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INTERACTIVE POLICY FORMULATION

AN INTRODUCTION

United Nations Industrial Development Organization

PREFACE

The private sector holds the key to a country's position in the global economy. But the private sector will only be able to deploy its economic potential fully if governments create a macro-economic environment that stimulates investment and growth through a transparent, balanced incentive and regulatory system and the provision of essential physical and institutional infrastructure such as power supply, roads and educational systems.

UNIDO's Industrial Policies and Private Sector Development Branch (IPPS) has developed an approach to industrial development which aims at formulating effective, dynamic policies and strategies through long-term interaction between the public and private sectors. Interactive Policy Formulation focuses on industrial sub-systems - groups of manufacturing enterprises in related activities, their suppliers and the relevant support institutions and government agencies - with a strong development potential. The design of assistance packages being based on a system of modules, this service can be combined with other services provided by UNIDO.

This document is intended to familiarize potential users of this UNIDO service with its principles and the various steps involved in its implementation. Users would include government officials, business organizations and UNIDO headquarters staff who will be involved in projects using the approach.

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SUMMARY

A new conceptual and policy approach is needed for the transformation of developing countries and economies in transition into efficient competitors in an increasingly interdependent world. The purpose of this document is to explain the use of a novel approach developed by UNIDO, *Interactive Policy Formulation.* It is a practical method which uses consensus building, with the full involvement of the public and the private sector, as a basis for industrial strategies and policies.

The approach originated during the 1980s. It has been refined regularly on the basis of rich experience in developing countries, and is replacing planning systems which paid too little attention to the private sector.

This publication has two parts. The first chapter provides an introduction to the development of the approach and its basic characteristics. The remaining chapters describe the project cycle of a project using the approach. Apart from the approval and appraisal stages, projects of this kind require special attention and a new way of conceptualization, since the approach is country-specific, depends on the needs and the socio-economic characteristics of the host country, and requires full involvement of the public and private sector.

Chapter 1 describes the genesis and conceptual basis of interactive policy formulation. Those who design and implement projects that use the approach must understand this basis; so must the representatives of the public and private sectors. If the conceptual tenets are not well understood, the project results are unlikely to be sustainable.

The best way to analyze and improve the environment in which enterprises operate is to start at the level of the subsystem, a structured cluster of industrial enterprises and related services: suppliers, distributors, support services, transport, financial and technical institutions and relevant government agencies. Working at the subsystem level allows for consistency and mutual leverage between specific strategies and action programmes. Interactive policy formulation emphasizes the importance of a formalized dialogue between the private and public sector.

Chapter 2 deals with *project identification*, the stage which determines whether the approach will help the host country to develop its industrial sector or subsectors, whether the preconditions for a project exist and what the shape of the project should be.

Chapter 3 outlines *project formulation*, i.e., the process of project design through the drafting of a project document. Two versions of a project document are offered: one for a capacity-building project which will establish the preconditions, and one for a full-scale project.

Chapter 4 is dedicated to *project implementation*, focusing in particular on the working groups in which the dialogue between the public and private sectors is

formalized, the organizational/analytical support required and the work of the project coordinators.

Chapter 5 focuses on *project monitoring/evaluation.* Monitoring is designed to ensure that the project is executed as intended, and enables those responsible for the project to take corrective action if necessary. Evaluations are of two types: a mid-term evaluation (especially useful in the case of long projects) which will help to ensure that the project remains relevant under changing conditions; a final evaluation in terms of the lessons learned which helps UNIDO further to improve the approach.

Chapter 6, finally, briefly discusses *project completion and follow-up.* The interactive policy formulation approach will dynamize relations between the public and private sectors. The end of a project should be the start of a fruitful relationship between the two parties ensuring future industrial growth. Sustainability is, in short, the test of a project's success. The chapter concludes with a brief outline of the assistance UNIDO can provide in the context of a project and some examples of UNIDO projects.

1. INTRODUCTION: THE BASIC CONCEPT

1.1 The need for a new approach

In the early 1980s, the industrialization model based on strong government intervention met its limits in many developing countries. It depended heavily on foreign funding, and the sharp reduction in foreign lending following the onset of the debt crisis precipitated the model's demise. Structural adjustment programmes followed. Their objective was to achieve macro-economic stabilization by reducing budget deficits and redressing the balance of payments. The next step was creating a favourable climate for private enterprise by eliminating price distortions, liberalizing trade and simplifying regulations. Much progress has been made in these areas; but "getting the prices right", while necessary, proved insufficient to ensure growth.

At the same time production processes were transformed by the use of electronics and automation, which lowered the share of labour costs in the total cost of manufactured products. Cheap, unskilled labour became less of a competitive factor. Increased competition among developed countries led to a shift of marketing strategies towards segmentation of markets and control over specific niches. Mass production therefore often became less relevant while the importance of concerted efforts to raise competitiveness in well-defined areas increased. This implied creating strong networks among all parties whose actions have an impact on the industrial activities in question.

Competitiveness has, in short, become a multidimensional concept. At the enterprise level, its elements include high productivity based on new technologies and organization methods, an ability to identify and penetrate potential markets as well as quality, timeliness of service, flexibility and rapid innovation. But equally important are close working relations with suppliers, providers of industrial services, business organizations, public sector institutions, etc.

The new emphasis on private enterprise, limited access to external funds (forcing countries to mobilize domestic resources) and the need for effective networks have two clear implications:

(i) Structured networking within the private sector and consultations between the private sector and the government are needed. Confrontation, submission and favouritism must be replaced by a permanent dialogue between the public and private sectors to work out compatible, viable development strategies. This should take account of a country's history, culture and values. The parties should not attempt to formulate permanent strategies, but should initiate a continuous process enabling the formulation of "bottom-to-top" policies and strategies in response to changing conditions.

(ii) The government has to rethink its role. It must focus on creating an environment in which private enterprise can make the most of domestic resources. The new role of government includes:

- Implementing policies which create a consistent, stable macroeconomic environment stimulating investment and growth;
- Providing a regulatory system stimulating firms to improve their performance, and rewarding them for that;
- Providing infrastructure (transport, telecommunications, water power, education and training), and promoting the establishment of information networks and technological institutions.

1.2 Genesis of a new concept

During the 1980s, UNIDO was requested by a number of African countries to help them deal with the above issues. To analyze the specific problems of the region and to find ways of solving them, UNIDO organized a number of seminars in African countries which discussed competitiveness, economic efficiency, and the private sector's role in industrial development. Representatives of the private sector were deliberately invited to the seminars. These led to three conclusions:

- A mechanism was needed to improve the flow of information among the actors in the economy;
- Industries and other enterprises sharing common interests needed a formal structure for discussions on specific industrial development issues;
- A more intensive, formalized private-public sector dialogue was needed to design, implement and monitor industrial strategies and policies that worked.

