.

Structural reforms have also aimed at increased diversification and food self-sufficiency has been an important goal. Resources have been sought to be mobilized for new investments in mining and resource-based industries, besides infrastructure development. In some LDCs major emphasis has been given to tourism and tourist-related facilities.

Despite the implementation of the structural adjustment programs in most LDCs, particularly in Africa, for several years, there has been marginal impact on new investments or on industrial growth and productivity. It is generally felt that, while these programs have improved macro-economic stability and policies, they have had small effect on industrial investment or production or on the development of competitive and manufacturing capability in various fields. These programs, which are largely based on free play of market forces, are not necessarily conducive for industrial growth in economies with small markets, limited entrepreneurial capability and inadequate institutional support. In fact, weak institutional support and inadequate industrial services has constituted a major constraint in most LDCs. Changes in policies have increasingly been oriented to attract FDI, which has not been forthcoming, except in mining and resource-based sectors. Privatization of state-owned industrial enterprises have, particularly in African LDCs, often resulted in closure of such enterprises, instead of their modernization and rehabilitation. With inadequate promotional emphasis and institutional support, local entrepreneurs have not been forthcoming while the few existing industrial enterprises are unable to compete with imported products.

The structural adjustment programs have faced considerable criticism in recent years. In 1989, the Economic Commission for Africa highlighted an "Alternative Approach."[5] Since then, there has been a wide range of criticism that the rigidities involved in the SAP approach needed to be considerably modified if industrial growth and development of competitive capability is to be achieved in LDCs. A major failing of the SAP approach is the undue emphasis accorded to FDI and inadequate recognition that a key role has to be played by local entrepreneurs and institutions providing various support facilities. Unless entrepreneurial capability can be rapidly

developed and local entrepreneurs encouraged to take the initiative in establishing SMEs and unless adequate institutional support is provided for finance, technology and marketing, it will be difficult to achieve competitive industrial growth in most LDCs. It is obvious that an essential pre-requisite for industrial growth is a stable political climate for new investments. Only then is it possible to develop a package of promotional measures for mobilization of investments, both domestic and foreign.[6] Such conditions do not prevail in certain African LDCs where disturbances and conflicts continue to result in major disruption of economic activity, diversion of resources from economic development and dislocation of population, or where post-conflict situation, as in Mozambique and Rwanda, pose a different set of problems. On the other hand, in a number of LDCs, including in Africa, the overall political situation is increasingly becoming stabilized and presents considerable potential for accelerated and competitive industrial growth, provided an appropriate package of policies and institutional support measures can be implemented. In most LDCs, it is accepted that the private sector must play a critical and dominant role in industrial development. Yet, the package of institutional support and industrial services necessary for development of private-sector initiatives are not adequately available.

Table 2/ Sector share in total constant GDP in market prices*, LDCs 1990, per cent

Country	MVA	Agriculture	Mining	Utilities	Construction	Services**	Transport	Other
Afghanistan	0.00	52.67	0.00	0.00	5.87	7.33	3.33	1.47
Bangladesh	28	44.33	9.28	0.99	6.34	7.72	6.12	25.22
Benin	6.39	46.79	6.39	0.63	3.00	19.16	9.19	11.93
Bhutan	4.40	48.46	1.41	11.87	8.05	7.61	5.01	16.49
Botswana	3.11	3.38	45.44	2.22	2.96	18.58	2.43	27.18
Burkina Faso	9.92	49.45	1.08	1.12	4.01	10.31	5.65	15.15
Burundi	9.43	41.40	0.44	0.00	4.04	5.52	2.09	10.32
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cape Verde	4.32	17.88	0.78	0.12	12.31	23.35	9.56	27.59
Central African Republic	9.76	42.71	2.87	0.35	2.57	19.03	3.77	12.52
Chad	13.91	38.13	0.24	0.60	1.11	27.41	0.00	18.28
Comoros	3.80	47.39	0.00	0.59	7.65	18.04	4.28	16.59
Djibouti	7.99	4.68	0.00	2.75	6.84	13.70	10.09	33.48
Equatorial Guinea	2.28	34.91	0.00	0.81	3.99	0.88	1.19	32.52
Ethiopia	11.85	41.12	0.15	1.07	3.43	10.63	6.13	24.06
Gambia	9.11	20.97	0.02	0.48	7.70	26.13	15.77	23.26
Guinea	0.78	30.50	12.15	0.28	4.19	12.70	0.84	18.35
Guinea-Bissau	11.29	54.08	0.02	1.25	3.49	18.28	2.44	3.76
Haiti	15.54	35.96	0.14	1.14	6.69	18.00	2.24	14.09
Kiribati	1.65	35.07	0.00	1.75	3.81	11.95	14.34	23.69
Lao P. D. R.	9.00	54.56	0.27	3.01	3.95	0.67	4.70	14.85
Lesotho	14.66	16.50	1.33	0.88	15.03	8.94	3.89	39.51
Liberia	11.42	23.38	11.42	3.01	3.81	7.84	6.88	36.37
Madagascar	8.66	39.07	0.30	1.50	3.21	7.64	6.11	24.04
Malawi	12.40	30.30	0.00	2.12	3.77	11.30	5.49	25.35
Maldives	4.81	17.00	0.96	0.00	5.67	19.07	1.04	32.75
Mali	4.88	28.23	0.82	0.87	3.50	11.93	3.68	13.78
Mauritania	7.09	31.37	14.00	0.00	8.95	14.05	6.62	11.24
Mozambique	32.00	36.58	0.22	4.58	11.28	4.51	13.12	27.00
Myanmar	9.28	48.41	1.30	0.73	1.63	24.00	4.34	10.32
Nepal	3.90	60.07	0.11	0.79	6.34	3.79	4.77	13.74
Niger	4.52	52.86	8.85	0.85	3.26	15.14	4.04	11.42
Rwanda	15.10	35.20	0.71	0.52	5.97	15.57	2.69	18.81
Samoa	14.48	34.02	4.73	2.71	3.37	20.53	6.67	2.16
Sao Tome and Principe	8.73	19.59	0.33	4.49	8.51	9.79	11.89	27.20
Sierra Leone	4.85	33.72	7.58	0.07	2.39	17.88	6.14	20.07
Solomon Islands	3.96	44.36	0.00	1.04	4.17	9.30	5.18	23.75
Somalia	3.36	67.57	0.21	0.11	2.13	6.20	4.25	6.40
Sudan	10.97	35.99	0.09	2.75	5.74	27.73	11.95	4.37
Togo	7.40	37.85	8.72	2.02	2.63	14.77	0.75	12.00
Uganda	3.21	43.89	0.03	0.20	0.38	3.38	1.57	7.64
United R. of Tanzania	3.85	39.67	1.85	0.99	4.76	9.13	7.14	25.66
Vanuatu	7.84	18.53	0.00	1.90	5.91	30.41	7.67	9.02
Yemen	9.36	13.15	8.55	3.10	4.81	13.60	13.41	23.33
Zaire	3.20	33.51	24.16	0.10	4.26	20.06	1.59	13.13
Zambia	23.11	16.78	13.23	1.64	2.27	10.36	4.48	26.81

Source: UNIDO, PPD/IPP.REG

Notes: *In constant 1980 US dollars; **Includes wholesale, retail trade and tourism.

A free-market prescription is not enough; in industrially weak economies such as those represented by LDCs, particularly in Africa, a number of specific institutional measures constitute essential pre-requisites for accelerated industrial growth.

It is against the above background of stagnant or declining industrial growth in most LDCs, despite structural adjustment programs, that policies and institutional measures in particular LDCs are reviewed, together with the impact of increased market-oriented policies in these countries. For this purpose, experience and trends in African LDCs, as also those in the Arab region and in Asia and the Pacific, and Haiti in Latin America and the Caribbean have been briefly summarized.

1. LDCs in Africa

The overall trends in industrial growth in African LDCs, including the impact of structural adjustment programmes, have been discussed in the previous paragraphs. In most LDCs in Africa, considerable efforts have been made to redress the negative impact of measures resulting from policies of earlier decades. The implementation and impact of economic reforms and private-sector development has, however, varied in various African subregions and countries. Several factors account for such variations. These include the political commitment of the government to reforms, opposition by internal groups, and the flexibility of each economy to respond to changing policies and institutional measures, apart from global trends affecting particular sectors and countries.[7] In some cases, reform measures were adopted too recently to have a measurable impact, in others, they were interrupted by new governments and consequential changes in policies and institutional support measures. With scarce financial resources and faced by major infrastructure and institutional constraints, African LDCs in particular, have faced severe limitations in the implementation of policies which can bring about major reorientation and diversified growth. Economic reforms have also been overshadowed in countries where internal conflict and political disturbances have diverted resources from development. Economic mismanagement over a considerable period has had also exercised unfavorable impact on several country's agricultural and industrial base.

LDCs in African countries can be grouped under those in West Africa, namely Guinea, Guinea-Buissau, Gambia, Benin, Niger, Burkina Faso and Cape Verde; those in Central Africa, namely Rwanda, Burundi, Chad, Congo, Zaire, Equatorial Guinea, Sao Tome and Principle; Djibuti in North-East Africa, Ethiopia in East Africa and Indian Ocean islands, including Madagascar and Comoros.

Another grouping comprises the Sahel region, which includes the island of Cape Verde in the West to Eritrea and Ethiopia in the Horn of Africa in the East. According to World Bank classification, the Sahelian economies comprise Cape Verde, Gambia, Guinea-Bussau, Senegal, Mauritania, Burkina Faso, Chad, Mali and Niger. The region contains some of the world's least developed countries. Poorly endowed with natural resources, much of the area is covered by desert or semi-desert and has arid climate and is prone to deforestation, desertification and periodic drought.

West Africa

Benin: The democratically elected government embarked on major economic reforms in 1989. With a stagnant economy, large domestic and foreign payment arrears and a banking system which had virtually collapsed, the government adopted the structural-adjustment programme of IMF. By 1994, the government had taken several steps towards macroeconomic stabilization and reduction of budget deficit. A number of losing state-owned enterprises were liquidated or privatized, including the national airline; transportation companies; cement factories and banks. Foreign investors were permitted to participate in production of cement, cigarettes, besides dealership in automobile parts, tourism facilities and retail activities. By 1994, out of the total 120 state-owned companies which were operating in 1989, 100 were liquidated, closed or sold to private investors.[8] A new investment code was adopted to attract small and medium-scale private investments which established private property rights and provided tax incentives to new entrants. In 1989, a new investment code was adopted towards FDI which promoted entry of foreign companies through tax incentives and permissible repatriation of profits. The new code has attracted certain foreign companies for exploration of offshore oil fields and the production of steel products. Little institutional support and industrial services were, however, promoted for private-sector growth. By 1994, the first phase of tariff reform was adopted which reduced the tariff structure and import licensing requirements. Prices were liberalized through dismantling of the earlier system of price controls. Private sector development was also encouraged through the adoption of a revised labor law and commercial regulations. While the extensive policy changes have achieved greater stability, the response in terms of new private-sector investment and enterprises, has been slow and limited.

Togo: Togo has adopted economic reform programs since the early 1980s. Policies aimed primarily to stabilize the economy through monetary policies and reduction of fiscal deficits. Togo was among the first countries in Africa to initiate privatization of state-owned enterprises, liberalization of foreign trade, tax reforms and reform of the agricultural marketing system. The manufacturing sector, however, continues to account for a relatively small share in Togo's economy. Most of the major state-owned enterprises have been operating at a loss. In 1984, 19 public sector enterprises were identified for divestment, including the sale of two textile companies to Hong Kong investors. In several cases, privatization took place through liquidation of enterprises or through long-term lease arrangements with foreign investors. By 1990, out of a total of 73 state-owned enterprises, 14 had been privatized.[9]

The new Investment Code of the country was enacted in 1990 and provided facilities for more liberal conditions for investments, particularly foreign investments. The code permits investments in the agricultural, mining, manufacturing and various service sectors, and the tourist infrastructure. The minimum size of investments is set at CFA 25 million for foreign investments and CFA 5 million for domestic investors. Despite favorable regulation, FDI inflow has been discouraged by political uncertainties, labor unrest, the small size of the market and legal uncertainties concerning land titles and property rights. There has also been little growth of domestic private-sector investments and enterprises, in recent years and little institutional support was provided in this regard.

In 1990, the government established an export processing zone with incentives including duty-imports and exports, a 10-year tax holiday, exemption from the general business tax; and other incentives and facilities. By October 1992, there were 15 companies operating in the zone, and a total of 48 companies received approval for operations.

Burkina Faso: Burkina Faso is a landlocked Sahelian country, with almost 90 percent of its 4.3 million population engaged in subsistence agriculture. In 1991, the country adopted new economic measures within the structural adjustment program, covering the agricultural and industrial sectors. The Mining Code was revised in 1991-92 to attract foreign investors. Revision of the fiscal regulation and investment code have also been undertaken. The code relates tax incentives to the size of investment and nature of production and location. A privatization program was adopted in 1991 and, by 1994, divested government holdings in 12 state-owned enterprises which generated $13 million.[10] For 1994, the program includes the divestiture of vegetable oils and soap manufacturing firms, the agricultural marketing board and several smaller companies. The government intends to retain ownership in 11 enterprises, including transportation, textile and rice processing. Despite the adoption of reform measures in 1991, economic and industrial growth by 1994 has been marginal, and inflation has been around 30 percent. Little institutional support has been provided for local enterprises. In 1994, the devaluation of the CFA resulted in major disruption in the economy. It is expected, however, that exports of the country's major export item, cotton, will increase significantly.

Cape Verde: The country of Cape Verde stretches as a chain of islands, about 650 km west off the coast of Senegal, with a population of about 375 thousand. The economy depends on subsistence farming, fishing and the remittances of emigrants and depends heavily on imports, with approximately 90 percent of food consumption being imported. The value of imports, in most years, exceeds the country's exports about 25 times, the balance being financed by remittances of approximately 600 thousand emigrants and foreign aid. The country's leading export product is banana which account for about one-third of export revenues, followed by frozen tuna. With about 60 percent of the GDP, the service sector dominates the economy, including commerce, transport and public services. Industry plays a relatively little role in the economy, contributing about 8 percent of the GDP and employing about 5 percent of the population in 1992. The manufacturing sector consists mostly of light manufacturing, fish processing and handicraft production. Several of the manufacturing enterprises are state-owned or with partial ownership of the state.

Since 1989, the government started to liberalize the contrally-planned economy by opening it up to the private sector and adopting market-oriented and outward looking policies. Export promotion and development of a free trade zone were identified by the government among the priorities of development. The objective of the government was to take advantage of the country's location for purposes of transhipment and off-shore manufacturing and for the establishment of a center for banking and financial services. Development of fisheries and tourism were also targeted for expansion. Foreign investors were encouraged to participate in the development of these sectors and, in 1992-93, the list of sectors open to foreign investments was published by the government. For the promotion of exports, Promex, an export promotion office was established which aims to remove the impediments imposed on exports and provides for incentives.

An important element of the reforms involved the removal of state monopoly in commerce and the formulation of a privatization policy. In 1993, privatization of selected state-owned enterprises was announced to be implemented during the next four years. As the initial phase of privatization, several state-owned companies are scheduled for closure. The national telecommunications company is inviting tenders for participation by private investors. The warehousing and cargo handling services of the national port authorities are also designated for

privatization.

Development of the private sector still continues to be constrained by the regulation of imports which remain subject to licenses, with the Central Bank setting an annual foreign exchange quota for imports. The inadequate development of the financial sector constitutes further constraint on the development of the private sector. The Bank of Cape Verde holds monopoly on banking in the country and serves as central bank, commercial bank and development bank. Separation of these functions is, however, under consideration by the government.

While the government has made significant progress in the transformation of the economy towards a more market-oriented system, development of the private sector remains constrained by the climatic difficulties of the country, an inadequate infrastructure, the small size of the internal market, and the country's dependence on foreign sources of income.

Gambia: The agricultural sector accounts for about half of Gambia's GDP and employs about 80 percent of the labor force. Most of the industrial operations relate to the processing of groundnut which accounts for over half of the country's export revenues. Due to its location, the country has become a major re-export center for neighboring countries which has been encouraged by the government by improving customs and port facilities. The country has maintained a liberal trade system and adopted a low tariff. By the 1970s, the role of the public sector had increased significantly in Gambia. In 1985, however, with a deteriorating economic situation the government launched an Economic Recovery Program, which set tight fiscal policies through expenditure cutting and restrictive monetary and credit policies; a flexible exchange rate; and measures to reform the state-owned enterprise and financial sectors. These policy reforms were further elaborated in the Revised Development Act of 1988 which provided a range of policies for the promotion of private sector involvement. A floating exchange system replaced the fixed exchange rate regime which pegged the dalasi to the British pound. The Exchange Control Act was suspended and foreign exchange bureaus were opened to facilitate trade in foreign exchange and the parallel foreign exchange market was discontinued. The banking sector was strengthened, with government taking over non-performing loans. The Gambia Commercial and Development Bank was restructured and, in 1992, privatized.

The new Investment Code in 1988, designated tourism as a priority sector and provided for a range of fiscal incentives. Emphasis was also given to agro-related industries, including horticulture and market gardening. Other sectors eligible for investment incentives included export-oriented production and selected import-substitution industries. Foreign direct investments have been encouraged, with preference given to joint ventures. Since its economic reform, several joint ventures were entered between Gambian and Chinese enterprise in the agro-based manufacturing sector while oil exploration concessions were granted to Canadian and United States companies.

Since the mid 1980s, reforms aimed to improve the efficiency of state-owned enterprises, including through selective privatization. In its first phase of privatization, the government divested its holdings in several hotels and tourist operations and introduced performance contracts for the Gambia Produce Marketing Board and several state-owned infrastructure enterprises.

The impact of reforms has been quite favorable for private-sector development and the number of such enterprises has increased considerably in recent years. There has, however, been

little emphasis on institutional support and industrial services to assist local enterprises.

Mali: Mali is a landlocked country, with a population of 8.5 million in 1992. About 75 percent of the population is engaged in the agricultural sector. Cereal production for domestic consumption and cotton and livestock for export make up close to half of the country's GDP. Food processing, textiles, hides and skins, and production of agricultural implements and chemicals account for major share of the industrial production which is undertaken by about 164 enterprises. About 65 percent of these enterprises are in the private sector, and the balance is state-owned.[11]

Through the 1960s and 1970s, the economy was dominated by state-owned enterprises. By the early 1980s, major imbalances in the economy necessitated considerable policy readjustments. Reform measures, initiated in 1992, aimed to redress the chronic budget deficit which had largely resulted from the losses generated by state-owned enterprises. Reduction of staff and the number of public enterprises constituted key elements of reform policy.

Processing and marketing of cotton, the country's principal export product, is undertaken by the state-controlled CMDT with 49 percent participation by a French marketing company.

Privatization was initiated in the mid 1980s, mostly by closing loss-making state-owned enterprises. The objective was to privatize or restructure 40 state-owned enterprises which in 1987/88 accounted for more than 60 percent of of the government budget.[12] By 1989, the government closed Air Mali, Somiex, the state-owned export-import enterprise, and several textile plants. Throughout the early 1990s, the government continued to liquidate the state-owned sector, with 3 major privatizations envisaged for 1994, the largest of which is the Industrial Sugar Company, which accounts for close to half of the country's production. Apart from liquidations, closures and sale of state-owned enterprises, the role of government is sought to be reduced by permitting private participation in activities which were previously a government monopoly.

The Investment Code provides the same incentives to domestic and foreign investors, and import/export licenses are allocated on a non-preferential basis. FDI is permitted through wholly foreign-owned companies or joint venture with local companies. Foreign investors are also encouraged to acquire state-owned companies which are offered for privatization. Processing of investment applications is facilitated by the establishment of 'guichet unique', a one-stop office for the registration and processing of investment proposals. A new Mining Code adopted in 1989 which streamlined the approval procedures in the mining sector and encouraged participation of foreign companies.

Private sector development has been encouraged through a number of measures which are aimed at improving the environment for private investors, including:

- establishment of businesses through simplified procedures through the 'guichet unique' facilities;
- elimination of price controls for all consumer goods by 1992;
- elimination of import and export licenses;
- revision of the Commerce and Investment Code;
- adoption of a new Labor Code;
- incentives offered within the Investment Code;
- establishment of commercial courts.

Little institutional support, however, has been provided to local enterprises with respect to technology, marketing and external linkages. The climate for private-sector investments in Mali is quite favourable and a number of new enterprises have been set up or expanded in recent years. The pace of growth could, however, be considerably enhanced with greater institutional support and industrial services.

Guinea: Guinea possesses the world's third largest bauxite reserves, high grade iron ore deposits, and gold, diamonds and other precious metals. While the mining sector has grown rapidly in recent years, and export of bauxite and alumina account for 90 percent of the country's export revenues, a substantial proportion of reserves have remained unexploited. About 75 percent of the population is engaged in agriculture and industrial production accounts for less than 5 percent of GDP. During the 1958-84 period, the socialist government operated through a centrally-planned economic system. Since 1984, economic reforms were introduced to liberalize and restructure the economy; promote investments and to increase and diversify agricultural production. Presently, the country produces about 40 percent of its food consumption and a higher self-sufficiency in food is among the country's priorities.

The restructuring of the economy involved substantial reduction in the role of the public sector. Some state monopolies, such as distribution enterprises for sale and shipment of imports, were shut down and concessions were granted to private companies. In 1991, a total of 131 businesses were slated for privatization. Within this program, also the state hydro-carbon monopoly was liquidated and replaced by a joint venture between the government and a consortium of foreign companies. Several smaller enterprises were liquidated or closed. Implementation of the privatization program has, however, been constrained by insufficient demand by investors outside the mining sector.

The government has retained ownership and control in the mining sector, ranging from 49 to 51 percent equity ownership, with the balance held by foreign mining companies. The largest bauxite producer, Compagnie des Bauxites de Guinee (CBG) is, for example, held 49 by the Government and 51 percent by the United States company, Halco Mining. The Government also owns 40 percent of Friguia, a bauxite mining and refining company, in joint venture with a consortium of five multinational mining companies. Foreign investors have been encouraged to exploite new mineral reserves. In 1992, the government liberalized regulations for diamond mining to encourage participation of foreign companies. The Investment Code was revised in 1987 and liberalized commercial regulations and procedures.

The country's financial institutions comprise six commercial banks which were formed in 1985 and 1986. Four of these banks are subsidiaries of French banks, and one is a subsidiary of a Moroccan bank. The activity of these banks is, however, mostly restricted to short-term financing and with very limited lending for the medium- and long term. The foreign exchange rate is determined through weekly auctions at the central bank. Imports are subject to import authorization. Remittance of foreign exchange is restricted and requires previous approval of the Central Bank. Foreign trade activities are still fairly restricted. Importers have to deposit up to 25 percent of the value of the goods for tariff and the local equivalent of the required foreign exchange at the time of the application for imports.

The reform measures have had favourable impact on private-sector development in the country. However, in the absence of adequate institutional support measures, increase in the number of enterprises and in production of manufactured goods has continued to be slow.

Guinea-Bissau: With a population of approximately 1 million, Guinea-Bissau's economy is dominated by agriculture in form of subsistence farming which accounts for about half of the GDP. Primary products are cashew, rice, peanuts and cotton. A major source of government revenue is derived from the sale of off-shore fishing licenses. The industrial sector is very small, and accounted for 16 percent of the GDP in 1992. With the exception of the lumber industry, production is oriented towards the local market. The largest manufacturing enterprises are state-owned, such as the state-owned brewery, or are joint ventures between state-owned and private enterprises and foreign investors, and are mostly engaged in food processing, including rice processing, production of vegetable oils, soap and animal feed. In 1979, a foreign assembly plant was opened with an annual production of 500 cars per year for the local market. The rest of the industry consists of a few very small plants for brickmaking, fruit juice production, soft drink production and textile manufacture. Almost all the machinery, fuel and most of the food requirements of the country have to be imported. The country's mineral resources have not yet been exploited but exploration of bauxite deposits and offshore oil prospecting are under way. Guinea-Bissau's exports are limited to groundnuts, timber, palm kernels and fish.

In 1987, the government adopted a structural adjustment program with the financial assistance of the World Bank and IMF. Within the framework of these reform measures, stps were undertaken to liberalize trade; exporters were permitted to retain 50 percent of their export earnings to be utilized for eligible imports; the issue of import licenses was simplified, and with the exception of luxury goods, import licenses are given automatically. A reform of the tariff structure is also under way. A flexible exchange rate was adopted for the Guinea-Bissauan Peso and a system of foreign exchange auctions was introduced which closed the gap between the official and parallel exchange rates.

