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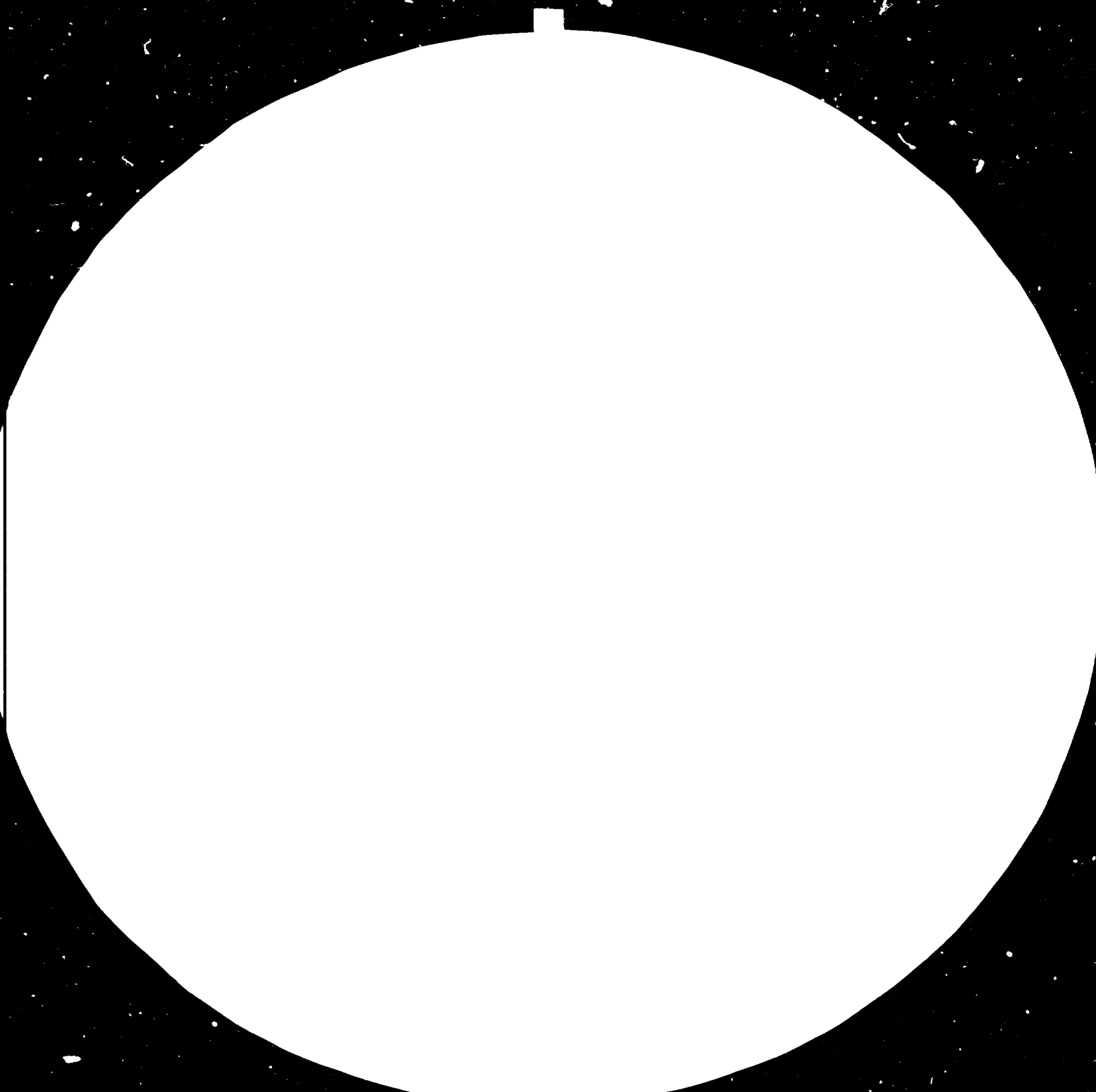
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Item 5(h)