This resulted in a new approach which was presented at a Regional Workshop on the Strategic Management of the Industrial Sector in Africa in 1989. Known until recently as Strategic Management of Industrial Development (SMID), Interactive Policy Formulation soon developed into a flexible, country-specific UNIDO assistance tool; ongoing projects were revised to embrace the new approach and it is the basis for a series of new projects. In June 1995, the Private Sector Forum organized in Gaborone, Botswana, on the occasion of the 12th Meeting of the Conference of African Ministers of Industry, stressed the great importance of the approach for the future development of manufacturing in Africa.

1.3 The principles of interactive policy formulation

The basic unit to which the interactive policy formulation approach is applied is the industrial subsystem. A subsystem is a cluster of economic agents - enterprises in a particular branch (or even a product group within a branch), suppliers, support services, government agencies - sharing a specific interest: technologies, raw materials, etc. Diagram 1 schematically presents the various elements that make up or influence a subsystem. The intensity of such relationships is a major determinant of industrial competitiveness. Focusing on subsystems with a high potential ensures that the impact on industrial development of a project using the approach will be maximized.

From the perspective of the subsystem, the interactive policy formulation approach aims at bridging three gaps:

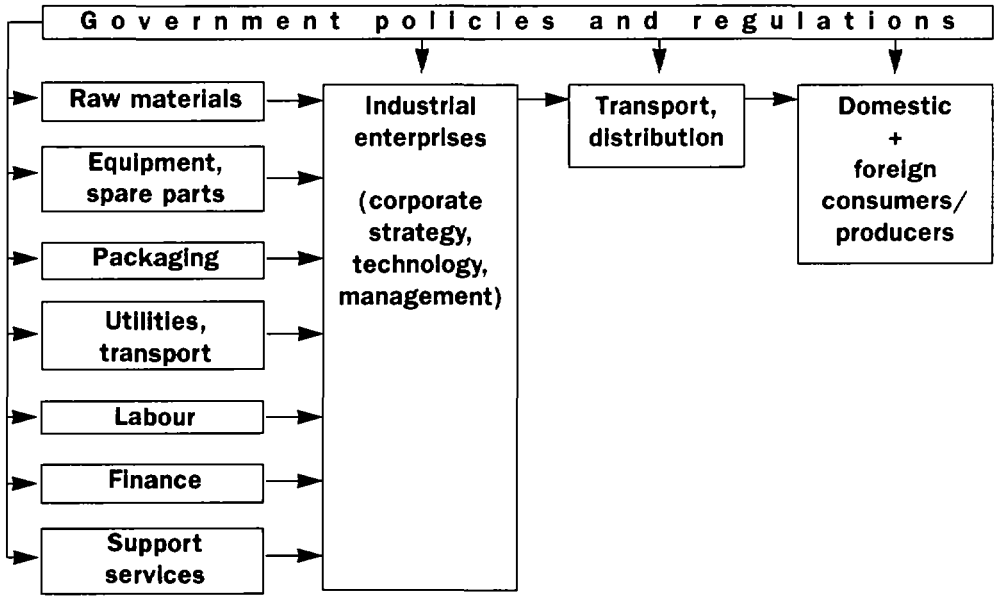
- The gap between the objectives of short-term policies which address structural adjustment problems and fiscal and external deficits and the objectives of a longer-term development perspective;
- The gap between the government's macro-economic framework and the micro-economic perspective of entrepreneurs. This gap can be very wide in developing countries, where private enterprise is often characterized by informal or small and medium-sized enterprises with limited resources and a limited understanding of macro-economic realities;
- The gap between the need for industry-related support institutions and services, and the actual capacities in these areas.

It should be noted that UNIDO is only a facilitator: UNIDO initiates the dialogue between the public and the private sector which is to bridge these gaps - the exchange must be continued by the participants. Policies and strategies which are the outcome of a project will need adjustment as time passes and conditions change. Given the respective agendas and constraints of the two sectors, coherent, productive action and a general consensus can only result from an iterative process of consultation, redefining objectives required by developments.

These consultations take place in consensus-building working groups, at the level of the industrial subsystem as well as that of the nation. The national working group coordinates the activities of these groups and is also responsible for national policy aspects. The working groups are described in more detail in Section 1.5.

Although this process is essential for the successful transition from an inward-looking to an open economy with long-term growth potential, its relevance goes beyond the transitional phase. The changing nature of the international trade environment and the emergence of new technologies, products and markets make it imperative that interactive policy formulation continues as a process.

DIAGRAM 1: ELEMENTS OF AN INDUSTRIAL SUBSYSTEM



Of course not all industrial problems will be solved by creating a framework for a regular public-private sector dialogue; other forms of UNIDO assistance may be needed and are provided in the context of interactive policy formulation projects. Examples include investment promotion, the introduction of cleaner production techniques, establishment of industrial information systems, specialized technical support to individual firms and so on. UNIDO has a comparative advantage in providing this type of assistance because its wide range of expertise allows it to solve problems through an interdisciplinary approach.

1.4 Capacity building

Capacity building means enabling those who are involved in articulating long-term economic policies and strategies to manage development resources. A supportive policy environment is a prerequisite for successful capacity building. It must overstep

institutional and functional boundaries and create a continuous process of acquisition of practical, sharply focused knowledge which will outlast institutions.

The following points can be made in the present context:

- Capacity building is probably needed in both the public and the private sector;
- As there will be strong interaction between the sectors, changes in the mind-set

of the public sector are needed: interventionist and inward-looking policies will have to be replaced by a new view of development;

- The private sector must accept a new role and develop a new vision which goes beyond narrow rent-seeking behaviour (increased efficiency rather than lower taxes, for example, may be the key to higher profits);
- Both public and private sectors must improve their ability to negotiate with international agencies and private foreign enterprises;
- Capacity building is an ongoing process adapted to a specific national environment.

1.5 Consensus-building working groups and their tasks

Consensus-building working groups[1] are organized at two levels: subsystem and nation. Discussions among private and public sector representatives in the subsystem groups - supported by sector and subsystem analyses - help to improve the performance of those subsystems. The national working group coordinates and monitors the activities of the subsystem groups, and integrates policy and strategy suggestions in a national development framework.

Work in the groups is "learning by doing", rather than training in a particular subject matter. Through interaction, public and private sector representatives will understand each others' roles better. This understanding has usually been missing in the past. It is the first, crucial step towards realizing that in economic management there are actors other than themselves. Issues related to markets, institutions, marketing, technology, training, and management are articulated from two different viewpoints.

Responsiveness to the needs of the entrepreneurs, realistic understanding of the business environment and linking the formal and informal enterprises in a subsystem are the basic and most important elements of development management to be learned by the public sector representatives. Conversely, private sector representatives become aware of the constraints faced by the public sector, the existing general policy parameters governing their subsectors, of the need to balance group interests within the private sector, and of ways in which their needs can be articulated within a long-term perspective. It is a slow but sure way of accumulating knowledge and experience.

1.6 Complementing international development efforts

The approach is consistent with the trend in international assistance towards private sector support. UNIDO projects thus complement the efforts of other aid agencies. The approach does not duplicate structural adjustment programmes and projects; rather, it

[1] Considerable theoretical work has been carried out in the past by a number of French economists who have used the term "comité de concertation" in their writings. Subsequent studies and research in English preferred the terms "consensus-building committee" or "strategic consultative groups." This document uses its own terminology.

fully supports these. Research[2] and projects undertaken by the World Bank share a similar focus. Other agencies, notably USAID, have initiated projects that are directed at strengthening the analytical capabilities of the private sector and private sector organizations to enable them to enter into a meaningful dialogue with public authorities.