In 1991, a decree was adopted to privatize unprofitable state-owned enterprises. For the initial phase, 9 state-owned enterprises were identified for privatization, including the national brewery and a fishing company. Reform of the financial sector has also been considered and the government announced the creation of new banks and legalization of foreign exchange houses. Within these measures, the liquidation of the state-owned Banco Nacional de Credito is planned to be completed in the near future.

Achievement of food self-sufficiency is among the priorities of the government. Significant financial allocations have also been undertaken to strengthen the industrial and commercial market. Initially, the local processing of sugar, cotton and tobacco are considered to be established. Expansion of the country's fishing fleet and development of the tourist industry are planned to contribute to an increase of foreign exchange revenues for the country. Implementation of these projects, however, will depend significantly on the government's ability to mobilize investment funds. The arrears of the government on its foreign debt, however, act as major constraints in this regard.

Sierra Leone: Despite the country's substantial mineral resources, the country's economy was characterized by large budget deficits, inflation, a weak infrastructure, and accumulation of large external debts during the 1970s and 1980s. In the 1990s, the three-year old internal conflict has drained the country's resources and created an unfavorable investment climate.

In 1989, measures were undertaken to stabilize the economy, exercise fiscal discipline and

promote private sector development. By the early 1990s, price controls were removed on goods and services and restrictions on interest rates were removed. Foreign exchange offices were permitted to operate and market-based foreign exchange rates became utilized. In a move to liberalize trade, import license requirements were eliminated.

In 1993, a privatization program was under review to divest selected state-owned enterprises, including in petroleum refining and marketing, insurance and hotel sub-sectors. Restructuring and modernization of state-owned enterprises are also planned. The government expressed its commitment to promote private sector growth by strengthening the financial sector's ability to provide credit to private enterprises. In order to improve the environment for private sector development, the government has also initiated reform of the legal and commercial regulatory framework. In 1994, a new mining law was enacted to encourage foreign companies to participate in the exploration and extraction of the mineral resources and several foreign mining conglomerates received concessions to mine diamonds and gold and other associated minerals.

Despite policy liberalization and reforms, the growth of private-sector enterprises and of manufactured products has continued to be slow and marginal, largely because of inadequate institutional support for local enterprises.

Liberia: Since 1989, the country's economy has been torn by civil war, which separated the country into two parts, brought production of most sectors of the economy to a halt and resulted in major destruction of productive resources. It is estimated that about half of a population of 2.6 million fled the country. Despite a peace agreement in early 1994, fighting resumed and is continuing.

The transitional government of the country has drawn up an economic reform program to achieve a rapid recovery of the war-torn country. However, because of the continuing hostilities and political uncertainty, implementation of the program has not yet started. In the short term, emphasis of the program is on the provision of basic health and educational facilities and shelters. The extent of reconstruction will largely depend on the availability of external funding.

Mauritania: The country's economy is based on subsistence farming, traditional livestock farming, fishing and mining. Agricultural output fluctuates strongly and a major share of food requirements is continued to be met by imports. Since 1983, fishing has been the main source of income, but by the early 1990s, aging vessels and over-fishing had income from reduced fishing. Mauritania has high-quality iron ore deposits which in 1990, accounted for 12 percent of the GDP. With declining world demand and prices for iron ore, however, by the late 1980s, the contribution of iron mining to GDP had been decreasing. The country's climatic uncertainties, fluctuations of world market price of iron ore and civil disturbances in recent years have introduced a high degree of volatility and uncertainty in the country's economy. The small market size and inadequate infrastructure have also constrained industrial growth. The manufacturing sector is limited to fish processing and production of a limited range of chemicals and plastics, metallurgy and metal products and production of building materials.

Since 1984, the country has adopted successive structural adjustment programs under the guidance of the IMF and World Bank. In 1985, renewed economic and financial measures were

adopted to be followed by the structural adjustment programme of 1989-91 and the Enhanced Structural Adjustment Facility of 1992-95.

The reform programme of 1985-89, aimed to redress macroeconomic stability and transfer the state-controlled economy to the private sector. During the Consolidation Program, covering the 1989-91 period, privatization and restructuring of the state-owned enterprises and liberalization of prices and the foreign exchange system have been among the priorities. New investments, both domestic and foreign, were encouraged by a new investment code. Under the current, 1992-95, enhanced structural adjustment facility, the program accords special emphasis to the restructuring of the public sector, and termination of state monopolies. However, little institutional support has been provided for this purpose. Among the state-owned enterprises to be sold in the near future is SIMAR, the fishing enterprise, SMCPP, the oil products company, and SMCP, the fish exporting enterprise. The government is encouraging participation of foreign investors in privatization.

To promote investments, both domestic and foreign, a new Investment Code was adopted in 1989. In addition, two further sector-specific investment regulations were also issued; the 1988 Maritime Fisheries Code, and the 1988 Hydrocarbons Code. The Investment Code, (Ordinance no. 89.013) establishes the framework and conditions for investments and provides for the guarantees and incentives. It establishes the National Investment Commission which screens major foreign investment proposals and identifies priority areas where incentives are given including to small and medium-sized enterprises; export oriented production; enhancement of value of internal resources and establishment of enterprises outside the capital. Foreign investors receive the same treatment as local investors and are guaranteed the repatriation of profits. The code enumerates the tax benefits, including exemptions in some instances, in the identified priority sectors. In order to reduce government intervention in the banking sector, the government sold its minority participation in three banks in 1992-93. Financial restructuring of two joint venture banks between the government and foreign partners is under way. The state-owned Union de Banque de Developpement was closed and liquidated.

Economic diversification is sought through programs in three major areas, namely fishing, agriculture and mining. The fishing industry which had been a leading sector in the 1980s, has experienced significant undercapitalization of its fleet, at times, with only one-third of the total vessels in operations. Over-fishing has further reduced the output. Modernization of the fishing industry is among the priorities of the government, including renewal of the fishing fleet through new investments and improved management to expand export revenues of the sector. The traditional agricultural sector which employs about 65 percent of the population only provides about 35 percent of the local food demand of the country. The government has initiated major investments in the Senegal River Valley to increase diversification of agricultural crops. Agricultural production is also sought to be increased through liberalization of agriculture pricing and improving efficiency of the food marketing organization and agricultural extension services. The mining sector is sought to be diversified through the exploitation of other mineral deposits, besides iron ore. In 1992, a joint venture between the government and an Australian mining company was entered for production of gold. Offshore oil explorations are sought to be resumed after discontinuance in 1993.

The reform measures and policy changes have had favorable impact on private-sector development and it is expected that the number of such enterprises will increase significantly in the near future. However, institutional support for such developmenyts has been very limited.

Central Africa

Chad: With approximately 85 percent of the population engaged in subsistence agriculture, Chad is among the lowest income countries in the world. Almost two decades of civil war, severe drought, an underdeveloped infrastructure and the landlocked position of the country have resulted in the low level of economic development of the country. Chad is among the least industrialized countries, with the share of industry accounting for about 7 percent of GDP. The manufacturing sector centers around the processing of cotton and the largest company of the country is the state-owned Cotonchad, which purchases the cotton harvest from about 200,000 farmers. Other manufacturing activities include agroprocessing, soft drink production and textile manufacture and assembly of bicycles. The majority of the labor force is employed by state-owned enterprises and the private sector is very small. About 80 percent of the export revenues are generated by cotton.

State-owned enterprises have dominated the production and processing of cotton, sugar, agricultural equipment, textiles, besides operations of airlines, insurance and infrastructure activities. As part of economic reforms, the Government plans to privatize or liquidate almost all state-owned enterprises. By 1994, under the guidance of the World Bank, several privatizations were completed, often through closure of enterprises. Activities were also opened to the private sector which were previously reserved for the government. In 1990, for example, the Rice Marketing Board was dissolved; a textile manufacturing enterprise was closed and its assets sold; in 1992, the Office of Quarries in the Ministry of Mines was abolished.

It is hoped that foreign investments will play an important role in economic and industrial growth and liberal policies have been adopted. Foreign and local investments are regulated by the Investment Code of 1986, which permits 100 percent foreign ownership, except in industries which are of national security or of strategic importance. Foreign investors are also permitted to participate in the privatization of the country, and there is no discrimination between local and foreign capital. Foreign investors may apply for specific incentives which are subject to negotiations with the government. There are no restrictions on the remittance of profits and other revenues by foreign investors. Foreign investments in Chad have so far been confined to a relatively few small French, Nigerian, Lebanese and Greek businesses. The largest foreign investments are through equity participation of foreign investors in state-owned companies, such as in the national telecommunications enterprise, insurance company, airline, hotel chain and Cotonchad, which is partially in French ownership.

The liberalization of Chad's trade policy has been proceeding within the UDEAC. In 1991, members of UDEAC agreed to a joint trade liberalization program which included reduction of quantitative restrictions and tariffs by 1995. A new turnover tax replaced the import tax and liberalization of export licensing has also been initiated.

The financial sector consists of three commercial banks, two of which are affiliated with French banks and one has Swiss participation. The postal banking system and the newly reopened Development Bank of Chad are owned by the state. The Development Bank gives priority to finance small and micro enterprises in the informal sector.

Within the structural adjustment facility of the IMF, the government initiated major restructuring of the cotton sector in 1987. To reduce the operating costs, several ginneries were closed, with resultant labor layoffs; the debt was reduced by one-third; and cost-effectiveness of

collection and marketing was improved. In the oil sector, a consortium of multinational oil companies is undertaking exploration for potential oil reserves in Southern Chad. With the exploitation of these reserves, the country expects to achieve self-sufficiency in oil by the year 2000.

Despite the reform measures undertaken, private-sector development has been slow and marginal and largely related to foreign investments, with little institutional support being provided for local enterprises.

Burundi: Over 90 percent of the country's population is engaged in subsistence farming. Burundi has a high population density, which, together with the high population growth rate, has contributed to high unemployment. In 1991, the industrial sector accounted for about 15 percent of GDP. The manufacturing sector is dominated by the processing of coffee and tea, apart from some basic consumer goods industries such as textile and sugar mills and some metal fabrication. In 1991, 81.1 percent of the country's exports was accounted for by coffee and fluctuating world market prices resulted in volatility in the country's foreign exchange revenues.[13]

Since 1986, Burundi has pursued structural adjustment programs which focused on reform of the public sector. Until 1991, the government dominated most sectors of the economy through state-owned enterprises, including coffee and tea production and import of consumer goods. Since 1990-1991, the government, however, permitted private traders to purchase coffee directly from coffee-producing enterprise and entry of private companies in coffee washing which was previously reserved for the government. Burundi has unexploited mineral deposits, including nickel, vanadium, gold and phosphates, apart from other minerals. Lack of infrastructure, and the consequent high costs of exploitation have however, discouraged significant exploitation. Foreign investors are encouraged to participate in these fields.

Investment incentives have been provided by the Investment Code of 1979 which was amended in 1989. The Code offers increased tax incentives to import-substitution industries and special priority status for export-oriented production. In 1992, the government adopted legislation to establish a nation-wide free trade zone with important fiscal incentives given to investors. While the government encourages participation of foreign investors, particularly in export-oriented production, it only permits repatriation of profit up to 50 percent. In 1994, the Company for the Industrial Development of Burundi (CDIBU) was established. The purpose of this institution, which is to be managed by the Director of the Centre for the Development of Industry, is to provide information to entrepreneurs about sources of financing; coordinate the preparation of project studies, and the training of employees of new businesses.

The reform measures have expanded the role of the private sector in recent years. However, little institutional support and facilities have been provided for private-sector development, and the impact on private sector industrial production, has, so far, been very limited.

Niger: Niger is a landlocked Sahelian country with approximately 95 percent of its population engaged in agriculture and animal husbandry. The country has the third largest uranium deposits of the world and in the 1970s, major impetus was provided to the economy by the export of uranium. In the early 1980s, the significant drop in uranium prices caused major cutbacks in production and the share of uranium production dropped to 8 percent of GDP in 1986

compared with 13 percent in 1980.

Economic reforms were adopted in Niger in the early 1980s when the decline of the price of uranium reduced significantly the country's foreign exchange revenues. Periodic droughts had also contributed to the country's economic problems. Within the framework of the structural adjustment facility of the IMF and since 1988, the enhanced structural adjustment facility, initial economic reforms aimed to restructure and reduce the state-owned sector and improve the performance of public services. Through price liberalization and incentives, the participation of private sector was also sought to be encouraged.

In 1987, the government identified 22 state-owned enterprises for privatization, out of a total of 54 such enterprises. The 1990 program extended the scope of privatization and identified 38 enterprises for divestment, with 16 others to be liquidated or closed.[14] Privatization has proceeded relatively slowly, though a number of smaller enterprises were closed. In 1994, the government reduced its ownership in the electricity utility, NIGERELEC from 95 percent to 51 percent. Shares were offered to the employees of the company and the public. In 1994, the new government has revised the scope of privatization from 30 to 15 enterprises.

The new Investment Code of 1990 provided a package of incentives, including:
- Special Promotional Privileges to legal entities for 10 years, including exemption from taxes and duties on imported equipment, and exemption from taxes during the pre-operational phase.
- Special Conventional Privileges provided to companies with investment above CFA2 billion and employing a minimum of 400 employees. These incentives include Special Promotional Privileges and a 50 percent exemption from taxes and other duties.
- Transfer of profits and other revenues by foreign investors equal legal treatment to nationals.

In 1990, due to its financial difficulties, the state-owned Banque de Developpment de la Republique du Niger (BDRN) was liquidated and a new privately-owned commercial bank created. With the closure of BDRN, the government has withdrawn its operations in the banking sector. The new bank is directed by the Tunisian Societe Tunisienne de Banques which holds a 25 percent equity share, with several other foreign banks participating with equity holding. The share of the Niger private sector is 25 percent. There are five other privately-owned commercial banks operating in the country.

Structural reforms have also concentrated on the agricultural sector, with emphasis on increased agricultural output through irrigation and an anti-desertification program. Crop-diversification seeks to increase domestic self-sufficiency and increased production of export commodities, such as onions, garlic and cowpeas.

Uranium is the country's most important export commodity. In 1990, the government adopted policies to improve efficiency by a decrease of 26 percent in production costs, through major layoffs in the two major enterprises, Cominak and Somair. The country has other mineral resources, such as tin, and oil which are currently being evaluated by a consortium of foreign oil companies for potential exploitation. The poor infrastructure of the country and the need for major investments have acted, so far, as disincentives for exploitation.

Despite its reform measures, there has been little growth of private sector enterprises or production in the country so far, in the absence of institutional support or facilities.

Central African Republic: With approximately 60 percent of the population engaged in subsistence farming, the Central African Republic is a sparsely populated, landlocked country. Political strife, harsh climatic conditions with frequent drought, soil erosion and an underdeveloped infrastructure have constituted major constraints on economic development. The country's manufacturing sector accounts for about 8 percent of the GDP and consists mostly of small-scale production in food processing, textile and leather processing. Gold and diamonds are, however, mined in the country, apart from limestone, iron ore copper and uranium resources. The country's exports comprise of cotton, coffee, tobacco, gold and diamonds. In the mid-1980s, faced by major fiscal and current account imbalances, the country initiated stabilization measures and sought to liberalize the economy.

The Investment Code of 1988 provides for a broad range of incentives and guarantees to Central African businesses. Preferential tax and customs treatment is granted to small and medium-sized enterprises which have a Central African majority in capital and management, with capital less than CFA 100 million, and with less than 5 employees. The incentives include tax exemption ranging from 2 to 5 years. At the same time, the Code provides for certain restrictions on new investments. Private enterprises can only be established with previous permission in sectors where state-owned enterprises operate and are required to pay an indemnity. Foreign investments are also regulated by the Code of 1988 which guarantees profit repatriation and tax incentives for activities in the value-added sectors. FDI has, however, been declining. Over 50 percent of such investments originate in France, including small businesses and large French companies in joint venture with the Central African Republic's government in infrastructure enterprises. French companies own controlling interest in the telephone, water distribution and cotton-purchasing public agency, besides electricity generation and distribution, insurance and shipping.

The Central African Republic is a member of the UDEAC, which has sought, since its formation in 1964 to harmonize tax, tariff and fiscal policies among the member states. Reduction of tariffs and of trade restrictions have remained, however, largely unimplemented. In 1994 negotiations have been renewed to step up implementation of these measures.

There has been little growth of private-sector investments and production in the country in recent years and hardy any institutional functions have been provided.

Equatorial Guinea: With about 55 percent of the population engaged in agriculture, subsistence farming predominates apart from timber, cocoa and coffee production for exports. In 1989, the government introduced economic reforms to stabilize and diversify the economy. Measures were adopted to improve fiscal policies, and increase revenues, particularly through exploitation of new oil and gas reserves. The reforms sought to increase food self-sufficiency by diversifying agricultural production from cocoa to other food products;, exploitation of oil and gas reserves through a consortium of foreign oil companies; reform of state-owned enterprises and restructuring of the financial sector; besides diversification of exports from cocoa to other export products, particularly timber and oil. Private-sector development has been encouraged through introduction of a legal framework for private sector activities. Price controls have been gradually reduced and labor laws liberalized. Efforts are being made to improve the financial situation of state-owned enterprises though privatization has not yet been undertaken.

There has been little impact of recent policies on private-sector development and on growth of enterprises in the country, because of lack of institutional facilities or support.

Rwanda: The population of the country was estimated at 8.02 million in 1993. Agriculture is the backbone of the economy and accounts for almost half of the GDP and 93 percent of employment. In 1990, over 81 percent of the export earnings were obtained from the sale of tea and Arabica coffee. The manufacturing sector is small, with about 30 manufacturing enterprises producing basic consumer goods for internal consumption, such as beer, soft drinks, cigarettes, cement and textiles. These enterprises depend on imported machinery and components.

The priority of the government has been to achieve self-sufficiency in food and diversification of exports from its heavy concentration on tea and coffee. Strengthening of the manufacturing sector is sought with particular emphasis on the development of small and medium-scale enterprises. Since the mid-1980s, under structural adjustment programs of the IMF, reforms were adopted to strengthen the private sector and liberalize the trade system. Administrative measures were adopted to facilitate the formation of private enterprises; prices were liberalized for a wide range of goods, and protectionist measures were reduced. The extended public sector of the country, consisting of 62 state-owned enterprises, including utilities, export and import companies and distribution companies, was sought to be reformed, partly through liquidation and partly through their restructuring and privatization. Government monopolies were also increasingly opened for private sector participation. Foreign investments have been encouraged by the government, with special incentives granted for export-oriented production. In 1990, the rwanden franc was devalued by 40 percent which sought to increase the country's exports.

The financial system of the country was tightly controlled by the Rwandan National Bank which regulated interest rates and loan/capital ratios of the three commercial banks of the country. The state-owned Rwandan Development Bank provides preferential access to credit to priority projects and has sought to support small- and medium-scale enterprises.

The vicious civil war which began in October 1990 had disastrous impact on the country's economy, apart from heavy loss of life and destruction of property. By the end of the war in mid-1994, the civil war and disturbances had resulted in major human losses, comprising the slaughter of up to one million persons, with refugees estimated at two million. Coffee and tea production had effectively come to a stop, while the infrastructure has been largely destroyed. The tourist industry, the second largest generator of foreign exchange revenues, following coffee and tea, has come to a complete halt.

The recovery plan for 1995-96, with the financial support of several donor countries, seeks to revive the basic infrastructure and agricultural and industrial production which, by 1994, declined by about 50 percent compared to 1989. In the reconstruction, the government seeks to increase participation by the private sector and plans to privatize Rwandex, the state-owned monopoly miller and sole exporter of coffee. In the privatization of Rwandex, foreign investors are sought to participate and provide the necessary funds for the reconstruction of the war-damaged processing facilities. Entry of private enterprises in coffee milling is also sought to end the previous monopoly of Rwandex.

Sao Tomé and Principé: The country comprises of two main islands, Sao Tomé, and Principé, which lie about 340km off the coast of Gabon, with a population estimated at 133 thousand in 1993. Most of the population is engaged in subsistence agriculture and fishing. The economy is dependent on the production of cocoa, production of which has been declining throughout the 1980s. (In 1991 cocoa exports amounted to 5 thousand tons as compared to 30 thousand tones in the early 1960s). With the heavy concentration on cocoa production, almost 90 percent of the country's food requirement is imported, together with other manufactured goods and fuels. The manufacturing sector is very small, confined to production of beer, fish and shrimp processing, and textile manufacture. An important source of government revenues is the sale of the country's fishing rights.

Since the late 1980s, under the structural adjustment program of the World Bank and the IMF, the government adopted measures to restructure the economy and reschedule the relatively high level of debt of the country. Government expenditure was reduced through major retrenchments in the public service sector. In the early 1990s, transformation of the centrally planned economy to a market economy was initiated. Land, expropriated from private owners in the 1970s, was distributed to private farmers and financing was provided for the purchase of farm equipment and development of rural infrastructure. In 1994, privatization of the state-owned brewery and hotel was initiated. The financial sector was expanded through the establishment of the Banco International de Sao Tome e Principe, a joint venture between the government and two Portuguese banks.

The government has devalued the local currency, dobra, several times, then put on a crawling peg vis-a-vis the dollar. In 1994, the dobra was floated. Government subsidies on fuel were eliminated and prices were raised to international levels. The government has also adopted regulations towards foreign direct investments which provides for important incentives to investors in the tourist sector, including permission to acquire real estate and tax holidays.

Future development prospects of the country are, however, weighed down heavily by the high foreign debt of the country and the country's arrears in servicing its debt. Foreign aid, predominantly in form of grants, continue to play an important role in the country's revenues.

Zaire: Since the late 1980s, political crisis, hyperinflation, a rapidly depreciating local currency and mounting foreign debt arrears to international lending institutions have resulted in major economic deterioration in the country. In 1993, the IMF suspended further funding to the government because of the country's arrears. In 1994, with gradual stabilization of the political situation, the government has initiated efforts to encourage entry of foreign investors for rehabilitation of the state mining company, Gecamines. Chronic underfinancing of the mine and the region's infrastructure have not only led to a major drop in the mining activity but also to a significant increase in production costs. The country's ability to attract foreign investments to exploit its abundant mineral resources will, however, primarily depend on substantial improvement in political stability and the overall climate for such investments.

East Africa

Uganda: Since 1987, Uganda has adopted Structural Adjustment Programs under the guidance of the World Bank and IMF. Major efforts have been made towards attaining economic stability and diversification of production and exports. Within the framework of economic liberalization, the government removed price controls and lifted restrictions on foreign exchange

transactions on the current account. In 1993, the government discontinued the trade licensing requirement in favor of a trade certification system which simplifies import procedures. Foreign exchange reform has legalized the establishment of foreign exchange bureaus which are entitled to trade in foreign exchange. The new foreign exchange law also permits exporters to retain foreign exchange earnings which are required for imports The previous fixed exchange rate has been replaced by a market-determined exchange rate through weekly auctions.

The reform of the large public sector is sought through a gradual privatization program. About 3000 properties, which were expropriated by the former government, were returned to their previous owners, with return of all expropriated properties to be completed by 1994. Several industrial enterprises have been identified for privatization, either through liquidation or closure, or through sale to the private sector. The sale of such enterprises has, however, been delayed mostly due to the obsolete state of most of the plants and the lack of domestic buyers. Enterprises which remain in state-ownership are required to operate under performance contract with the government. The government continues to provide financial support to state-owned enterprises.

The Investment Code which was introduced in 1991 replaced the Industrial Licensing Act of 1969 and significantly improved the conditions for inflow of foreign investments and provides incentives for investments in priority sectors which includes crop processing, oil drilling, meat and fish processing, pulp and paper, chemicals and glass industries, machinery manufacture, banking and real estate development. The Investment Code has also provided for the establishment of the Uganda Investment Authority, a 'one-stop' procedure for the application and registration of investments and streamlined the previous system. The Authority, together with the Uganda Manufacturers' Association, is actively encouraging the formation of joint ventures.

Special attention has been given to the cotton subsector with incentives to increase cotton production, ginning and marketing. Liberalization of the coffee subsector has been initiated through lifting obligations on exporters to ship coffee through rail to the port and the mandate of the Uganda Coffee Development Authority is being revised.