**THE LEAST DEVELOPED COUNTRIES:
IMPLEMENTATION OF
THE SUBSTANTIAL NEW PROGRAMME OF ACTION**

ISSUE PAPER

Item 5(h) of the provisional agenda

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

The least developed countries: implementation of
the substantial new programme of action

Issue paper prepared by the UNIDO secretariat

INTRODUCTION

1. The two main issues considered in this paper are the role of industry in the economic development of the least developed countries and the ways in which this role can be more efficiently performed. The paper concludes with some suggestions regarding the action to be taken at both national and international levels towards the industrialization of these countries. Details of action taken to implement the Substantive New Programme of Action for the 1980s for the Least Developed Countries in the field of industry are contained in the corresponding background paper (ID/CONF.5/10).

I. THE ROLE OF INDUSTRY IN THE ECONOMIC DEVELOPMENT OF THE LEAST DEVELOPED COUNTRIES

2. Ever since the 1960s it has been recognized that if the developing countries are to achieve self-sustaining growth, the structure of their economies will have to be transformed. Moreover, the development of the industrial sector has a major role to play in this structural transformation, whereby countries would have not only a growing agricultural sector, but also an expanding industrial one. There would be backward and forward linkages between the two sectors, subsistence production would decline and instead of a localized fragmented market, there would be a unified national one that would encourage economies of scale. Eventually, the economy would be able to generate sufficient savings to finance its investment programme and innovate to meet changing circumstances.

3. Within the United Nations system, these dynamics of growth have long been recognized. They provide the basis upon which much of the Organization's policy to assist the developing countries has been formulated. The aim of the Substantial New Programme of Action for the 1980s for the Least Developed Countries is to transform the economies of the least developed countries so that they can achieve self-sustaining growth. As industry accounts for so low a proportion of the gross domestic product (GDP) of the least developed countries, this sector was expected to grow more rapidly than any other in the effort to bring about structural transformation. A growth rate of at least 9 per cent a year was envisaged for the industrial sector.

4. The actual performance of the least developed countries has not matched the targets set by the United Nations. ^{1/} In fact, over the period 1970 to 1980 the share of the least developed countries in world manufacturing output has stagnated at around 0.2 per cent, even though other developing countries managed to increase their share from 8 to nearly 11 per cent. Far from growing at the rate of 9 per cent per annum, the growth rate of manufacturing value added (MVA) in the least developed countries was 7.7 per cent in the 1960s but declined to 4.2 per cent in the 1970s. Moreover, most of the growth has been confined to a few countries.

5. It was envisaged that the least developed countries would move from the production of purely primary goods to the manufacture of consumer goods and thence to the production of capital and intermediate goods. The emphasis would not be solely on an inward-looking import-substitution policy; careful

attention would also be given to the export opportunities available. In fact, most of the development in manufacturing in the least developed countries has been limited to consumer goods for the home market. Food, beverages, tobacco and textiles account for 70 per cent of the total manufacturing output of the least developed countries, while metal-based engineering industries contribute a mere 6 per cent. Since the major source of growth in industrial production occurs in intermediate and capital goods, it is not surprising that, with the very small output of such goods by the least developed countries, their economies are still awaiting transformation.

6. Lack of financial resources, poor performance of the agricultural sector, inadequate infrastructure and shortage of skilled labour have all contributed to this state of affairs. Even before the current economic crisis, the low level of national income of the least developed countries meant that it was difficult for the domestic economy to generate sufficient income to cover basic needs, let alone provide a surplus for investment purposes. The prevailing crisis, with the rising price of imports and stagnating export prices, has exacerbated the problem. As regards foreign resources, there was a marked swing away from official development assistance (ODA) to commercial bank loans during the 1970s. As most of the least developed countries were not considered creditworthy, they did not benefit from this change. The few that did receive loans now have difficulty in servicing their debts.

7. As far as the performance of the agricultural sector is concerned, it hardly needs repeating that industrial development cannot be separated from agricultural development, or pursued at its expense. Agriculture has to provide the raw material for industrial processing and, if possible, some of the domestically generated capital to purchase plant and machinery. Price incentives for farmers land redistribution and agrarian reform are prerequisites for the creation of larger markets for manufactured goods in the rural areas. If, while efforts are being made to develop the industrial sector, the agricultural sector is neglected, there will be a tendency for food imports to rise, and this can lead to a severe balance-of-payment problem that would seriously curtail industrial development.