The focus of many World Bank projects coincides with that of interactive policy formulation: structural adjustment programmes have made it clear that, beyond macro-economic conditions and the legal/regulatory framework, enterprises face constraints of a more structural nature. There is agreement that adequate input supplies, maintenance services and distribution networks are crucial for generating new enterprises. Weak forward and backward linkages impede the expansion of activities and increase risk. Integrated programmes for industrial development must take these constraints into account.

The approach is primarily designed for industrial development, but also offers an instrument for incorporating UNDP development objectives (poverty alleviation, participation of women in development, regional cooperation) in a country's development strategy. The approach provides an opportunity to mainstream these objectives, linking them to a sound economic and industrial development. It is also compatible with other UNDP initiatives for the development of the private sector.

1.7 Conceptual and operational characteristics

Interactive policy formulation projects are radically different from traditional assistance to institution and capacity building and the formulation of development plans. In most cases these projects just transferred techniques and at most attempted to facilitate a constructive dialogue, providing the technical assistance needed to resolve bottlenecks.

Whether used to develop manufacturing or any other sector, interactive policy formulation mobilizes internal forces and stimulates the development of realistic policies and strategies. It cannot be interpreted as a model to be applied indiscriminately to every situation; and it does not pretend to offer simple solutions to complex problems. It is country-specific and relies on the motivation and know-how of local actors.

Government policies often shelter and promote entrenched interests to the detriment of a dynamic economy. Interactive policy formulation, however, must take place in the context of an open market economy. It should not become the formal channel through which interest groups can use their political power to maintain or regain the favours they enjoyed. Technical assistance has to be closely linked to the breaking down of existing monopolistic or oligopolistic barriers, increasing opportunities and competition.

Governments and entrepreneurs have different motivations for dialogue. The former will be motivated by general welfare issues, the latter basically seek profit. The

[2] Irfan Ul Haq (ed.), "International Competitiveness: Interaction of the public and the Private Sector", World Bank, May 1991

entrepreneur will always compare the outcomes of a stand-alone strategy with those of joining a group, and will only participate in a group if the benefits are greater. Participants may also have distorted motives. Entrepreneurs may call for lower taxes, for example, because they find it easier to bring down the price of a product through a tax cut than through more efficient operations. The working groups will therefore not always and by themselves produce action plans genuinely aimed at national development.

At the operational level, it must be ascertained whether the subsystem includes organizations that can play a role in the dialogue or whether structured organization in the private sector must be promoted. The latter carries the risk that artificial structures are created which fail to stimulate a dialogue - worse, people may mistrust each other. Prior to launching an interactive policy formulation project, UNIDO must therefore ascertain whether local conditions are conducive to a successful implementation of the approach. If not, a special project can help to create those conditions.

1.8 Interactive policy formulation and social/environmental issues

As an approach, interactive policy formulation is neutral on these issues. But their inclusion in the working group debates is important.

With regard to issues like women's participation and stimulating rural areas, for example, it evidently makes sense to mobilize the potential of groups or areas which have been neglected in the development process. The formalized consultation structures used in the approach allow a wide variety of interest groups - female entrepreneurs, small businessmen, trade unions, owners of small rural industries, etc., - to make their voices heard.

These groups should not only be represented in subsystem working groups, but also in the national working group, as governments often lack adequate awareness of the issues that prevent these groups from fully contributing to industrial development. Capacity-building may therefore be needed at the national level. Modifications to the statistical system, for example, may be needed to capture the contribution of small-scale industries to the economy; awareness training may be needed for staff in the relevant ministries.

In several industrial branches - textiles, clothing and food processing are the best-known examples - women entrepreneurs are common in many developing countries. In most cases, however, their enterprises are small, and they have no associations. If future policies and development strategies to mobilize the potential of such subsystems are to be successful, it is essential to bring these women into the process. This may call for capacity building at the subsystem level. UNIDO, for example, supports the strengthening of women's professional associations in the African leather industry.

The reason for including environmental issues is that minimizing or preventing environmental damage will lead to major medium and long-term cost savings for individual enterprises and society. Self-monitoring by industry is a key element of

successful environmental programmes in many industrialized countries. It requires cooperation between the authorities which set standards and the business community. In Nigeria, environmental issues are being discussed in the strategic consultative group which was established under a UNIDO project introducing the interactive policy formulation approach.

Environmental investments are often still seen as a drain on financial resources in developing countries, and special efforts will be needed to ensure that the issue is taken up by the working groups. The involvement of local R&D institutions which can provide cost-effective, efficient clean production technologies can be particularly effective, with domestically produced equipment as a possible spin-off.

Initiating a dialogue on environmental issues is probably easiest when subsystems consist of industries using similar technologies. Consultations between the manufacturing sector (usually represented by branch associations), the local government in relevant areas and the central government, for example, are a basic element in the implementation of the National Environmental Policy Plan in the Netherlands.

2. IDENTIFYING A PROJECT

2.1 General aspects

The nature and scope of UNIDO technical assistance projects which introduce the approach are dependent on a realistic evaluation of local conditions. The stages of a complete programme for establishing an interactive policy formulation structure are outlined in Diagram 2.

The government should familiarize itself with the approach at the stage when preconditions are identified, to understand how it differs from interventionism or central planning. Commitment to the process must be shared by the highest authorities and the ministry responsible for industrial development. Equally important, the government's economic liberalism should not imply a complete withdrawal from support to industrial development.