In 1993, the government initiated reforms of the financial system, which had been dominated by the state-owned Uganda Commercial Bank (UCB). Apart from the UCB, there are fifteen commercial banks in which the state is partial owner and three government-owned development banks. Opening of the banking sector to private banks intended to ensure greater competition in the financial sector. Efficiency is also sought to be enhanced through the strengthening of the regulatory and supervisory functions of the Central Bank over the banking system.

Policy reforms and increased stability have had a very favorable impact on private-sector development. Institutional facilities, particularly in credit and finance, have improved significantly. There has been considerable increase in the number of private-sector enterprises and in industrial production in recent years.

Tanzania: Tanzania's economy is dominated by the agricultural sector which accounted for about 55 percent of the GDP in 1993, mostly cultivated by smallholders, apart from estate cultivation for sisal, sugar, tea, and, to a lesser extent coffee. The manufacturing sector which accounted for 8.9 percent of the GDP in 1993, is dominated by the textile industry through state- and privately owned companies. Food processing, cement manufacture, chemicals and production of corrugated iron sheets are undertaken in the country. Diversification of the manufacturing

sector has been progressing slowly. The mining sector has been expanding recently, as the country's deposits of gold, coal, uranium, nickel, iron ore and phosphates are being gradually exploited. Most of the mineral deposits of the country, however, have remained unexploited so far.

Since 1986, Tanzania has undertaken economic reform programs involving macroeconomic stabilization, improvement of the trade account and reduction of the dominant role of the state-owned agencies, which had been build up during the earlier socialist administration.

The privatization program aims to transfer 350 state-owned enterprises from a total of about 400 such companies to the private sector. For the first 5 years, starting in 1993, 97 public enterprises were identified by the government.[15] In 1992, the state-owned Tanzania Electricity Supply Company was divested. By 1993, privatization of the six state-owned leather manufacturing entities was completed, followed by the wood sector, including pulp and paper and sawmill industries. For 1994, privatization of enterprises in the pharmaceutical and the engineering sector are planned. Privatization has also extended to the tourist sector. The state-owned Tanzania Tourist Corporation (TTC) intends to transfer its ownership of hotels to the private sector and focus its activities on marketing and promotion of tourism. In 1989, the TTC entered into management agreement with foreign hotel groups, including German and French, to manage state-owned hotels. During the next few years, privatization of the various agricultural marketing boards is also scheduled, to be initiated with the Tanzania Sisal Authority. The privatization program will be facilitated by establishment of a stock exchange which is planned to be completed in 1994-95.

By 1993, the foreign exchange system was replaced by a floating, market-driven system. The licensing system which was required both for imports and exports was abolished by the government with the exception of a few items such as those related to public safety and security. The Investment Code provides for incentives in selected priority sectors and establishes, in general, favorable conditions both for foreign and domestic investments in agriculture, manufacturing, mining and in tourism. Investment incentives include a five-year tax holiday, exemption from import duties and sales tax on all imported machinery and other inputs.[16] The Code provides for the repatriation of up to 50 percent of foreign exchange earnings. To encourage foreign direct investments in the mining sector, the government relaxed the previous requirement of majority Tanzanian ownership in mining projects and permits wholly foreign-owned operations.

The Banking and Financial Institutions Act of 1992 opened up the banking sector to private banks, including foreign-owned banks. The Bank of Tanzania has assumed the role of a central bank and delegated commercial banking services to other banks.

Tanzania's formal private sector comprises over 3,000 enterprises with over 10 employees. About 55 percent of these entities are engaged in the agricultural sector, 10 percent in manufacturing and 35 percent in the various service activities. (1993 National Trade Data) Several business associations support the development of the private sector, including the Dar Es Salaam Merchant's Chamber of Commerce, and the Tanzania Chamber of Commerce, Industry and Agriculture. The Confederation of Tanzanian Industries represents larger business entities.

Policy reforms and increased institutional support to private industry in Tanzania is having very favorable impact on private-sector development in the country, including the number of

enterprises and increased industrial production through such enterprises. This process is expected to be further accelerated in the next few years.

Southern African region

Botswana: With average annual growth of 13 percent throughout the 1980s, Botswana achieved a very satisfactory growth rate. During the early 1990s, however, the growth rate dropped significantly, mostly influenced by the weakening of the world market for diamonds which accounts for 60 percent of the government's earnings and 80 percent of the export revenues. Increasing unemployment and inflow of lower-priced goods from South Africa have intensified the need for diversification of the economy, particularly the country's manufacturing and tourism sectors.

The mining sector accounts for approximately 40 percent of the country's GDP and its growth was promoted by the favorable conditions on the world market for diamonds. The largest enterprise in the country is Debswana, the diamond producer monopoly which is a 50/50 joint venture between the government and the South African company, De Beers Company. About two-third of the population is engaged in agriculture, predominantly in livestock activities. The unfavorable soil and climatic conditions render agricultural production difficult, with production accounting for only about 10-20 percent of the local demand. The manufacturing sector accounted for about 6 percent of the GDP in 1993 and its development has been constrained by the small market size, with a population of 1.3 million. Shortage of skilled labor and an inadequate infrastructure of the landlocked country have also acted as constraints.

Since the 1970s, the government has promoted the development of private sector through its investment arm, the Botswana Development Corporation and the Department of Trade and Investment Promotion (TIPA). In addition, regional development agencies were set up such as the Selebi-Phikwe Regional Development Project (SPRDP), established in 1989, around copper and nickel operations and aimed at the development of small enterprises, with particular emphasis on exports.

The Botswana Development Corporation (BDC) was established in 1970 as a development finance institution and has played an active role in promoting private investments. BDC identifies investment opportunities for domestic and foreign investors and provides equity financing. Financing by BDC requires that investors provide a minimum of 25 percent of equity capital, and that the project be viable and provide economic benefit to the country. BDC can also provide loan capital if financing is not available from local banks. Alternatively, BCD furnishes guarantees to commercial lenders. BCD lends on commercial terms and loans are repayable from 5 to 12 years. BCD also rents factory facilities below market rate, provides management and technical assistance, and expert advice and guidance to investors. In the early 1990s, BCD held equity participation or provided loans to close to 100 companies. In 1990, the required share of financing by private investors was increased to a minimum of 50 percent of total equity and BCD sought participation in a broader range of manufacturing and service activities.

TIPA is specially focused on promoting foreign direct investments, with priority being given to labour-intensive and high value-added manufacturing. The incentives granted include a five-year tax holiday and grants for capital equipment and reimbursement of some training costs. Botswana's promotional measures for FDI are among the most favorable in Africa.

The Botswana Technology Center (BTC) is entrusted with the formulation of the national policy on science and technology. It provides services to entrepreneurs and the government. BTC has also established a Science and Technology Park with the aim to disseminate technology information.

Stockbrokers Botswana was established in 1993 to promote the development of a local stock market. In 1994, the establishment of a formal Botswana Stock Exchange is planned to replace the current, informal system where companies can be listed. It is expected that as several state-owned enterprises will be privatized, this will implemented through public offering on the local stock exchange.

The problems of an extended and loss-making state-owned sector, common in many African countries, has not characterized Botswana. The largest enterprises, such as the diamond monopoly and the telecommunications utility have generated significant profits. In most industrial enterprises, the state participates through its investment arm, the Botswana Development Corporation, generally with 20 percent equity holdings.

There has been significant private-sector development in Botswana in recent years, with considerable institutional support being provided to local enterprises. The process is expected to be further accelerated.

Lesotho: Lesotho is a landlocked country, entirely surrounded by South Africa, with a population of 1.85 million in 1992, mainly engaged in subsistence agriculture and animal husbandry. Its economy has closely been tied to South Africa, which employs an important share of Lesotho's labor force in the mining sector. Remittances of earnings by migrant workers employed in South African mines have accounted for about half of Lesotho's GNP in 1992 and the major share of foreign exchange revenues.

The manufacturing sector accounted for 13 percent of the GDP in 1992. Development of the country's manufacturing base has largely been undertaken by the Lesotho National Development Corporation. Food processing (with 50.5 percent of the value added in 1992) and the textile industry (with 34.6 percent of value added) account for the major share in the manufacturing sector, besides substantial local production of footwear, handicrafts, ceramics and furniture manufacture. Since 1988, the country has pursued economic stabilization policies under the structural adjustment program and more recently, under the enhanced structural adjustment facility.

The Lesotho National Development Corporation (LNDC) was founded in 1967 to promote development and increase employment in Lesotho. Acting as a development bank, it participates with equity holdings in selected projects, ranging from 20 to 100 percent ownership, and provides financing of last resort to qualified private enterprises. FDI is encouraged by the LNDC. Until 1992, such investments had to be through joint venture with local partners in 'strategic' investment sectors, such as processing of indigenous raw materials, for example, wool and mohair. In 1992, this ownership restriction was abolished and wholly foreign-owned enterprises were permitted. Until 1994, there was no special investment incentives granted to foreign investor. Such investors, however, could avail of the incentives granted to pioneer industries which reduced the corporate tax rate from 48 percent to 15 percent. As part of these incentives, investors could also make avail of subsidized industrial sites. With the lifting of

foreign investment embargo which was imposed on South Africa. FDI inflow has declined in Lesotho. In 1994, to promote such investments, the government increased the incentives to a 10 year tax holiday for a wide range of industries. It also established a government-sponsored, training-skill grant and provides access to loans under concessional terms. Repatriation of profits in foreign exchange is guaranteed, but requires a foreign exchange license, with a 15 percent withholding tax. Since the early 1990s, the LNDC has promoted foreign investments, particularly from South East Asia, with particular concentration in the textile sector.

The privatization of selected state-owned enterprises has been planned since 1990. Its implementation, as of early 1994, is still at an early stage. As the initial stage of privatization, the government plans to divest the holdings of the LNDC in companies which it has financed. It currently holds equity share from 20 percent to full ownership in 13 companies, including a brewing company, ceramic tile manufacture and textile and garment manufacturing units. In its 1994 privatization plan, the government has restated its objective of improving the performance of the public sector through commercialization of the activities of state-owned enterprises and through privatization of selected state-owned enterprises to the private sector. The national telecommunications company and airlines have been identified for privatization.

In 1993, the construction of the Highlands Water Project commenced with an estimated investment cost of US$ 2 billion. With the completion of the project the hydroelectricity generating capacity will make the country self-sufficient in electricity. Export of water to South Africa's Witwatersrand industrial area will also increase foreign exchange revenues significantly. By 1995, with the completion of the project, annual revenues are estimated to reach US$20 million and thousands of new jobs are expected to be created in the tourism industry.

There has been considerable private-sector development in Lesotho in recent years and the number of such enterprises have increased significantly.

Malawi: The agricultural sector employed about 85 percent of the population in 1993 and accounted for 53.4 percent of the country's GDP and 93 percent of export earnings.[17] About 74 percent of the export revenues come from tobacco. With a per capita income of $160, Malawi has the sixth lowest income in the world. Large inflow of refugees and successive severe droughts have contributed to the deterioration of the economy. Closure of the Mozambique railways have significantly increased the transportation costs of this landlocked country. The country has been heavily dependent on foreign aid.

Since the election of a new government in 1993, policy objectives have been to develop import substitution industries through tariff protection and incentives given to foreign investors. Initial steps in this direction includes a reduction of tax on the lowest income earners from 3 percent to 0; and reduction of tariffs on textiles to 65 percent from 100 percent while alleviation of rural poverty is sought through a credit scheme given to rural small holders to improve their productivity. In the services sector, priority is given to expand the tourist sector and related infrastructure.

Foreign exchange liberalization took place in 1994, with the abolition of foreign exchange controls and a market-determined exchange rate for the kwacha. The Industrial Licensing Act which restricted entry into manufacturing was eased and processing of licensing speeded up; the Investment Promotion Act and the Malawi Investment Promotion Agency were established in

1993 to promote domestic and foreign investments in the country. The former provides tax incentives and exemptions for export-oriented investments; and it provides for the repatriation of profits, loan capital and royalties, though such transfers are subject to the approval of the Malawi Reserve Bank and the availability of foreign exchange. The Malawi Investment Promotion Agency (MIPA) is a one-stop investment registration agency.

The government has undertaken the commercialization of state-owned bodies, including the Malawi Development Corporation and the Agricultural and Marketing Corporation, which are statutory bodies. Until May 1994, 40 percent of the country's economic activity was undertaken by Press Holdings, which was a joint holding company of the public sector and private companies under the management of the former president. The legal status of Press Holdings was "politically incorporate private sector" (PIPS) comprised most of the country's manufacturing and service activities. In May 1994, subsequent to the new elections, the state-owned enterprises under Press Holdings were partly dissolved and partly placed under new management. In 1994, the government set up a Privatization Commission to administer the country's privatization programme.

Recent policy and institutional changes have resulted in considerable emphasis on private-sector development and there has been increase in the number of such enterprises since 1993.

Zambia: Over 90 percent of the country's exports is accounted for by minerals, predominantly copper, and to a lesser extent zinc, lead and cobalt. Since 1991, economic reforms have sought to transform the centralized economic system which was set up during the past 27 years and to increase the role of the private sector. Among the initial reforms the legal framework for private-sector development was established; a market-based foreign exchange system was adopted; and privatization and modernization of the public sector started. Export procedures have been eased and the export license requirement was eliminated. Exporters presently are permitted to retain 100 percent of their earnings. Foreign exchange procedures have been liberalized, with repeal of the Exchange Control Act and foreign exchange is available from the Bank of Zambia and designated foreign exchange offices.

Reform of the public sector, which covers 80 percent of the economy, has been given priority, both through improved efficiency and privatization. Upgrading of the technical and managerial capability has been undertaken for certain enterprises such as the Zambia Electricity Supply Corporation. In the case of other state-owned enterprises, such as the loss-making Zambia Airlines, liquidation has been planned. In 1993, a five-year privatization plan was drawn up which provides for the privatization of 150 state-owned companies. By the end of 1994, privatization of 13 enterprises was implemented.[18] Implementation of the privatization program has been slowed down by inadequacies in legal regulation, and the need to prescribe new company legislation, and special legislation for the mining and banking sectors.

The privatization of the largest mining enterprise, the Zambia Consolidated Copper Mines (ZCCM) has been under consideration. Undercapitalization of the mine and major investment needs for upgrading of technology and exploiting other reserves require major new investments. Privatization or partial privatization of ZCCM would enable mobilization of such funds. Foreign investment is expected to play an important role in the country's industrial development. Sectors which previously had been reserved for state-owned enterprises have been opened to foreign investors, including granting of exploration rights for copper mining. Special incentives

are provided for a broad-range of investments in 'desirable' areas such as agriculture, tourism, export-oriented production and import-substitution industries. The incentive structure for investments was established through the Investment Act of 1991 which grants important incentives both to domestic and foreign investors. To promote investments, the tax rate was reduced from 60 percent to 35 percent for manufacturers and 15 percent for the agricultural sector and non-traditional exports. Additional tax incentives are given to export-oriented investments.

In 1994, Zambia established a National Environment Council, which is responsible for environmental regulation and enforcement, besides policy formulation. It is also empowered to administer the Environmental Protection and Pollution Control Act n.12, of 1990. The reform policies and programmes in Zambia are expected to have considerable favorable impact on private-sector development. The number of such enterprises has already increased significantly and the process is expected to become further accelerated in the next few years.

North Africa

Sudan: In the wake of the decade long civil war and prolonged political unrest in the south of the country, Sudan has experienced high levels of inflation, unsustainable budget deficit and lack of foreign exchange. Drought and major flooding in 1988 exacerbated the economic decline. As the country was not able to service its foreign debt, it was cut off from further loans by international lending institutions since 1986. The country's political and economic situation has also effectively cut off inflow of foreign direct investments.

To reverse the chronic deterioration of economic conditions, the government launched a three-year Economic Salvation Program in 1990 which aimed to reduce the extent of the state intervention in the economy; deregulate prices and restrictions on profit; privatize state-owned enterprises; lift subsidies on food and fuel, and liberalize trade. In 1992, the dinar was permitted to float which resulted in an immediate sixfold devaluation of the local currency.

Almost half of Sudan's export revenues are generated from cotton. In an effort to diversify exports and increase export revenues, the government permitted exporters to keep 60 percent of their foreign exchange earnings if it is to be used for government-approved imports. Further incentives to exporters were granted through tax holidays for export-oriented production and a reduction in the export tax. In some cases, exporters had access to fuel at controlled prices. In 1991, as a further step towards trade liberalization, the government abolished the previous countertrade requirement.

The country's development policy has been marked by the domination of state-owned enterprises in irrigated agricultural production, manufacturing and infrastructure. The large public-owned sector has been operating with substantial capacity underutilization utilization and energy shortages which crippled production and contributed to heavy losses of these enterprises. One of the major goals of the Economic Salvation Program has been privatization of these enterprises. Since the beginning of the program, several public sector enterprises were divested in the manufacturing sector including a confectionery plant, a jute factory, tanneries, textile factories, and hotels. In 1993, major infrastructure enterprises, such as the national airways and telecommunications enterprises were offered for privatization. Participation of foreign investors has been encouraged in these privatizations. In 1994, the Gum Arabic Company, which produces

80 percent of the world's supply, was put up for privatization.

In 1990, the Encouragement of Investment Act was enacted which lifted several of the restrictions imposed by the 1980 investment regulation. The new Act provides a range of incentives to investors inciuding tax holidays for five years, exemption from local and export taxes and from import duties.

In response to the improved investment conditions, by 1993, there were 600 new domestic companies registered, mostly in the textile and tourism sectors.[19] New foreign investments have been limited to oil exploration and some agricultural seed development projects. Several foreign investors have also participated in privatizations. Korean companie for example, acquired several textile mills and tanneries; and the United States company sprint, acquired partial shareholding in the national telecommunications enterprise.

Despite the favorable provisions of the new investment regulations, several provisions present disincentives for the inflow of new investments. This is particularly with respect to repatriation of earnings, which is not guaranteed but is subject to negotiation between the government and the foreign investor.

Among the sectoral reforms pursuit of higher food self-sufficiency has been sought. Consequently the government reduced the acreage allocated to cotton in favor of wheat and in 1991, established an agricultural fund to finance small farmers in the northern wheat-growing province. Increased sugar production is also sought and in 1993-94, several sugar refineries were built for the local processing of crop.

Progress in the implementation of these reforms will depend on the improvement of the political situation, and the commitment of the government to pursue the reforms. This latter, will again depend on the achievement of a coherent policy within the government. It will also be of particular importance to control inflation and stabilize the economy. A substantial increase in the country's foreign exchange revenues will also be critical to ensure that the required imports for the manufacturing sector can be obtained. Inflow of new investments will also depend on a significant improvement of the nation's infrastructure, particularly, availability of energy and basic raw materials.

The reform programme since 1990 has had a favorable impact on private-sector development in the country, which, however, continues to face considerable difficulties and constraints.

Ethiopia: Since the mid 1970s, civil war destroyed much of the infrastructure, and had adverse impact on agricultural and industrial production. Periodic drought, and a high degree of centralization of planning further weakened the country' economy and by 1991, Ethiopia ranked among of the lowest income countries of the world. Economic reforms were undertaken in 1991, by the Transitional Government of Ethiopia which favored the transformation of the previous centrally-planned economy to a "mixed" economy, with the state and private sector enterprises complementing each other. Within the framework of the sectoral adjustment facility of the IMF and World Ban' ,ie initial reform measures included the devaluation of the birr by 58.6 percent, liberalization of prices, easing of the import licensing system and encouragement of private enterprises which during the former centrally-planned system had virtually disappeared. During

1992-93, a new investment code, a labour code and a public enterprise code were adopted. In 1994, trade was further liberalized through removal of a wide range of restrictions.

The reform of the public sector seeks to increase the financial autonomy of public sector companies and ensure their operations on a commercial basis The privatization program which was developed in 1994, initially identifies those enterprises which the government will divest. During the first phase of privatization, to be started in 1995, retail outlets, hotels, restaurants, state farms and selected manufacturing activities are planned to be transferred to the private sector. The aim of the government is to reduce the total of 104 public sector enterprises to 54.[20] In the agricultural sector, coffee plots which were previously held by peasant associations were distributed to farmers. The government monopoly of coffee and tea exports was opened to the private sector, similarly to coffee and tea processing. The government monopoly in transportation and banking was also opened to the private sector. In order to move towards liberalization of foreign exchange, the National Bank of Ethiopia started auctioning of foreign exchange in 1993. The former government monopoly of export-import trade was abolished and opened to the private sector.

The government's former policies had discouraged private enterprises in favor of state-ownership. In 1992, within the new economic measures, the role of the private sector has been given much greater importance. The former discriminatory treatment of private companies, through taxation and restrictions related to foreign trade, were eliminated by a new Commercial Code. At the same time, restrictions on private activities in selected areas continue. The 1992 investment proclamation identified those sectors where private enterprises can only operate in joint ventures with the government, such as large scale engineering projects, mining, and large scale production of pharmaceutical and fertilizers. Areas which are fully open to the private sector comprise small and medium scale investments, and the transportation sector.

According to the 1992 regulation on foreign investments such investments must have a minimum of US$ 500,000 equity of which 25 percent has to be in the form of cash deposit. In case of special situations, the Ethiopian National Bank can lower the minimum.
By end of 1993, new FDI was estimated to reach US$1 billion in the fields of agriculture, industry, hotels and tourism and mining, with the heaviest concentration in the tourism and mining sectors. [21] In 1993, the investment proclamation of 1992 was revised and the minimum investment requirement reduced to US$125,000 from the previous US$ 500,000. Additional sectors which were closed by the 1992 regulation were opened to the private sector, such as banking and insurance.

An important initiative for private-sector development was undertaken in 1994, with the implementation of the Entrepreneurial Development Programme (EDP) with the assistance of UNIDO and DDSMS (New York). The first phase of the Programme will be completed in March 1995 and greatly-expanded EDP Phase II programme will be undertaken during 1995-97. This should result in considerable expansion of private-sector development through local entrepreneurs, with necessary institutional support. The programme could be usefully emulated in other LDCs.

North East Africa

Djibuti: The country's economy is based on its strategic location in the Red Sea as a refuelling and service depot, and entrepot for transhipment. Most economic activities are related to port services. The favorable geographic location of the country was supported by the government though establishment of good port facilities and a free trade zone.

Since its independence, 10 years ago, the government has encouraged foreign investments. The investment code of 1987 provides special incentives, guarantees and privileges to foreign investors. Special incentives are also given to investments in labour-intensive sectors, and for diversification of the economy beyond port services. Fishing, exploration of energy sources and industrial processing are among the priorities. Among the incentives are tax holidays for 10 years for larger projects, duty free import and other tax privileges, such as exemption from property tax for new constructions.

Since 1992, internal conflict has caused major disruption of the economy. Inflow of refugees from neighboring countries has further strained the country's economic and social infrastructure. Military-related expenditures have limited the government's ability to implement major development projects. Development of the private-sector which has considerable potential in the country will largely depend on the restoration of political stability.

Arab LDCs

Yemen: Since the unification of North and South Yemen in 1990, the government has adopted a series of economic reforms, firstly, to unify the two distinct economic structures and secondly, to promote private investments. Development of the private sector was primarily promoted through a liberalized investment law; liberalization of the import license system; establishment of a free trade zone and announcement of future privatization.

The new Investment Law (No.22 of 1991) established the General Investment Authority as a 'one-stop' investment office and reduced the regulatory and bureaucratic controls on local and foreign investors. The Law also provides that non-Yemeni capital and investors "shall be on a par with Yemeni capital" and subject to the same rules and obligations. Foreign investors are accorded identical incentives as Yemeni investors, including exemptions from tariff on capital goods and provision of tax holidays. Tax incentives include a tax relief for five years and, under special conditions, up to 15 years, with exemptions on stamp and business taxes. Foreign investors are permitted to repatriate their earnings up to the extent of the available foreign exchange credit of the investor. Investments and concession agreements relating to prospecting and extraction of oil, gas and minerals are not subject to the Investment Law of 1991 but are governed by the Mineral and Natural Resources Law. Investments in the free trade zones will be governed by special Free Trade Zone regulations. After unification, in 1990, a law was passed to establish an authority to oversee the creation of free trade zones. The Free Trade Zone Authority intends to attract manufactures, transportation and shipping companies and assembly plants to the Aden zone.

Priority sectors include petroleum, trade and tourism sectors. Since 1990, the unification of the country, 30 foreign oil companies have entered into exploration and concession agreements with the government. In 1993, the government announced its plan to denationalize the economy,

partly returning some of the previously nationalized assets to their previous owners and partly by its transfer to the private sector. As of 1994, however, the privatization plan was at an early stage. Implementation of the economic programs have been delayed by the difficulties stemming from unification of the country, the foreign exchange shortage and the ongoing political uncertainty prevailing in the country. High inflation rates and high debt service requirement to countries of the former Soviet Union act as further constraints on the economy.

