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AID CO-ORDINATION
AND INDUSTRIAL DEVELOPMENT
IN THE LEAST DEVELOPED COUNTRIES (LDCs)*

Prepared by
the UNIDO Secretariat

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PREFACE

Pursuant to the Paris Declaration and Programme of Action adopted at the Second United Nations Conference on the Least Developed Countries (LDCs), held in Paris from 3 to 14 September 1990, UNIDO, with the financial support from the Government of Italy, decided to organize a Workshop on industrial development in the LDCs. The aim of the workshop is to review the status of industry and to analyze key issues of industrial development in the LDCs. The proceedings of the workshop will form the basis of an Industrial Action Plan for the LDCs to be submitted to the Fourth Session of the Conference of UNIDO in November 1991.

This paper addresses the issue of aid co-ordination for industrial development in the LDCs. The paper has five main sections. The introductory section deals with the need for and definition for aid coordination, and the features aid and industry in the LDCs. Section 2 summarises the evolution of industrial strategy that has been adopted and notes their implications for the types of aid that are most relevant to industrial development. Section 3 reviews existing aid co-ordination mechanisms, modalities, trends and the extent to which they promote industrialization in the LDCs. In section 4, the threads are drawn together in a discussion of requirements for aid co-ordination as it affects the industrial development of LDCs. Finally, section 5 concludes this paper with a summary and policy proposals for improved aid co-ordination for industry in LDCs.

This paper has been prepared by staff of the Regional and Country Studies Branch with inputs provided by Mr. Stephen Lister, Mokoro Limited, Oxford, U.K. as UNIDO consultant. This paper does not commit UNIDO to any particular course of action.

CONTENTS

	Page
1. INTRODUCTION	1
1.1 Aid and industry in LDCs	1
2. STRATEGIES FOR INDUSTRIAL DEVELOPMENT	5
2.1 Background	5
2.1.1 Past development strategies	5
2.1.2 Present industrial development strategies	6
2.2 Implications for industrial sector planning and aid	9
3. ISSUES AND TRENDS OF AID CO-ORDINATION	12
3.1 Background	12
3.2 Individual donor responses	15
3.3 Collective responses: Consultative Groups and Round Tables	16
3.4 Co-ordination and technical assistance	17
3.5 Donor and recipient perspectives on aid co-ordination mechanisms	19
3.6 Likely trends in aid co-ordination for LDCs	20
4. AID CO-ORDINATION FOR INDUSTRIAL DEVELOPMENT	22
4.1 Special features of industrial aid for LDCs	22
4.2 Importance of macroeconomic and sector policy framework	22
4.3 Making aid relevant to private sector development	23
4.4 Privatization and management/reforming existing public sector	25
4.5 NGOs and industrial development in LDCs	25
4.6 Regional co-operation and co-ordination	26
4.7 Co-ordination amongst aid agencies	27
4.8 Role of UNIDO in aid co-ordination	28
4.9 Aid modalities	29
5. CONCLUSIONS AND POLICY PROPOSALS	31
REFERENCES	33

1. INTRODUCTION

In view of the unfavourable economic environment facing LDCs, their limited capacity to generate investible surpluses and the magnitude of unmet development needs, there seems to be strong case for an increased volume of external aid - financial and technical- to meet short-term and long-term development needs. The Second United Nations Conference on the Least Developed Countries stressed not only the need for strong policy direction for effective aid management among recipient countries and donors, but also the development of feasible mechanisms and institutions for better aid co-ordination of resources for development in the LDCs.¹ In this setting, aid co-ordination becomes a critical issue in industrial development and development in general in LDCs.

The concept aid co-ordination as used in this paper concerns concessional aid flows (Official Development Assistance -ODA- as defined by OECD's Development Assistance Committee), but a number of issues that arise also have a bearing on foreign direct investment and on non-concessional flows such as trade credits.

Though ambiguous its operational definition, the concept of "aid co-ordination" is topical, thus emphasizing the need to clarify its definition for operational purposes. The "classical" notion of co-ordination suggests that all development assistance should somehow be thrown into a common pool of untied funds from which resources would be drawn to promote activities which have absolute priority. This suggestion may seem absurd and unpractical, because interests of recipient government and donors differ. Experience of recent years show, however, that some LDCs, including Bangladesh, Mali, Mozambique and Sudan have accepted joint aid co-ordination in the context of economic rehabilitation or structural adjustment. In these case examples the donors at the request of the recipient countries met at the so-called Consultative Groups (organized by the World Bank) or Round Table Meetings (organized by the UNDP) to ensure that key projects in the investment programmes receive financing. Evidence shows that recipient LDCs still stand out as weaklings in the aid co-ordination process, because of their minimal influence in the identification of key projects. In case LDC recipient are able to identify economically viable projects which are of benefit to the mass of the population, especially the rural poor their stake in the co-ordination process need to be enhanced.

Contrary to the above, a more ambitious concept of aid co-ordination is the passive "exchange of information" among donor representatives. Such co-ordination is aimed at avoiding contradictory policy advice, for example on policies of cost recovery.²

¹ UNCTAD, Paris Declaration and Programme of Action of the Second United Nations Conference on the Least Developed Countries, A/CONF.147/Misc.9, GE.90-52264/2411B, 15 September 1990, pp. 17-21.

² The Nordic UN Project, Perspectives on multilateral assistance, Report No. 10:1989, Stockholm, June 1990, pp. 24-25.

Although many doubt the benefits of aid co-ordination, its mechanisms and agencies of co-ordination, there is an increasing consensus that co-ordination is necessary. Its main objective is to improve the efficiency of existing aid, to ensure that better use of any additional aid resources, to reinforce public support for aid from donors, and above all to make a better use of scarce resources for industrial development in the LDCs. Industrial development (and development in general) is a vast and dynamic field with a very wide range of sectors and linkages with other economic sectors. Donor-funded projects in physical infrastructure, industrial facilities, and "human resources-related" projects, for example, will have several implications on an LDC economy. Lack of co-ordination in aid programmes may mean that resources are spread- too thin- that the expected impact of projects are never realized. There is thus an urgent need to reassess the various projects and examine how a synergy effect and cost-saving can be achieved through rationalization and co-ordination of these numerous projects. Moreover, aid co-ordination will mean a clear purview for future viable investment sectors for the donors, better use of scarce resources and non-duplication of projects.

Aid co-ordination is a complex matter and one of concern to both the donor and recipient LDCs alike. The actions of both parties involved determine its scope and success. The extent to which LDCs are capable to attract foreign aid and the effectiveness of such scarce resources for industrial development depend on the economic advantages of identified industrial projects and to a large extent on effective co-ordination of aid.

Up till now, there seems to be little or no co-ordination of aid received by many LDCs. LDC governments have no clear policy or mechanisms to co-ordinate aid flows. It seems they do not want to intrude upon the donors's aid decisions and thereby risk discouraging aid flows. Donors may fear the political and economic advantages accumulated over the years might dissipate in a framework of reinforced aid co-ordination.

The main objective of this paper is to analyze aid co-ordination and its implications for industrial development in the LDCs. During the 1980s aid co-ordination was an increasingly prominent topic, and it is certain to remain on the agenda during the 1990s. It is especially relevant for the Least Developed Countries (LDCs) which, as a group, are more dependent on aid than other developing countries.

In order to assess the requirements of aid co-ordination for the industrial sector in LDCs, a number of threads have to be woven together. These include:

- the state of industrial development in LDCs, their general dependence on aid, and the significance of aid to the industrial sector in particular;
- changing perceptions of industrial development strategy; and
- changing aid relationships and the evolution of aid co-ordination mechanisms.

The state of industrial development of the LDCs is documented in other papers prepared for the Workshop (see especially Status of Industry in the LDCs), and overall aid flows to the LDCs are reviewed in the paper The Potential Role of Official Development Assistance (ODA) Projects in Promoting Industry in the Least Developed Countries (LDCs). These papers present very important background and introduction for the issue of this paper.