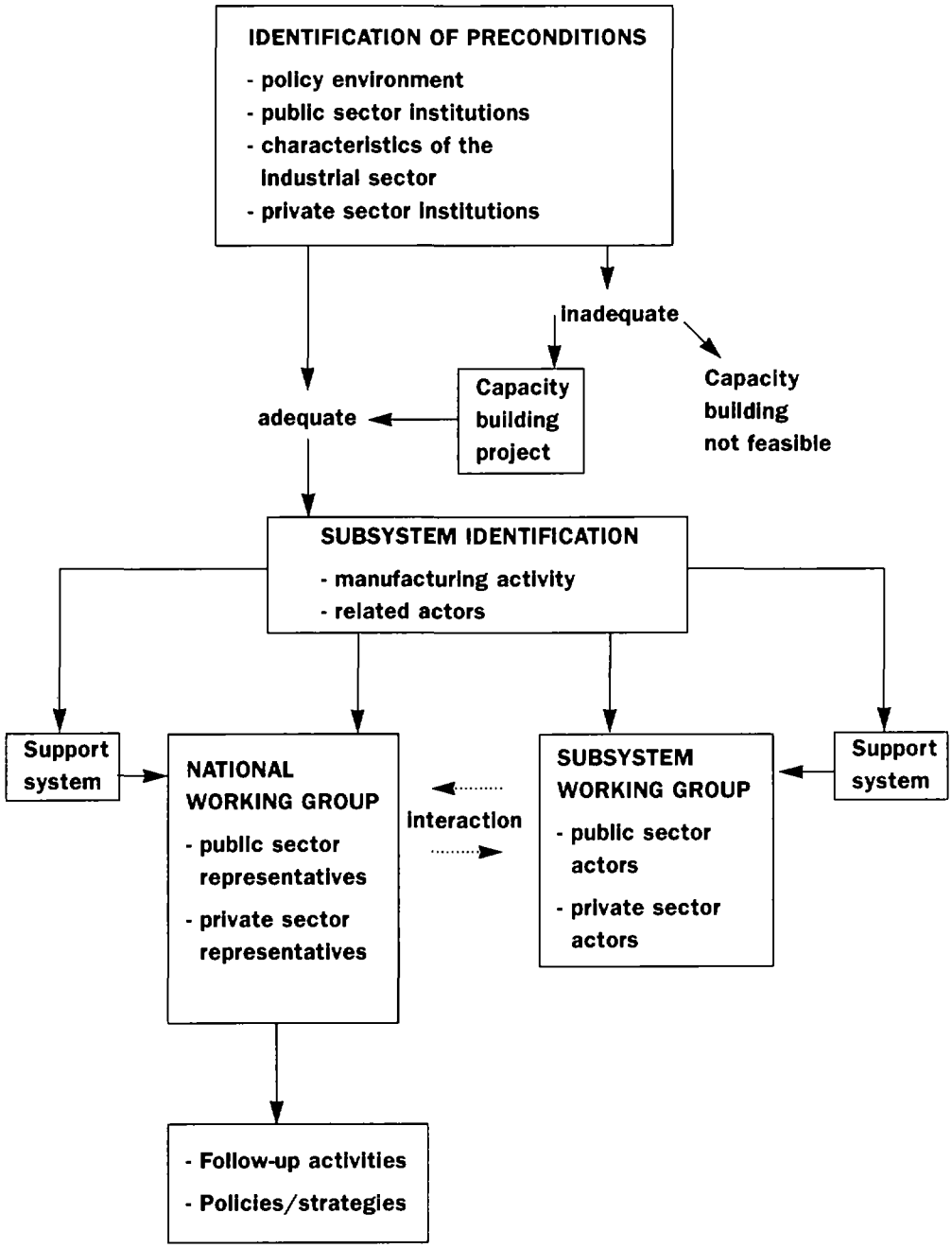
The public sector may be constrained in implementing activities recommended by the consultative process, as a consequence of:

- Lack of funds to improve physical infrastructure or upgrade technical support institutes, training and standards. In this case, the private sector and/or donor agencies may have to step in;
- Shortages of professional and technical staff;
- Political and social resistance to actions (e.g. closure of loss-making state enterprises) which may be recommended.

Organizations representing the interests of the private sector in discussions with the government may include manufacturers' associations at the sectoral and/or branch levels, chambers of commerce, small business associations, trade unions and the like. Informal networks among entrepreneurs should also be drawn into the process: they may constitute an alternative to weak professional associations, and may reflect an entrepreneurial dynamism which the existing private-sector institutions lack.

The size and variety of private-sector associations reflects the composition of the private manufacturing sector and the relative importance of its contribution to GDP. The greater the latter, the greater the likelihood that its representatives will be in tune with changes in the macroeconomic environment and will want to influence policies that are likely to maximize their gains.

DIAGRAM 2: STAGES OF A PROGRAMME



2.2 Preconditions for projects

Generally speaking, a favourable macroeconomic environment, adequate industrial potential and the existence of private and public-sector organizations through which the approach can be introduced are required. Box 1 lists the preconditions in detail.

BOX 1: PRECONDITIONS FOR AN INTERACTIVE POLICY MAKING PROJECT

- Macro-economic stability, allowing the implementation of meaningful strategies over the medium-to-long term;
- Political commitment to economic liberalization and to market-led economic growth;
- Outward-oriented economic policies and programmes;
- Fiscal and monetary policies designed to eliminate budgetary and balance of payments deficits;
- Serious efforts to achieve realistic exchange rates and positive real interest rates;
- Trade and payments liberalization (dismantling of exchange controls, import restrictions, subsidies and price controls);
- A positive attitude towards local and foreign private investment, preferably embodied in an investment code;
- A trend towards privatization of public enterprises.

The preconditions for a successful introduction of the approach exist if the following questions are answered in the affirmative:

- Does the policy environment encourage private sector development?
- Is the private sector convinced that the government is committed to improving the macroeconomic environment?
- Is the private sector sufficiently organized for the dialogue? Is it capable of assessing the policy and institutional constraints and of formulating practicable solutions? If its organizations are weak, do individual representatives of the sector carry sufficient weight and show sufficient interest in the dialogue?
- Is the industrial sector an important (or potentially important) contributor to the country's GDP, exports, etc.?
- Are domestic interests adequately represented in the industrial sector?

- Are the views of the public and private sectors on industrial development (and on the kind of actions likely to be required) compatible?
- Is the ministry responsible for industry empowered to act decisively as the counterpart agency? If not, is there an alternative, such as the Prime Minister's office?

If there is a positive answer to all these questions, then the country is an "ideal case" for a project. If there are negative answers, and if external support is unlikely to create the preconditions in question, then it will be difficult to make the approach work. With a committed private sector and a lukewarm government it may still be possible to initiate the process, as long as the government does not oppose it.

Government commitment is likely to be strongest if the country itself has proposed an interactive policy formulation project to UNIDO. But even then commitment may vary. Is it confined to the ministry responsible for industry or is it shared by the Ministry of Planning, the Head of Government and the Cabinet (i.e. the highest decision making level)? Which government agencies, other than the ministry responsible for industry, are willing and able to participate in the process? Do they, for example, include a Bureau of Standards, a Productivity Centre (or similar institution), financial institutions, the Ministry of Finance?

If political power has been decentralized to regional governments or development agencies, then these must share the commitment of the central government and be brought into the consultative process; where necessary, they should be included in the capacity building projects. The involvement of regional authorities (and, if they exist, regionally-based business associations) is essential where subsystems are tied to particular, regional locations. This may, for example, be the case for certain food-processing or building materials industries.

2.3 Assessing capacity

The extent to which both sides are open to a dialogue in essence determines the success of the exercise. In turn, a good dialogue depends on qualified human resources on both sides and the availability of reliable industrial information which is accessible to both parties.

In deciding the nature and scope of an interactive policy formulation project, it is therefore vital to ask:

- Whether the private sector has the capacity to identify constraints to competitiveness, distinguishing between policy-related constraints and others (including those which are their own responsibility). Such capacity depends on the business acumen, training and experience of managers and/or the secretariats of private sector organizations. A shortage of technical and management expertise places the private sector representatives at a disadvantage. This problem can be addressed by a technical assistance project.