Somalia: Approximately half of the 6.5 million population of the country is engaged in nomadic livestock-herding. The country is mostly arid and has limited natural resources. Agriculture dominated the economy, until the late 1980s, with livestock accounting for about 40 percent of the GDP and 65 percent of exports. Crop production generates about 10 percent of the GDP and employs about 20 percent of the population. The industrial sector is small and in 1989 accounted for less than 10 percent of GDP, consisting mostly of processing of agricultural products. Most of the economic activity has been undertaken in the public sector, including infrastructure, banking and insurance, shipping and distribution systems.

In the late 1980s, the government initiated economic reforms under the structural adjustment programs of the World Bank and International Monetary Fund. New legislation was adopted to allow the entry of private sector enterprises in the shipping, insurance and banking sectors. Foreign investments were encouraged, though mostly in the form of joint ventures between foreign companies and state-owned enterprises. Exporters were allowed to retain 40 percent of their foreign exchange revenues earnings for re-investment in their foreign enterprises. Fishing and tourism were identified as among the priority sectors fishing. Off-shore oil exploration rights were also granted to several multinational oil companies. The implementation of these projects has, however, been hindered by the difficulty of the government in mobilizing financial resources in view of the heavy foreign indebtedness of the country and the accumulated arrears to international lending institutions.

In 1988, with the beginning of the civil war, the economic reforms were largely discontinued as the civil war exerted a heavy toll on all aspects of the economy. By 1990, the local currency, exports and the tax system had collapsed in the wake of the escalating civil war. Inflation has spiraled and the only commercial bank of the country, the Commercial and Savings Bank of Somalia was declared bankrupt.

By 1993-94, the prolonged civil war, has resulted in the disintegration of civil order, collapse of the economic and financial system and destruction of the country's infrastructure. International aid was primarily directed at famine-relief, prevention of starvation, and provision of basic social services. In 1994, aid relief focused on the reconstruction of infrastructure, including the electricity and telephone systems. Establishment of the banking system and communications systems have also been targeted among the priorities.

South East Africa

Mozambique: In the wake of 16 years of civil war, and economic decline, destruction of infrastructure and production facilities, accompanied by drought, Mozambique became Africa's lowest-income country. In 1990, the Program for Economic and Social Rehabilitation was adopted to reverse the economic decline and reduce poverty through a series of reforms, including price liberalization, investment promotion, liberalization of trade and foreign exchange

systems and reform of the public sector.

Decentralization of foreign trade was started in 1981 when a growing number of private sector companies were permitted to participate directly in foreign trade, previously a government monopoly. By the late 1980s, a number of companies were permitted to import their own input requirements. As a result of successive devaluation of the metical, the official foreign exchange rate approximated the unofficial rate.

For development of the private sector, the government is committed to transfer a significant share of state-owned enterprises to the private sector. By the late 1980, the public sector included 114 state-owned enterprises, shareholding in 321 enterprises and 140 'intervened enterprises' (properties of Portuguese emigrants). The early phase of privatization was laid down in the Economic Rehabilitation Program of 1987 which called for a major transfer of state-owned assets to the private sector. During the 1989-1991 period, about 120 small and medium-sized enterprises were privatized, partly through joint ventures between the public and private sector and partly through long-term management arrangement with private investors. For 1994, further 27 state-owned enterprises are scheduled for privatization. Bids to investors have already been issued by the government for privatization of the domestic airline and the water utility, fishery packing and marketing enterprises, shipping agencies, mining and construction companies.[22]

While progress has been made to divest state-owned enterprises, particularly small and medium-sized companies, the privatization process has been delayed, including in some cases, legal uncertainty regarding pre-independence ownership; the small savings rate and the continuing economic and political uncertainty in the country.

In 1993, a investment law was approved which provides for considerable incentives for domestic and foreign investors.[23] It provides for equal treatment of domestic and foreign investments, with some exceptions, such as a higher minimum investment requirement for foreign investors. It also eliminates the previous preferential treatment of foreign investments compared with domestic investments. Investment incentives vary by the location of investments and activities, with higher benefits given to investments outside the capital. The law streamlines the investment approval process. Foreign investors are permitted to remit foreign exchange earnings in the amount which is generated to the local economy. In the case of import substitution industries, profits can be repatriated but it is subject to negotiations.

In 1994, the government signed a major agreement with a United States company to develop the large gas fields in the Inhambane province. In the first six month of 1994, the government ratified 25 new investment projects for foreign investment with a value of approximately US$ 130 million with investments in the agriculture, industry and tourism.

Free trade zones were scheduled to be established in 1994 to promote foreign direct investments in labour intensive processing. Foreign investors are encouraged to operate in the zone through the provision of very liberal incentives.

Sectoral reforms in the short and intermediate term are related to the banking sector, agricultural marketing and improvement of basic social services. In 1994, measures were adopted to restructure the state-owned commercial banking sector and prepare its privatization. New legislation is also being formulated to improve the regulatory system of the banks and strengthen the supervisory role and autonomy of the central bank.

It is expected that the recent reform measures will have favorable impact on private-sector development which has, however, continued to be slow and limited so far.

Indian Ocean Islands

Madagascar: Madagascar adopted new economic policies since 1982 and an important objective was to promote the growth of the private sector and reduce the dominant role of the state which had been established by the earlier socialist government. Within the framework of structural adjustment programs, major spending cuts were effected. The state-controlled banking system was restructured and opened to private investors. Trade liberalization was initiated through a reduction in tariffs and quotas.

In 1988, a privatization program was undertaken and the previous government monopoly in agricultural marketing and foreign trade has been opened for private sector participation. By 1993, from a total of 138 state-owned enterprises, 77 were privatized either through closure, liquidation or sale.[24] Most of these companies were relatively small. Privatization of large enterprises, such as the telephone and water utilities, the national airline and the sugar distribution company are still under consideration.

In 1989, an export processing zone was established and companies in the zone were permitted to bring in and use foreign exchange without restrictions. Duty-free import of equipment and raw materials are also among the incentives. The relatively low wage of the country and the provision of a five-year tax holiday has attracted textile and garment manufacturers, predominantly from Mauritius and East Asian countries. In August 1993, there were 61 firms operating in the zone out of which 28 were in the textile sector.

Agricultural growth has been encouraged through the removal of price controls on all products except vanilla. In the medium-term, expansion of tourism industry is sought with the construction of tourist-related infrastructure, hotels and roads.

Since the late 1980s, with the opening up of the state-owned banking system to the private sector, the share of government holding in the country's commercial banking sector has been significantly reduced, and presently, the National Bank for Rural Development is the only wholly state-owned bank. The four other banks are joint ventures, mostly with Mauritian and South African partners. These joint ventures service mostly the foreign-owned companies which are operating in the export processing zones. The government-owned National Bank for Rural Development is the major lender to the agricultural sector but its liquidity is severely effected by the large share of non-performing loans of state-owned enterprises. Due to the financial situation of the bank, privatization of this bank has encountered difficulties.

Policy reforms have favorable impact on private-sector development and new investments which increased considerably during 1993-94.

Comoros Islands: The development of the island has been hampered by the small size of the country, the absence of significant mineral resources and its distance from the mainland and relative isolation from international markets. About 80 percent of the population is engaged in subsistence agriculture and export cash crop production under estate management. Vanilla and

cloves account for predominant share of export revenues. The country's manufacturing base is very limited and confined mostly to vanilla processing and handicrafts. Because of the volatility of export revenues from vanilla and cloves, the country has frequently experienced major current account deficits.

Since the late 1980s, various policies were adopted to achieve internal balance in the economy. These measured aimed primarily to reduce government spending by streamlining the government agencies. Losses resulting from the large public sector were sought to be addressed by restructuring and privatization of state-owned enterprises. The national electricity company has already been restructured and other enterprises, primarily hotels, importing enterprises for oil products and the national airline are identified for privatization through direct sale. In 1993, steps were also initiated to liberalize the trade through abolition of import licensing requirements and adoption of a new tariff system.

2. Latin American and the Caribbean region

Haiti: Haiti is the poorest country of the Western Hemisphere, and the only LDC in that region. Between 1991 and 1994, influenced by political unrest, and the trade and financial sanctions imposed in 1991, the per capita income dropped significantly and the economic situation deteriorated rapidly. In October 1994, with the new government, policies have been introduced to revive the economy and continue implementation of policies which had been adopted in the 1986-90 period.

The economy is dominated by agriculture which employs about two-third of the population. Small-scale subsistence farming is the predominant method of land cultivation. Since the 1970s, however, the export-oriented assembly sector has expanded, and in 1991, such exports accounted for about 75 percent of the country's export revenues.[25] As distinct from the majority of other LDCs, Haiti's economy has been relatively open to foreign direct investments and the private sector has had a dominant share in the economy with the state-owned sector playing a much more limited role than in most other LDCs. Ownership of the private sector is, however, highly concentrated among a relatively small number of local families. The intervention of the government in the economy which characterized most African LDCs, has been applied in Haiti to a very limited extent. The country is predominantly a market economy with relatively limited participation of the government in the production sector. Development of a growing assembly-oriented export sector has been favored by the relative proximity of the country to the United States, its major market, and its status of the Generalized System of Preferences which accorded Haiti major trade concession in the United States. Inflow of foreign direct investments has also been promoted by the Caribbean Basin Initiative which was adopted in 1984 and provided for the duty-free import of about 3000 products from the Caribbean region.

In 1986, the government adopted a number of measures to liberalize trade by eliminating all quantitative restrictions on imports with the exception of seven agricultural products. To promote employment and export revenues, the country's regulations towards FDI have been liberal and operation of foreign investors for export-oriented assembly activity were promoted through the permission of duty-free import of all required raw materials and through the very low minimum wage level in the country. The export-oriented assembly industry consists mostly of textiles, electronics, toys and sporting goods assembly.

To promote exports, in 1986, the government eliminated all export taxes even though no specific incentives were given to exporters with the exception of the re-export sector. In fact, a major disincentive to exporters was the surrender requirement of 40 percent of export revenues at the official exchange rate which significantly overvalued the local currency. To redress this situation, in 1991, the government eliminated the surrender requirement of the foreign exchange revenues at the official exchange and replaced it with the market value. During the 1986-90 period, fiscal reforms were initiated towards improving the budget: two inefficient state monopolies were closed and the tax code was rewritten. Monetary policies aimed to liberalize the financial sector by freeing the interest rate. In December 1994, the new government established a Presidential Commission to draw up an economic and social reconstruction plan for the country with priority given to the establishment of legal framework to improve the investment climate in the country.

3. **Asian LDCs**

Afghanistan: Afghanistan is a landlocked country with limited natural resources. Fourteen years of civil war and struggle with the former Soviet Union has destroyed most of the country's infrastructure, production facilities and irrigation system. Approximately 5 million Afghans left the country and live in refugee camps in neighbouring Iran and Pakistan. Under the current government, political strife and unrest continues to destabilize the economy and divert the country's resources from economic development. Reconstruction of the country would urgently need mobilization of major financial resources. Funding by international lending institutions and foreign governments, however, would depend on the political settlement of the current continuing conflict.

Bangladesh: The agricultural sector accounts for about 40 percent of GDP and 80 percent of employment. The per capita income in 1993 was $210 and nearly half the population of 110 million lives below poverty line. Bangladesh is one of the most heavily aid-dependent countries of the world, with approximately 7-8 percent of GDP covered by foreign aid.

Since the mid 1980s, the government adopted economic reforms to reduce the budget deficit, stabilize the economy, increase investments and achieve structural changes in the economy. In the late 1980s, the government removed subsidies on phosphate fertilizers and in 1989, the monopoly of the state-owned Bangladesh Agricultural Development Corporation on whole-sale fertilizer distribution was abolished. This resulted in significant increase in fertilizer production. The government is also reducing its role in small-scale irrigation and in seed distribution.

In the early 1970s, subsequent to large-scale nationalization following independence of the country, approximately 90 percent of the assets of the manufacturing sector, including all domestically-owned cotton, textiles, jute and sugar manufacturing units, as well as banking and financial services activities came under government ownership and control. In the mid 1980s, a privatization program was adopted which resulted in the transfer of 558 state-owned enterprises to the private sector. By 1992, the government divested about 38 percent of the jute milling capacity, 70 percent of the fixed assets in textiles, 12 percent in sugar and food, 10 percent in chemicals and 4 percent in steel and engineering.[26] In many cases, however, subsequent to their privatization, the companies have continued to be regulated by the government, and the management has not been permitted to reduce employment of the companies. In the early 1990s, progress in privatization slowed down and continued mostly in the textile, jute, machine tools and fertilizers sectors. In 1992, the government identified 42 industrial units for privatization. Progress in the implementation of privatization has been hindered by labor unrest and strikes over privatization, particularly in the textile and jute sectors, and political opposition. Uncertainty of the investment climate has also limited the demand by potential investors.

By the end of 1994, 235 industrial state-owned enterprises were operating, mostly with substantial overcapacity and obsolete technology and generating losses. In the 1990s, annual losses of the state-owned enterprises was estimated at US$ 385 million.[27] Since the beginning of the privatization program in the mid-1970s, a total of 115 enterprises were divested.

Policies towards investments were laid down by the Industry Policy of 1991 which seeks to reduce controls on investments. The policy identifies seven sectors, including arms production, electricity generation and telecommunications as being eligible only to investments by the government while all other sectors were opened for private investments. In 1993, the

government abolished its monopoly in telecommunications and opened the sector to private investments. Under the new Act, investment incentives include tax holidays ranging from 5 to 12 years, depending on where industries are set up. These incentives were initially set to run up to 1995.

Foreign investment inflow has remained modest in the country during the 1972-1991 period, when the total inflow of such investment was below US$ 500 million.[28] To promote such investments, foreign investors are permitted to operate wholly-foreign owned subsidiaries and are entitled to profit repatriation. Since 1991, inflow of FDI has accelerated, and during 1991-94, such inflow amounted to US$ 936 million in 75 projects, mostly in the textile sector. FDI inflow has, however, been hampered by inadequate infrastructure of the country, particularly electricity supply.

Private investments have not been forthcoming adequately, partly because of political and economic certainties and partly because of institutional weaknesses, lack of co-ordination among various industries and ministries; and a weak financial system. A series of natural disasters have further weakened the economy.

Since the late 1980s, imports have gradually been liberalized, partly through eliminating quotas, and partly through tariff reduction. By 1990, a growing negative trade balance led to imposition of new restrictions which requires importers to provide a 50 percent cash deposit at the time of opening letters of credit. By the end of 1993, the government floated its currency, the taka, and deregulated the foreign exchange rules relating to the current account. Importers were given access to foreign exchange without the former deposit requirement. At the same time, exporters are only permitted to retain 15 percent of their earnings in foreign exchange.

Members of business associations, for example, the Federation of Chambers of Commerce and Industry of Bangladesh and the Dhaka Chamber of Commerce and Industry which represent mostly small and medium-sized companies argue that trade liberalization has led to a flood of imports, particularly from neighboring countries and had resulted in reduced demand for domestically produced goods. There has been continuing demand for increased protection under the 'infant industry' argument.

Under the Bangladesh Export Processing Zones Authority Act of 1980, the government established the Chittagong Export Processing Zone in 1983. The Zone has attracted inflow of garment assembly manufacturers. Currently, a new zone is under construction near Dhaka.

Over the past ten years, it is estimated that about 500,000 new jobs have been created in the garment sector and exports of garments have increased three- to four fold in the early 1990s reaching $1.5 billion by 1992.[29] It is estimated, that in the Dhaka and Chittagong area, over 1,000 new factories have been set up by local entrepreneurs. While an important share of the cloth and accessories are currently imported, backward integration of the industry to spinning and weaving is expected to increase substantially in the near future. The significantly lower wage level in the country compared to other South East Asian countries contributed to the growth of this sector. At the same time, the government's objective of rapid expansion of other labour-intensive manufacture, including electronics products, toys and sporting goods manufacture has not yet materialized.

With the nationalization of banks in the early 1970s, most of the country's largest commercial banks became state-owned. In the 1980s, these banks had accumulated non-performing loans from industry to the extent of $ 2.1 billion. Recapitalization, restructuring and privatization of these banks would be an important pre-condition for promotion of the private sector. In addition to seven state-owned which are under the supervision of the Bangladesh Bank, there are 17 private banks, including six which are foreign owned.

Bangladesh has a flourishing and dynamic private sector. It is important, however, for the country to ensure increased inflow of technology and expertise through joint ventures and technology licensing and to extend competitive capability to subsectors other than textiles and garments.

Bhutan: With a population of about 600,000, Bhutan is a landlocked country, located in the Himalayan mountains. A predominant share of the population is engaged in the self-sufficient agricultural sector. Through a series of Five-Year Plans, the government has sought to reduce dependency on imports through a gradual industrialization and, by the early 1990s, the industrial sector accounted for about one-fifth of GDP. The industrial is concentrated on production of cement, wood and food processing. The Sixth Development Plan (1987/88-1991/92) set among its objectives, the development of export-oriented industries its and greater diversification. In 1993, an agreement was signed with India for the construction of the Chukha hydroelectric project, near the Indian border, which will be used for electricity generation and irrigation, both in Bhutan and India. With the completion of the project, in 10 years, it is expected that the project will be a significant contributor of foreign exchange revenues. The hydroelectric potential will also provide significant impetus to the growth of the private sector, both in manufacturing and mining.

In 1991, the government initiated privatization of selected state-owned enterprises through public offering of six enterprises, with the government retaining part of the shares. To extend ownership to poorer segments, the government announced in 1993, that it would provide institutional finance up to 75 percent of the costs of the shares to interested buyers. Foreign investors have not been permitted to participate in the privatization of state-owned enterprises. In the case of privatization of joint ventures, which were set up with government participation, foreign investors are required to sell their shares to the government. New foreign collaboration agreements is, however, considered on a case-by-case basis by the government with such approvals being granted in projects which need foreign technology or achieve in foreign exchange savings.

Industrialization has also aimed to preserve and promote the national identity and cultural heritage of the country. Growth of the manufacturing sector has, however, been hindered by the small size of the market, the inadequate and limited transportation facilities. Low skill levels of the local labour has also been a constraint. Since 1988, the Bhutan Development Finance Corporation, formed with the assistance of the Asian Development Bank, has provided loans to small- and medium scale industries and for the training of entrepreneurs.

Nepal: Nepal is located in the Himalayas, between China and India, with over 90 percent of the population is employed directly or indirectly in agriculture, predominantly in subsistence farming. In 1993, agricultural production accounted for about 42 percent of the GDP.[30] The manufacturing sector is relatively small, accounting for 9 percent of the GDP in

1993, mostly limited to processing of agricultural products, and manufacture of textiles, garments and carpets. Tourism is the country's major foreign exchange earner, and accounted for about 60 percent of such revenues in 1993. Approximately one-third of the country's exports go to India which is also a major source of Nepal's imports. Historically, the 500- mile open border of Nepal with India has resulted in a significant flow of goods, services and labor between the two countries. Economic policies adopted in India with respect to prices and wages have exerted major impact on Nepal's economy.

In 1991, the new government initiated economic reforms to promote participation of the private sector in the economy ; reform and privatize state-owned enterprises; reduce government subsidies and encourage investments, both domestic and foreign, through increased government deregulation. In 1993, the government abolished the licensing requirement for establishment of medium-sized and large industries, with a few exceptions, such as defense and health. The currency was made partially convertible, and exporters were allowed to sell 65 percent of their foreign exchange earnings to commercial banks at market rates while 35 percent has been required to be surrendered to the country's central bank.

Most of the country's largest enterprises are state-owned. In 1992, there were 62 state-owned enterprises in the country, with approximately half of such enterprises engaged in manufacturing and the other half in trading and services. State-owned enterprises dominate the production of cement, agricultural inputs, sugar, cigarettes, and have a monopoly in trading of chemicals, fertilizers, oil and coal as well as in all infrastructure services. The Seventh Plan (1985-90) identified the reform of the performance of state-owned enterprises through commercialization, liquidation and privatization of such enterprises. Regulations and procedures for privatization were laid down by the "Privatization Act 2050".[31] Implementation of the privatization program has, however, proceeded slowly; by 1992, only three industrial enterprises and five farms were privatized. During the second phase of privatization, covering the 1993-94 period, privatization of 14 state-owned enterprises was targeted of which 4 were in the manufacturing sector, with the rest in the agriculture and services sectors. End of 1994, the newly elected government expressed its committment to continue the privatization program but on a more selective basis than the former plan.

In 1992, the Foreign Investment and Technology Act was enacted which provides that foreign investments are permitted in all sectors of the economy with the exception of defense, tobacco and alcohol. Wholly foreign-owned companies are permitted in industries which have a fixed capital over 10 million Nepalese Rupees (approximately US$ 220 thousand). Foreign investors need to obtain the approval of the government but the procedures were streamlined. The Act provides for significant incentives for investments in 31 designated priority sectors, including income tax holiday for seven years, exemption of income from exports and industrial investments. Further incentives are subject to fulfillment of voluntary performance requirements. In addition to the Investment Act, additional legislation was passed on taxation and labor issues to improve the investment climate for private investors. By end 1992, out of approximately 10,000 registered companies in Nepal, 143 had foreign equity participation, most of them with investors from India.[32] Foreign participation predominated in the tourism and garment sectors. In 1994, the newly elected government expressed its commitment to promote the inflow of foreign investments and maintain liberal regulations towards such investments.

The country's financial system consists of the central bank, Rastra Bank, and five commercial banks, and two government-owned development finance institutions. In 1993-94,

three new commercial banks were in the process of being established. Several of the commercial banks are joint ventures between local and foreign banks. In 1992, establishment of a stock exchange was initiated through the transformation of the Securities Exchange Centre (SEC) where in 1992, 55 companies were listed. It was expected that functioning of a stock exchange will promote inflow of foreign direct investments and facilitate the process of privatization.

By end of 1994, a new government was elected which announced its commitment to continue the implementation of market-oriented reforms and promotion of private sector activities. Though policies have been liberalized in Nepal, the institutional infrastructure is still weak and provides inadequate support to local industrial enterprises.

Myanmar: Myanmar's economy is heavily dependent on agriculture, which generates about 40 percent of the GDP and provides employment for 80 % of the work force. The major export products are teak, hardwood logs and rice. Until the late 1980s, the country was largely isolated from the international economy under a centralized economic system.

Initial economic reforms were adopted in 1988 to expand the role of the private sector. As of 1994, reforms related to the reorganization of several ministries in charge of economic development; allowing the private sector to participate in economic activities which were until then only open to public sector enterprises; legalize border trade and streamline trading procedures; permit exporters to retain their foreign currency earnings and use them for imports which are permitted by the government. A parallel currency was introduced in the form of foreign exchange certificates to help circumvent the official foreign exchange rate which strongly overvalues the local currency. Foreign investors were permitted to operate under the 1988 foreign investment law which permits 100 percent foreign ownership in most sectors. In several sectors, including extraction and sale of teak, extraction and processing of petroleum and natural gas and fishing, foreign investors have to participate in joint venture with the government.

The government has initiated privatization of the large state-owned sector. Many of the state-owned enterprises have been made available for leasing by private enterprises, including foreign investors and joint ventures. Leasing of state-owned enterprises by foreign companies has been mostly used in the garment sector, food and beverage industries, and timber and wood production. Privatization has also taken place through contracting out services to private firms, whereby a private contractor supplies a state-owned enterprise with raw material in exchange for a share of production. As of 1994, 22 such production-sharing agreements had been entered between state-owned enterprises and foreign investors. In response to reforms which were adopted since 1988, the number of officially registered private companies reached 11,719 by March 1994, most of them labour-intensive cottage industries. Registered foreign investments amounted to US$ 1.076 billion in about 100 enterprises, mostly from Asian countries.[33] Several foreign oil companies have also undertaken exploration for oil and gas. In 1992, a contract was awarded to Total (France) to develop a large gas reserve in the Gulf of Martaban and once the pipeline is completed, most of the output will be exported to Thailand.

Despite these reforms, the government continues to play a predominant role in the economy. 23 key basic commodities, such as rice, teak, oil and minerals, are controlled by the state. State-owned enterprises play a key role in the industrial production through nine major enterprises, the largest being the Myanmar Economic Holdings Company which is managed by the Ministry of Defence. Even though reforms have promoted the development of the private

sector, there continue to be major constraints on private enterprises through comprehensive regulations and controls. The Ministry of Trade, for example, requires export permits and sets the price exporters can charge. Wages in joint venture enterprises between foreign investors and state-owned enterprises are also subject to regulation. Foreign trade is strongly curtailed by the foreign exchange rate which overvalues the local currency by about 20-fold of its market value.

