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## Industrial Development Board

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### INDUSTRIALIZATION OF THE LEAST DEVELOPED COUNTRIES

#### Report by the Director-General

Reports on the implementation of Board decision IDB.23/Dec.10 on UNIDO involvement in the Third United Nations Conference on the Least Developed Countries (LDC III); supplements and updates information provided in the *Annual Report 2000* (IDB.24/2, chap. IV.A and appendix D) and earlier reports on the subject, including IDB.21/15.

#### Introduction

1. In decision IDB.23/Dec.10, the Board recognized that the current globalization process poses a risk of marginalization to a number of developing countries. The Board expressed its conviction of the significant role that sustainable industrial development can play in reaching the goals set in the United Nations Millennium Declaration. Within that context, the Board highlighted:

- The necessity of the UNIDO focus on poverty alleviation through productive capacity development in agro-industry and the manufacturing sectors;
- The need to address supply-side constraints, especially in LDCs, through the promotion of competitive micro-, small- and medium-scale enterprises as a means for job creation, poverty alleviation and integration in the global economy;
- Special emphasis on LDCs and assistance in the progressive integration in the global economy by upgrading competitiveness, enhancing productive

capacity, stimulating innovations and increasing the level of incomes through a process of industrialization that is compatible with sustainable development;

- The need for a visible and focused contribution of UNIDO to LDC III, especially under the thematic area of development and strengthening of productive capacity in LDCs.

2. In compliance with the Board decision, the present document reports on UNIDO involvement in LDC III. Chapters II and III contain information to update and supplement information provided in recent documents on other UNIDO activities in support of LDCs (IDB.24/2, IDB.21/15). While country-specific activities feature primarily integrated programmes, so-called "stand-alone" projects are under implementation in a number of LDCs. A number of regional and global programmes and projects include LDCs in their coverage. Chapters II and III provide illustrative examples from each category, which also reflect the priorities highlighted by the Board in decision IDB.23/Dec.10.

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## I. UNIDO INVOLVEMENT IN LDC III

3. UNIDO is actively involved in the preparations for the Third United Nations Conference on the Least Developed Countries, to be held in Brussels from 14 to 20 May 2001. The importance of UNIDO's participation in LDC III was emphasized by the Industrial Development Board at its twenty-third session (IDB.23/Dec.10).

4. One of the priority themes of LDC III is trade, market access and strengthening productive capacities as a driver for poverty alleviation and integration of the world's poorest countries into the global economy. For the first time in many years, the theme "productive capacities" is back at the centre of the international debate. The UNIDO strategy is to bring to the forefront the centrality of the manufacturing productive sector and the linkage between agriculture and industry for economic growth, integration into the global economy and poverty alleviation.

5. It is imperative that LDC III be not only a conference, but also a process of follow-up action. UNIDO is contributing to the preparation of the proposals ("deliverables") for the concrete implementation of the goals of the Programme of Action.

### UNIDO preparatory activities

- **High-level meeting on energy**—UNIDO has been selected as lead agency for the round table on energy at LDC III. A high-level meeting on energy in preparation for the round table was held in Vienna from 14 to 16 March 2001, involving over 50 experts and eminent participants from government agencies, United Nations bodies, business and industry, academic institutions and international and non-governmental organizations;
- **National Programmes of Action**—UNIDO has assisted some LDCs in establishing their national Programmes of Action;
- **Global Programme of Action**—UNIDO has been involved in the deliberations of a new global Programme of Action for the LDCs, providing substantial comments on the draft and participating in the sessions of the Intergovernmental Preparatory Committee for LDC III as well as in inter-agency meetings preceding them.
- **UNIDO deliverables**
  - A set of proposals related to the energy chapter of the Programme of Action, defined on the basis of the high-level meeting on energy held in March;

- A comprehensive approach to enabling LDCs to participate in international trade, addressing the building of capacities and infrastructure needed to ensure that producers in LDCs can export their products to world markets, and that LDCs satisfy the (technical and information) requirements for participating in world trade. This deliverable is in direct response to the relevant commitments in the global Programme of Action;
- SME networking and cluster development;
- Proposals on UNIDO activities, adjusted to a specific LDC context:
  - o Value-added production in leather, textile and forest industry sectors in selected African LDCs;
  - o Women's entrepreneurship development for poverty alleviation;
  - o Investment and technology networking;
  - o Technology transfer to LDCs in Africa for manufacturing alternative materials for low-cost housing;
  - o Cleaner production;
- Study on the role of industry in LDCs, emphasizing the need for building productive capacity in fighting poverty.

### UNIDO activities at the Conference

- **Round table on energy**—Led by UNIDO in cooperation with the Governments of Austria and Mali (17 May 2001);
- **Business sector round table**—Jointly organized with ITC (16 May 2001). UNIDO's contribution will focus on concrete case studies and experiences in successful capacity-building/upgrading and trade facilitation, as key determinants for export success;
- **Participation in "Enhancing productive capacities: the role of investment and enterprise development"**—A multi-agency investment promotion programme involving UNIDO, UNCTAD, MIGA and FIAS to be presented at the thematic session (18 May 2001), forming a proposal for follow-up action (i.e. deliverable);
- **Exhibition**—Addressing energy issues; presenting UNIDO integrated programmes on enhancing productive capacity in LDCs and enabling them to participate in international trade.