- Whether the public sector representatives have the right qualifications for the dialogue, bearing in mind that different ministries and agencies will be involved, depending on the subsystems. The most crucial question is whether the ministry responsible for industry is able to manage and lead the consultative process effectively. Deficiencies can again be addressed by a project.

Regarding information on the industrial sector, the first question is whether industrial statistics are available, how reliable and up-to-date they are, and if they adequately cover:

- Size and branch structure of establishments;
- Investments;
- Plant capacities and utilization;
- Location;
- Inputs and outputs;
- Value added;
- Sales in domestic and export markets;
- Employment, wages and salaries.

Such data should be available for all branches. It should be established whether, apart from the government, private sector sources also have such industrial information, and whether it is available in computerized form (private sector associations can be very useful here). The information system should allow the assessment of technological needs. The more substantial the dialogue, the greater will be the demand for flows of strategic information across industries as well as between industries and other economic actors, the government and foreign partners[3].

To complete the capacity assessment, the contribution, financial and otherwise, of the public and private sectors towards the cost of projects must be determined.

2.4 The identification of subsystems

In a strongly diversified industrial sector, it will not be feasible to introduce the approach in all subsystems at the same time. There may also be clusters of similar activities in different locations and a different contribution to the economy. Interest in and enthusiasm for the consultative process will also vary among subsystems.

Hence the need to be selective. Those subsystems should be singled out in which interaction between the private and public sector is likely to have the greatest impact on

[3] UNIDO's National Industrial Statistics Programme (NISP) can help to improve the information base. NISP is a computerbased system for data collection, screening, analysis and publication. Software is adapted to specific local requirements during installation, and users can modify it as new requirements emerge. More information can be provided by the Industrial Statistics Branch of UNIDO

the development of manufacturing. The preliminary analysis of industrial sector data during the project identification phase will help to identify subsystems which are likely candidates.

The criteria which should guide the selection of subsystems are listed in Box 2. The relative weight of criteria may differ by country.

BOX 2: CRITERIA FOR THE SELECTION OF SUBSYSTEMS

- Strong (potential) contribution to industrial development;
- Domestic linkages (among industrial firms and others actors in the subsystem) and linkage potential;
- Potential for using domestic raw materials;
- Competitive potential in domestic and export markets (including the ability to create new products);
- Employment and employment creation potential;

  Technological dynamism;
- Long-term sustainability of the industrial activities;
- The existence of organized nuclei of actors in the subsystem.

3. INITIATING CAPACITY BUILDING AND FULL-SCALE PROJECTS

At the end of the project identification phase (which, in normal circumstances, should be completed in 10 to 15 days) it should be clear whether the host country meets the conditions for the implementation of a project. This should be based on a plan of action drawn up by the parties to be involved (public and private sector, UNIDO). If the assessment concludes that conditions are not ripe for such a project, but that they can be established, then a capacity-building project should be formulated and executed out first. If the assessment concludes that the conditions are met (possibly as a result of a capacity-building project), then a full-scale project can be carried out.

The elements of project proposals to be prepared by the host country or UNIDO in each case are briefly described below. These project documents serve as the formal agreement between the host country and UNIDO and as the main basis for implementation, monitoring and evaluation of a project.

3.1 Outline of a capacity-building project document

Context

This section should explain the environment in which the project will operate.

Rationale/project justification

This states the reason for the project. For example: "This project will help the host government and the private sector to acquire the capacity for setting up a mechanism for consultation and dialogue, with the purpose of raising the productivity of the industrial sector".

Development objective

States the national goal which the project is eventually expected to help achieve. For example: "to increase the contribution of the industrial sector to GDP", or "to pursue export-led growth by strengthening the export capability of the industrial sector".

Immediate objective

States what the project is expected to achieve within the time-frame. For example: "to upgrade the capacities of the government and the private sector to introduce the interactive policy formulation approach"; or "to enable the government and the private sector to better understand the process of organization and development of an interactive policy formulation programme."

Outputs

Refers to the tangible results that the project should achieve in order to meet its immediate objectives. For example:

Output 1

A project document, based on an analysis of the potential for industrial development and of the policy/institutional environment, for a full-scale project using the approach.

Output 2

Training for interactive policy formulation for counterparts from the public and private sectors, through workshops/seminars, on-the-job training and study tours.

Activities

Refers to actions required to produce the outputs. For example:

Activities for output 1

- Review the macroeconomic policy environment, industrial development priorities, strategies and policies, measures to empower the private sector.
- Review the organizational structure at the private industry/government interface and examine its ability to manage the implementation of the approach and lead the consultative process.
- Review the information on the industrial sector, including statistics and studies on the structure and performance of the sector and various subsectors.
- Identify the priority subsectors and subsystems which have the potential to be competitive.
- Establish the development objectives and immediate objectives.
- Determine the outputs needed to achieve the immediate objectives and the corresponding activities.
- Prepare the workplan.

Activities for output 2

- Organize a training seminar/workshop for government officials and private sector representatives.
- Organize a study tour for government officials and private sector representatives to a developing country or countries with advanced interactive policy formulation experience.

Inputs

This section should indicate the type and quantity of professional resources and support staff, contractor services, equipment supplies and facilities needed for the project.

Risks

This section identifies significant risks that could arise in the course of implementing the project and seriously delay or block the production of outputs and achievement of objectives.

Prior obligations and prerequisites

This section should state the host country/UNIDO action required, both before the project can start operating and during the course of its execution, to enable the project to function and produce its outputs.

Project reviews, reporting and evaluation

This section should stipulate the timing of and mechanism for joint reviews and evaluation of the project by the host country and UNIDO representatives.

Legal context

This section defines the legal framework within which the project takes place. It will be completed by UNIDO.

Budgets

This section should be presented in accordance with UNIDO's standard budget forms.

Time Frame

Four to six months.

3.2 Outline of a full-scale interactive policy formulation project document

For a project of this type, commitment of the parties to the key elements of the consensus-building process must be secured. They should agree on the subsystem(s) where the process is to start and the roles of the partners in the dialogue.

The following format should be used in preparing the project document:

Context

This section should explain the environment in which the project will operate.

Project justification

This section should explain the reasons for undertaking the project and for the choice of strategy and approach.

Development objective

This section should state the government's objective for industrial development to which the project will contribute. It should reflect the national goals and strategies for the industrial sector and the activities designed to create an environment enabling the private sector to improve the competitiveness of its core industries.

Immediate objectives, outputs, activities

These parts of the project document should indicate what the project should achieve within a given time period. The paragraphs on outputs and activities should clearly indicate how each of the development objectives is to be realized, providing a detailed workplan to facilitate monitoring and evaluation of the project. The corresponding parts in Section 3.1 give a general indication of how their content is to be formulated. In the present case, these parts should reflect the determination to launch the interactive policy formulation consultative process between the private sector and the government through, inter alia:

- The creation of the consensus-building working groups in (each of) the selected subsystem(s), and a national consensus-building working group with a coordinating function;

- Building up capacity in the ministry(ies) responsible for industrial development so that they can provide leadership and support to the consultation process; and
- Upgrading the industrial information system for the analytical and monitoring functions which the management and technical support groups (see Chapter 4) will be required to undertake.