Reforms were initiated through the issue of the Central Bank of Myanmar Law and the Financial Institutions of Myanmar Law, enacted in 1990, which allow the formation of private banks in the country for the first time in 30 years. As of 1994, eleven private banks had opened, five of which are joint ventures with the government. Activities of the new private banks, however, continue to be regulated closely by the government, through setting permissible interest rates and the amount of money which can be lent. Until 1994, only the state-owned Myanmar Foreign Trade Bank and the Myanmar Economic Bank were the only banks allowed to deal in foreign exchange. In April 1994, the government allowed four new private banks, with government participation, to handle foreign exchange.

Cambodia: About 47 percent of the GDP comes from the agricultural sector which occupies over 85 percent of the labor force, mostly in form of subsistence agriculture. Industry and the services sector account for 16 and 37 percent of the GDP, respectively.[34] Nearly 20 years of war and internal strife, besides central planning, have left considerable damage on the country's infrastructure, human capital and production facilities.

Since 1989, the government adopted a series of market-oriented reforms which sought to reduce the extent of central planning and establish the right of ownership to private property. Most of the price controls were lifted. The government's program of development is laid down in the 'National Program to Rehabilitate and Develop Cambodia', the cornerstone of which is a liberal foreign investment regulation.

Regulations towards FDI were enacted in 1989 and further implementing regulations were issued in 1991. The FDI law permits formation of wholly-foreign owned enterprises and grants significant incentives to investors. The corporate tax is 9 percent and tax exemption is provided for up to 8 years, depending on the activity. Investors may lease the land for 70 years. Production of timber, oil, natural gas, minerals, gold and precious stones are exempt from the regulation and are subject to separate regulations. The law establishes the Council for the Development of Cambodia (CDC) a one-stop service organization. Regulations on investments were further provided by the "Investment Law of the Kingdom of Cambodia" enacted in 1994 which provides regulation for domestic and foreign investments.[35]

In 1993, measures were adopted to liberalize foreign trade, previously a monopoly of the government. Import and export license requirements were eliminated which had effectively hindered trade. A predominant share of the trade continues to be undertaken by three state-owned export-import enterprises. In the manufacturing sector, there were about 60 industrial units at the end of 1992 in the private sector, some of them with foreign participation. Among the manufacturing companies the textile sector dominates, where investors from Thailand, Singapore and other East Asian countries have established local production.

The government has reduced the state-owned sector by opening up government monopolies to the private sector and by privatizing selected enterprises. In 1994, the state-

monopoly on banking was abandoned and entry of private banks was encouraged. Since 1991, the government initiated privatization of state-owned companies, often by leasing and renting out such enterprises to the private sector. By September 1994, out of 79 state-owned factories in the industrial sector, 62 have been rented out to private investors under medium or long-term lease arrangements. 13 others are continued in joint venture between the foreign partner and the government and only four continue to remain under state management. Out of the 79 industrial units, 25 companies had been involved in textile, mostly producing fabric and ready-made clothing. In 1994, plans were drawn up to privatize the rubber industry which, following the tourism industry, is the second largest earner of foreign exchange.

The government's agenda of structural reform includes the improvement of the financial system by promoting competition among commercial banks and enabling the National Bank of Cambodia to exercise supervisory functions over the banking system.

Laos: Laos is a landlocked country with a population of 4 million, with about 85-90 percent engaged in subsistence agriculture. Reform process in the country started in 1986 through the adoption of the 'New Economic Mechanism' which sought to decentralize the decision-making power of the government in favor of increased market-orientation. Initial reforms reduced controls by the state on the private sector and in several sectors prices were liberalized. The state-owned agriculture was transferred to the private sector, together with most of the trading, including foreign trade. Reform were also directed at the stabilization of the economy through monetary and fiscal policies.

In 1989, regulations towards foreign investments were enacted through the Foreign Investment Code which permits formation of wholly-owned foreign subsidiaries, joint ventures and other contractual arrangements. In 1994, the government revised the 1989 investment code and provided additional incentives to foreign investors; reduced the tax rate to 20 percent from 40-50 percent, and the import tax from 10 to 1 percent. It has also streamlined the approval process for investments. A major element of the revision is that it eliminates the limitations of foreign operations to 15 years, stipulated in the 1989 regulation. The revision sought to establish regulatory norms which are more in line with neighboring countries. By 1994, 421 foreign investment projects were approved, which included 218 wholly-foreign owned subsidiaries, compared with the approval of 40 projects in 1990.[36] Value of foreign direct investments was estimated at US$ 493 million at the end of 1993.[37]

State-owned businesses and factories which were formerly managed centrally, were given autonomy to set their prices, wages and make other key decisions. Since 1988, subsidies which were formerly granted by the government to inefficient state-owned enterprises were reduced. Privatization of state-owned enterprises started with the issue of the privatization decree in 1990 which provided for the divestment of 600 state-owned enterprises. By the end of 1993, 500 enterprises were divested by the government. Various methods were applied for divestment; enterprises which the increased private sector activity could became uncompetitive, were closed or liquidated; most others were leased to the private sector through long-term, usually 10-15 years, lease arrangement with management from Thailand, China, France and Australia. Enterprises were also returned to their previous owners. The government will continue to own and control 17 enterprises which are considered to be strategically important for the country. Foreign investors have been permitted to participate in the privatization of state--owned enterprises, with most of such investors coming from Thailand and other neighboring countries.

Since 1989, the government gradually established a legal system to provide the framework for the private enterprise system. In 1990, legislation on ownership of property, contracts, inheritance, and those related to the establishment of banks and were enacted. By the end of 1994, legislation on bankruptcy and business guarantees were adopted, laws for the provision of contractual and legal guarantees.

Transformation of the banking system started with the Decrees of the Council of Ministers in 1988 which separated the government-owned State Bank into commercial and central banking activities. Commercial banks were also established in the provinces. In 1989, the first joint venture bank between Laotians and Thai investors was formed to be followed by several other joint venture banks. By 1993, there were 12 joint venture and foreign-owned banks with license to participate in the financial sector under conditions which were deregulated to a large extent.

Despite the progress in the implementation of financial, economic and legal reforms since 1986, several factors continued to constrain development of private sector activity. Lack of skilled labor and technical and managerial skills, poor infrastructure, particularly the limited availability of electric power, and the small size of the market have acted as major constraints. The country, however, has considerable hydroelectricity potential, and unexploited mineral resource, such as gold, copper, zinc, tin, precious germs and industrial minerals. Most of these reserves have not been exploited so far due to the lack of investible funds and technology required for exploitation, and the inadequate infrastructure of the country.

Pacific Islands

The Pacific island states extend from Palau, near the Philippines in the West to the Pitcairn Islands in the East. The Pacific island countries can be grouped into two major categories; firstly, those which are relatively large and have natural resources, and secondly, those which are quite small and have few resources and their export revenues are largely based on one or a few agricultural products. In these island economies, diversification of the economy is actively sought by the government. The small size of the market, and their export potential are, however, strongly constrained by their remote geographic location from the markets and their inadequate infrastructure. Six LDCs, namely Kiribati, Vanuatu, Tuvalu, Solomon Islands, Western Samoa and the Maldives form part of this latter group.

Vanuatu: With a population of 140,000, subsistence farming provides employment for over 80 percent of the island economy's population. The major cash crops are coconuts and copra which are the principle sources of export revenues. To diversify the agricultural sector, the government encouraged production of cocoa and coffee and cattle farming for exports. In 1989, the government also entered into a long-term agreement with a Taiwanese company to develop timber on the island of Malekula.

The country's manufacturing sector is very small and is centered around the processing of primary products, with export orientation. For promoting exports, an industrial estate is planned to be established on the island of Espiritu Santo. In the services sectors, tourism and financial services are the most important activities. In order to promote foreign investments and the build up of the financial sector, the government seeks to enhance the country's position as an off-shore financial centre in the region and regulation towards the establishment of a tax haven is under consideration.

Within the framework of the South Pacific Regional Trade and Economic Co-operation Agreement, Vanautu has duty-free access for most of its exports to Australia and New Zealand. This agreement will provide benefits increasingly as the range of export items becomes more diversified. Vanauto itself, maintains relatively high levels of import tariffs. In 1993, for example, 60 percent of the government revenues came from import duties, with most of the balance of government revenues coming from business license fees and hotel taxes.[38]

The development of the private sector is constrained by the absence of well-defined ownership rights and a well-developed commercial and legal system for private property.

Kiribiti with a population 69,000 and **Tuvalu**, with a population of approximately 13,000 in 1993, are the two lowest income island economies of the Pacific. The economies of both of these countries are based on subsistence agriculture and production of coconuts as a cash crop. Major share of export revenues comes from copra. Agricultural production is very vulnerable to frequent cyclones which often cause major damage to the crop. In order to diversify their narrow economic base, the respective governments sought development of the commercial fishing sector apart from selling their fishing rights to foreign companies. In both island economies the manufacturing sector is very small and mostly geared to limited import-substitution. Development of the tourism sector has been constrained by the remote location of the islands and their weak infrastructure. In Tuvalu, major share of the government revenues come from the sale of stamps and coins and remittances of workers from abroad. In Kiribiti major share of government revenues is generated from the export of copra, fish and shark fins.

Both countries are characterized by a relatively large public administration which accounted for about one-quater of the government budget in both countries, respectively. International lending institutions and the Asia Development Bank have promoted development of and provided funding for the private sector, particularly for activities related to tourism, agriculture, fisheries, commerce and small-scale industries.

Solomon Island: Population of the island was about 372,000 in 1993 with approximately 90 percent of the population employed in subsistence agriculture and production of cash crops, including cocoa, beans, coconuts and palm kernels. Agriculture, fishing and forestry contribute about 70 percent of the GDP and are major sources of export revenues. The service sector accounts for about 25 percent of the GDP. The manufacturing sector is very small and most of the manufactured goods are imported. The island has undeveloped mineral resources, including lead, zinc, nickel and gold.

The government has sought to diversify exports from its concentration on copra and presently fish, mostly tuna, and timber constitute over half of the country's export revenues. The development of spice industry has also been planned, together with growing production of cocoa, exploitation of mining, and increased processing of fish and timber. The manufacturing industry is directed mostly to the internal market. In order to increase the country's export revenues, in 1991, the government announced a 10-year tourism development plan, covering the 1991-2000 period, both through public and private development. Within the framework of this plan, construction of new hotels, small-scale businesses and upgrading of the infrastructure, and expansion of the airport is envisaged.

Since the late 1980s, the government has sought to promote development of private enterprises, with particular emphasis on tourism and related activities and export-oriented production. Plans have also been under consideration to privatize some of the state-owned companies. Implementation of economic reforms, however, has been delayed so far, and expenditures of the public sector have continued to exceed significantly government revenues.

The government provides foreign investors tax holiday up to six years, depending on the level of local value-added and exports. Domestic private investments have, however, been hampered by shortage of capital. With the large budget deficit, the government has effectively pre-empted local financing for the private sector. The island faces severe environmental problems. Of major concern is the heavy logging activity of tropical timber undertaken under concession agreements by foreign companies. It is estimated that Solomon Islands' rain forests will be completely depleted in less than a decade if current rates of logging continue.[39]

Western Samoa: Western Samoa consists of a group of nine islands, with an estimated population of 170,000 in 1993. Agriculture is the major employer and source of the country's export revenues. The most important cash crops and export commodities of the country are coconuts, cocoa, taro and bananas. In 1990 and 1992, repeated cyclones caused major damage to the agriculture of the country. The manufacturing sector is very small, consisting mostly of small food-processing units, such as coconut oil mills, with coconut oil constituting the largest single source of export revenues.

Since 1983, the government adopted measures to stabilize the economy through fiscal and monetary policies and reviewing development priorities. Diversification of the economy and promotion of foreign direct investments were identified as major elements in the country's economic growth. Diversification of the economy has been promoted by the government. Development of the country's forest resources on Savaii and Upolu islands are planned and expansion of commercial fishing is under consideration. Development of the tourism industry and expansion of related infrastructure are encouraged by the government.

To promote private sector activity and exports, the need for expanded credit facilities to farmers and exporters has been recognized. The country's financial system consists of the Central Bank, two commercial banks and non-bank institutions. The largest commercial bank, the Bank of Western Samoa, is a joint venture between the government and the Bank of New Zealand. The other non-bank financing institutions are the Development Bank of Western Samoa, the National Provident Fund and the National Pacific Insurance which are state-owned and are a major source of credit for new investment.

Investments have been promoted by the government through a package of incentives, including tax holidays up to 10 years, and a subsequent tax rate of 25 percent and exemptions from custom and excuse duties for investors for capital goods and other inputs.
Since 1990, several foreign investment projects were undertaken, the largest in the manufacturing sector was by Yazaki Corporation, a manufacturer of electric wires for cars, which started production in 1992, and currently employs a labor force of 1,500.

Private sector investors may obtain funding from the Pacific Islands Industrial Development Scheme which is financed by the government of New Zealand and grants technical assistance and credit to projects where a New Zealand investor holds a minimum of 20 percent

of the equity.

In 1987, the government has enacted legislation for the operation of an offshore financial center through the Off-shore Banking Act which provides for the licensing of international and foreign firms registered under the Companies Act. The International Trust Act of 1987 permits the establishment of Trusts in which the beneficiaries are non-residents of the country. The International Insurance Act of 1988 regulated off-shore insurance businesses carried out by foreign firms. In order to compete with other off-shore financial centers, the government provides speedy and low-cost registration for foreign companies. During the 1988-92 period, about 600 foreign companies have registered under the act.

Maldives: The country consists of more than 1,200 coral islands with an estimated population of 235,000 in 1993. The agriculture is limited to the production of a few subsistence crops, including coconuts, arica nuts, cassava, corn and sweet potatoes and provides for only about 10 percent of the country's food demand. In the late 1980s, the economy was dominated by the fishing industry which accounted for about 25 percent of employment and over 60 percent of export revenues. During the 1980s, the output of the fishing sector increased rapidly through an improved fuel distribution and fish collection system under the State Trading Organization. Fish processing facilities were expanded and by the early 1990s, over half of the fish output was exported in processed form. Since the 1980s, the government promoted the development of the tourist industry which by the early 1990s became the largest sector of the economy, accounting for about 30 percent of the GDP.

Since the mid 1980s, the government has adopted stabilization programs and sought to reduce the budget deficit and deregulated the foreign exchange system. Diversification of the industry has been sought but the small size of the domestic market have constrained this effort. A number of garment manufacturing plants have, however, been established by foreign investors for export-oriented production. The government also seeks to increase local processing of fish and expand the tourist industry.

3. POLICIES AND INSTITUTIONAL MEASURES FOR ACCELERATED PRIVATE-SECTOR GROWTH IN LDCs

The analysis of industrial growth trends and of recent industrial policies and institutional support facilities in LDCs in the previous section highlights certain important conclusions. Firstly, industrial growth has continued to be very limited in most LDCs in recent years, despite major policy changes and liberalization in these countries. There has only been a marginal increase in industrial production in some of these countries, while in others, particularly in Africa, industrial production has declined. The free-market mechanism, which was expected to yield significant results in terms of investments and increased production in LDCs, has had very limited impact so far on industrial growth. There has been little increase in FDI inflow, except in the petroleum and mineral sectors in some LDCs despite liberalization of policies towards such investments. With few industrial enterprises in most LDCS, except Bangladesh, there has been little inflow of technology and knowhow. Measures for privatization which have been carried out in several LDCs, including Gambia, Guinea, Malawi, Mali, Niger and Togo among African LDCs, have often resulted in liquidation or closure of the enterprises and while these have reduced government losses, there has also been adverse impact on production. The liberalization of imports, following a free-market approach, has also resulted in a large number of small and even medium-scale industries in LDCs being unable to face competition from imports of the same or similar products including from South-East Asian countries. It is necessary to recognize that a degree of infant-industry protection is necessary for products of local enterprises in LDCs, which are faced by severe constraints. In the absence of such policy support, several local enterprises may be unable to compete and to continue production, with consequential adverse impact on other such enterprises.

Experience of LDCs and industrial growth trends in these countries in recent years also suggests that the impact of structural adjustment programs on industrial development has been very limited, largely because of the absence of inadequacy of institutional support facilities These programs have undoubtedly been essential and critical for LDCs in meeting major resource gaps and in bringing about substantial improvement in the macroeconomic financial framework in these countries. At the same time, policy changes within the framework of these programs have had little impact so far as inflow of FDI or on private-sector development in these countries. This is largely because of the emphasis in the policy changes undertaken by most LDCs has been primarily geared towards attracting foreign direct investments. This has not been successful so far. With the growing competition to attract such investments from South East Asian countries; Latin American economies and countries in Eastern Europe, it is extremely difficult for LDCs to attract FDI in the manufacturing sector unless special factor advantages can be identified. Apart from scarce raw materials, one such factor advantage is cheap labor. This can still constitute a major advantage, provided the necessary infrastructure and policy framework is in place. The example of Mauritius indicates that FDI can be attracted to small economies. So far, however, foreign investments in LDCs in recent years have been primarily limited to minerals and resource-based sectors in a few LDCs and such investments may well have taken place in any event. The principal need is to attract foreign participation in the manufacturing sector, either through subsidiaries and affiliates of transnational corporations or through joint ventures with local enterprises or through technology licensing arrangements, and these have not taken place to an adequate extent in most LDCs.

The basic premise underlying the structural adjustment programs that the free market mechanism would ensure adequate new investments, domestic and foreign, is questionable ,

particularly in countries with small markets, weak infrastructure and institutional support and a relatively small number of manufacturing enterprises. These programs must be accompanied by a well-structured strategy for promoting industrial growth through a multiplication of local enterprises with adequate institutional support and with various forms of foreign financial and technological participation.

The policy emphasis on attracting foreign investments in most LDCs has detracted from the essential need provide adequate institutional support facilities and to develop local entrepreneurship and enterprises which can constitute an expanded industrial base. In most of these countries, there are few industrial enterprises which can serve as partners and collaborators in joint ventures and licensing arrangements with foreign companies. This is a major shortcoming. Unless the number of local entrepreneurs and enterprises can be significantly increased through institutional development and support, the impact of policy changes and modification of investment codes and procedures will continue to be marginal. The lack of local industrial enterprises in LDCs has also resulted in little or no inflow of technology and knowhow through non-affiliate technology licensing or other contractual arrangements for technology acquisition, which constitutes a major shortcoming.

With inadequate inflow of FDI and little or no technology acquisition or transfer through licensing, enterprises in LDCs continue to be severely handicapped in achieving export capability. The development of competitive capability in selected fields is a vital need in the context of the Uruguay Round Agreements. While LDCs have some time before the Agreements take effect, it will be necessary to identify niche areas and to develop competitive capability in these fields in the next few years.

An important conclusion emerging from the analysis of policies and experience of industrial development in LDCs has been the lack of emphasis on institutional support facilities for local enterprises in these countries. Apart from normal commercial banking facilities, there has been little major institutional support effort to meet the credit needs of small, medium and micro enterprises. The Grameeen Bank in Bangladesh has provided a fairly unique role in successfully meeting the credit needs of micro enterprises but this institutional success has not been emulated in other LDCs. Apart from credit, which continues to be a major constraint in these countries, little institutional support has been provided on technology, marketing and external linkages. Enterprises have been left largely to fend for themselves and, with recent policy orientation towards free markets, local enterprises enjoy less and less protection from competing imports. The institutional support provided through governmental agencies is very limited and often unsuited to changing market conditions. Lack of institutional support for local enterprises is undoubtedly a major constraint in most LDCs, and unless this issue is given the highest priority, it will be difficult to achieve accelerated growth of local enterprises, which is a key objective in these countries.

It is also necessary to highlight the fact that the economic perspectives in the 1990s are very different than during the 60s and 70s when there was considerable state intervention in several LDCs. At that time, there was concern at the dominating role of transnational corporations on the one hand, and lack of investment in basic and key industries on the other. The fact that state-owned enterprises in these countries were mostly unsuccessful should not suggest that the socio-economic factors which were responsible for their creation in the first place no longer exist or have faded totally in the background. The reactions to privatization in certain LDCs and dissatisfaction with the slow results of increased market orientation in others, are

pointers in this direction. The critical role of market forces and of the private sector has been recognized and accepted in LDC and will undoubtedly continue to be so if the results are positive in terms of accelerated growth of local enterprises and the achievement of enhanced technological competitiveness and environmental standards and sustainability. If these results, however, are not achieved within a reasonable period, the impact is likely to be negative and undesirable. The present period is, therefore, crucial in ensuring the influence of market forces on long-term basis. For this purpose, however, the development of wide-ranging institutional support functions and facilities is a vital necessity.

Certain global trends are also likely to significantly affect private-sector growth and institutional support requirements in LDCs. First, the revolutionary developments in informatics, biotechnology, and new materials will inevitably have major impact on industrial products and processes. Global communications will inevitably affect marketing and distribution of new products and services. Most LDCs are only on the periphery of such developments, and the technology gap is likely to grow increasingly, unless there is substantial increase in technology flows industrial subsectors having special potential in particular LDCs. Second, investment and technology flows to LDCs have been quite unfavorable during the 1980s and early 1990s. Globalization of industry has, so far, provided few significant linkages in LDCs not only among enterprises but even institutions involved in industrial studies, research and consultancy services. Third, there has been a growing change in the pattern of foreign participation. While foreign investments through TNC affiliates are still taking place in several developing countries, the pattern is shifting towards alternative forms, such as joint ventures, licensing, franchising and service contracts. LDCs have not been able to avail of this changing trend because there are few local enterprises in these countries and inadequate institutional support facilities for development of such linkages.

Viewed against these conclusions, the potential of industrial growth in LDCs appears to be only positive provided a reoriented industrial strategy in these countries concentrates primarily on establishment of an increased number of local enterprises and provides the necessary incentives and institutional facilities for training of entrepreneurs, supply of credit and institutional assistance in technology, marketing and external linkages. While FDI certainly needs to be attracted to LDCs as far as possible, there must be equal, if not greater emphasis on inflow of technology and expertise to ensure greater competitive capability for LDC enterprises. With a reoriented industrial strategy and adequate institutional support facilities provided in these fields, it should be possible to achieve an accelerated pace of industrial growth in a number of LDCs. This should certainly be possible in Bangladesh and Nepal, and to a lesser extent in Laos and Bhutan in Asian countries; in Haiti where there is now considerable potential for export-oriented growth and in several LDCs in Africa. In several African LDCs, there is very significant potential for private-sector industrial growth, with reoriented industrial policies and strategies. These include Botswana, Ethiopia, Gambia, Guinea, Mali, Madagascar, Mozambique, Sierra Leone, Tanzania, Uganda and Zambia. Increased pace of industrial growth can also be achieved in Benin, Togo, Mauritania, Chad, Burundi, Central African Republic, Niger, Equatorial Guinea, and Lesotho, with increased emphasis on local enterprises.

The effect of policy reorientation and increased emphasis on growth of local private-sector enterprise will vary in its impact, depending largely on the strength of the private-sector entrepreneurial base that can be rapidly developed in each country, the extent of inflow of foreign participation and technology and the extent and form of privatization in each country. Private-sector development is much broader in concept than privatization, and relates not only to the

restructuring of ownership of existing state-owned enterprises on a selective basis, but the creation of an appropriate environment for mobilization of local private-sector investments in industry, infrastructure and services and the provision of institutional support for credit, technology and external linkages. Its success or otherwise in particular LDCs largely depends, however, on the extent to which an overall promotional climate for private-sector development can be created and sustained over a period of time.

Climate for investments: Accelerated private-sector development depends primarily on the overall macro conditions and climate for investments in a particular economy. A basic requirement is a stable socio-political situation which is often lacking, particularly in several African LDCs. Other essential prerequisites are availability of physical infrastructure which is improving in most LDCs; stable rates of exchange for local currency which can pose problems in most LDCs; availability of loan finance for new investments and of foreign exchange to meet essential capital goods and other import requirements, and a tax regime with adequate incentives for new investments, besides programmes for development of production, services and export capability. As discussed in the previous section, a number of LDCs face severe constraints with respect to some of these variables. Such constraints can, however, be adjusted to a considerable extent, through appropriate macro policies. The role of the structural adjustment programs can be vital in this regard, provided they are accompanied by political stability, on the one hand, and by a well-defined industrial strategy for promotion of local enterprises through policy incentives and institutional support, on the other.