1.1 Aid and industry in LDCs

Most LDCs share the following characteristics:

(a) A high and increasing dependence on aid. In 1988, concessional assistance from all sources to the LDCs averaged two-thirds of the value of their imports, whereas the average for all developing countries was only 10 per cent.³ By 1989 ODA accounted for 94 per cent of net resource flows to the LDCs.⁴

(b) A low share of manufacturing⁵ in total GDP, and disappointing performance of the manufacturing sector in recent years. (As noted in the Paris Declaration and Programme of Action, the growth of manufacturing output in the LDCs during the 1980s was far less than was envisaged in the Substantial New Programme of Action, and also less than half of the growth rate achieved during the 1970s).

(c) A low proportion of aid flows directed into industry⁶.

At the same time, it is important to bear in mind the heterogeneity of the LDCs, particularly as this affects their aid co-ordination. Clearly the context of aid co-ordination in the large LDCs, with populations measured in tens of millions, is quite different from the very small LDCs. The latter face a different, and more restricted, menu of options for industrial development, have a smaller pool of skilled personnel, and face proportionately much higher overhead costs of government. There are also significant differences between LDCs that are not necessarily related to

³ UNCTAD, The Least Developed Countries 1989 Report, Annex Table 14.

⁴ OECD/DAC 1990 Report.

⁵ The share of industry (which includes construction, electricity, water and gas, together with extractive mining) is considerably larger than that of manufacturing. Many of the same policy issues apply both to manufacturing proper and to industry broadly defined.

⁶ Only 5.5 per cent of DAC bilateral aid commitments in 1989 were for "Industry, Mining and Construction"; for multilaterals as a group the equivalent figure was 6 per cent, but less than 4 per cent of UN agency commitments were for "Industry, Mining and Construction" (DAC 1990 Report, Table 29). By contrast, agriculture took 11.3 per cent of bilateral ODA and 23 per cent of multilateral development finance; economic infrastructure took 19.1 per cent of bilateral and 13.3 per cent of multilateral commitments; and social and administrative infrastructure took 25.7 per cent of bilateral and 27.8 per cent of multilateral commitments. (These figures are for aid to all developing countries, but it is unlikely that the share of industry in aid flows to the LDCs exceeds the average.) The picture is similar for Technical Cooperation with LDCs: in 1987, for those LDCs where figures were available, the share of "Industry and Trade" in TC exceeded 5 per cent in only a handful of cases. (Table IV in UNDP, Technical Co-operation in the Development of the Least Developed Countries, contribution for the Second United Nations Conference on the Least Developed Countries, 21 February 1990).

size - for example, labour is much scarcer in Bhutan than Bangladesh, in Botswana than Malawi; landlocked countries may face particular difficulties in developing exports, and so on.

2. STRATEGIES FOR INDUSTRIAL DEVELOPMENT

2.1 Background

For the LDCs, the 1980s was a "lost decade" for development. The overall poor performance in the development process necessitates a reappraisal of development strategies for LDCs for the 1990s. In this process, there is the need for much revision of attitudes to, and prescriptions for, industrial development⁷. Other Workshop papers analyze the lessons learned from past experience and describe the new directions for policy that are now favoured⁸. It is not appropriate here to cover the same ground in detail, but it is necessary to summarise the key changes in industrial strategy, since these have very direct implications for the role of aid to the industrial sector. Some issues remain controversial; for example, some critics argue that the de-emphasis of industrial strategy has gone too far.⁹ There is nevertheless substantial agreement about what has gone wrong with many industrialization efforts and about what this implies for the future. The following paragraphs offer a simplified summary of a range of various strategies of industrialization that have been or are being presently applied in LDCs. The intention is not to re-argue the case for changing views on industrialization, but to identify changes in approach that have particular implications for aid (and aid co-ordination) in respect of industrial development.

2.1.1 Past industrial development strategies

The main features of industrial development paradigm followed especially in the past (or partially being followed) included the following:

- (a) an emphasis on the leading role of manufacturing industry in transforming the economy;
- (b) a leading role for the state in the detailed planning of industrial development, together with
- (c) public sector ownership of major manufacturing enterprises;
- (d) an emphasis on large-scale capital investment in developing the manufacturing sector; and
- (e) a strategy of import substitution behind high protective barriers.

⁷ The World Bank has been the most vigorous party in reappraising industrial development strategy (see for example the World Development Report for 1987 and the Bank's various studies of sub-Saharan Africa).

⁸ See especially Industrial Policies in the Least Developed Countries: Major Challenges.

⁹ See Roger Riddell, The Manufacturing Sector in African Development, Development Policy Review, March 1990.

The socialist centrally planned economies were seen as paradigm of what might be achieved by this approach to industrialization. The Basic Industry Strategy which evolved in Tanzania represented this paradigm and its elements were reflected in the industrialization efforts of many LDCs, including Guinea, Guinea Bissau, Laos and Mozambique. However, experience in practice was very disappointing. Basic industry strategies failed to match expectations in many dimensions, and their weaknesses were starkly exposed in the unfavourable external economic circumstances of the 1980s. Import substituting strategies failed to reduce import dependence; individual enterprises often performed poorly, with management quality a frequent problem; technology transfer was disappointing; the priority accorded to industrial development held back growth in other sectors, especially agriculture, which in turn acted as brake on industrial development.

2.1.2 Present industrial development strategies

In the light of these experiences, a new industrial development paradigm has emerged.¹⁰ It includes the following elements (although there is still debate as to their relative weight):

- (a) The need to establish an appropriate, sustainable macroeconomic framework.
- (b) The importance of "getting prices right" domestically, and of ensuring a reasonable correspondence between international and domestic prices.
- (c) The importance of the agricultural sector (as a source of demand for industrial products, to generate resources for investment, and as a stimulus for agro-industrial linkages).
- (d) The importance to industrial development of progress and performance in other sectors - notably education and transport, communications and other physical infrastructure.
- (e) The need for industrial enterprises to operate in a competitive environment, with a presumption in favour of private ownership.
- (f) Recognition of the importance of small- and medium-scale industrial enterprises (which reinforces the perceived importance of the private sector).

The transition to a market orientation now being attempted by the planned economies of Eastern Europe, contrasted with the dynamism of the newly industrialising countries (NICs) of Asia, has increasingly seen the NICs rather than the former CMEA members taken as the models from which other developing countries may have most to learn.

¹⁰ The World Bank has been a leading influence in the reappraisal of industrial strategy. However, it is worth noting that many aid agencies, including the World Bank, subscribed at the time to the industrialisation strategies which were later found wanting. This point is emphasised in the World Bank's own reviews of its aid relationship with Tanzania.

The new set of industrial development paradigm presently applied has radical implications for the role of governments in promoting industrial development. The new view of the government role is encapsulated in the catch-phrase "enabling environment". There is consensus on the importance of the government's role in setting a macroeconomic framework in which industry can thrive, and in undertaking activities in which it has a comparative advantage over the private sector, such as the provision of basic infrastructure and general human resources development. There is still controversy over whether an "enabling environment" is all that is required, or whether, in addition, active state promotion and sponsorship of industry is needed.¹¹

Disappointing experience with industrialization efforts in many developing countries has been the main spur to new thinking about industrialization strategy, but revisionism has been given added impetus by technological change, which has also tended to undermine traditional assumptions about industrial development. Dahlman, for example, identifies five main trends associated with an acceleration of technological change in industry:¹²

- (a) an increased rate of innovation;
- (b) broader applicability of new technology;
- (c) shorter life cycles and greater flexibility in response to customers' needs;
- (d) increased automation and a smaller role for unskilled labour; and
- (e) changes in the use of inputs (often reducing demand for traditional developing country exports).

Such changes affect the comparative advantages of LDCs: an abundance of cheap, but unskilled, labour confers less of an advantage than before, while distance from markets becomes more of a disadvantage; production of industrial raw materials may be less of a basis for industrialization as such materials become a smaller proportion of value added in manufacturing, and so forth. Technological changes also affect the modes of industrialization and technology transfer that are appropriate. New technology gives greater weight to skills and institutions and less to physical capital; for LDCs, therefore, it is not enough to import physical capital if the technological and management skills to use, adapt and update

¹¹ Riddell, for example, argues that "a policy framework more supportive of industry than the 'benign neglect' approach associated with the World Bank merits greater consideration," but stresses that the approach he advocates "is also very different from what might be termed the 'industrialize at all costs' view that has been influential in Africa".