## II. COUNTRY-SPECIFIC ACTIVITIES

6. Total technical cooperation delivery to the LDCs in 2000 amounted to \$6.5 million, representing a decrease of \$2.4 million compared to 1999. This is in line with the overall decline of technical cooperation delivery over the same period. The present year is expected to witness an upturn as donor funds for technical cooperation in LDCs amounted to \$10.6 million on 31 March 2001 compared to \$8.3 million on 31 December 2000. The formulation and implementation of additional integrated programmes planned for LDCs will also boost delivery. It should also be noted that actual delivery for LDCs is higher than can be reflected in recorded statistics, as these figures do not include delivery from global or regional activities, a considerable portion of which also benefits this group of countries.

### A. Integrated programmes

7. At the beginning of 2001, there were 13 UNIDO integrated programmes covering LDCs: Burkina Faso, Eritrea, Ethiopia, Guinea, Lao People's Democratic Republic, Mali, Mozambique, Nepal, Rwanda, Sudan, Uganda, United Republic of Tanzania and Yemen. The combined budgets of these programmes total \$63.1 million, of which \$11.9 million had been delivered against a total fund allocation of \$24.7 million. A recent development has been the approval of the Madagascar programme for \$4 million. In addition, preparatory activities have been initiated to formulate integrated programmes for a further five countries: Bangladesh, Cameroon, Lesotho, Niger and Togo, for which a total of \$25 million is expected from potential donors.

8. The following paragraphs provide selected examples of results achieved and determined impact from the programmes. As has been the practice in recent sessions of the Board, status reports on these and other integrated programmes will be distributed during the session.

#### Building productive capacity

9. In Burkina Faso, the IP has improved the performance of manufacturing units and created value added for the country's exports. Good manufacturing practices, and hazard analysis and critical control points, were introduced in 14 food manufacturing enterprises. The programme enables leather artisans to improve their product range of footwear and leather products and make optimum use of discarded materials. A technical assistance programme for the rehabilitation of the textile subsector has been prepared. An appropriate institutional infrastructure is being created, featuring a promotion unit for the small- and medium-sized enterprises targeted. A standards unit was set up for

upgrading standardization and metrology laboratories. An investment promotion unit established within the Ministry of Industry will evolve as a full-fledged investment promotion agency.

10. In Uganda, food safety is a government priority, and UNIDO set to work to improve the quality of fish products to meet European Union safety and health standards. Fish Inspection Service and National Bureau of Standards officials were trained and a fish inspection guide prepared. One of the earliest achievements of the programme was the establishment of a leather goods manufacturing department in the Kampala-based Training and Common Facility Centre. Others include a master craftsman programme to upgrade the skills of entrepreneurs and improve the productivity, design and management practices of small- and medium-sized enterprises. Another activity that is proving successful is the formulation of a business plan for the establishment of a national information network, which brings together public and private institutions, SMEs and providers of information in a commercial company.

#### Public-private partnership

11. The IP for Sudan has just commenced with the establishment of a national committee, which will provide a platform for cooperation between the public and private sectors. The principal private sector participant is the Sudanese Chamber of Industry Association, acting in partnership with the Ministry of Industry. In Guinea, a private sector development programme is underway, which has led to a restructuring of the National Chamber of Commerce and Industry.

#### Institution-building

12. An important success story is the establishment of the Eastern and Southern Africa Leather Industries Association (ESALIA). Through further contributions within integrated programmes, the Association provides product-upgrading programmes and promotes cooperation for technology upgrading, training, market research and quality control. ESALIA has facilitated the expansion of footwear and leather manufacture exports from a number of African LDCs: Ethiopia, Malawi, Sudan, Uganda, United Republic of Tanzania and Zambia.

#### Rural entrepreneurship development

13. An important component of the integrated programmes for Eritrea, Guinea, Rwanda, United Republic of Tanzania and Yemen is the establishment of policy and institutional mechanisms for SME promotion. The programme in Tanzania seeks to upgrade entrepreneurial skills in food manufacturing. Results have shown that entire villages gained by the

installation of an agricultural material processing unit, the provision of entrepreneurial skill development programmes and the establishment of an institutional support system at the village level. The experience has led to the concept of multi-purpose village workshop guidelines. UNIDO also contributes to the work of the Committee of Donor Agencies for SMEs by assisting in the development of business centres and SME network and cluster formation in LDCs.

### **Technology upgrading**

14. Transferring new technologies and upgrading production systems is an essential component of the IPs for Burkina Faso, Guinea, Rwanda, Uganda and United Republic of Tanzania. UNIDO's extensive work in metrology, standardization and certification has led to technology upgrading and transfer in LDCs. In Uganda, a laboratory was established to reduce fish contamination. Pesticides analysis kits have been introduced and certification procedures implemented in Guinea. Upgrading quality control and introducing standardization constitutes an important component of UNIDO programmes in Ethiopia and Rwanda. In Burkina Faso, the UNIDO programme has led to the introduction of good manufacturing practices, hazard analysis and the development of critical control points by several manufacturing enterprises.