8. Far from contributing to any of the objectives mentioned in the preceding paragraph, the agricultural sector in the least developed countries is in serious difficulty. The tendency has been for food imports to rise and a severe food shortage now threatens the least developed countries. Several factors have contributed to this situation. A lack of agronomic research and inadequate systems for delivering inputs such as fertilizers and collecting outputs have played their part. There has also tended to be too much discrimination against rural producers in favour of urban consumers as regards food prices. More immediately, drought in the Sahel and poor monsoons in Asia have adversely affected the sector.

9. Turning now to the question of poor infrastructure, many least developed countries either are remote islands or are land-locked and, under these circumstances, physical infrastructure such as ports, roads and airports, which facilitate communication with the rest of the world, has a crucial role to play in their development. Indeed, it has been argued by some that the crucial difference between the least developed countries and the rest of the developing world is one of poorer physical infrastructure and lack of skilled personnel. 2/

10. The factors so far discussed are not the only ones constraining the rate of industrialization in the least developed countries. There is, too, the question of size. It has already been pointed out that it is industrialization based on the production of capital and intermediate goods that brings about the structural transformation of an economy, yet research has shown that it is precisely for the industries producing these types of goods that size of market is of critical importance. Sheer size matters much less in the production of agricultural commodities, consumer goods and services than it does in the case of intermediate and capital goods. ^{3/} Size of the country is, therefore, crucial to the question of structural transformation. Indeed, the whole concept rests on the implicit assumption that the country is a very large one. Crude attempts to quantify the size of market a country should have if it is to carry out structural transformation have yielded a figure of total gross domestic product of \$US 4 billion. This was as long ago as 1975. ^{4/} Even if one ignores the changes inflation would have had on this figure, using the figure of \$US 4 billion as the yardstick, there are still not many least developed countries that have the required size of market. As the following table shows, only five of the 36 least developed countries have reached the required level of gross domestic product.

Classification of least developed countries by size of GDP

<u>GDP in billions of</u> <u>United States dollars</u>	<u>Number of countries</u>
\$US 4 billion and over	5
Between \$US 1 billion and \$US 4 billion	14
Less than \$US 1 billion	16
Total	35 <u>a/</u>

a/ Figures for Djibouti not available.

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1983.

11. The size constraint has been apparent for some time now. It has, in fact, led to a re-examination of the concept of the nation-State as the unit of economic development and, more importantly, to the formation of regional economic unions linking several countries. The type of economic integration mainly tried so far has been in the form of free trade areas and common markets. But these approaches have been found to have serious limitations. Least developed countries are seldom adjacent and when they have formed economic unions with their more developed neighbours they have benefited little, if at all, from the unions.

12. This does not mean to say that the premiss postulating the importance of industrialization in the development process is in any way flawed, but rather that it is necessary to be somewhat more sanguine about the prospects for structural transformation in the least developed countries. As pointed out at the High-Level Expert Group Meeting on Industrialization Strategies and Policies, held at Lima preparatory to the Fourth General Conference, the emphasis has to be on endogenous resource-based industrialization using small-scale processes and building up integrated agro-industrial production in tandem with new approaches to international industrial co-operation. 5/

13. Agriculture, mining, forestry and fishery in each least developed country all need to be examined with a view to identifying the possibilities for the establishment of processing industries. In this respect, reference is made to agenda item 5(f) on policies and measures for domestic industrial processing of raw materials in developing countries. The emphasis placed on a particular sector will depend upon the conditions prevailing in the least developed countries being considered. For island countries, the focus may well have to be on industry linked to tourism, agriculture and fisheries. Now that exclusive economic zones are coming into being, many island countries will find that their territory consists of more sea than land, and greater consideration will have to be given than in the past to the development of sea-related industries. The contribution of free zones - the industries in these are a form of industrial complementarity - will have to be seriously considered. The marginal value added by free-zone ventures may not be very great but, as pointed out in the background paper, in a small economy a little can go a long way. For land-locked countries, the sectors to be examined would be agriculture, forestry, mining and inland fisheries. Neither group of least developed countries can afford to abandon efforts at economic integration, for without large markets it is not possible to develop industries that produce capital goods. Yet without the production of capital goods there can neither be structural transformation nor the indigenous technological development that would make self-sustaining growth possible for the least developed countries. Industrial co-operation in these countries, particularly through industrial complementarity with each other, with other developing countries and possibly with developed countries, warrants attention.