Regulatory controls: It is essential that regulatory controls on new investments and technology inflow, which continue to exist in certain LDCs through screening procedures, should gradually be dismantled. Revisions in investment codes and promotional guidelines for new investments have little meaning, unless administrative regulations, procedures and controls are radically modified. The process of decision-making must be effectively transferred to private-sector entrepreneurs and enterprises. The role of government needs to be substantially modified and policies and regulations should be re-oriented increasingly towards promoting new investments; ensuring adequate competition; achieving quality standards; and meeting environmental and ecological requirements. The full inter-play of market forces may not be wholly practicable or even desirable, in most LDCs facing multiple resource and other constraints. To the extent possible, however, investment decisions should be left to the private sector, both local and foreign.

Investment promotion: It is necessary that an active programme for investment promotion is undertaken through appropriate promotional and institutions in LDCs. Such a programme should be based on:

(a) guarantees against nationalization and for fair and adequate compensation for any expropriation;

(b) freedom to foreign investors for remittances of profits, royalties and fees, interest, and income from sale of shares;

(c) a favourable tax regime, and incentives for new investments or major expansion/rehabilitation of existing enterprises, including infant-industry protection for limited periods;

(d) promotion of increased inflow of foreign technology, including information systems on investment and technology sources; tax concessions on fees and royalties, and incentives for enterprise-level research;

(e) freedom to employ expatriate experts and personnel;

(f) special incentives for exports, including higher royalties, import entitlement and drawbacks, and tax concessions; and

(g) a package of promotional measures and services for new investments in various fields, including information on markets and assistance in obtaining access to potential foreign partners.

Physical infrastructure: An obvious pre-requisite is the availability of physical infrastructure, comprising land, water, electric power, transportation and telecommunications facilities. Electric power shortage and interruption is a chronic problem in most LDCs and a major deterrent to industrial development and use of modern computerized processes. Inadequate transportation facilities, including air transport, also constitutes a major bottleneck. In the present information age, an efficient telecommunications network is also an essential infrastructure requirement. Faced by major resource constraints, LDCs may increasingly need to encourage private-sector participation in these fields, either through direct investments or build and operate (BO) or build-operate-transfer (BOT) arrangements with foreign companies.

Institutional support requirements: The institutional infrastructure for private-sector development in LDCs tends to be very weak and needs not only to be greatly strengthened but must necessarily cover a wide range of requirements. The needs and potential in this regard are discussed in greater detail in Section 5, where several Working Papers have identified specific institutional requirements for accelerated growth of local enterprises. Firstly, major emphasis has to be given to human resource development, particularly for training of local entreprenerus, specially women, for SMEs and micro enterprises,
and on the one hand and for managerial personnel and development of specialized skills, such as in design and packaging. Specialized industrial training must also include training of personnel in new technologies, particularly computers, telecommunications and software, based on assessed requirement in these fields over a period of time. Industrial training at national level should concentrate on the training of trainers in various fields and should be based on close linkages with universities, technical institutions and management organizations in each country. There must also, however, be close involvement of private-sector associations, including chambers of commerce in the assessment of training needs and planning of training programmes and development of training curricula.

Secondly, appropriate financial services need to be developed extending from banking, insurance and other financial services to the development of specialized institutional facilities for provision of loans and credit for small and medium enterprises on the one hand and micro enterprises, on the other. Such institutions can range from those stock exchanges for resource mobilization and institutions providing venture capital to development finance bodies and financing bodies for micro enterprises in the 'informal' sector. Institutional facilities for equity participation such as stock exchanges have also to be gradually set up.

Thirdly, institutional facilities need to be developed for industrial information, ranging from information on markets for various products and subsectors to alternative sources of investment or technology and data and material on trade and market trends in various fields. Fourthly, institutional mechanisms have
to be developed with respect to technological usage and application in various fields, including technology acquisition, absorption and adaptation, and including applied research at institutional and enterprise levels. Such support facilities can only assist in technology choice and selection

but can provide adequate guidance to local entrepreneurs on negotiations of technology licenses and contractual arrangements of various types.

Fifthly, institutional support is necessary in LDCs for marketing of products of local SMEs, both in the internal market and for exports. A related field is that of enterprise-level linkages, particularly external linkages, where institutional support facilities are very necessary. Institutional facilities also play a critical role in standardization and metrology, which are assuming growing importance with the insistence on ISO 9000 and other international standards, including standards relating to the environment. Finally, institutional extension services are necessary, particularly for small-scale and micro enterprises in the 'informal' sector of LDCs, which will be critical for socio-economic development of vulnerable areas and weaker groups such as women, in LDCs.

The range of institutional support functions and industrial services described above and which are further elaborated in the Working Papers in Section 5 are indicative of the multi-disciplinary institutional requirement in LDCs. As discussed in the previous section, some institutional facilities have been, or are being developed in certain LDCs. What is essential, however, is the closing of gaps such as with respect to information systems and technology selection and application, and adjustment of existing institutional capabilities to meet the changing requirements of the private sector in each LDC. It must be emphasized that the growth of small and medium industries which has particular potential in most LDCs largely depends on the extent to which financial and institutional technical support is made available.

Foreign trade: For most LDCs, the removal of imbalances in the merchandise balance of payments and the development of export capability are of major priority. Most LDCs face growing constraints because of declining demand for minerals and commodities exported from these countries. In several countries, acute foreign exchange shortages continue to persist. Global and regional trends in foreign trade do not suggest that the situation will significantly improve for most LDCs. The finalization of the Uruguay Round Agreements will, in fact, pose a new challenge for LDCs to achieve competitive export capability in selected fields over a period of time. The perspective for LDCs for substantial increase in exports of both traditional materials and commodities and of manufactured products in global markets does not appear to be bright, unless massive and qualitative industrial restructuring is undertaken in these countries and competitive technologies are used, together with achievement of quality standards to achieve increased competitive capability in selected fields. The prospects for a greater volume of trade between developing countries, on the one hand, appear to be much better. Increased liberalization of imports as part of greater market orientation, however, pose serious problems for several LDCs, particularly with respect to locally-manufactured products, which continue to require varying levels of protection.

Developments in foreign trade of LDCs are likely to be seriously affected by the growth of regional trading blocs. The impact of European economic integration through the European Union and of integration between Canada, Mexico and the United States of America through the North American Free Trade Association (NAFTA), are likely to be very significant and would inevitably have far-reaching effect on all countries and country-groups trading with these countries. Similar developments are likely to take place in ASEAN countries in South-East Asia and with respect to the Pacific Rim countries in the future. While the overall objective of the Uruguay Round Agreements, as also of the regional blocs, is to liberalize and expand foreign trade, trading conditions are likely to become increasingly competitive for LDCS outside these

blocs.

Increased competitive capability in foreign trade will necessitate not only higher quality standards and greater technological absorption and improved technological applications in LDCs, but a comprehensive institutional support for development of export capability. At the same time, policies and measures are necessary to ensure reasonable protection for defined periods of time for new industrial enterprises, particularly small and medium industries.

Foreign direct investments: Current thinking on new investments in LDCs has, to a large extent, centered around promotion of foreign direct investments. The prospects in this regard do not appear to be bright for LDCS in the immediate future. Most LDCs may have to increasingly rely on the initiative and dynamism of local enterprises and entrepreneurs to obtain necessary foreign participation. It will also be necessary for LDCs to undertake vigorous and targeted promotion of foreign investments for particular projects having adequate viability and potential. Targeted promotion implies institutional activities and initiatives for preparation of investment profiles for particular projects, and follow-up with potential foreign partners.

Transfer of foreign technology and specialized services: An important objective in LDCs should be to ensure adequate inflow of foreign technology and know-how. With major technological innovations and changes in most production and service sectors, the technology gap between industrialized and LDCs has tended to increase considerably in recent years. At the same time, with greater diffusion and licensing of technology, the market for technology, except those covered by patents, copyrights, or proprietary know-how, has expanded considerably, and most industrial technologies required by developing countries are available from multiple sources including, for several 'mature' technologies, from other developing countries, such as Brazil, India, Mexico, the Republic of Korea and Taiwan Province. The choice of suitable technology in undoubtedly a critical issue for developing countries, as are the terms and conditions under which these are secured, either through subsidiaries/affiliates of transnational corporations or joint ventures or non-affiliate licensing. For this purpose, effective institutional facilities for information on alternative technologies and is most necessary, which can be utilized by developing-country enterprises. It is also necessary to provide institutional support to local enterprises regarding the intricacies of negotiations with respect to technology agreements and management and service contracts. At the same time, LDC enterprises must take advantage of the expanding market for 'mature' technologies, which are in most demand, in these countries. To the extent that the latest technologies may be required in certain fields, these can also be identified and sought to be acquired, wherever necessary. Technological self-reliance should be viewed not in isolationist terms, but as the capability to exercise suitable choice and to acquire and absorb industrial technology on reasonable terms and conditions.

In this context, the role of governmental institutions screening technology agreements, which continue to exist in some LDCs, needs to be reviewed. Such regulatory measures may have been necessary at the time in order to strengthen the bargaining power of technology licensees from LDCs and to insulate national economies from inequitable terms and conditions in such agreements. Over the years, however, there is not only increased knowledge of such terms and conditions in most LDCs but greater acceptance on the part of licensors regarding particular conditions which are considered to be undesirable in most of these countries. As a result of these developments, there has been considerable liberalization in legislation and on procedures and guidelines with respect to technology agreements in most developing countries

and the same approach should be extended in LDCs where increased technology inflow is most needed.

It is important for private-sector development in LDCs that technology choice and conditions of transfer are left to user
enterprises, as far as possible. Consequently, any guidelines or regulations in this regard in LDCs should be very limited, and confined only to certain issues.

It is equally important, however, that a promotional approach towards foreign technology be adopted by governmental institutions dealing with industrial and technological development. This should be supportive of the role of the private sector, as also of state-owned or 'mixed' enterprises, with respect to information on alternatives and training in negotiations for technology acquisition which should be extensively undertaken for private-sector entrepreneurs in LDCs.

What is true of technology and know-how agreements may be even more applicable for specialized service contracts, ranging from turnkey construction contracts to management contracts and buy-back arrangements. Here again, emphasis should be given to the development of greater awareness and capability, through sensitization and training, for entrepreneurs and representatives of enterprises in LDCs.

Promotion of domestic entrepreneurship: It is essential for local enterprises and entrepreneurs in these LDCs to take the initiative for new investments and technology. Increased business training of entrepreneurs in LDCs is a major pre-requisite for accelerated private-sector growth. Programmes of training in basic business techniques must cover production techniques, accounts and marketing, up to the stage of preparation of business plans for establishment or substantial expansion of industrial and commercial enterprises. Domestic entrepreneurship development also requires considerable institutional support. This can range from availability of credit from financial institutions at low and concessional rates, to availability of physical facilities such as industrial estates and technology parks; assistance in production technology and marketing, and development of linkages with foreign enterprises.

Role and scope of privatization: The range of privatization of state-owned enterprises in LDCs increased considerably, particularly since the mid-1980s and in 1990-92. The objectives and issues relating to privatization in LDCs vary considerably. In most LDCs, local capital markets are inadequately developed and private-sector participation may be very limited. Conditions of operations of state enterprises also very considerably. It is, however, expected, that transfer of ownership in LDCs to private investors will substantially improve efficiency, productivity and competitive capability of privatized enterprises; generate revenues for the government from the sale of such companies and assets, and mobilize substantial financial resources for modernization and expansion, and acquisition of modern technological and managerial expertise. The latter objectives are particularly applicable in the infrastructure sector, such as electric power supply, telecommunications, and transportation, but can also be extended in industrial and manufacturing sectors. Several governments have privatized sugar mills, textile plants, and other industrial and manufacturing activities where the enterprises needed to be more responsive to rapidly changing demand and higher standards of performance.

Preconditions and constraints: These vary from country to country and extend from the political will to privatize state-owned assets to the viability of such enterprises and the availability of purchasers. Privatization can only be undertaken if there is a commitment of the government to implement privatization and a general consensus of political decision-makers and

other major interest groups. This is not always the case and the reaction to privatization in several countries has not always been favourable. The regulatory framework also needs to ensure that privatized monopolies face competition, whether internally or through imports, so that new owners do not take undue advantage of their monopolistic situation. The commercial viability of enterprises to be privatized can also be an important constraint. The privatization of enterprises with outdated products, technology and equipment can only take place either if they are restructured and modernized or if they are divided into smaller viable units of production or services, or if they are sold at nominal prices and restructured thereafter with substantial new investments. A major limitation can also relate to the financing of privatization. Weak domestic financial systems can constitute a major constraint, particularly in LDCs. Local stock markets are either not available or have very limited absorptive capacity in these countries. Experience of privatization indicates that, if the government is committed to privatization, adequate progress can be achieved, even in LDCs.

Enterprise restructuring: A critical issue in LDCs may be whether any enterprise restructuring is necessary, prior to privatization, or whether the matter should be left solely to market forces. This is an issue also faced in former centrally-planned economies. It can be argued in such cases that any restructuring may well lead to infructuous expenditure if this is not fully reflected in increased value, following such restructuring. On the other hand, a certain degree of restructuring may well be required to achieve adequate response for privatization. Varying degrees of restructuring could significantly increase the value of an enterprise or ensure that the overall returns for privatization are enhanced. In most cases, legal restructuring of the enterprise may be necessary. In others, financial restructuring may be required for enterprises constituted as corporate entities. The more important implications of restructuring will, however, be in situations involving changes in the industrial structure and where major resource allocations have to be made to enhance the viability or value of an enterprise. This should take into account the implications for valuation, as also the extent of surplus labour which will have to be handled. The extent to which restructuring, if any, should be undertaken needs to be assessed for particular enterprises. In several cases, plant operations may comprise certain independent production or service activities which could be separated from the principal plant and assets to be privatized and either sold separately or retained.

Prospects for privatization: It is likely that privatization of state-owned enterprises will continue during the 1990s in LDCs where substantial industrial and business activities are still held by state-owned entities. In some countries, various stages of saturation may have been reached while in others, the number of state enterprises may have been initially limited. In countries where such enterprises were set up only in certain fields, particularly infrastructure development, there may not be much scope for privatization. However, for a number of LDCs, there continues to be substantial potential for privatization during the 1990s.

Sectoral priorities

Apart from the need to accelerate socio-economic growth in LDCs through industry and services, a major challenge will be posed to these countries as a result of the Uruguay Round Agreements. If LDCs are to adequately avail of the positive effects of liberalized trade, fundamental changes are necessary in the pattern of production and trade in these countries. While the short-term, negative effects of these Agreements will be largely cushioned by the 'safeguards' provided for LDCs, these countries must adjust to a liberalized trade regime over a

period of time. This will necessitate a major reorientation of industrial policies and programmes in these countries to ensure the development of competitive capability in certain niche areas.

With the small and limited base for industries and services in most LDCs, the liberalization of trade through the Uruguay Round Agreements is unlikely to contribute to industrial growth in these countries. In fact, the potential gains from improvements in market access will be more than offset by losses due to increased competition in international markets and erosion of the existing tariff preferences, particularly for sub-Saharan African countries under the Lome Convention and the Generalized System of Preference (GSP). The categories of goods that are likely to be most affected by the Uruguay Round Agreements are: tropical and temperate agricultural products, natural resource-based products, leather and leather products, and textiles and clothing. It seems likely that in the short/medium term, world prices for temperate agricultural products will increase, mainly due to reduced protection in developed countries while tariff cuts in tropical agricultural products are expected to erode the preferential margins currently enjoyed by many African countries.

The build-up of a sound industrial base constitutes an essential prerequisite to enable LDCs to benefit from trade liberalization in the long term. While the safeguards provided will be useful, their impact will be limited and time-bound. Production and trade in these countries must gradually be adjusted to the mainstream of global trade and investments. This requires a major restructuring of industrial growth in each LDC and the development of closer linkages with enterprises in other countries. LDCs will need substantial investment and technology inflow, both from transnational corporations and from enterprises from industrialized countries but also increasingly from other developing countries such as the Republic of Korea, China, Singapore, India, and the Gulf countries form Asian and from Latin American countries. There is enormous potential for economic and technological cooperation (ECDC/TCDC) between LDCs, which must be fully explored. At the same time, the necessary promotional environment will need to be created and sustained in LDCs for promoting and developing local private sector enterprise-level capability to achieve rapid increase in production and exports of non-traditional manufactured products.

A new industrial strategy for LDCs must be based on an analysis of sectoral potential and priorities in each LDC, on the one hand, and a restructured industrial base, comprising a greatly-increased number of local entrepreneurs and enterprises setting up small, medium and micro enterprises in the private sector, on the other. The role of governments would not only be to create a suitable climate for new industrial investments but to provide a wide range of institutional support and services to local enterprises. This would involve a major attitudinal change both on the part of government agencies and personnel and on the part of local enterprises. There is, however, no alternative but to achieve competitive capability in selected subsectors and products through local SMEs and to extend small and micro enterprises to rural regions, as far as possible.

Linkages with agriculture: Most LDCs continue to be largely dependent on agriculture as can be seen from Table 2, though linkages between industrial production and mining and construction activities and with service sectors such as tourism and transportation, have also developed in recent years. The priority subsectors for most LDCs will continue to comprise of foodgrains and processed foods; textiles and garments, supply of agricultural inputs such as agricultural equipment and implements, seeds and fertilizers, besides metal products and basic consumer-goods production. In the case of island LDCs and several others, including land-locked

economies such as Nepal, tourism has considerable potential and activities have to be geared towards promotion of tourism, including provision of luxury hotels, car rentals and other facilities, together with production of handcrafts and products of tourist interest. Even in these LDCs, however, production linkages with agriculture, including fisheries, is of major importance, particularly for food sufficiency, and for development of agro-related subsectors where export capability can be developed in selected fields.

It must be emphasized that, with increased market orientation, investment choice must rest primarily with local enterprises. Special incentives may be directly related to development of export capability. Export incentives will be permissible for LDCs under the Uruguay Round Agreements and these should be structured to both provide special promotional facilities such as quality control and standardization and financial incentives for increased exports. Apart from development of an appropriate investment climate and export incentives, governments can provide information and guidance as to potential areas of investment and growth for local enterprises. This has been undertaken only in certain LDCs and with limited success and has been largely confined to state-owned enterprises and organization. The determination of potential growth areas should, as far as possible, be tackled by local experts, including from the private sector. It would be desirable to set up small advisory groups, comprising of government and private-sector representatives to assess the growth potential in selected fields. If local consultancy agencies are needed for more detailed review of certain issues and features, this should be provided for. The subsectors for which analysis and review may need to be undertaken cover several broad fields, some of which are listed below.

Agriculture equipment and implements: This is an important subsector for most LDCs and ranges from production of small tractors and power tillers and fishery equipment to common-use agricultural implements. Production can be undertaken in most LDCs and there is considerable potential for joint ventures with foreign enterprises, particularly from more-industrialized developing countries. A key element will be the extension of local repair and maintenance facilities, which would be largely provided by the 'informal' sector in rural areas.

Food processing: The agro-based, food processing sector provides the largest share of manufacturing value-added in most LDCs, ranging from Bangladesh to Ethiopia and Tanzania. This subsector includes grain processing; sugar production; production of vegetable oils and fats; meat processing; production of dairy products, and fishing and fish processing. In some LDCs, such as Liberia, palm oil processing is providing considerable scope, including for soap manufacture.

Textiles and garments: This subsector, which is fairly well-developed in several LDCs, including Bangladesh and several African LDCs, has considerable potential for exports. Exports of textiles and garments from Bangladesh are already well-established and has considerable growth potential. There is also a growing market for African textiles in Europe and the United States of America and considerable potential for increased investment, production and exports in this field from a number of African countries.

Fertilizers: This is a key input for the agriculture sector in most LDCs. Considerable raw material is available in a number of LDCs and there is substantial scope for expansion of investment and production in this subsector to strengthen the agriculture base in these countries.

Paper and packaging and woodworking: There is considerable scope for new investment

and production in paper, packaging and woodworking industry in several LDCs, particularly in Africa. With growing internal demand and in surrounding countries, there is considerable potential for meeting regional demand and requirements for paper and packaging and for woodworking products, particularly furniture.

Metal products: This subsector covers an enormous range of products, many of which have considerable potential in LDCs. There is also considerable potential for transfer of production from industrialized economies of certain processing and component manufacture, including castings and forging, and components for automotive and engineering-goods industries, as has taken place from Japan to several Asian economies during the 1970s and 1980s.

Building materials: With a fast-growing construction sector, there is growing demand for building materials in most LDCs and considerable scope for increased manufacture of cement, lime, tiles for roofing, pipes and other construction materials. While growth in this subsector would largely be channelled to meet increased internal demand, it would contribute significantly towards accelerated industrial production.

Consumption-goods industries: With limited local production, there is considerable unsatisfied demand for a wide range of consumer products in LDCs, despite low purchasing power in these countries. The promotion of SMEs would greatly encourage the rapid growth of the consumer-goods sector, including consumer electronics, and production of electronic components, subassemblies and assembly of computers and telecommunications equipment, which would have considerable potential in these countries and, in which, niche areas for export could be developed.

The assessment of sub-sectoral priorities in each LDC must be viewed primarily as the identification of broad potential in certain fields. It would be for private-sector enterprises to select and initiate new investments in these fields and develop appropriate external linkages.

Restructuring of the industrial sector

In most LDCs, the manufacturing sector is still so limited that a new industrial strategy and programme can, and must be developed, particularly if LDCs are to enter the mainstream of global trading relationships, following the Uruguay Round Agreements. While it is recognized that the private sector must constitute the principal engine of industrial growth in these countries, relatively little effort has been made in these countries to create the entrepreneurial skills and enterprise-level initiatives necessary for sustained private-sector growth.

The restructuring of the industrial sector in LDCs must be based not only on a greatly-expanded entrepreneurial development programme and promotion of SMEs through institutional support for local enterprises in finance and credit, technology, marketing and external linkages and on the one hand and on rapid growth of 'micro' enterprises in the informal sector, on the other. In fact, the socio-economic dimensions of industrial growth need to be accorded special emphasis in LDCs.

Socio-economic objectives

Since the essential goal of industrialization in LDCs is to improve living standards

through increased employment and income and to alleviate poverty, industrial policies must be closely related to issues impacting on socio-economic growth. The socio-economic implications of industrialization are of special importance in LDCs and can relate to the nature and size of enterprises, the location of industries, the pattern of rural industrial development and the nature of industrial activities in the 'informal' or 'unorganized' sector, together with the policies and measures required to support industrial activities at various levels. An important factor is also the development of close linkages with the agricultural sector, both with respect to meeting the needs of agriculture and related activities, and to processing of agricultural products.

Micro enterprises: The first issue is the size and nature of industrial enterprises that need to be promoted. As emphasized in the previous section, industrial restructuring in LDCs should largely concentrate on small and medium enterprises in the private sector. These must, however, include an additional category of micro enterprises, which are of special importance in LDCs. Micro enterprises comprise very small industrial units, often operating out of households or as cottage industries, usually run by the family or with less than 5 employees and with capital assets of less than $ 5,000, often much less. Such enterprises can cover a wide field of activities, extending from 'smoked' fishing facilities to production of handicrafts, processing of agricultural products; production of materials, maintenance and repair shops and several other activities. There is a considerable range of productive activities that can be undertaken through micro enterprises, particularly in rural areas of LDCs. Considerable success has been achieved in Bangladesh, Ghana and several other LDCs in the promotion of micro enterprises. The principal support required is finance, usually in the form of small amounts of revolving capital at levels below $ 100 in certain cases and up to $ 1,000 in most cases. Technological support can take the form of training facilities, both for providing elementary business knowledge and providing guidance in choice of products, and equipment and technology to be used. Successful micro enterprises tend to grow rapidly into small and medium industries and need to be actually promoted and encouraged through support facilities for credit, on the one hand, and technology and marketing on the other. In certain countries, preference is given to the products of cottage industries and micro enterprises, both by way of pricing and through bulk purchase by governmental departments and agencies.