¹² Dahlman, C. J., Technological Change in Industry in Developing Countries, Finance & Development, June 1989.

it are not also acquired. Technological change thus tends to reinforce the revised paradigm.¹³

Concerning an effective choice of industrialization, LDCs may choose among a combination of strategies below which best suit their size, resource base and stage of industrialization:

- (a) Public sector investment in heavy industry
 - (i) new investment
 - (ii) rehabilitation and privatization of existing plants
- (b) Import substitution
 - (i) consumer goods
 - (ii) capital goods
- (c) Export-led growth
 - (i) processing of raw materials for exports
 - (ii) processing of imported raw materials and/or intermediate goods
- (d) Agriculture-led industrialization
- (e) Government involvement in planning or making indicative plans
- (f) Prices set by international market forces and private sector takes lead role
- (g) Government responsible for "enabling environment" consisting of appropriate policies, support to infrastructure, human resources development.

As earlier mentioned, there is no need for an a priori decision on which development strategy to be followed. Rather, choices for a particular or a combination of the above need to embrace the country's resources, development stage and the industrial sector to be developed. For example, it may seem unrealistic for Botswana and Djibouti with minuscule agriculture sector (less than 10 per cent share in GDP in 1980 constant prices) to embark on an agriculture-led industrialization.

¹³ See also Raphael Kaplinsky and other contributors on the theme of industrial restructuring in the global economy, IDS Bulletin 1989, vol. 20, no. 4, Institute of Development Studies, Sussex. Implications of technological change for industrial development in sub-Saharan Africa are discussed extensively in Sanjay Lall, Human Resources Development and Industrialization with Special Reference to Sub-Saharan Africa, Journal of Development Planning, No. 19, 1989.

2.2 Implications for industrial sector planning and aid

The changing perception of industrial sector development strategy has a number of significant implications for planning of the sector and for aid to it. First, industrial development has to be seen in a less compartmentalised way. Relevant links include:

- (a) The relationship between industrial development and the general macroeconomic context. This involves establishing a stable macroeconomic environment which avoids the disruptive consequences for industry of persistent imbalances, while ensuring appropriate price incentives for industry.
- (b) The relationship between manufacturing industry and complementary sectors.

The relationship with other sectors has several aspects. Industry is highly dependent on transport, communications and energy services. In the short term, rehabilitation of such services may be as important as the rehabilitation of industrial plant itself. In the longer term, improvements in transport, communications and power may be an essential part of the enabling environment for industry. The inter-relationship between industry and agriculture is recognised as being particularly important. Industry is unlikely to thrive when agriculture does not, whereas agricultural development increases the opportunities for industry, by increasing people's incomes and generating demand both for manufactured consumer products and for agricultural inputs. Education (both general and vocational) is vital in providing the fundamental skills that manufacturing industry requires.

Industry may not be seen as a single motor which by itself can pull the rest of the economy and to which other sectors should be subordinated. Rather, a balanced strategy is required, in which industrial planners show awareness of the links between industry and other sectors, while, at the same time, the implications for manufacturing industry are taken into account in formulating macroeconomic policy and strategies for other sectors.

Secondly, the role of government must be less direct, though not necessarily less important. The management of industrial enterprises is one aspect of this. There is now a presumption in favour of private sector ownership and management of commercially-oriented enterprises, with direct government ownership as the exception to be justified by special circumstances. However, the competitive orientation of management, rather than public or private sector ownership *per se* is seen as the key requirement, and this implies a more "arms-length" relationship between the government and those enterprises which remain in the public sector. Although there will be less direct government involvement in managing

industries, the "enabling environment" is highly dependent on the quality of government¹⁴.

Thirdly, there is the need for a bigger role for the private sector and more importance for small and medium scale enterprises. There is an increasing need for governments to facilitate and promote private sector industrial development. This will require a better understanding by governments of the spectrum of existing and potential industrial activity in the private sector as the basis for evolving appropriate forms of support.

All these factors tend to make the manufacturing sector in LDCs less amenable to planning in its traditional forms. By the same token, effective aid for industrial development is less straightforward. And, at the same time, precisely because the sector is seen in a less compartmentalised way, co-ordination becomes more important.

The success of industrialization will increasingly be measured by the volume of private, rather than public investment that industry attracts¹⁵. It is unrealistic to expect the industry sector to "move up the league table" ahead of overall macroeconomic concerns, human resources, agriculture, infrastructure rehabilitation, and so forth. However, it is important that an appropriate industrial perspective should permeate the discussion surrounding these higher profile topics. An important part of "aid co-ordination" for the industry sector is to ensure that macroeconomic policies and programmes and those primarily directed at other sectors contribute appropriately to industrial development. With respect to aid that is targeted at industrial development, the accent must be on its quality rather than quantity.

Besides the structural adjustment programmes, many LDCs, including Benin, Ethiopia, Mozambique and Togo have launched profound privatization policies. Privatization and consequent rationalization of the public sector cannot be successful if the private sector cannot get access to ODA aid resources. The response of the United Nations Capital development Fund (UNCDF) to the need of rural credit programme in Bhutan, village banks in Mali, umbrella credit facilities in Lesotho and credit for small and micro enterprises in Tanzania is significant but not sufficient. Access of ODA resources to private small- and medium-size industrial enterprises need to be substantiated by the involvement of the private sector in the aid co-ordination process. This will mean a kind of participatory development which is all about harnessing human talents and energies at all levels of the society, including the grass-roots. This does not imply bypassing the

¹⁴ See, for example, Arturo Israel, The Changing Role of the State: Institutional Dimensions, Working Paper WPS495, World Bank, August 1990.

¹⁵ The World Bank's long term perspective study (LTPS) for Africa envisages a smaller share of aid going to industry and other productive sectors. Although increased aid flows are advocated, the LTPS scenario almost certainly also implies a reduced level of aid for industrial production. (Sub-Saharan Africa: From Crisis to Sustainable Development, 1989, Chapter 8).

government, but teaming up with a strong and competent government and its ministry of industry and trade or commerce with the representatives of private small- and medium-size enterprises sector representatives, the chamber of commerce, university and research and technology institutions etc., in the aid co-ordination processes. Such an "ambitious" teamwork will be possible and effective in a market economy with democracy as a supportive base for industrial development. Effective capital assistance and participation of the private sector in aid co-ordination will foster income generation and cater for the basic needs of the underprivileged groups, create a framework for the people's dynamic commitment in development process and ultimately build up the basis for good local, provincial national government. Aid co-ordination need not disadvantage the private and informal industry, but mechanisms are to be created so that it becomes beneficial to both public and private sectors in LDCs' development.

The reassessment of industrial development strategy has to be made in relation to the changes in aid relationships. The approaches to aid co-ordination is discussed in the next section.

3. ISSUES AND TRENDS OF AID CO-ORDINATION

3.1 Background

This section summarises evolving aid co-ordination mechanisms so as to provide a context for subsequent discussion of aid co-ordination in relation to the industrial sector.

Aid co-ordination is an issue that has tended to be raised by aid agencies, rather than recipients.¹⁶ It has come to mean much more than a concern to avoid the overlap and duplication that can result when a number of agencies try to do similar things independently: increasingly, so-called "policy dialogue" has been at the centre of the process. There have been important changes in the way that many multilateral and bilateral aid agencies view their relationship with aid recipients and with each other. These changes are strongly related to the development experiences of the 1980s, and have been reflected in the evolution not only of attitudes but also of institutional mechanisms for aid co-ordination.

The term "aid co-ordination" itself is often used rather loosely, so that "better co-ordination" becomes the prescription for dealing with any deficiency in any aspect of aid management. On the recipient side, the effective planning and utilization of aid depends on the whole planning and administrative machinery of the government, not just on whatever agency is assigned the formal responsibility for managing aid. "Better co-ordination" becomes an empty recommendation unless the specific problem to be addressed is clearly identified.

On the government side as well as the donors', there are many different actors whose interests may differ and whose actions need to be harmonised. Although harmonising the various efforts of aid agencies and recipient - ensuring that they are mutually consistent and reinforcing - has obvious potential benefits, there are always costs involved too: co-ordination should be optimised, not maximised.