Inputs
Risks
Prior obligations and prerequisites
Project reviews, reporting and evaluation
Legal context
Budgets

The format of these sections is identical to that of the previous project document.

Time frame
Highly dependent on the complexity of the issues and the range of activities required.

3.3 Managing a full-scale project

The execution of a project requires professional management. Expertise to be provided by UNIDO should include:

(i) A Chief Technical Adviser (CTA - if UNIDO is to implement the project) or a Project Coordinator (PC - if it is to be nationally executed) who will be responsible for managing all aspects of the project; and

(ii) International and national consultants.

In the case of a full-scale interactive policy formulation project preference should be given to recruiting an international expert who is not only an industrial economist but also well-versed in business management in an international environment (practical experience with the private sector is essential) and in group dynamics/conflict resolution. He/she should be a "charismatic" person who is capable of mobilizing and motivating people from very different backgrounds over a long period of time.

If the project is to be nationally executed, it must be ensured that person recruited as project coordinator has no vested interests in the government or in private sector groups, and has the same type of qualifications that would have been required of an international expert.

To complement the CTA/PC, provision should be made for the engagement of subsectoral consultants - international or national - to assist the consensus-building working groups for the subsystems.

4. IMPLEMENTATION: THE CONSENSUS-BUILDING WORKING GROUPS

Consensus-building working groups for the subsystems and the umbrella consensus-building working group at the national level are the main outputs of a full-scale project. These groups are the key to the success of the whole approach. This chapter is intended to provide guidance on the establishment and operations of these bodies.

4.1 The composition of working groups for the subsystems

The size of the working group for a subsystem should in principle not exceed 12 to 15 members, with roughly equal representation of the private and public sectors.

The private sector should select its own representatives. This will be easier if private sector organizations exist already and have been active in the preparatory phase of the project. Private sector representatives would include:

- At least three persons who represent manufacturing interests;
- Representatives of services which are essential for the subsystem (key input suppliers, transporters, distributors, finance and banking, etc.);
- Representatives of the trade unions and other interest groups.

On the public sector side, the ministry responsible for industry is expected to take the lead in appointing public sector representatives. In addition to that ministry, the following bodies should be represented in principle:

The ministry or department responsible for policies or measures which are relevant to raw material supplies, e.g. the Ministry of Agriculture in the case of textiles or food processing, the Bureau of Geology and Mines in the case of non-metallic minerals;

- The Ministry of Finance;
- The ministry or agency responsible for planning;
- The Standards Organization (if any);
- The ministry or agency responsible for public utilities;
- The development finance institution (if any; if privatized, the representative would be in the private sector group);
- The Ministry of Education (department responsible for industrial training and management development) and the ministry or agency responsible for labour issues;
- The agencies responsible for investment and export promotion.

If desirable, provision can be made in both groups for the appointment of alternates to representatives, in the interest of continuity of attendance and special representation.

Diagram 3 gives an example of the parties represented in a working group as established by a UNIDO project for the leather and leather products industry in Nigeria.

4.2 Establishing a subsystem working group

There should be an agreed mandate, including terms of reference, for each working group. The CTA/PC will have the prime responsibility for drafting the terms of reference. At its inaugural meeting, the working group should decide on basic procedures regarding:

- Selection of its chairperson and an alternate;
- Size of quorum for meetings;
- Frequency of meeting;
- Venue of meetings;
- Records of the proceedings of meetings;
- Future agenda; and
- Reporting.

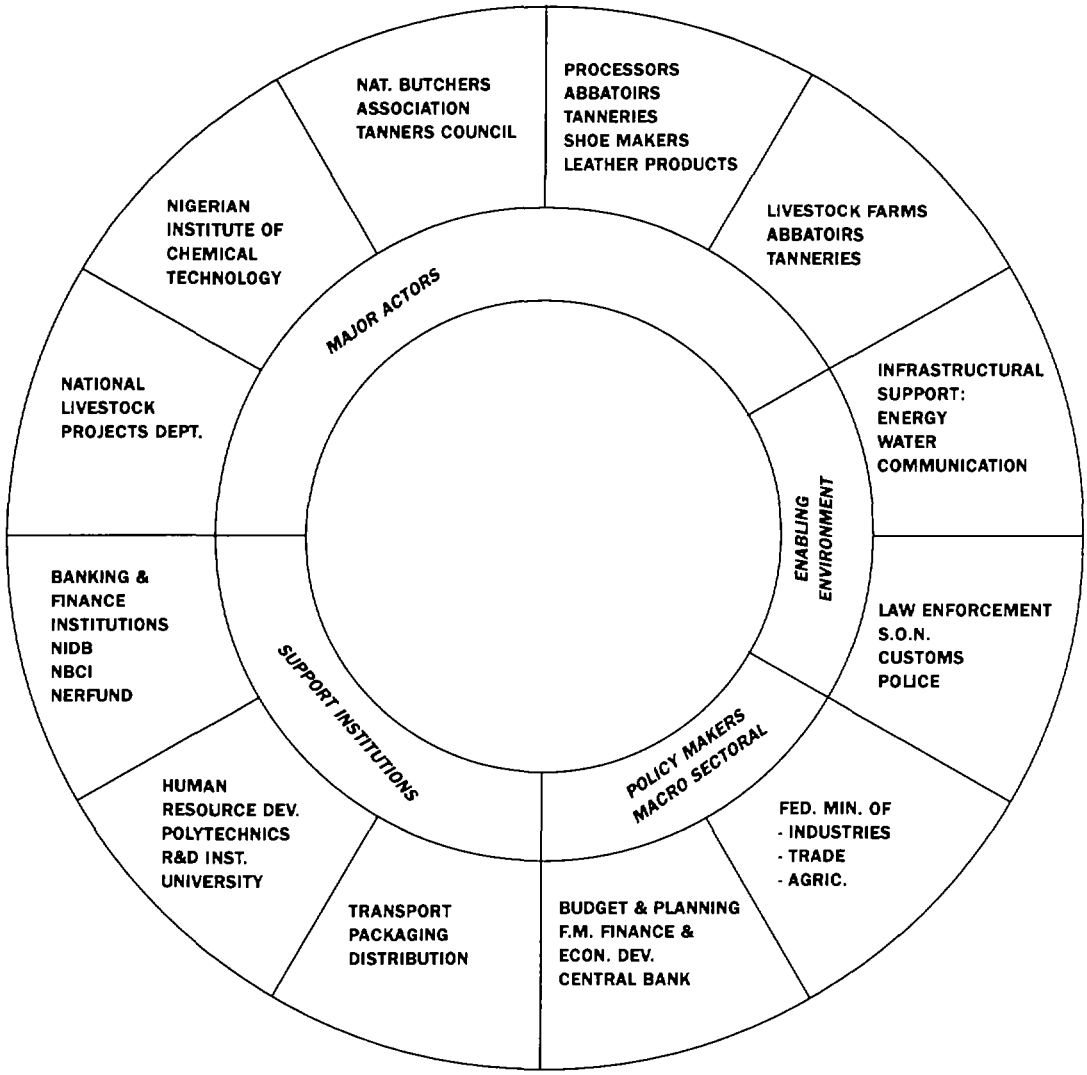
It should be decided whether a honorarium or per diem should be paid to members as an incentive for attendance at meetings. If so, guidelines should be agreed beforehand and a source of funding for the anticipated expenditure identified.