14. The inability of the least developed countries to achieve structural transformation in the short run implies that they will continue to be heavily dependent upon the rest of the world for trade and aid for some time. Given this inevitably vulnerable situation, the least developed countries warrant preferential access to external markets for their manufactures and other exports, as well as special measures to promote an increased flow of resources to them.

II. INCREASING INDUSTRIAL EFFICIENCY

15. If industry is to contribute as efficiently as possible to the economic development of the least developed countries, then the logical first step is to carry out surveys of the industrial potential of every least developed country. Such surveys would have to consider not only existing agriculture, forestry, fishery and mining patterns but future possibilities. Moreover, the surveys cannot be confined to these sectors only; great attention will have to

be paid to the energy sector, which must outpace other sectors of the economy in order to provide the necessary energy resources for industrial development with particular emphasis on industries for alternate sources of energy. In this regard, attention is drawn to agenda item 5(d), which deals with energy and industrialization.

16. Even with full knowledge of the resources available in the least developed countries, unless there is some awareness of the technological possibilities, industrial development cannot take place. Considerable emphasis must therefore be placed on technological advances that can bring new approaches to industrialization and help the least developed countries overcome their size limitations. The background paper on agenda item 5(b), dealing with the strengthening of technological and scientific capabilities (ID/CONF.5/6), is relevant here. In the case of the least developed countries, the strengthening of domestic scientific and technological capabilities is as important as the transfer of modern technology from more developed countries.

17. Awareness of the resources available and of the technological possibilities is still not enough, however, to bring about industrialization. Projects have to be formulated so as to attract finance and stand a more than reasonable chance of being viable. It is not only that poorly formulated projects often find it more difficult to attract finance; it is also that implementation of projects that have not been carefully thought through can result in expensive white elephants, or worse still, enterprises whose contribution to the economy is negative. Hence, carefully conducted feasibility studies are needed before particular projects are undertaken. Yet to many least developed countries, to pay approximately \$US 60,000 for a feasibility study seems a dubious proposition, particularly when it is borne in mind that on average only 10 to 20 per cent of the projects studied are ever implemented. Moreover, not many institutions, apart from sellers of equipment, are willing to provide feasibility studies for the least developed countries. The preparation of feasibility studies - from project idea to a bankable proposition - and assistance with the negotiating of finance and management are therefore areas in which the international community should provide more assistance to the least developed countries.

18. There remains the thorny issue of ensuring that the completed project is efficiently operated. The question of whether the project should be in the private or public sector need not detain us. It is generally recognized that, given their present state of development, the least developed countries have little alternative to having the public sector operate most of their large-scale industrial projects. Government intervention in the industrialization process is highly necessary in these countries, where the need exists for a rational, planned allocation of meagre resources in order to achieve development objectives as rapidly and efficiently as possible, and this implies that in the future greater emphasis must be placed on planning and plan implementation than has actually been the case in the past. It is of crucial importance, however, that the project should be a separate and distinct entity, with clearly defined objectives and explicit criteria by which its performance can be judged.

19. Having created the entity, the major problem is to obtain an effective board of management. Not only are persons with knowledge of particular industries few and far between in least developed countries but so are people with training and experience in such general matters as accountancy and

industrial relations. Often the people with the requisite skills are not prepared to serve on boards of management because they fear political interference. Often, too, the few who are available are so thinly spread that they are unable to give sufficient attention to any one industry.