There are many different levels at which co-ordination may be sought. Much discussion of the subject concerns co-ordination at country level (for example through Consultative Group meetings), but there are also important supra-national co-ordinating forums (such as the Development Assistance Committee of the OECD amongst western donors, and various regional groupings of recipients, e.g. the ACP group which negotiates aid with the European Community under successive Lomé Conventions, and the Southern Africa Development Co-ordination Conference). Co-ordination efforts may focus on "high-level" policy issues, on avoiding duplication of effort at operational level, or on common administrative or technical problems. The attitudes and approach of the various parties may be quite different at different levels of focus, and so it is important to be clear what sort of co-ordination is at issue.

¹⁶ Recipients are more likely to have the volume of aid as their first concern.

Problems

There are three main strands to the problem which better aid co-ordination is supposed to address:

- (a) the number of aid donors with which the average developing country has to deal;
- (b) the capacity of the recipient government itself to co-ordinate the aid it receives;
- (c) the increasing salience of macroeconomic and policy concerns, as against a focus on investment projects;
- (d) the unpredictable, complex development patterns in increasingly pluralistic economies/societies; and
- (e) the rapid and difficult process of industrial development.

The impetus towards more explicit aid co-ordination from each of these sources has increased, and in each case the impetus has tended to be even stronger for the LDCs than for other developing countries.

Number of donors: The average developing country is said to have twenty-five to thirty official aid agencies.¹⁷ In some of the smaller LDCs there are fewer active donors, but there may be off-setting difficulties of co-ordination - for example, fewer of the active donors are likely to be represented in-country. (Each aid agency may offer a variety of financing instruments or different "windows" for aid, and this adds to the complexity of the co-ordination problem.)

Recipient co-ordination capacity: Almost every analysis of aid co-ordination acknowledges that the primary responsibility rests with the recipient government. Cassen noted that "At all but the highest 'levels' of co-ordination, the role of the recipient government is crucial. Unless the recipient has a firm grasp of the aid process, co-ordination will not take place, or will at best reflect only the donors' priorities".¹⁸ The DAC's 1986 guiding principles on "Aid for Improved Development Policies and Programmes and Implications for Aid Co-ordination" stressed that developing countries have the central responsibility for setting their policies and priorities and for aid co-ordination. Yet there has been an uncomfortable contrast between aid agencies' protestations of recipient responsibility and sovereignty and the increasingly direct role which donors have played in aid co-ordination. In part this reflects increasing donor scepticism about the policies being followed by developing countries, but in many

¹⁷ Robert Cassen et al., Does Aid Work?, 1986. This figure does not include NGOs.

¹⁸ Cassen et al., op. cit., p.227.

cases it also reflects the vacuum created by declining administrative capacity on the part of recipients.

LDCs were often administratively weak to begin with, and public sector capacity has been further eroded by the economic travails of the 1980s. The symptoms - declining public resources leading to the erosion of physical and social infrastructure, underpaid public servants lacking the means to do their jobs properly - are by now depressingly familiar. The same circumstances that have reduced recipient capacity to manage aid have made the tasks of aid management more difficult. Uncertainty about levels of resources available has increased, and, as domestic resources have dried up, so has the scope for allocating them in ways that compensate for imbalances in donor flows. (Even providing the complementary local resources required by aid projects has proved impossible in many cases.) Incipient weaknesses in resource planning and allocation systems show up much more starkly in harsh economic circumstances.¹⁹

Declining Project Focus of Aid: Traditionally, aid was viewed as meeting a capital gap. Channelling aid to projects satisfied the donors' need to have something to show for their assistance as well as the recipients' needs for investment. The identification of aid with capital projects has been weakened by several factors:

- (a) Often, projects themselves have not been very successful, and it has increasingly been seen that policy and macroeconomic factors outside the control of individual projects need more attention;
- (b) The problem of meeting the recurrent costs generated by projects has become more acute, and has led to a broader focus on public expenditure as a whole. (This is reflected in numerous World Bank public expenditure reviews: in the years since such reviews began to be conducted, their focus has widened from the programming of public investment to the review of capital and recurrent expenditures as a whole);
- (c) Balance of payments support ("programme aid") has become much more significant for countries facing severe economic imbalances, with conditions relating to recipient policies rather than to project implementation. Programme lending is a key feature of the Structural Adjustment Programmes that many distressed LDCs have negotiated with the World Bank and IMF; and
- (d) Technical assistance has acquired renewed prominence.
(Rather than diminishing as countries have built their own

¹⁹ It is worth noting that the LDC most often believed to be an example of competent planning and aid management system - Botswana - has not had its planning and budgeting system subjected to the test of a sustained period of declining government revenue.

capacities, the volume of technical assistance has actually increased).

The changing composition of aid has complicated the tasks of aid co-ordination. Project aid was often aligned with the responsibilities of a Planning Commission or Ministry. As funds become scarcer and programme aid becomes more important, the roles of the Finance Ministry and the Central Bank become more prominent. (The IMFs' links are always with the Finance Ministry rather than the Planning Ministry/Commission, and this may be true for the World Bank as well). And the scarcity of resources is likely to make competition fiercer amongst the various agencies of government. On the donor side, policy-related aid reinforces the case for co-ordination amongst donors, since recipients cannot simultaneously satisfy inconsistent policy conditions. (Cost-recovery - the question of charging for basic services as a means of raising the funds to pay for them - is an area where governments have sometimes received conflicting advice from donors).

3.2 Individual donor responses

Responses to changing aid relationships have been both formal and informal, and are reflected in the way individual aid agencies manage their programmes as well as in their collective co-ordination mechanisms. In most cases the initiatives have come from donors. Shifts in the composition of aid, such as the increasing prominence of import support programmes, have already been noted. There have also been more subtle shifts in the types of "project" supported: much aid has retained a "project" format while project content has shifted away from new capital investment towards rehabilitation or even the financing of operating costs. As government administrative standards have deteriorated, donors have been less inclined to route their assistance through government and more likely to retain direct control themselves; there has also been a greater readiness to use NGOs as intermediaries. There has also been a *de facto* change in the emphasis of technical co-operation: more of it has been defensive - more concerned with keeping key government functions operating than with enhancing or developing them.

All these responses by aid agencies are easy to understand, but it is worth noting that many of them make the recipient's aid management tasks more difficult. It is more difficult for government to keep track of aid that does not pass through the government's own books.²⁰ It is now common to find some of an LDC's best-qualified economists working for aid agencies rather than for the government, which cannot offer competitive pay or conditions.

In many LDCs, aid agencies take the lead in conducting major economic and sector policy studies, and even in collating and analyzing basic data. LDC governments are often unable to produce documents of the standard of

²⁰ Most LDC governments' records on aid are very poor; UNDP offices have taken on the role of preparing annual compendiums of aid in standardised Development Co-operation Reports.

the World Bank's periodic Country Economic Memorandum or UNICEF's "Situation Analyses" of social and economic conditions (especially as they affect women and children).

3.3 Collective responses: Consultative Groups and Round Tables

Collective responses have centred on Consultative Group (CG) or Round Table (RT) meetings. The World Bank has been the convenor of CGs while UNDP has taken the lead in organising RTs, but there has been a steady convergence of approach and format. The CG format arose as a means of organising donor support for structural adjustment programmes approved by the World Bank and the IMF. Round Tables began mainly as pledging sessions, but have increasingly focused on policy issues and on co-ordination amongst a country's donors. Most LDCs have held one or more CG or RT meetings in the period since 1981.²¹

Agreement on adjustment policies has always been at the centre of the CG process. A pre-condition for the holding of a CG has been agreement between the developing country, on one side, and the World Bank and IMF on the other, on a Policy Framework Paper (PFP). The PFP sets out macroeconomic policies and targets for a three-year period; through the CG the World Bank and IMF seek to mobilize aid resources to support the country's reforms. Round Tables originally had less of a macroeconomic and crisis focus, but similarly sought to mobilise donor support in the context of an overview of the country's aid requirements. Over time CGs have tended to adopt a longer time perspective and to widen the analytical framework to give more emphasis to sectoral concerns and to the analysis of the impact of adjustment, rather than being narrowly concerned with very short-term macroeconomic adjustments. RTs have become increasingly concerned with the recipient's policies, as against a "shopping list" of aid requirements. For both CGs and RTs, UNDP usually takes responsibility for co-ordinating analysis of technical co-operation requirements (see below), so that the focus is not exclusively on financial requirements.