4.3 Support units

A properly staffed management support unit should be established in the ministry responsible for industry which serves as the secretariat to the consensus-building working group(s), and will be the link between the various actors as well as the technical support unit.

The technical support unit will collect, analyze and organize information required by the ministry and the working group(s). Specifically, it will provide information on the internal and external constraints affecting the subsystems and provide expertise/documentation to assist the working group(s) in the formulation of their strategies and action programmes. UNIDO's NISP software (see footnote 3) can play a useful role in building up such a system.

DIAGRAM 3: EXAMPLE OF THE STRUCTURE OF A SUBSYSTEM WORKING GROUP (LEATHER INDUSTRIES, NIGERIA)



4.4 Key issues to be addressed by the working group

To determine a strategy and a clear programme for improving competitiveness and productivity in a subsystem, a detailed diagnosis must be undertaken of its strengths and weaknesses, opportunities and risks. Particular attention must be paid to:

- Constraints outside the control of the industrialists, e.g. inadequate physical and financial infrastructure; disincentives inherent in the policy and regulatory framework; inadequate educational systems; non-tariff barriers to export markets; demand and competition;
- Constraints controlled by the industrialists: weak management (e.g. lack of a corporate strategy, quality management and standards); weak linkages between producers and suppliers; technological backwardness.

An underlying key issue with regard to the consultative process as a whole is the reconciliation of the legitimate short-term interests/objectives of the private sector with the public-sector's long-term macroeconomic policy making.

At the start, a consultant should prepare a diagnosis of the subsystem (see Section 4.5). The diagnosis would be the major input for working group discussions and would contribute to a structured work programme. The technical support unit should provide further materials for the discussions. The consensus-building working group has the responsibility for articulating the problems and making recommendations to the national working group. Reports on strategy and policy recommendations should be produced in a matter of months, to maintain the momentum of the process.

4.5 Conducting a subsystem diagnosis

The diagnosis of a subsystem should start with an identification of the goods produced in that subsystem. It is advisable to use the definitions of product groups in the latest revision of the International Standard Industrial Classification (ISIC) of activities. Those whose contribution to the national economy is insignificant (and likely to remain so) can be eliminated. Categorization of the relevant product groups should inter alia take account of the following issues:

- Dependence on imported inputs;
- Actual and/or potential export orientation or foreign exchange earnings;
- Labour intensity versus capital intensity, and type of techologies used;
- Environmental impact (pollution, energy intensity, etc.).

This categorization, based on existing data, would be revised as more detailed data become available during the diagnosis. Such data collection is essential. It will usually be necessary to conduct field surveys to supplement available information. Such surveys must be based on a questionnaire which systematically records information obtained from the relevant enterprises. It should be noted, however, that the focus of such surveys is not on the individual enterprises but on:

(i) The horizontal and vertical linkages in a subsystem (input/output relationships, services provided in the production/distribution chain, etc.);

(ii) The strategic constraints which have a negative impact on the performance, competitiveness and progress the subsector.

The analysis would also look at the competitiveness of the subsector, and the strengths, weaknesses, opportunities and threats which require a response in terms of policies, strategies and action programmes.

4.6 The composition of the national consensus-building working group

At the national level, the consensus-building working group comprises high-level representatives of the private sector and government. In the interest of cohesiveness and manageability, this working group should be appreciably smaller - seven to eight persons - than the working groups for the subsystems. There should be provision for the appointment of alternates to the business and government representatives.

Where private sector organizations exist, the sector should be represented through their chairpersons and/or business persons nominated by them. Where no such organizations exist, high-level industrialists who have a proven capability for contributing to national policy making should be enlisted. Dual participation (in working groups at the national and subsystem level) should only be allowed if the rationale for doing so is accepted by both sides. If necessary, the chairpersons of the sub-working groups may form part of the national working group.

On the government side, representatives should be permanent secretaries or officers of equivalent rank in the key ministries, e.g., Planning, Finance and the ministry responsible for industry, and other bodies which are pivotal in policy making (such as the Prime Minister's or President's office). The working group may also include independent advisers on issues on which the two parties may have very different views, such as taxes.

4.7 Operating procedures for the national consensus-building working group

The terms of reference of the working group should be established jointly by the government and the business community. Before undertaking work on substantive issues, a well-defined modus operandi should be established for such matters as:

- The chairing of the group;
- Size of quorum for meetings;
- Frequency and venue of meetings;
- Recording proceedings;
- Preparation of the agenda; and
- Reporting.

The consensual character of decision-making should be made clear.

4.8 Support units

The support functions for the national consensus-building working group should be performed by the ministry which assumes the chair, so that the technical support unit which does the actual backstopping and servicing is under the authority of the national working group. This unit should have high-quality staff.

The technical support unit should be enabled to develop the information and documentation system needed for (a) the analysis and monitoring of subsystem performance and competitiveness, and (b) the data and analysis needed for strategies and action programmes. Again, UNIDO's NISP software can play a useful role in building up such a system.

4.9 The principal responsibilities of the national working group

The main responsibilities of the national working group will include (but are not limited to):

- Identification and selection of new subsystems in which to apply the interactive policy formulation approach;
- Monitoring of the performance of the selected subsystems;
- Coordinating and harmonizing the proposals at the subsystem level in order to achieve national consensus;
- Articulating and recommending national industrial strategies/policies and support programmes to the government;
- Monitoring the implementation of the strategies and action/government support programmes.

The time frame for reports should be established well in advance since in many instances deliberations and discussions tend to be time consuming; the aim should be to produce them in a matter of months after an issue is taken up, to maintain momentum.

4.10 The role of the CTA/PC

The CTA/PC must be fully involved in a number of areas:

Development of the mandate and terms of reference for the working groups, for approval by the ministry responsible for industry and the private sector organization with which it liaises;

- Assistance in the formation of the working groups;
- Advice on procedural matters related to the meetings;
- Helping the working groups in the diagnosis of the problems of the subsystem(s) and the formulation of their strategies and action programmes,

together with the subsystem consultant (if available);

- Encouraging the search for consensus within the working groups, discouraging domination of proceedings by the more powerful interests, and fostering behavioural change;
- Acting as a resource person, facilitator and neutral mediator in the negotiation process (without imposing solutions);
- Ensuring that the technical assistance needed to build up the capacity of the support unitd is delivered in time;
- Advising on and assisting in the harmonization of the proposals of the subsystem working groups;
- Advising on and assisting in the formulation of national strategies/policies and government support programmes on the basis of the recommendations.