Industrial dispersal to rural regions: A major factor impacting on socio-economic growth is the need for greater dispersal of industry to rural regions in LDCs. A high degree of concentration in urban centres constitutes a major problem of industrial location, both from socio-economic and environmental considerations and there is urgent need for actively promoting industrial dispersal. The principal means to bring this about is to provide greater physical and other support facilities in rural regions. While such facilities are obviously necessary in urban areas of LDCs where SMEs are likely to be concentrated, facilities such as rural banks or institutions such as the Grameen Bank in Bangladesh, should be available to meet the credit needs of small and micro enterprises in rural areas. Technological support facilities must also be provided in rural areas through: (a) extensive training programmes for entrepreneurial training in rural areas, particularly to potential women entrepreneurs up to the stage of preparation of business plans; and (b) training in particular crafts or industrial activities, such as tailoring or food preservation and processing or repair of agricultural machinery and engineering goods used in rural areas, and the like.

Industrial activities in rural regions of LDCs should necessarily be closely linked to agriculture. Such activities should provide essential inputs to agriculture, such as production, supply and repair and maintenance of agricultural machinery and implements; production and

distribution of seeds; mixing of fertilizers, and distribution of other inputs and requirements for agriculture. Such activities should also include storage facilities for agricultural products, ranging from food grains to fruits and vegetables and processing facilities for various agricultural products, as may be feasible.

The networking of SMEs and micro enterprises in the rural regions of LDCs is an important function, where governments need to perform a major role. It is important, that for each LDC, including island economies, a broad assessment is made of the industrial potential in relation to local needs, both in rural regions and for the economy as a whole. Local involvement, including of private sector entities, is important in making such an assessment, which should include tentative estimates of likely investments required. In some cases, pre-feasibility studies may need to be undertaken for some of the fields having special potential. In most cases, however, once the broad potential is identified, entrepreneurial training programmes, which should be undertaken in each LDCs, should be able to channel interested entrepreneurs in the direction of potentially viable investments.

The socio-economic impact of industry in LDCs should become increasingly significant, both in the 'organized' sector of industry and in the 'informal' sector. As mentioned earlier, in most LDCs, the number of enterprises is still very limited and industrial growth has been very slow. It is important that the number of SMEs in the 'organized' sector is increased rapidly through an expanded programme of entrepreneurial training, combined with institutional support for credit, on the one hand, and technology, marketing and external linkages, on the other. SMEs in the organized industrial sector must become competitive in external markets over a period of time, necessitating quality standards and use of competitive technologies. Industrial activities in the 'informal' sector need to be geared to local needs and requirements and while these should also become competitive over time, the immediate need is to extend the industrial production base to rural regions as far as possible.

Dualistic approach: Increased emphasis on the socio-economic dimensions of industrialization highlights the need for a dualistic approach to industrial development in most LDCs. On the one hand, local SMEs should achieve competitive capability in external markets in selected niche areas as far as possible. On the other, industrial development in LDCs must become more dispersed and broad-based and extended to rural regions, largely through small and micro enterprises, both in the 'organized' and 'informal' sectors.

Role of governments and institutional support

It is obvious that the role of governments in LDCs will become increasingly wide-ranging, particularly with respect to institutional support for private-sector enterprises. With limited inflow of FDI in most LDCs, the initiative for industrial growth must be undertaken by local entrepreneurs. The first need is to take up extensive entrepreneurial development and training programmes in each LDC, followed up by specialized courses in finance and accounting, marketing and in production management. It should be possible to have a target of 200 entrepreneurs annually in some of the LDCs, such as Bangladesh, Tanzania and Uganda, and at least 100 trainees annually in the smaller LDCs and island economies. Institutional support should take the form of long-term credit and working capital through specialized institutions for this purpose in each country and support in technology, marketing and quality standards, together with external linkages in these fields, through a local institution or institutions, with participation and involvement of private-sector organizations. It will also be necessary to provide physical

facilities in the form of industrial estates, technology incubators and industrial parks with common-service facilities in several of the LDCs. The development of export-processing zones is also likely to have considerable potential in some of the LDCs, including island economies.

Institutional support requirements for rural industrial development in LDCs may be similar in scope but different in magnitude than for urban industrial enterprises in the 'organized' sector. The industrial activities to be undertaken would be largely geared to local needs and requirements. There will not only be considerable awareness of the nature of such activities but of their scope and magnitude. The three major issues which would nevertheless have to be tackled would be to stimulate entrepreneurial interest; arrange credit facilities, and provide technical guidance and support. It would be important, firstly, to also undertake entrepreneurial training programmes in rural regions in LDCs, particularly for potential women entrepreneurs in fields such as agro-processing. This has already been undertaken successfully by UNIDO in certain African countries and the programme needs to be substantially expanded to other LDCS. Secondly, provision of credit is a basic facility which must be met, if small and micro enterprises are to be successfully developed. Alternative institutional mechanisms can be developed in different countries. Non-government organizations should increasingly be utilized for this purpose and the World Bank and Regional Banks should support and supplement such facilities. Thirdly, technical guidance and support should be provided, either on a sectoral basis to groups of enterprises or entrepreneurs in a particular industrial subsector or for particular geographical districts and regions through district and regional industrial countries manned by expert, technical personnel. The nature of training and guidance would obviously differ in the two cases, though there could be combination of such training facilities.

Integrated industrial development: Programmes for industrial development in LDCs must be increasingly integrated into a pattern which covers rapid growth of industrial enterprises on the one hand and dispersal of industry to rural regions to maximize socio-economic benefits in terms of employment and income for more vulnerable areas and sections of population, on the other. There must be increased emphasis on promotion of SMEs in the private sector through expanded entrepreneurial training and institutional support for credit and for technology, marketing and external linkages. At the same time, the role of small and micro enterprises will have greater scope and potential in LDCs, particularly with respect to rural industrial development.

4. THE ROLE OF UNIDO AND INTERNATIONAL AGENCIES IN PROMOTING ACCELERATED PRIVATE-SECTOR DEVELOPMENT IN LDCs

Advisory and technical services of UNIDO and other international bodies and agencies to LDCs have been largely structured around the role of governments and governmental institutions in various fields. While the International Monetary Fund and the World Bank have largely dealt with macro-economic issues and policies, specialized agencies, such as UNIDO, have concentrated on programmes and activities in their respective fields. With the changed emphasis on private-sector development, it will be necessary to ensure a fundamental change in the approach of international institutions. While programmes would still be centered around policies, institutions and enterprise-level activities, considerable restructuring of such programmes will be necessary to ensure appropriate linkages, both with national authorities and with private-sector entities. It is only through such linkages that relevance and sustainability of such

programmes can be ensured.

Since UNIDO is required to play a coordinating role with respect to industrial development in LDCs, it will need to discharge a wide range of functions with regard to private-sector development and increased market orientation. A comprehensive programme needs to be taken up for enhancing the private-sector's role at the three levels of promotional policies, institutional support functions and enterprise-level technical support.
At the same time, several other international agencies are involved in development of LDCs ranging from IMF and World Bank to specialized agencies such as ILO and United Nations bodies such as UNCTAD and UNIDO needs to ensure affective coordination with these organizations with respect to industrial policies and programmes.

Since the coverage of industrialization is very wide, the functions and programmes of UNIDO will need to be concentrated on specific aspects of private-sector development. These should relate to:

(a) policies, legislation and guidelines relating to industrial investments and technology and development of a promotional policy framework for mobilization of new investments through financial incentives, tax concessions and other measures;

(b) advisory functions with respect to privatization polices, strategies and implementation, including pre-privatization measures and selection of enterprises to be privatized; valuation of enterprises; assessment of surplus labour and implications, and financing of privatization;

(c) institutional support for industrial information and development of information systems on markets, technology and alternative sources of investment, technology and specialized services in various subsectors;

(d) institutional assistance for development of local entrepreneurial and business capability together with the promotion of small and medium enterprises and linkages within internal markets and external sources;

(e) reorientation of industrial support institutions to ensure close linkages with private-sector bodies and institutions and to provide technical support in various industrial subsectors for enhancement of technological competitiveness and export capability;

(f) institutional support for promotion of enterprise-to- enterprise relationships through joint ventures, licensing, franchises, and various contractual arrangements between local and foreign enterprises.

It is necessary that UNIDO should adopt a new and integrated approach for industrial development in LDCs. It must be recognized that a new constituency of the private sector has emerged, which must be developed and nursed by UNIDO and other international agencies involved in developmental programes. There has been little contact with private-sector bodies and groups in the past. This will have to change. In some LDCs, private-sector representative bodies and associations are very weak and will need to be supported and strengthened. It will also be necessary to establish a direct link with the private sector in most LDCs. Workshops on 'Negotiations' and negotiation techniques can be very useful and popular in developing such linkages. Other areas where there is considerable potential for direct contacts in a number of countries is that of entrepreneurial development and development of information systems on markets, investment and technology. In all these cases, however, the approach must necessarily be country-specific. Conditions vary considerably and priorities and programmes have to be adjusted to local conditions. The concept of a free market itself must be related to the specific needs of local industry at various stages of growth. A country-specific approach also requires adequate knowledge of local conditions, and constant interaction with senior government representatives with respect to objectives and policies. The strengthening of field offices which

can deal directly with national authorities on a continuous basis, therefore, becomes an essential pre-requisite.

UNIDO assistance for accelerated private-sector development in LDCs can range from advisory services on policies and legislation to providing institutional facilities and services to local small and medium industries; developing contacts with respect to investments and technology transfer arrangements between local enterprises and foreign enterprises; and developing negotiating capability for various contracts. It may also be necessary for UNIDO to provide specific assistance on particular contracts or on negotiations between local enterprises and large transnational corporations. Enterprise-level assistance can also be provided with respect to rehabilitation/modernization programmes, particularly in the context of privatization and with respect to management and technology support including absorption and blending of new technologies. An important field of growing importance to UNIDO is provision of advisory assistance to LDCs on environment and energy policies and regulations and the implementation of environmental programmes and activities relating to industry.

Advisory services on industrial policies can cover a wide field, extending from legislation to sectoral priorities. Broader issues covered under industrial policy would include legislation and regulations, and guidelines and procedures on:

(a) financial participation by industrial finance bodies and other governmental or semi-governmental organizations;

(b) laws and guidelines relating to patents, trademarks, copyrights, proprietary technology rights, and unpatented technology and know-how;

(c) policies and legislation on areas covered by new technologies such as computers and telecommunications, besides software development;

(d) incentives for industrial investments, including tax holidays, accelerated depreciation, exemption from customs duties, etc.;

(e) assessment of state-owned enterprises for selecting enterprises for privatization together with the mechanics and modalities of privatization in particular cases;

(f) development of a comprehensive programme for small and medium industries in terms of policy support; preference in procurement; assistance in supply of scarce raw materials, etc.;

(g) development of investment promotion agencies, particularly for foreign investment, supported by effective information systems on alternative sources for foreign investment and/or technology.

Privatization: UNIDO can undoubtedly play a major role in assisting LDCs in privatization. UNIDO has been involved in advisory services on privatization in certain developing countries and in transition economies, including Albania and some CIS countries. Advisory activities relating to privatization have to be considered at two levels, firstly, for the economy as a whole and secondly, in relation to specific industrial enterprises. UNIDO's role in privatization in LDCs would largely fall in the second category where privatization would be primarily related to industrial and service enterprises. The approach would tend to be enterprise-specific but within the framework of national priorities. The exercise of selectivity in determining the scope and range of privatization is an important and critical function. A rush towards privatization of enterprises, irrespective of viability and market value of the enterprises in question and the form and nature of privatization may raise more problems than it solves. In any event, UNIDO assistance would be useful for LDCs in determining the scope and range of privatization; the guidelines that should govern privatization of industrial enterprises; the

principles governing valuation of assets, determination of viability, including through splitting of assets into viable production or service units; assessment of likely investors, domestic and foreign; determination of the modalities for privatization, and assessment of final results.

Support to small-, medium- and micro enterprises: Small, medium and micro enterprises will undoubtedly play a critical role in LDCs and UNIDO can perform valuable advisory and support functions. These functions would range from advice on promotional policies and creation of an appropriate environment for growth of SMEs and institutional and enterprise-level support on various aspects of operations of such enterprises. The most important of these functions would relate to:

(a) promotional policies for development of SMEs, including tax and financial incentives; procurement preference; provision of physical facilities, etc;

(b) development of specialized institutional facilities for industrial finance for SMEs;

(c) provision of adequate facilities for entrepreneurial and managerial training for local entrepreneurs besides development of specialized skills in accountancy, marketing, etc. for personnel of SMEs;

(d) development of institutional support facilities and guidance in metrology, standards and quality control;

(e) institutional support through effective industrial information systems and linkages with industrial databases on markets and technologies;

(f) institutional assistance for contacts and linkages with large-scale industries and foreign enterprises for development of joint-ventures, technology licensing, buy-back and marketing arrangements, distribution facilities and franchises between foreign companies and local SMEs:

(g) development of institutional capability in applied industrial research in selected subsectors; and

(h) creating an overall climate for growth of local SMEs.

Financing of SMEs and micro enterprises: The establishment of specialized development finance institutions must be viewed as being of great priority in most LDCs where availability of industrial finance for SMEs is limited and involves insistence by commercial banks on substantial collateral security from local enterprises. International and regional banking institutions have provided facilities for industrial finance but it is often difficult for local SMEs to avail of these facilities, because of collateral and other requirements. There is great need and potential for the World Bank and Regional Development Banks to collaborate with international bodies such as UNIDO, dealing with investment promotion and enterprise-level development and evolve suitable financing arrangement for SMEs in LDC regions.

Entrepreneurial training: UNIDO can play a major role in the extension of entrepreneurial and managerial training for SMEs. In a number of LDCs, there continues to be pronounced need for entrepreneurial training. Such training is being undertaken by specialized agencies, such as UNIDO and ILO and also by other United Nations bodies. UNIDO needs to undertake a greatly-expanded program for entrepreneurial training in most LDCs, where local entrepreneurial capability is still limited and inadequate.

Managerial training: UNIDO can assist significantly in the implementation of programs for improved management techniques and applications by SMEs in LDCs. These can be undertaken not only directly through managerial training workshops at national and regional levels, but through specialized management training of trainers, who could be located in local

management institutions, universities, and other local organizations. It should also be possible to arrange for managerial training through some large-scale industrial enterprises, who may be willing to assist local SMEs in this regard.

Foreign contacts and linkages: Despite its critical importance, relatively limited activities have been initiated in this regard through organizations, such as UNIDO. There is considerable scope for an expanded programme by UNIDO to develop such linkages, both with large-scale industries in the same country through ancillary industries and subcontracting, and with foreign enterprises through technology, marketing other contractual arrangements.

Negotiations and contracts: UNIDO has been providing advice and guidance on negotiations and contracts of various types. There is great demand for such advisory services, both through workshops and seminars and for particular enterprises and contracts, and this programme could be greatly expanded to cover SMEs in LDCs.

Standardization and quality control: Institutions and bureaux for metrology and standardization and for quality control have been set up in several developing countries. These have not, however, been set up so far in most LDCs. It is necessary for UNIDO to take up an expanded programme in this regard, including for compliance with international standards such as ISO-9000.

Industrial information: The development of information systems and linkages with international data bases, is emerging as an area of crucial importance for SMEs in LDCs, not only for collection and analysis of industrial and market trends and intelligence in various fields, but for assessing alternative markets and alternative sources of investment and technology. UNIDO could greatly assist in the development of such facilities.

Technology application and development: Institutional assistance for technological development and new applications is a specialized field where UNIDO assistance would be particularly useful for SMEs in LDCs. UNIDO's technical services with respect to industrial technology could be provided at different levels, depending on requirements. Firstly, information on alternative technologies, including environmentally-suitable technologies can be provided. This would primarily be an information function. The second level could involve assessment of alternatives, as also the operationalization of new and modern technologies in different fields and the possible blending of such technologies with existing production or service activities. This would include the use of computer-aided designs for traditional industries, such as textiles, shoes and other consumer goods or the use of computerized booking and ticketing systems for international airlines and hotels. The third level of technological support for SMEs in LDCs relates to UNIDO support and services in the development of strategic alliances between enterprises in LDCs and those in more industrialized countries. UNIDO can also be of considerable assistance in defining emerging technological trends and assessing the likely impact of technological change in particular LDCs, as also providing guidance and support to local applied research efforts in these countries.

With respect to investment promotion and technological linkages UNIDO can play a significant role, both in establishing contacts for LDC enterprises with potential investors or buyers from other countries and in the negotiations of different types of contracts between the parties concerned.

Strengthening of private-sector organizations: An important role emerging for UNIDO is the development and strengthening of private-sector organizations dealing with industrial development in LDCs. Little activity has been undertaken in this regard so far. Institutional support has hitherto been primarily provided to government-sponsored institutions. While Chambers of Commerce and industry bodies and associations exist in several LDCs, these are of various levels of competence and representation. UNIDO can develop new initiatives and programmes to assist and support representative private-sector associations. In several countries, such associations may not exist at all, or may require considerable strengthening.

Enterprise-level assistance: UNIDO will need to provide assistance to LDC enterprises, primarily through industrial support institutions. This can include direct training of personnel of LDC enterprise or technical assistance for rehabilitation and modernization of individual enterprises.

UNIDO is in an uniquely advantageous position to ensure a comprehensive programme of assistance on industrial policies, institutions and enterprise-level support. Apart from its overall mandate, UNIDO is equipped with multi-disciplinary personnel in different fields. Through its field network, UNIDO can also ensure that its programmes with respect to private-sector development are effectively tailored to specific country needs and priorities.

5. WORKING PAPERS ON INSTITUTIONAL MECHANISMS AND SUPPORT FUNCTIONS IN LDCs

The weak economic and industrial performance of LDCs, as analyzed in the previous sections, has highlighted the need for major strengthening of institutional mechanisms in LDCs if private-sector growth is to be substantially accelerated. It is somewhat paradoximal that the effective enhancement of the private sector's role should require even more support functions than during earlier periods when state-owned enterprises wre dominating commercial and industrial activities in several of these countries. THis is, however, essential during a period when industrial activities and enterprises are in their early stages in these countries and when technologica developments in more developed economies have significantly increased the level of competitiveness in various industrial subsectors. The chaning role of governments in these countries further needs to ensure that the strengthened institutional mechanisms are closely linked with representative private-sector bodies and associations in each country, so that private interest can participate in, and gradually take over , the functioning and management of such institutions. Adequate sustainability of such institutions must be achieved over a period of 5 to 10 years at the most but, during such period, governments in LDCS have to take the necessary lead and initiative to ensure that adequate institutional support functions are provided to local industrial enterprises.

The institutional mechanisms and support functions need to be covered under eight principal categories, namely human resource development, particularly entrepreneurial development; provision of finance and credit; industrial information; support in technology; assistance in marketing, both in internal and external markets; development of external enterprise-to-enterprise linkages; supply of specialized services, particularly standardization and metrology, and designs and packaging and industrial extension se.vices to meet the needs of local enterprises

in both the 'organized' and 'informal' sectors. The Working Papers on these subjects highlight the principal aspects that need to be considered on each of these issues. The nature and magnitude of these issues will obviously differ form country to country and with respect to various industrial subsectors. Nevertheless, certain critical aspects have to be covered for each of these essential support functions which have to be provided through local institutions.

WORKING PAPER (A): HUMAN RESOURCE DEVELOPMENT

The development of human resources constitutes the core for sustained economic and industrial growth. While educational systems and vocational and other training facilities in LDCs have created a pool of skilled and semi-skilled labor, there continues to be a major gap with respect to three categories; entrepreneurs, technologists and specialized technical categories, and managerial personnel. The assumption that free-market conditions will automatically create such categories of personnel is not borne out by the unsatisfactory experience and pace of industrial growth in LDCs so far.

The most pressing need in LDCs for accelerated growth of industrial enterprises is to create a new class of local entrepreneurs, including women entrepreneurs, who are interested in business and industry, and are specially selected for an entrepreneurial training course and related practical business management training. Can entreprenerus be created? The answer lies in the fact that persons interested in business and indsutrail activites can certainly be provided the necesary motivation and guidance through training programmes for enterepreneurship and basic business managment. Several international courses have been developed which are quite successfull and are being applied in various countries. Some United Nations bodies such as the Department for Development Support and Management Services (DDSMS) and UNCTAD utilise a training program generally known as EMPRETEC, which has been quite successful in some countries in Latin America and Africa. Germany's development agency, DTZ, also has an entrepreneruship development program. A program for entrepreneurship development is also operated by UNIDO, which is modelled on the lines of Enterepreneurial Development Programme (EDP) in India. These programs are essentially short-terms (2 to 3 weeks) initial courses to develop behavioral interest and enthusiasm in business and industrial activities. Basic business management training is covered in these courses, but needs to be supplemented by short, intensive courses on various aspects of business mangement such as preparation of business plans; tapping sources of investment and credit; setting up business or industrial enterprises in particular country situations; production planning; finance and accounts; inventory control; selection of technology, equipement and personnel; achieving quality standards; determination of sales and marketing strategy, and developemnt of external enterprise-to-enterprise linkages. These areas of activities and expertise are necessary for local enterprises and entrepreneurs and, following an initial training program for existing and potential entrepreneurs, institutional support mechanisms have to come into play for developing various critical elements. The program for entrepreneurship training must lead to the effective promotion and support for the establishment and expansion of local small, medium and micro enterprises in LDCs.

It is necessary for LDCs to undertake programs for entrepreneurship training, following one or other of the models already utilized. In some of the larger LDCs, such as Bangladesh, Uganda, and Tanzania, initial entrepreneruial training progams should be undertaken for 200 potential entrepreneurs annually for a 3-year period to stengthen the entrepreneurial base in each country. In smaller LDCs, incldidng landlocked or island economies, such programs can initially be undertaken for 100 entrepreneurs per year. The cost of such programs depends on the model

which is used. An essential feature of each of these models is the training of trainers, so that often the firwst years of such program, the training function is taken over by locally-training personnel.

It is important to emphasize that entrepreneurial training constitutes only the beginning of the process of developing local enterprises. Much depends on the institutional support functions that are proviced thereafter. If these are inadequate or not in place, training entrepreneurs will only face frustration and disappointment and can add to the probelsm It is important that support institutional mechanisms are developed at the same timne as entrepreneurship training programs are undertaken.

Entrepreneurship training tends to be a continuing activity in developing countries. In India, EDP has continued over several years and continues to be in considerable demand. Once local trainers become available, the program becomes quite viable in terms of costs and can become increasingly self-sustaining. It is important, however, that entrepreurial training is co-ordinated through a local institution with close links to a private-sector body or association, so that it does not become a solely government-managed activity. While initial programs for entrepreneurial training require considerable support, including from UNIDO or other international agency, the program can gain momentum rapidly and can develop into a crucial program for human resource development in LDCs.

The training of technologiests and specialized personnel, particularly in designs has to be consdered at two levels. Firstly, training needs to be provided in computerized applicatoins, both at hte levels of technicians and through academic institutins. Several universities, suc has the University of the West Indies, are conducting graduate courses in computer programming and applications. Such facilities need to be extended in LDC institutions also. The second level relates to training in speciliazed fields such as designs of textiles or handicrafts or other LDC products. Such a program has to be considered in country-specific terms and in relation to potential demand for such specialists. Once this is identified, training facilities can be arranged through study tours, fellowships and the like. UNIDO has a major program in this regard, which could be usefully utilized.

The training of managerial personnel is also a vital requiement in LDCs. If local enterprises are to be competitive, these must be wellmanaged, and in accordance with international standards at their level of operations. Management training in LDCs can be arranged throug short-term intensive courses, either by managers of large industrial firms, including TNCs, in countries or through exernal experts or local consultants. Management training has to be related to the needs of enterprises, small, medium and micro, as are existing or are being developed in particular LDCs and need to be tailored to local requirements.

The development of human resources for industry constitutes and essential institutional support function for LDCs. Such a program should be developed for each LDC and should be channelled through a local institution with close linkages and involvement with private-sector bodies and association and which can develop into a self-sustaining institution over a period of time.