Both for CGs and for RTs, the meetings themselves tend to be rather formal and ceremonial. Their real significance is in legitimising, and providing a timetable for, a process of dialogue between the developing country and its major (western) aid partners. The developing country has to provide documentation for the meeting in which it sets out policies and aid requirements, while the sponsoring multilateral agency provides an endorsement which, it is hoped, will galvanise support from multilateral and bilateral donors alike. Documentation for the CG/RT often substitutes for a recipient's more conventional National Development Plan that has been rendered irrelevant by economic crisis. Preparation of the recipient's documentation for the CG/RT has often depended upon assistance by consultants and/or by the sponsoring multilateral itself.

²¹ See Devendra raj Pandey and Maurice Williams, Aid Co-ordination and Effectiveness: Least Developed Countries 1981-89, study prepared for the Second United Nations Conference on the Least Developed Countries, UNCLDC II/4, 8 March 1990.

The CG pattern of co-ordination has generated more specialised and more general meetings. More specialised meetings, accompanied by a similar process, may deal with particular sectoral requirements. (For example, aid requirements for the rehabilitation of Tanzania's transport sector were the focus of a special donor conference.) Some special meetings at country level have focused on the social dimensions of adjustment (SDA). Drought relief and other emergency assistance programmes have generated similar co-ordination arrangements.²²

At the more general level, meetings of aid agencies may be convened to consider the overall aid requirements of a group of countries. The most significant example is the group of about 20 donors which meets twice a year at the World Bank in support of the Special Programme of Assistance (SPA) for debt-distressed African countries - with 16 LDCs amongst them - which are undertaking World Bank-assisted structural adjustment programmes. This group has succeeded in mobilising programme assistance and in standardising the terms and conditions on which it is provided.

3.4 Co-ordination of technical assistance

UNDP has taken on a special responsibility for reviewing the technical assistance (TA) requirements of LDCs. There has been increasing dissatisfaction with the effectiveness of technical assistance, which accounts for large, and increasing, resource flows to LDCs. The primary focus of recipients' planning and resource allocation procedures has normally been on financial assistance, and procedures for allocating and evaluating technical assistance have been less well developed. Recipients commonly regard TA as less valuable than project or programme assistance, often seeing it as a donor stipulation which has to be accepted as part of the price of receiving financial assistance. The refusal of many countries to borrow to finance TA programmes reflects their scepticism of its worth.

Special interest in the co-ordination of technical assistance is justified not only by the number of agencies providing such assistance (usually a much larger group than those providing significant amounts of project or programme aid) and by the volume of resources involved (about one fifth of total net ODA flows to the LDCs²³), but also by the links between technical assistance and the policy and institutional issues on which the adjustment dialogue often focuses. UNDP has been developing a methodology for the review and programming of technical assistance requirements, through its NaTCAP²⁴ exercises (see Box). Such exercises have been launched in numerous LDCs (although not so far taken up by Asian LDCs); as the exercise has evolved there has been increasing emphasis on

²² See Pandey and Williams, p. 154.

²³ UNDP, Technical Co-operation in the Development of the Least Developed Countries, paper prepared for the Second United Nations Conference on the Least Developed Countries, 21 February 1990.

²⁴ National Technical Cooperation Assessment and Programming

Box 1. Co-ordinating Technical Assistance - NaTCAPs

National Technical Co-operation Assessment and Programming (NaTCAP) exercises have been sponsored by UNDP since the mid 1980s. By 1990, NaTCAP exercises had commenced in 35 countries (of which only Haiti is not in Africa).

The key features of NaTCAP are:

- A review of a country's experience with technical assistance in order to assess the lessons of the past.
- On the basis of national development objectives, priorities and strategies, an analysis of the adequacy of existing human skills and institutional capacities to implement its economic strategy and an identification of areas which critically require strengthening.
- A systematic assessment of priority technical cooperation needs for immediate operations and for longer-term capacity building, and the extent to which current TC activities are meeting these needs.
- A phased programme of TC activities and programmes, in skill and capacity building measures, which will ensure that the national development strategy can be met.
- Actions to strengthen the capacity for management of technical co-operation.

The intention is thus that NaTCAP should define Technical Co-operation priorities and requirements, both to fill immediate operational gaps and to build longer-term national capacity, thus providing a framework for donors to programme their aid and for recipient governments to co-ordinate it.

NaTCAP objectives are very ambitious, and no country has fully realized all the elements of the exercise. Early NaTCAP exercises relied too much on teams of external consultants: the emphasis now is on establishing a national co-ordinating system for the exercise from the beginning.

Generally, the tasks of reviewing TC experiences and establishing a policy framework for TC have proved less difficult than the later stages of defining and programming TC requirements in detail. (Guinea is one of only a handful of countries which have carried the process as far as the preparation of a Technical Co-operation Programme.) Often information systems for monitoring existing TC programmes are very weak; improving these is a pre-condition for effective programming of TC requirements.

Clearly, the long-run effectiveness of NaTCAPs will depend on the review and programming of technical assistance requirements being dovetailed with planning and coordination of other resource flows. Many donor agencies in the field remain sceptical about the ability of the NaTCAP exercise to accomplish the detailed planning and co-ordination of technical assistance. A UNDP evaluation in 1991 concluded that "the results of NaTCAP have been strong in assessment but weak in progress for mastery of programming techniques." (Maurice Williams, Evaluation of National Technical Co-operation Assessment and Programmes (NaTCAP) for the UNDP Regional Bureau for Africa, February 1991.)

indigenizing the review process and on building up a national capacity to review and plan for technical assistance requirements.

3.5 Donor and recipient perspectives on aid co-ordination mechanisms

Donors and recipients tend to have different reactions to the increasingly formal aid co-ordination mechanisms that have developed. Recipients have often been drawn into CG processes reluctantly, adopting structural adjustment programmes under the pressure of extreme economic crises. The initial tendency was to see the exercise primarily as a means of generating additional aid - and very often the participants have been justifiably disappointed at the levels of additional support achieved. Amongst donors, some have been much more diffident than others about appearing to "gang up" in pressing reforms. Differences in donor attitudes have probably not lessened, but there has been increasing recognition of the CG process as a fact of life. Donors who are concerned to put a more "human face" on adjustment have participated in a high-level dialogue about adjustment policy as well as in the country-level co-ordination processes. The urge to resist being tightly disciplined by a CG process is not always grounded in policy concerns: donors continue to have their own institutional, political or commercial interests which limit the degree of formal collusion that they accept in practice. Donors on the ground are often torn between a formal commitment to co-ordination and the practical concern to keep their programmes moving and meet their own organizational imperatives.

Economic crisis in LDCs has led to significant changes in the terms of the aid relationship "on the ground": the dearth of basic resources (transport, salaries, etc.) at the disposal of LDC government officials puts them at a disadvantage in dealings with aid agencies and can threaten the integrity of the aid relationship. Various forms of aid may be sought for their incidental benefits, rather than on an overall evaluation of costs and benefits to the recipient. For example, training and scholarships may be seen mainly as forms of income-supplement; technical assistance projects may be valued much more for the vehicles they provide than for the experts which account for most of the budget. It is difficult for aid to be treated as a partnership of equals when the government's aid co-ordination agency constantly has to beg aid agencies for the resources it needs in order to conduct its day-to-day business.