5. MONITORING AND EVALUATION

5.1 The purpose of monitoring

Monitoring is the continuous oversight of the implementation of a project to ensure that input deliveries, work schedules, output production and other actions related to project management and execution proceed as outlined in the project document. The monitoring process:

- Measures the progress of project activities;
- Verifies whether expenditures correspond to those specified in the budget;
- Identifies and assesses the factors affecting the progress of the project;
- Identifies the actions needed to minimize or eliminate the problems that affect the project; and
- Determines who should take these actions and when.

5.2 External monitoring

The UN system usually entrusts the immediate monitoring responsibility to project management in the field, i.e. the CTA/PC. The complexity of full-scale interactive policy formulation projects, however, makes it advisable that at the project formulation stage the signatories to the project document agree on periodic monitoring by an independent outsider.

The advantages are twofold. First, independent monitoring enables the backstopping officers (i.e., those responsible for the project) to concentrate on their substantive responsibilities. Second, the independent monitor can provide occasional international expertise to project directors/coordinators/CTAs. This may be especially useful if the project is executed nationally.

5.3 Evaluations

Epecially if the project's duration is 24 months or longer, a mid-term evaluation is needed. The purpose is:

- To take account of the concerns of policy makers, project managers, UNIDO headquarters, etc.;
- To suggest corrective measures which improve the effectiveness of an ongoing project and ensure its continued relevance;

Mid-term evaluations should be carried out by expert(s) who have been involved with the project either at the design stage or some subsequent stage.

In addition, interactive policy formulation projects, irrespective of the size of their

budgets, should be subject to terminal evaluation, since lessons learned from each project are invaluable for UNIDO, allowing the organization to constantly update and revise the methodology.

6. COMPLETION AND FOLLOW-UP

6.1 Sustainability: the test of a project's success

If the project was one of preparatory assistance and capacity building, its outputs will constitute the inputs for a full-fledged project using the interactive policy formulation methodology. Once all the outputs specified in the project document of a full-scale project are delivered, the project comes to an end. If the project's intended output is basically a set of policy and strategy recommendations, the project is completed once such policies are put forward; further technical assistance in this area should not be necessary.

However, the end of the project should not be the end of the dialogue on policies and strategies; it should, in fact, mark the beginning of a sustained dialogue. Only if this is achieved can the project be deemed successful. Policies and strategies, even if they are the outcome of a successful project, will need adjustment as time passes and conditions change. A continued dialogue is therefore needed, and the government should continue to make available resources for follow-up activities.

6.2 Static and dynamic sustainability

Sustainability has both static and dynamic aspects. Static sustainability refers to the use of project outputs as intended and specified in the project document. An example of static sustainability would be that the government uses the strategy and policy recommendations for industrial development[4].

Dynamic sustainability may be defined as using the project outputs as inputs for further projects, in order to reach a higher level of development. This, of course, is the long-term rationale behind the approach: ideally, it initiates a process that can continue without further assistance. This depends on how well public and private sector representatives are trained, on maintaining the information flow, and on the extent to which public and private sector decision makers are convinced of the usefulness of the approach.

The responsibility for dynamic sustainability thus lies with both parties in the host country:

- The government should allocate sufficient funds to ensure information flows and the functioning of the working groups. There must be no doubt that it will continue to support to the process and that further discussions, suggestions, and recommendations of the working groups will carry weight in policy and strategy decisions.

[4] For a full discussion of monitoring and evaluating project sustainability see Joseph Valadez and Michael Bamberger, eds., *Monitoring and Evaluating Social Programs in Developing Countries*, Washington, D.C.: The World Bank, 1994, pp.186 ff

- The private sector should remain fully involved in the working groups. Whenever possible, it should share in the costs. Most importantly, entrepreneurs should always bear in mind that the process is not a vehicle for extracting concessions from the public sector: its objective is to create an enabling environment for competitive industries.

Where there is sufficient industrial potential, both parties should try to bring additional subsystems into play by creating new working groups.

If continuity cannot be secured, the approach will produce more paper than industrial activities. This should be recognized at the project identification stage: if non-sustainability is a real risk, then the interactive policy formulation approach is not suitable. Of course, there are bottlenecks to industrial development which the approach cannot solve. But the working groups should be able to pinpoint such problems and mobilize external assistance.

6.3 UNIDO's support services

Interactive policy formulation systems are complex and evolve over time. The multi-disciplinary character of UNIDO's staff provides the organization with a comparative advantage in handling the various issues in the context of a project. UNIDO's wide field presence allows the organization to design support programmes which answer specific local needs, and ensures an awareness of local demand. The organization's neutral position, finally, will help to ensure that the interests of all partners in the process are balanced.

UNIDO can provide assistance at the following stages of interactive policy formulation:

- Diagnosis (identification of sub-systems, analysis of the institutional framework);
- Building up capacities in the public and private sector;
- Organizing and initiating the consultative process, including the provision of a CTA;
- Advice on the decision-making process to both public and private-sector participants in the process, establishing information sytems to support this process;
- Helping working groups to formulate policies and action programmes, and assistance in implementation of these;
- Monitoring and evaluation of the process.

In addition, other UNIDO services can be used in the context of an interactive policy formulation project. These would be determined by specific characteristics of the local situation, but there would probably be a need for policy advice and implementation, assistance in the restructuring of government agencies and seminars which familiarize decision-makers with the workings of market economies.

6.4 Some project examples

Several UNIDO projects initiating the process have been and are being executed successfully in developing countries, especially in Africa. Examples include:

- Côte d'Ivoire: Implementation of an Industrial Master Plan adopted in the late 1980s was halted by recession and lack of funds. Twelve priority industrial subsystems were, however, identified and cooperation between the government and the private sector was initiated. After recent improvements in the economic outlook, it was decided to build on these achievements, with UNDP/UNIDO support. Consensus building will be revived and strengthened, an industrial and financial information support system will be set up, internationally competitive subsystems will be identified, and measures will be formulated to stimulate the latter.

- Ghana: For a successful implementation of the country's Private Sector Development Programme, cooperation between the government and the business community must be improved. The Ghana project will help to identify the relevant industrial subsystems and to set up the legal, institutitional and operational framework. Another core service of UNIDO/IPPS, Policy Formulation and Implementation, will be used as well, and there is ample scope for UNIDO assistance in the technical, institution-building and human resource development field.

- Bangla Desh: A programme of integrated support to selected industries provided the government and the business community with an overall strategy, an integrated package of services to strengthen industrial competitiveness and suggestions for networking between the public and private sectors. Other UNIDO services (in areas such as industrial information, cleaner production and support to individual subsectors) were included in the programme.

- Nigeria: Nine pilot subsystems were identified and analyzed as a first stage in establishing a consultative process, which involves several hundred enterprises and institutions. The subsystems cover key branches in the major subsectors (agro-industries, metal-based industries, [petro-]chemicals and non-metallic minerals). Sub-programmes focus on capacity building in the relevant public sector agencies and on creating an institutional framework in the private sector allowing it to participate fully in the consensus-making process.

- Kenya: The introduction of the interactive policy formulation approach is an important part of the Government's goal to "become a newly industrializing country by 2010". The approach will pay particular attention to small-scale and agro-based industries. Both the Chamber of Commerce and the Kenya Association of Manufacturers will be involved as private sector partners.