20. Below the board level, there is the question of staffing the enterprise. Obviously, countries that have only recently started to establish industrial enterprises will not have the pool of talent from which industrial managers can readily be drawn. One solution has been to obtain expatriate management with local counterparts. Another has been to twin the industry with a similar industry in a developed country and arrange for a regular exchange of staff.

21. There is, too, the question of financial management. Very often, financial records are not available and when accounts are available these are geared to the production of annual statements rather than to the preparation of shorter term operational statements to assist management in day-to-day operations. Yet it is the day-to-day management of such current assets as stock, debtors and cash that often determines the success of the enterprise. The comparatively poor state of financial management in the least developed countries is due to a dire shortage of accountants. Very often the need is not so much for highly trained accountants as for intermediate-level training allied to experience in the particular industry.

22. The questions of repair and maintenance and the availability of skilled operatives are crucial. On this issue of human resources, reference is made to the documentation on agenda item 5(a), on the accelerated development of human resources for industrial development (ID/CONF.5/9).

23. In sum, it could be stated that while structural transformation is desirable, it is a long way off for most least developed countries. The need at present is to ensure that primary activities in these countries are thoroughly studied and viable industries established based on these and on the human resources available, and that when the industries have been established, they are efficiently operated. Positive action at the national and international levels will be needed to achieve these aims.

24. The measures required at the national level include:

(a) Recognition of the role of industry in the economy, and particularly of the importance of industry based on endogenous resources, both human and natural;

(b) Improved planning for the industrial sector;

(c) Development of the energy sector on a priority basis so that its growth outpaces that of all other sectors and facilitates their emergence;

(d) Linking of education and training with industrial production so as to increase the efficiency of human resources;

(e) Mobilization of more domestic financial resources for industrialization;

(f) Consolidation of technological capabilities, including modern technologies;

(g) Special attention to the management of industrial enterprise and fostering of a climate that would enable such management to emerge.

25. Measures to be taken by the developed countries in order to assist in the industrialization of the least developed countries include:

(a) Increasing the level of official development assistance;

(b) Providing adequate credit or aid facilities for industrial purposes under better terms (longer grace periods, lower interest rates etc.);

(c) Ameliorating the debt problem;

(d) Facilitating an increased transfer of technologies to these countries;

(e) Giving preferential treatment to their manufactured exports;

(f) Encouraging and supporting efforts to increase domestic processing of their raw materials;

(g) Facilitating the training of their nationals, especially in entrepreneurial and managerial capabilities - by contract arrangements;

(h) Providing assistance that would enable full use to be made of their industrial capacity;

(i) Encouraging redeployment of industries through preferential treatment.

III. MEASURES TO BE TAKEN BY UNIDO

26. In particular, UNIDO could take the following measures to assist the least developed countries:

(a) Assist in the preparation of comprehensive surveys of their resources;

(b) Assist in the formulation of national industrial policies and plans underlining the contribution of industry to economic and social development;

(c) Assist in the identification, preparation and evaluation of projects through, among other things, the establishment of an industrial project preparation facility;

(d) Take effective steps to strengthen the countries' technological and productive capability, through the provision of technology to meet their special needs, especially in food processing, processing of minerals, building and construction, alternative sources of energy, water extraction and small foundries;

(e) Promote an increasing number of pilot and demonstration production units, which, among other things, could contribute to the gradual emergence of a technology suited to their needs;

(f) Promote joint ventures between these countries on the one hand and other countries, developed or developing, on the other.

As described in the background paper on this subject (ID/CONF.5/10), UNIDO has made constant efforts to assist the least developed countries in accordance with the mandate given to it. If adequate resources were made available much more could be accomplished.

Notes

1/ See "Selected statistical indicators" (ID/WG.391/1, Feb.1983).

2/ T.Weiss, and A. Jennings, More for the Least? Prospects for Poorest Countries in the Eighties (Lexington, Massachusetts, Lexington Books, 1983).

3/ H.B. Chenery, "Patterns of industrial growth", American Economic Review, September 1960.

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

5/ "Industrialization strategies and policies: possible options for developing countries" (ID/WG.391/2).