Despite rhetoric to the contrary, the increasing donor role has detracted from recipients' responsibilities. "Far from strengthening LDC capacities for co-ordination and management of resources, the reality has been that donors have been playing increasingly prominent roles in the co-ordination of aid - both directly and through the Bank/Fund policy framework - and that the role of LDC Governments has been relatively diminished in the process".²⁵ In a number of LDCs, a two-track planning and resource-management system has developed. On one track the LDC

²⁵ Pandey, D., and Williams, M., op. cit., p. 120.

continues formally to prepare a national development plan at intervals, often focusing in the traditional way on capital project requirements. In practice, though, this exercise is academic, as the resources are simply not available that such a plan would require. On another track, a small group of senior LDC officials works with the World Bank and the IMF to prepare a Policy Framework Paper and Consultative Group documents which are much more effective in determining macroeconomic policy and resource allocations, but which are not part of the LDC's acknowledged planning system and which are often not seen by those most affected. Matching the rhetoric of recipient responsibility for planning and aid co-ordination to reality will require a convergence between these parallel planning procedures.²⁶

3.6 Likely trends in aid co-ordination for LDCs

The tendency for aid co-ordination to be formalised around CG and RT meetings is likely to continue. The diffidence of some donors about the whole concept of such co-ordination has largely disappeared. Reactions against too narrow and short term a focus of structural adjustment programmes have been allied to broader "conditionality", related for example to human development criteria. The debate has focused on what strategies LDCs should be helped to follow, not on the basic issue of whether donors and recipient should collectively discuss such strategy in the first place. At the same time there is growing recognition of the danger that more energetic co-ordination emanating from donors can undermine the recipient's own capacity for planning and co-ordination.

This concern is reflected in the improvements to CG/RT processes that various reviews²⁷ have recommended. The main proposed improvements would involve:

- (a) reinforcing the link between aid co-ordination and national development planning and resource programming;
- (b) clearer definition and allocation of aid and planning responsibilities within LDC governments;
- (c) more systematic monitoring and follow-up of CGs/RTs between formal meetings as well as improved preparatory work;
- (d) supplementing macroeconomic overviews with sector and sub-sector strategies so as to provide an appropriate context for sectoral projects and technical assistance;

²⁶ In some countries this is happening. Procedures for compiling a prioritised Public Investment Programme that were developed for CG documentation by Uganda have been incorporated in the regular planning cycle of Uganda's Ministry of Planning and Economic Development. In preparing for a Round Table in 1992, Bhutan intends to use its own Seventh Plan as the primary documentation.

²⁷ Such as Diallo et al., Capacity Building for Aid Coordination in the Least Developed Countries: An Evaluation Report on UNDP's role in Capacity Building for the Management of Development Resources, UNDP, February 1991 (draft); Panday and Williams, op. cit., and the World Bank's long term perspective study for sub-Saharan Africa.

- (e) continued and improved liaison between the World Bank and UNDP in their role as convenors of the country-level aid co-ordination groups;
- (f) more explicit efforts to address LDC co-ordination capacity and to engage LDC governments in review of governance issues;
- (g) particular efforts to review and improve the effectiveness of technical assistance, especially in LDC capacity building;
- (h) more involvement of NGOs in the co-ordination process; and,
- (i) better co-ordination and programming amongst the various UN agencies.

Efforts to achieve a "high-level" consensus on development strategy and resource requirements for LDCs will also continue, and, to the extent that they are successful, will facilitate co-ordination amongst donors at country level. The Global Coalition for Africa proposed in the World Bank's long term perspective study for sub-Saharan Africa, represents a deliberate attempt to maximise consensus on development strategy: the approach was endorsed by the Africa Conference at Maastricht in July 1990. The DAC offers a mechanism for seeking further harmonization of aid agency procedures and raising the quality of aid, and so forth.

4. AID CO-ORDINATION FOR INDUSTRIAL DEVELOPMENT

4.1 Special features of industrial aid for LDCs

A number of trends that affect the role of aid for industrial development in LDCs were identified in Section 2 above. A further point worth noting is that aid for the industry sector is probably more affected than other sectors by the special interests of bilateral donors. It therefore warrants particularly careful review and evaluation by recipients.²⁸ One likely effect of self-interest on the part of donors is to reduce the share of LDCs in aid for industrial development, since the LDCs represent a less promising set of commercial opportunities for the donor countries. This consideration may also affect aid from multilateral agencies such as UNIDO, since a proportion of their activity is based on project-specific funding from bilaterals.

The rest of this Section spells out some of the main challenges for aid to LDC industrialization that arise from the previous discussion.

4.2 Importance of the macroeconomic and sector policy framework

Efforts to build international consensus on development strategy, (which include the Workshop on Industrialization Strategy for LDCs) can help towards the more effective deployment of aid. During the 1980s, the concern to cope with immediate crises often led to short-term adjustment approaches which were not based on a sufficiently broad or long-term perspective. Such deficiencies are now being rectified, but, in adopting longer-term perspectives, it is also important that strategies do not lose touch with present realities.

The need to base industrial development on a sound macroeconomic framework is widely accepted. As Consultative Groups and Round Tables develop, they should complement macroeconomic perspectives with sector and sub-sector strategies, including strategies for industrialization. These strategies must, however, be alive to the interrelationships between industrial development and other sectors. Aid agencies can assist in developing LDCs' capacity for broad-based industrial policy analysis, and in helping developing countries to learn from each other's experiences.

Policy analysis and planning for industry needs to draw on improved statistics and understanding of LDCs' industrial sectors (formal and informal, large and small scale). Aid agencies can play an important role in rehabilitating and/or improving industrial statistics. Not only do certain international agencies have relevant expertise, they may also be

²⁸ Cf. Pandey and Williams, *op. cit.*, p. 27: "The country review process should aim to prevent the commercial interests of donors influencing project selection as much as it should be alert to malpractices within the recipient country, since both contribute to inefficiency and cost escalation in projects, among other things."

able to take a longer view of the importance of relevant data bases than LDC governments which are inevitably pre-occupied with short-term crisis management.

Assistance to strengthen LDC capacity for industrial policy analysis and planning should not be directed only at the sector specialists in Ministries of Industry, but should also encompass the macroeconomic agencies of government and draw in other opinion formers, such as the LDCs' academic institutions and of course industry itself.

An accent on policy formulation should be accompanied by reduced emphasis on projects as the mode of aid, both generally and as regards technical assistance. The Nordic study of the UN's role in development has advocated "a redefinition of the role of the specialized agencies in the provision of technical co-operation, reducing their role in the execution of projects, in particular at the national level, and increasing their role in upstream activities such as sectoral analysis and advice."²⁹ Although not framed with special reference to industrial technical co-operation, the recommendation is clearly relevant.

Cross-sectoral approaches should be stressed, in examining the inter-relationships between agriculture and industry, for example, and in identifying the educational implications of economic and industrial change. When cross-sectoral studies are undertaken, it is important that they are genuinely joint undertakings of the LDC agencies involved. (The Ministry of Industry should not independently commission a review of agro-industrial issues, for example; such an undertaking should involve the Ministry of Agriculture as an equal partner from the outset.)

4.3 Making aid relevant to private sector development

One consequence of the neglect of the private sector under the old industrial development paradigm is that comparatively little is known about the existing private sector in many LDCs, particularly about small- and medium-scale enterprises (SMEs).³⁰ As noted earlier, improved understanding of the sector must be the basis for future interventions.

As pointed out in Section 2 of this paper, the new industrial development paradigm implies a less obvious and direct role for LDC governments in promoting industry. Since aid is usually channelled to, or at least through, governments, the role of aid is also less straightforward. However, aid may be useful in supporting industrial development strategies in a variety of ways that fall short of financing direct public sector investment:

²⁹ The United Nations in Development, final report of the Nordic UN Project (1991).

³⁰ "Economic policy reform programmes tend to focus on the impact on larger firms, mainly because of lack of information concerning microenterprises and their special needs; these should be taken into consideration more fully." Maryke Dressing, Support for Microenterprises: Lessons for Sub-Saharan Africa, World Bank Technical Paper Number 122, July 1990.

- (a) in promoting foreign direct investment - through guarantee schemes, by promoting contact between LDC and developed country private sectors, and so forth;
- (b) in export promotion (although much experience with export promotion agencies has been disappointing)²¹;
- (c) in assisting industrial extension and support services; (such services are likely to move away from the "captive" industrial estate model, and may increasingly be provided by private sector institutions);
- (d) in supporting the development of financial institutions within LDCs.