WORKING PAPER (B): INSTITUTIONAL FINANCE AND CREDIT FOR LDC ENTERPRISES

The requirements of loans and credit for local enterprises, particularly small-scale and micro enterprises cannot be satisfactorily met by traditional commercial banking systems in LDCs and require new and innovative mechanisms. Credit arragenemtns have to be related to need-based financing for different categoies of loans, depending on target goups such as small-scale factory units or micro units in various s ubsectors. New developmental finance institutions may need to be established withingf the framework of reglations of central banks in each LDC, which must be responsible for credit appraisal and monitoring, assessment of working capital and term loan requirements and follow up of loans. The major constraint faced by local enterprises is that of inadequate collateral security for term loans. The extent of collateral security which can be offered by small and micro enterprises is very limited. This is particularly so in the case of micro enterprises, specially those run by women. where property rights of women pay pose an additional problem. Though loan requirements of micro units are usually small and tend to revolve rapidly, the processing and appraisl of credit may pose practical difficulties for commercial banking organizations. Alternatives range from the successful Grameen Bank of Bangladesh to savings and credit cooperatives; traditional financial systems prevailing in certain countries, such as the 'Ikab' and 'Idir' systems in Ethiopia, or development credit institutions set up by non-governmental organizations in some LDCs. Innovative mechanisms also need to be considered such as hypothecation of assets created through loans directly to the lending body or rental of business tools and equpment in production subsectors such as garment manufacture or furniture production. Linkages with large-scale industries through subcontracting can also result in financing arrangements for small and micro enterprises, either directly from larger enterprises or through a financial organization. A number of alternative mechanisnms can be reviweed in the context of particular country situations.

In the case of small and mediunm-scale enterprises, involving substantial capital assets, such as factory buildings or machinery and equpment, financing agencies in LDCs will need to consider policies and guidelines which will ensure a greaer flow of both term loans and working capital to local enterpises. In some countries, as in the Philippines, a separate 'window' for small and medium enterprises was established by the Development Bank. In some countries, loans to local SMEs are supplied through developmental banking faciliteis which also participate in the equity to varying extent. It is also possible to consider the establihsment of a See Capital Fund to channel loans for capital investments by SMEs. Such a Fund could finance purchase of capital assets throug medium or long-term loans on the basis of hypothecation of such assets, combined with guarantees by the enterprise owners or, in certain cases, through equity particpation. Participation in equity ownership could be appropriately institutionalized through setting up stock exchanges in major commercial centres of LDCs.

An important institutional financing mechanism is that of venture capital funding, which is common in industrialized economies and in semi-industrialized developing countries. With limited prospects for resource mobilization in the LDCs themselves, initiative for venture capital funding and the setting up of venture capital funds may initially have to be undertaken by the World Bank or the Regional Banks.

Financing facilities in LDCs also need to be provided for various types of financial operaitons, most of which are closely linked to local enterpirses. One such field is trade finance, covering internal wholesale and retail trade on the one hand, and foreign trade, on the other. The

latter would necessitate local facilities for letters of credit (LCs) for exports and imports, standing LCs, bills of exchange; bank guarantees; performance bonds; repayment guarantees and other such arrangements.

It is also necessary to review money and capital market operations in LDCs, including modalities for development of a money market; development of instruments of money and capital markets; liquidity forecasting; debt instruments; conduct of open-market etheoperations, and supervision of money and capital markets in individual LDCs.

Together with the development of appropriate financing and credit instittuins in particular LDCs, it is important to prescribe suitable guidelines and to provide training courses for personnel of development banks and commercial banks in LDCs for dealing with local SMEs. Such trianing courses should relate to credit policies for SMEs; designing forms for loan applications, both for term loans and working capital requirements and, most importantly, project appraisel and monitoring. Project appraisel should include assessment of demand and initial investment requirements; cash-flow estimates; cost benefit analysis; strategic assessment of the enterprise and its potential; and financial techniques for analysis and evaluation of projects for which loans are sought. The feasibility of projects has to be assessed in terms of their comercial, technical, financial and economic aspects, together with the extent of involvement of the promotes of the project and assessment of their reliability. An important factor in this ragard could be the nature and extent of support provided by a local institution involved in the training of the entreprenerus concerned and providing assistance for the prepration of their business plans for various projects. While such instittuions cannot provide guaranteees against loans obtained by local entreprenerus, they could provide considerable evaluation and monitring functions for financing institutions and serve as a vasluable support and follow-up intermediary institution for local enterprises in their dealings with banking and financing institutions.

WORKING PAPER (C): INDUSTRIAL INFORMATION

The provision of adequate information constitutes an essential prerequisite for accelerated growth of industry and of local enterprises in LDCs. So far, the supply of such information has been fairly limited in these countries, though information systems have been, or being developed in some LDCs, particularly on investments as part of support programs of international organizations. It is necessary that an effective information system and network should be developed in each LDC on markets for selected products and subsectors; investments and potential investment sources, and alternative sources of technology and equipemnt in various fields of special interest to particular LDCs. This can be combined with information systems on trade data and materials. The information system should also contain data on industrial production in various fields, mineral production, energy products, etc; together with data and material on new investments, technology supply agreements, sectoral data, trade flows, and other essential material and information on particular LDCs. In the present information age, it is vital that LDCs should have adequate access to industrial information vital for local enterprises in these countries.

The setting up of an information system and network involves the installation of computers with modems and terminals and with access to a wide range of software and systems which can cover the full requirements of individual LDCs. Such information systems dealing with

a wide range of industrial information are presently being installed by UNIDO in certain developing countries. The organization and installation of information systems on national industrial data and on markets, investmetns and technology, and including trade data, should be accorded high priority. In view of the costs involved, such systems can best be developed and installed in LDCs through initial assistance of international organizations such as UNIDO. The scope and content of information covered by such systems and networks should, however, be determined by private-sector associations in each LDC.

Considerable equipment, including computers with modems, have been supplied by various international agencies and donor organizations to various LDCs. These have not necessarily been integrated into industrial information systems in these countries and have generally been utilized by various government departments and institutions. It would, therefore, be necessary for UNIDO and other international bodies to review the situation in each LDC and consider the scope and nature of the industrial information system that would be required in each country. Such review should necessarily be conducted in consultation with private-sector organizations and associations in these countries. An assessment should also made of the requirements of equipment, software and training facilities which are necessary for an effective industrial information system in each LDC. While some generalizations can be made regarding the nature of equipment and costs involved, it would be desirable to relate the assessment of equipment and other needs to the specific requirements of particular LDCs, so that each industrial information system would be tailor-made for the country concerned. The nature of information to be processed should be specifically related to user needs of local enterprises in LDCs who would be the principal users of such a system.

An important issue can relate to where an industrial information system should be located in an LDC. The most desirable arrangement would be to locate the equipement and facilities on the premises of the local Chamber of Commerce or association of industries in the LDC and make such bodies fully responsible for operations and maintenance of the system. This would not only ensure adequate access for local enterprises but would enable such information systems to develop into self-sustaining programs, with fees being charged to users for specific information services as are provided. In the event, however, that adequate facilities may not be available on the premises of local industry associations for installing equipement and systems, these may be initially located in a government institution or facility, but on the understanding that the system would be transferred to a local industry association as soon as possible. The management and operations of the industrial information system should, in any event, be entrusted to the local private-sector associaton and government agencies should not, as far as possible, be involved in the day-to-day management of the industrial information system.

WORKING PAPER (D): TECHNOLOGICAL SUPPORT TO INDUSTRY IN LDCS

While the provision of institutional finance for local industry poses a major constraint in LDCs, the delivery of effective technological support to local enterprises can be even more difficult. It is vital for LDC enterprises to utilize competitive technologies and expertise to compete in domestic and external markets. Such technologies, however, need to be selected, acquired and absorbed. Increasingly, at the global-level, such acquisition is taking palce through technology licensing or contracts, with or without foreign equity participation. In the case of joint ventures with foreign enterprises, inflow of technology and knowhow constitutes a key element in such ventures. Non-affiliate licensing of technology and knowhow is also becoming

increasingly popular in more industrialized developing countries but is hardly existent in most LDCs. The initiative for technology acquisition and absorption generally lies with the recipient or licensee enterprise, and where such initiative is not forthcoing, as in most LDCs, there is little inflow of needed technology in various industrial sectors, except in the relatively few instances of foreign investments, where technology accompanies such investments.

Technological support to LDC enterprises must be related, firstly, to information on alternative sources of technology and knowhow in various industrial subsectors and for various products, including technological trends and environmental suitability of alternative technologies. Secondly, to the process of acquisition and absorption of suitable technolgies and, thirdly, to adoptation and applied research at institutional and enterprise levels and the development of indigeneous technologies. Institutional support has to be provided to LDC enterprises at all these levels. Information on technologicval alternatives should be an essential feature of information sytems in LDCs, though the number of subsectors or products should be carefully selected and kept at a fairly limited level. Institutional support for technology acquisiton generally takes the form of arranging contacts with enterprises possessing the requisite technology and knowhow and in assisting in the negotiatons for acquisiton, where required. Such assistance must be based on adequate knowledge by the support institution of technology licensing in the particular subsector in question and other terms and conditions of such licensing in other countries or in similar situations. With litle resources for research in LDCs, technological adaptation and applied research can either be undertaken in academic or research institutions in LDCS or in the enterprise acquiring such technology.

With the gradual dissemination of technology and knowhow in a number of countries through the process of licensing and the rapid growth of the international technology market in most industrial subsectors of special interest to LDCs, the commercial acqusition of industrial technology is expanding rapidly in more industrialized developing countries in Asia and Latin Americas. The pace of technology acquisition and licensing needs to be rapidly accelerated in LDCs also.This can only take place if there is adequate awareness to the implications of alternative technological usage in highly competitive markets and if LDC enterprises, with adequate institutional support, take the lead in the process of technology acquisition and adaptation.

Technological support to industry should also cover the technological needs of existing LDC enterprises. This necessitates an analysis of existing technology usage in specific subsectors and in groups of enterprises in particular LDCs, followed by assessment of such usage in the light of global technological trends in the subsector in question. Such an assessment is increasingly necessary to review the potential for developing competitive export capability in particualr LDCs in various fields. With the liberalized trade conditions following the Uruguay Round Agreements, LDC enterprises must identify and develop niche foreign martkets for specifif products and subsectors with the support of their respective governments and technology support institutions.

With the enormous range of technological choice and application in various industrial subsectors, it is not practicable for LDC support institutions to develop and extend technological capability in all fields. What is necessary is that an institutional mechanism for technological support to lcoal industry should be set up, with adequate private-sector invovlement and participation, in each LDC. Such an institution would, firstly, identify areas of special potential for foreign technology inflow or indigenous development, where possible; secondly, utilize

information systems to assist local enterprises in evaluating and selecting the most suitable technology and, thirdly, assist the requisition, assimilation and adaptation of the selected technology, knowhow and expertise. In the case of existing enterprises, however, an assessment of needs and potential would be necessary in various industrial sectors and local technology institutions could play a major role in this regard.

It is also necessary to emphasize the role that can be played by indigenous technologies in LDCs. Indigenous technological development is an important objective in itself. In the case of LDCs, small and micro enterprises must largely depend on indigenous techniques and processes, specifically in the 'informal' sector, and access to foreign technology is too expensive or imprecticable. At the same time, local knowledge and capability may exist to an adequate extent in several fields. It is necessary for the local technology institution to provide industrial extension services, covering technology and marketing, primarily for internal markets. This is further elaborated in Working Paper (H).

Technological research in industry in LDCs should be highly selective because of resource constraints, and should, as far as possible, be linked to applied research in fields of potential in particular LDCs. Certain new and emerging technologies, particularly biotechnology and agriculture and agro-procesing, has considerable scope and needs to be supported by local institutions. The role of UNIDO and other international organizations can be of particular importance in supporting and assisting technology institutions in LDCs. So far, such institutions have been utilized in certain developing countries and LDCs, primarily for regulating inflow of foreign technology through the application of fairly restrictive guidelines or for conducting research through industrial research institutions. This institutional pattern may need to be reviewed and modified. The negotiations of terms and conditions for technology transactions should primarily be left to user enterprises, whose onwers and representatives should be provided adequate training through the local technology institution in negotiating suitable technology agreements. Instead of restrictive regulations, inflow of technology to LDCs should be liberalized and promoted, particularly in selected, niche areas. As for industrial research and development centres in developing countries, including LDCs, these centres require major attitudinal changes, with much greater emphasis on applied research in various fields.

The institutional need in LDCs is to initially identify and develop a local institution, with private-sector participation and involvement, which would play an active role in technological support to local industry. A technology information system should be developed by such an institution, possibly with external support in the first instance. The institution should be small but well-manned and should concentrate on assessment of technological needs of key industrial subsectors in the economy, both for existing enterprises and for new entrepreneurs. It should, on the one hand, be able to particpate in industrial extension services, particulary to small and micro enterprises including in the 'informal'sector, and assist local entepises in the selection and acquisition of foreign technology and expertise, where necessary. Its should also, with private-sector support, provide guidance on fields of potential for local, applied research, including in universities and technical institutions, R and D centres, and in production enterprises. While the above functions may appear formidable, these can be discharged by a small but capable entity, which should have the full backing and involvement of private-sector associations, as also of respective governments in LDCs.

WORKING PAPER (E) : SUPPORT TO LDCs IN INTERNAL AND EXTERNAL MARKETING

The issue of marketing of proudcts of LDCs, both in internal and external markets, is assuming growing significance. With continuing decline in commodity and raw-material prices, which have constituted most of the traditional exports from LDCs, greater diversification of production into non-traditional items is a pressing need. Industrial reorientation in LDCs must necessarily concentrate on industrial diversification, both to meet local needs in these countries and to promote exports of non-traditional, manufactured products. Apart from expanding local production of non-traditional products, the marketing and distribution of such products requires institutional assistance and policy support.

The marketing of locally-produced products in internal markets of LDCs is primarily a function of local enterprises and institutional support should principally take the form of training programs in marketing. These are usually short, intensive courses on the present-day principles and appraoch to product marketing; the nature and extent of advertisement and promotional publicity that may be required; policies on 'returns' and replacement of defective products and after-sales services that may be required for particular products, such as simple equipement and durable consumption goods that may be locally produced in LDCs. Such training courses are, however, very necessary and constitute an essential element in follow-up activities relating to entreprenerial development. The institutional arrangement for organising marketing training courses for local enterpises should be the same as for entrepreneurial training and development of basic management skills in LDC enterprises. Policy incentives for locally-produced industrial products can take the form of price preference of up to 20 percent in the case of purchases by government deparments and institutions and insulation from competing imports by tariff barriers or quantiative restrictions. The latter may still be necessary for limited periods, say 5 years. I is with respect to export marketing of non-traditional manufactured products from LDCs that policy and institutional support will be necessary in these countries. Policy support can take the form of various incentives for exports, including 'draw-backs' on customs duties; release of foreign exchange for purchase of imported materials etc, to the extent of foreign earnings; tax rebates to the extent of such earnings or part thereof, and various other facilities that are made available to exporters. It may, however, be necessary to enter into contractual arrangements with foreign enterprises, either as part of technology agreements or as separate marketing agreements. These can take the form of 'buyback' agreements, where the techology supplier agrees to purchase the whole or part of the production of the licensee LDC enterprise, or export marketing contracts where a higher royalty is paid on exports of 'licensed' products through the foreign technology supplier. Export contracts can also be negotiated with foreign companies other than the technology supplier. In the case of SMEs from LDCs, it would be necessary to conduct training courses on export marketing and on contractual negotiations with foreign companies. This should be part and parcel of follow-up courses on entrepreneurship development and should be organized by the institutions dealing with EDP. It would also, however, be necessary to provide direct assistance to LDC enterprises on export mnarkets for particular products and on negotation of export contracts with major buyers from foreign countries. This will need to be organized by exporters' assocations in various fields, either in the form of an Export Development Association covering various exported products and charging fees for sevices rendered on export marketing, or Export Associations for specific products such as textiles and garments or leather products or furniture, handcrafts and various other non-traditional products. The industrial information systems developed in LDCs would cover the information requirement of export markets and it

would primarily be the specific arrangements for exporters to particular buyers where institutional assistance could be provided through Exports' Assocations and the like bodies. Experience of state-owned export institutions, such as State Trading Corporations, in developing countries, has not been particularly satisfactory and institutional arrangements for promotion of exports should be primarily left to private-sector bodies and associations.

WORKING PAPER (F): DEVELOPMENT OF EXTERNAL LINKAGES BY LDC ENTERPRISES

It is necessary that LDCs must gradually enter the mainstream of global trade, investment and technoloyg flows in the next few years. This necessitates the development of a new range of external linkages for LDCs. So far, such linkages have primarily been at the level of governments and largely between national governments in LDCs and those of indusrriliazed countries which have provided financial aid and trade and other concessions to LDCs. While these linkages will continue to be necessary, a new pattern of linkages have to be developed at enterpise level, between LDC enterprises and those in industrialized economies and those in other developed countries. With substantial liberalization of global trade following the Uruguay Round Agreements, a new structure of relationships have to be established by LDC enterprises, with institutional assistance and support.

External linkages between LDC enterprises and foreign companies in industrialized countries and in other developing economies, can take several forms. These can range from investment agreements and joint ventures to technology agreements; service agreements, contracts for supply of equipemnt and materials; construction contracts, including turnkey agreements; buyback and marketing agreements; franchises and distribution agreements and various contractual arrangements for specific supplies or services. Investment agreements relating to joint ventures are relatively common in certain LDCs and are generally negotiated between the enterprises concerned or between the foreign company and national state-owned institutions or enterprises. The promotion of such investments is, however, a key institutional function in LDCs. Non-affiliate technoloyg licensing agreements are relatively few in LDCs and need to be activiely promoted by national institutions to ensure adequate inflow of technology and expertise, including in new and emerging technologies. Construction and service contracts, together with martketing agreements, franchises and similar contractual arrangements are primarily between LCD and foreign enterprises and do not require much institutional particpation and support in LDCs, except by way of training of local entrepreneurs and enterprise managers in handling and negotation of such contracts.

The critical external linkages, where institutional support in LDCs is most necessary is with respect to joint ventures and technology licensing agreements. Both these are essential for LDCs and require substantial institutional promotion and support.

The institutional promotion of investment and technology inflow in LDCs is, and should be, conducted through the same promotional institution. In fact, the process of promotion is similar in both instances and these arrangements can well be considered as alternatives. There would be relatively few instances in LDCs, where a local enterprise would insist, or even prefer, a non-affiliate technology license, with no foreign equity participation, as against a joint venture agreement where the level of equity participation is acceptable to the local enterprise. On the other hand, the foreign enterprise may well prefer a technology-supply arrangement without

equity participation when it does not have with to get involved in ownership of the enterprise in question.

The promotino of enterprise-to-enterprise linkages with foreign companies is a key promotional function in LDCs. While foreign companies may not be interested in foreign direct investmens in particular LDCs, technology-supply contracts present little risk and provide assured income. In the case of joint vnetures also, foreign enterpises may well be able to limit their exposure by minority or even minimal equity participation, often through capitalization of costs of technology and services.

Institutional promotion of investment and technology linkages between LDC enterprises and foreign companies usually takes the form of initial preparation of a promotional brochure identifying investment opportunities and conditions of operations in the LDC concerned, followed by an investment profile of the project or projects to be promoted. The investment profiles contain the necessary basic information relating to the project in question. UNIDO's investment profiles follow a fairly detailed and acceptable pattern of information required on projects to be promoted. Once the profiles are prepared, contacts with foreign enterprises can be established, either directly by the LDC enterprise or through UNIDO which has a large number of investment promotion offices in several industrialized countries and which organizes forums for foreign investors in developing countries, including LDCs. Considerable external linkages can be developed through such forums, which have been successfully organized in several LDCs. If the UNIDO Forum mechanism is not utilized, contacts with foreign companies can be established either directly by the LDC enterprise or through a national promotional agency. The tendency in the case of the latter has, however, been to concentrate primarily on FDI and less on the alternative of technology supply, which may well be a viable, or even more suitable alternative for the LDC enterprise.

Attention has largely been concentrated on the development of external linkages, particularly investment linkages, with TNCs and foreign enterprises in industrialized economies. This pattern needs to be reviewed in LDCs, particularly with respect to technology-supply arrangements. Enterprises in more industrialized developing countries, such as Argentina, Brazil, India, the Republic of Korea, Mexico, Singapore, and Taiwan Province, can serve as effective alternative sources for technology and varying level of foreign equity particpation. The prospects for economic and technological cooperation between developing countries (ECDC/TCDC) is steadily increasing and LDCs should take full advantage of the alternative of investment cum technology arrangements with enterprises in other developing countries.

The development of external linkages, both in investment and technology and with respect to other contactual arrangements, is a vital function for LDC enterprises and needs to be rapidly expanded through promotional policies or inflow of investments and technology in LDCs and through institutional support to ensure that such inflow is accelerated as far as possible.

WORKING PAPER (G): SUPPLY OF SPECIALIZED SERVICES TO LDCs

If competitive industrial production in selected subsectors in LDCs is to be substantially enhanced, it will be necessary to ensure the supply of certain specialized industrial services in these countries. Apart from the use of competitive production technologies, it will be necessary to improve designs and packaging and achieve quality standards and certification. While the

Uruguay Round Agreements have achieved global trade liberalization, quality standards, such as ISO 9000, are being prescribed, which will increasingly require certification by standardization and metrology institutions, which are not available in LDCs. Environmental standards are also being considered as being necessary for the export of manufactured products to certain industrialized countries and country groups. Eco-labelling is likely to become an issue of growing significance in several industrial subsectors and potential competitive interest for LDCs.

It is against this background that the enhancement of specialized industrial services in LDCs should be considered. There has been considerable growth of certain indstrial services in LDCs in recent years. These have related largely to consultancy skills and capability, including preparation of feasibility studies, investment profiles and economic research studies in various fields. The developement of design capability is, however, an important facility, which needs special emphasis in LDCs if competitive production capability is to be achieved. So far, this has received limited attention in LDCs and design capability has largely continued along traditional lines. This has itself been fairly successful in garments, leather products and handicrafts. The development of design capability has, however, to be extended to other industrial subsectors also. In most LDCs, there is considerable potential for setting up small design institutes to blend traditional with modern motifs and designs, which could result in substantial increase in competitive capability.

Development of packaging skills constitutes an other field of specialized services which could enhance competitive capability in LDCs. It is necessary for LDC enterprises to keep pace with new trends in packaging, both in terms of attractive packaging of products and in relation to environmental needs and standards. It is necessary for LDC enterprises to be fully aware of packaging trends in various industrial subsectors, and norms and standards in terms of packaging materials and format which may require to be observed on ecological grounds.

The most important issue, however, relates to quality standards such as ISO 9000, which may require to be complied with and certified for a wide range of manufactured products. This could have considerable impact on exports of non-traditional, manufactured products from LDCs to major global markets. It is necessary for LDCs to undertake an immediate assessment of the implications of international quality standandards for potential exports from these countries and the remedial institutional measures that may need to be introduced to provide for insepction and certification of LDC products to comply with such standards. The establishment of institutional facilities for certification of standards such as ISO 9000 can be an expensive process and cannot be undertaken in most LDCs. It will be necessary to evolve alterantive forms of institutional inspection and certification, which must be prescribed an agreed upon. Through such agreements, if required quality standards are able to be achieved by LDC enterprises in one or other field, inadequate institutional certification does not emerge as a major constraint for development of export capability in these countries. At the same time, it will become increasingly necessary for LDCs to set up appropriate standardization and metrology institutions so that this constraint is gradually removed.

The development of specialized industrial services, particularly with respect to quality, standardization and metrology in LDCs can be significantly enhanced with the assistance of UNIDO, which can provide considerable expertise and guidance on the development of such facilities.

WORKING PAPER (H): INDUSTRIAL EXTENSION SERVICES IN LDCs

It is necessary to recognize that the major objective of accelerated industrial growth is to achieve socio-economic progress in LDCs and increase employment and improve standards and conditions of living for the poorer section in these countries. It is important, for this purpose, that industrial growth should not only be dispersed from the major urban centres in LDCs but that there should be accelerated growth of small-scale and micro enterprises in these countries, including both in the 'organized' and 'informal' sectors. Such accelerated growth will require the development of industrial extension services to various regions in particular LDCs.

Industrial extension services are intended to provide guidance and technical support to small and micro enterprises, and constitute an essential element of institutional support services in LDCs. Such services can either be operated from a central location or can be dispersed to various provinces or districts, with central supervision. Extension services, by definition, cover a multiplicity of support functions. Such services can serve as a follow-up to entrepreneurship development programs at the regional level or as regional advisory centres for a wide range or industrial activites, based largely on local demand and using local materials and inputs. Industrial extension services are intended to provide a range of facilities, ranging from improved linkages with local savings banks and financing institutions to provision of technical and marketing support and development of linkages at enterprise to enterprise levels, including through subcontracting. Extension sevice personnel require to be trained in a wide range of functions and must be viewed as trouble-shooters, specially for local small and micro enterprises.

The development of industrial extension services is an important function in LDCs, which needs to be expanded and strenghtened, in the interst of industrial dispersion and promotion of small and micro enterpises through local entrepreneurs in the less-developed regions of LDCs.

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