### **B. "Stand-alone" projects**

15. In addition to the integrated programmes, a further 20 "stand-alone" projects in LDCs were approved and under implementation during the period 1998 to 2000, with combined budgets of \$4.1 million. Delivery under these projects totalled \$2.4 million in the same period. Some 50 per cent of these comprise projects under the Montreal Protocol, with the remaining constituting primarily preparatory assistance or direct support leading to large-scale project formulation or contributing to technical solutions at the enterprise level. Such assistance has been provided to Afghanistan, Central African Republic, Chad, Democratic Republic of Congo, Djibouti, Lao People's Democratic Republic, Madagascar, Rwanda, Togo and Zambia. One example of a new initiative is Angola, for which a programming mission was undertaken in 2000, leading to the elaboration of a project for capacity-building for the rehabilitation of the food industry. The approved project document, with a total budget of \$1 million, is now under consideration by the Government.

16. In the area of industrial investment promotion, significant country-specific support is provided to LDCs. In 2000, 45 country promotion presentations were conducted for a total of 20 LDCs, with the assistance of UNIDO Investment and Technology Promotion Offices.

### **Environment**

17. As mentioned above, half of UNIDO non-IP operational activities in support of LDCs represent Montreal Protocol projects. As of 31 December 2000, UNIDO projects were under implementation in eight LDCs, corresponding to a phase-out of 522 ODP tons. Sectors covered are aerosols, foam, fumigants, refrigeration and solvents, with the phase-out of methyl bromide specially targeted. Africa is the world's second largest consumer of methyl bromide and one-third of UNIDO's projects in the fumigant sector are in that region. Least developed countries currently benefiting from Montreal Protocol projects implemented by UNIDO are Benin, Burkina Faso, Gambia, Guinea, Mozambique, Sudan, Uganda, United Republic of Tanzania and Zambia.

18. UNIDO is developing a system to enable LDC manufacture exporting enterprises to meet environmental requirements in global markets. Initially, the new approach will target the textile and leather sectors of Bangladesh and three other developing countries. The results will be presented at Rio + 10 to be held in South Africa in June 2002. UNIDO will assist LDCs in preparing national position papers for this important conference (see document IDB.24/12).

19. Another focus is developing new support tools for cleaner production systems, and integrating these systems into enterprise upgrading programmes and government policies. Assistance is provided for the establishment of cleaner production centres and projects for linking the global cleaner production movement with funds related to water purification and climate change. Cleaner production centres have been established by UNIDO in Ethiopia, Mozambique and the United Republic of Tanzania. The centres have initiated work for the cleaner production and marketing of sisal, henequen, botanical and bio-pesticides and non-woody fibrous material. In the area of waste management, UNIDO has undertaken important projects for the removal of barriers to the abatement of mercury pollution from artisanal gold mining in Lao People's Democratic Republic, Sudan and United Republic of Tanzania.

### **III. GLOBAL AND REGIONAL ACTIVITIES**

20. Under UNDP sponsorship, UNIDO is involved in the development of a "growth triangle project", which includes Malawi, Mozambique and Zambia. This initiative is expected to promote regional integration through enhancing the collective value of small and fragmented markets in the creation of trade and the expansion of exports; develop shared infrastructure; and tackle common environmental and social problems. Active coordination between the UNIDO office in

Zimbabwe, the UNDP office in Zambia and UNIDO Headquarters is a key feature of this collaborative effort.

21. As reported in the *Annual Report 2000* (IDB.24/2, chap. IV.A), the research programme with the University of Oxford's Centre for the Study of African Economics has generated results. Within that context, UNIDO has arranged training of seven staff members from ministries in Ethiopia, Ghana and Zambia at the University of Oxford in policy implications of factors influencing firm-level performance.

22. Within its support to regional integration efforts, UNIDO participated in the official launching of the COMESA Free Trade Area in October 2000 at Lusaka, and provided inputs during the business sessions of the summit. COMESA includes 15 LDCs in its membership.

23. Other environment-related activities at the regional level included LDCs among their beneficiaries. Ghana and Zimbabwe will profit from a recently-approved regional programme aimed at developing national capacity to implement industrial clean develop-

ment mechanism projects. Similarly, UNIDO is participating with UNDP and the Global Environment Facility (GEF) in the establishment of renewable energy projects that will target a number of LDCs. GEF financing has enabled UNIDO to support the development of national environment policy frameworks in West African LDCs.

24. As reflected in the foregoing text, collaboration with other organizations has played an important role in various types of activities in support of LDCs. UNIDO and UNCTAD participated in innovation policy review and enterprise development programmes in Burkina Faso and Ethiopia. To forge partnerships for the production of alternative materials for low-cost housing, UNIDO cooperated with the International Centre for the Advancement of Manufacturing Technology in events for entrepreneurs and policy makers from several LDCs.

#### **IV. ACTION REQUIRED OF THE BOARD**

25. The Board may wish to take note of the information provided in the present document.