Development of the financial sector in LDCs is important as a means of decentralising resource allocation through markets. The more that investment is directed to SMEs, the less practical is it for external aid agencies to be involved in venting individual investment decisions. Many LDC development finance corporations have suffered from the management and other weaknesses common amongst public sector enterprises; the lessons from these experiences need to be applied in designing future aid. In many cases the restructuring of existing institutions is a prerequisite.

Project preparation may be a particular weakness affecting LDC private enterprises. Initiatives such as the IFC's African Project Development Facility may address this. A key aim must be to provide aid in forms that do not encourage enterprises that are economically inappropriate or insulate enterprises from the consequences of inefficiency.

Private sector representatives need to be drawn into industrial policy making within LDCs. Governments should encourage and work with representative organizations such as employers' federations and chambers of commerce, while recognising that these are special interest groups, whose views the government has to balance against national considerations.

Education and training is an area in which government/private sector co-operation is especially important. As the main education "producers" governments are likely to give undue weight to public sector education requirements, and this bias is also likely to be reflected in aid that is negotiated by governments. Consultative machinery needs to be developed which involves industry in determining course and curriculum priorities, encourages relevant vocational training and apprenticeship schemes and, where administrative allocation of trainees takes place, provides for allocations to the private sector.

There seems to be an increasing need for concessional aid in LDCs, but where such aid is channelled to commercial enterprises (whether in the public or the private sector) it is important to avoid distorting effects.

²¹ See Donald B. Keesing and Andrew Singer, Development Assistance Gone Wrong: Why Support Services Have Failed to Expand Exports, World Bank Working Paper WPS 543, November 1990.

This needs to be taken into account in determining who should receive the direct benefits of aid concessionality.

4.4 Privatization and managing/reforming existing public sector enterprises

Although the encouragement of new industrial development should not be neglected, the legacy of existing troubled enterprises will continue to be an important focus of (direct or indirect) aid to the sector.³² This is an area where co-ordination is particularly important, since the individual instincts and interests of various donors are unlikely to add up to a coherent industrial rehabilitation strategy. Moreover, plant- and enterprise-level rehabilitation efforts are likely to be futile if they are not accompanied by macroeconomic and sector strategies that deal with fundamental constraints. Often a basic obstacle to successful restructuring is a government's refusal to countenance liquidation of enterprises, even where there is clear over-capacity or the enterprise was highly inappropriate in the first place. A simplistic objective of increasing capacity utilization cannot substitute for careful economic appraisal of enterprises' potential viability.

For their part, aid agencies should not be dogmatic about forms of ownership. Rather the aim should be to promote efficient, competitive enterprises: private ownership may be part of the framework, but need not necessarily be so.

4.5 NGOs and industrial development in LDCs

The role of Non-Governmental Organizations in promoting development has become more prominent in recent years (partly as a result of their own achievements, but partly also in reaction to the shortcomings of governments). The Paris Programme of Action declares that: "The role of NGOs in development assistance is recognised and they can play a useful role in extending assistance to and within the LDCs in close co-ordination with the national authorities." Accordingly, "Concerned non-governmental organizations, including particularly indigenous NGOs, are also requested to participate in the Programme of Action for the development of the LDCs."

However, much of the discussion of NGOs is focused on a particular variety of NGO, as organizations which specialise in promoting participatory development at the grass roots level. NGOs of this type rarely have industrial development as their primary focus, although they frequently become involved in the promotion of small-scale industrial activities. From the point of view of industrial development it makes sense to adopt a broader view of NGOs, to include not only the local level participatory organizations but also other non-government bodies such as educational trusts, industry associations such as chambers of commerce,

³² The "Major Challenges" paper for the Workshop (p. 15) notes that rehabilitation, already a prime concern in Africa, is likely to become increasingly relevant to UNIDO's work in other regions.

not-for-profit organizations, including technology development groups, and so forth.

It is difficult to generalise about such diverse groups, but the following points may be relevant to industry sector planning and co-ordination:

- (a) The strengths of NGOs often lie in their heterogeneity; detailed direction and control should not be attempted. On the other hand, clear government policies and objectives can provide a framework in which NGO efforts can be more effective.
- (b) An open style of policy formulation and planning can give NGOs and others a chance to contribute from their perspectives. Involvement of representatives of various interest groups should be sought in planning for industrial development as in other sectors.
- (c) NGOs may be valuable pioneers in developing new approaches to development. Governments (and aid agencies) should be prepared to support their experiments and learn from their experiences, but should be wary of destroying their voluntarist character by providing too much support.
- (d) NGOs may suffer from the same weaknesses as governments when they become involved in competitive commercial activities; such activities by NGOs should be dispassionately evaluated.
- (e) NGOs may have particular roles to play in promotion and support of small-scale industry³³, and in human resources development for industry.

4.6 Regional co-operation and co-ordination

LDCs belong to a wide variety of regional organizations with overlapping memberships, which almost invariably include non-LDCs. The costs of servicing such organizations (e.g. the travel costs and the commitment of scarce senior personnel) are disproportionately high for small LDCs. Some of the incentives for continuing to do so are perverse (as when international travel is an important supplement to inadequate official salaries). Nevertheless, most LDCs are such small players in the international economic arena that regional co-operation and co-ordination has strong attractions in principle.

³³ Dressing, *op. cit.*, p. iv, observes that: "The task of reaching micro-enterprises requires small, flexible and responsive organizations, with sufficient autonomy to make ad hoc decisions yet with adequate coordination at the national level. Therefore a main device for reaching microenterprises is to institute a two-tier arrangement with specialised resource institutions... Such organizations include PVOs, NGOs, cooperatives, banks, business associations, churches and women's groups. In this respect, cooperation with NGOs could be greatly facilitated through longer term commitments by donors, clearly defined appraisal criteria, and early reconciliation of the social objectives of NGOs and the assistance program's requirements for economic efficiency."

However, the predominant benefits for industrial development from regional co-operation amongst LDCs may well be indirect ones. Efforts at direct regional co-operation in industry (such as large cement or fertiliser plants to serve several countries) have a very poor record, while the regional groupings that have been most successful (such as SADCC) have not focused initially on industrial co-operation. Assertion of national interests in the location of industries has undermined several attempts at regional co-operation, and direct co-operation may be inherently more practical in activities that are ancillary to industry, notably international transport corridors, communications, agricultural research, and training. Successful co-operation in such activities can have important benefits to industrial development.

Regional groupings do provide a useful point of contact between developing and donor countries, and provision of some facilities at an international level may be the only practical means of ensuring LDC access to them. (The African Project Development Facility and the African Enterprise Fund are examples)

UNIDO is through its Industrial Development Decade for Africa (IDDA) programme considering a regional or sub-regional approach to the provision of its investment advisory services in co-ordinating and monitoring of projects. It is in this regard it is deliberating convening regular meetings, for example every two years for governments, co-ordinating agencies and aid donors to review, adjust and monitor industrial projects and programmes in the Southern and Eastern African region. The main aim will be to promote industrial co-operation through co-ordination and harmonization of projects. IDDA II plans to launch UNIDO into the realms of both industrial promotion and co-ordination to the benefit of both private and public industry in the African subregion.

4.7 Co-ordination amongst aid agencies

Country-level co-ordination systems (see Section 3 above) can be very useful in strengthening planning and aid co-ordination, but there are aspects of co-ordination amongst donor agencies that need to be further addressed. For example, it has been recognized that there are particular problems of co-ordination amongst the various UN agencies. Attempts to give the UNDP resident representatives a stronger role as Resident Co-ordinators for the UN agencies have had only limited success. (Indeed, one of the benefits of a Round Table exercise may be to strengthen the Resident Representative's position vis-a-vis the specialist agencies).

East European aid givers have not participated in CGs and RTs; they are significant donors to a few LDCs (e.g. Laos). Political and economic changes now taking place in Europe may make for closer co-operation at the same time as reducing ideological differences in approaches to development. (Unfortunately, it seems likely that aid flows from Eastern Europe will continue to diminish at least in the near future).

Recipient attitudes to informal collaboration amongst aid agencies are ambivalent. Any appearance of "ganging up" is resented, but so is the inefficiency that results when two sets of donors conduct essentially the same studies independently of each other. Co-operation between aid agencies should be transparent, but so long as LDCs are not excluded from the process, they should welcome and encourage inter-agency co-operation.

The administrative burden of aid management can be reduced by forms of co-financing, in industry as in other sectors. However, the benefits of co-financing depend very much on the form it takes. If more than one agency insists on undertaking its own feasibility studies, supervision, etc, the project is likely to become more unwieldy. Genuine benefits occur when one donor is prepared to let another take full responsibility for preparation and management.

It may also be appropriate to look for ways in which different agencies can offset each other's disadvantages. For example, because bilateral agencies are often non-altruistic in the commercial aid they offer, LDCs may benefit from disinterested multilateral advice when negotiating industrial assistance or in the management of projects funded by bilaterals.

Nomination of lead donors for particular projects or activities is often proposed and sometimes practised. As far as the industrial sector is concerned, multilaterals may be better placed than bilaterals to take such a lead, for the reasons already noted. On the other hand, this is a sector where many agencies may be reluctant to exert self-discipline: ultimately it is up to the recipient to be disciplined in rejecting offers that are inappropriate for technical or policy reasons.

4.8 Role of UNIDO in aid co-ordination

It appears from the above discussions that UNIDO in the past has not fully played its envisaged role in aid co-ordination. UNIDO after all is the executing arm of the United Nations for industry-related technical assistance³⁴ and has built up major professional competence in this field.

UNIDO has, so far, been highly dependent on UNDP-financed projects. Such UNDP funding seems, however, to be declining. Moreover, there is increasingly strong competition in project execution from UNDP itself, the World Bank, regional development banks and bilateral agencies. This calls for a reassessment of UNIDO's own role as well as its enhanced interest in effectively co-ordinating the industry-related activities of the entire donor community in the LDCs. The extent to which opportunities are seized to strengthen UNIDO's co-ordinating role depends largely on the dynamism and competence of the field representation of UNIDO in the LDCs.

³⁴ See Articles 1 and 2 of UNIDO constitution. The primary objective is defined as "the promotion and acceleration of industrial development in the developing countries... [and the promotion of]... industrial development and co-operation on global, regional and national, as well as on sectoral levels".

The highly specialized services of UNIDO issuing from various activity programmes such as the Programme Approach, the Industrial Development Decade for Africa (IDDA) for national, sub-regional and regional projects, the Special Programmes for Asian LDCs, should enable UNIDO to play active role in aid co-ordination for industry in the LDCs.

Though the programme approach,³⁵ UNIDO country directors in LDCs are capable of giving valuable services to the NatCAPS (in 1990 alone 23 NatCAPS were undertaken in sub-Saharan Africa). UNIDO's programme approach could be a useful tool for the preparation of the NatCAPS. UNIDO could provide sector and sub-sector surveys and analyses as a tool for such programmes. Also UNIDO's current industrial rehabilitation programmes in developing countries may serve as a useful tool for international co-ordination. These programmes could effectively help in the design of coherent rehabilitation strategies that consider not only macroeconomic aspects, but also sectoral strategies for the elimination of constraints to the operation of the industrial system and concomitantly the rehabilitation of individual industrial plants. Instead of pursuing isolated technical assistance projects, UNIDO services could thus be used to formulate a comprehensive, multidisciplinary programmes for the individual countries. Such programmes could then include one group of key actors which is in most cases neglected - the private industry. A potential investor looking for business opportunities in a specific LDC would be a case in point. In LDCs and developing countries, the traditional clients of international assistance have been government ministries in charge of industrial development and related promotional institutions. But given the current emphasis on the promotion of private industries and privatization of public enterprises in LDCs, this traditional orientation to technical services will present only limited opportunities in the near future. An important partner will be private industry. Since there is an ever increasing tendency for NGOs and other private donor institutions to finance private industry. UNIDO could be used to support the programming and co-ordination of projects of various donors and LDC governments themselves in the field of industry.

4.9 Aid modalities

"Obvious" (but not easy) ways in which any given level of aid could be made more effective (in terms of benefits to the recipient) are by simplifying procedures and by untying. Benefits for industrial development could be direct or indirect: direct benefits would accrue, as for other sectors, from measures by donors to make their procedures simpler, to

³⁵ The programme approach was developed at UNIDO in response to the widely perceived need for increased impact of technical assistance projects in industrial development of developing countries. It can be applied at three levels: (a) Indicative programmes: represent a cost-effective programming method through the preparation of sectoral typologies to be used by Governments, development assistance organisations, bilateral aid donors and potential investors; (b) Country sectoral programmes: can be prepared independently of the foregoing programming activities, or can be undertaken as a follow-up to a sectoral typology and/or an indicative programming exercise, and can be prepared at various levels; and (c) Integrated sectoral programme: provides a package of related technical assistance projects, as well as investment needs and policy recommendations for the development of an industrial system in one country.

harmonize with each other, and to make their procedures more compatible with those of the recipient. (This is a two-way street, recipients may also need to strengthen their administration so as to satisfy legitimate donor concerns).

Ways in which aid for other projects could indirectly benefit industrial development in the LDCs are the subject of a separate paper, which indicates that, since aid is such a substantial resource flow to LDCs, they cannot afford to overlook its potential for stimulating industrial development.²⁶

²⁶ UNIDO (June 1991). The Potential Role of ODA Projects in Promoting Industry in the LDCs.

5. CONCLUSIONS AND POLICY PROPOSALS

The unfavourable nature of national and international economic environment facing LDCs creates a greater need for increased ODA - both in volume and quality - and more importantly effective aid co-ordination for industrial development. Aid co-ordination on the national and supranational levels should help avoid duplication of efforts at operational level or common administrative/technical problems and facilitate thereby better use of scarce resources.

There seems to be a declining trend of ODA flow for economic development in LDCs. The scarcity of resource flows is likely to make competition for aid fiercer among economic sectors and agencies of LDC governments. In fact, aid for industry is more adversely affected than any other economic sector of LDCs. It receives only a minuscule share of resources. As a reaction to this shortcoming, it makes sense to adopt an effective co-ordination strategy to utilize wisely the scarce resources available for industrial development in LDCs.

Proposals for improvement in aid co-ordination for industrial development in LDCs relate to some aspects of country/regional-level and donor agencies co-ordination systems. These may include the following:

Co-ordination among donor agencies:

- (a) continued and improved liaison between the World Bank, IMF and UNDP in their role as convenors of country or regional-level aid co-ordination;
- (b) better co-ordination and programming amongst the various United Nations agencies - UNIDO, FAO, UNICEF, ILO, World Bank, UNDP etc.;
- (c) more systematic monitoring and follow-up of CGs/RTs between formal meetings as well as preparatory work, UNIDO's expertise services in industry-related fields need to be fully utilized;

Country/regional-level co-ordination:

- (a) clearer definition of aid co-ordination and allocation of and planning responsibilities with LDC government;
- (b) better harmonization of aid and debt relief policies;
- (c) reinforcing the links between aid co-ordination, national development planning and resource programming;
- (d) supplementing macroeconomic overviews with sector and sub-sector strategies so as to provide an appropriate

context for sectoral projects and technical assistance. UNIDO's services may be found very useful:

- (e) more explicit efforts in collaboration with aid donors to address LDC co-ordination capacity and to engage LDC government in review of governance issues;
- (f) particular efforts to review and improve the effectiveness of technical assistance, especially in capacity building;
- (g) more involvement of NGOs in aid co-ordination process, they may include not only identifiable local-level participatory organizations, but also non-government bodies such as educational trusts, industry associations like the chamber of commerce, technical development groups and research institutions; and
- (h) more government/private co-operation in aid co-ordination process so as to create favourable environment for the flow of resources into the private sector. Given the current emphasis on the promotion of private enterprises and privatization of public enterprises in LDCs, the traditional orientation to technical assistance will present limited opportunities in the near future, the important partner will be private industry. Though privatization is important, the channelling of aid - for example, on highly concessional terms - into commercial enterprises need to be co-ordinated in a manner so as to avoid distorting effects.

Any viable aid co-ordination mechanism for industrial development will depend to a larger extent on the harmonization of interests and activities of both the donor or donors and the recipient LDC(s).

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