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ISID Inclusive and Sustainable Industrial Development

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BACKGROUND DOCUMENT

FINANCING FOR INCLUSIVE AND SUSTAINABLE INDUSTRIAL DEVELOPMENT

CO-ORGANIZED WITH THE GOVERNMENTS OF ETHIOPIA AND SENEGAL, AND UNECA

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ISID OPERATION PLATFORM

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Time for Global Action

FINANCING FOR INCLUSIVE AND SUSTAINABLE INDUSTRIAL DEVELOPMENT PROGRAMME FOR COUNTRY PARTNERSHIP

Introduction

Industrialization has played a key role in economic development for well over 200 years. It helped shape the early advances of European countries, the United States and Japan, as well as the Republic of Korea, China and other Asian countries in the latter half of the 20th century. As the international community sets its sights on addressing global development challenges in a coherent, integrated and universal manner over the next 15 years, industrial development will continue to play a prominent role. In fact, industrialization is one of many complex development challenges which will require a holistic approach that incorporates the economic, social and environmental dimensions of sustainable development. Partnerships are an important element of such a holistic approach. The need to create effective partnerships for development was already recognized by the international development community in the context of the Millennium Development Goals (MDGs). With the Sustainable Development Goals (SDGs) poised to replace the MDGs this year, partnerships have become even more integral to achieving the development goals, for example, by attracting and catalyzing resources from diverse actors.

This concept note presents UNIDO's Programme for Country Partnership (PCP). The PCP is a model of partnership at the country level designed to accelerate and deepen the impact of a government's industrial development agenda. Part I outlines the importance of industrialization to inclusive and sustainable development as well as the role that partnership can play in this process. Part II introduces the PCP by outlining its features and the roles of partners.

PART I

Industrial Development

No single country in the world has reached a high stage of economic and social development without having developed an advanced industrial sector. It contributes to poverty reduction by generating employment and creating income through accelerated economic growth. The industrial sector also has extensive industrial linkages with other sectors of the economy, in particular with services and agriculture.[1]

Agriculture-based industry is particularly important for developing countries and is a first step towards the structural transformation of the economy. Seventy per cent of the population in least developed countries live in rural areas where agriculture is their main source of income. Half of all exports from developing countries are agricultural products, but only 30 per cent of those are processed (compared to 98 per cent in developed countries). **Due to population growth, agricultural land is being fragmented into increasingly smaller plots, limiting the potential of agriculture to provide for social and economic development.** Finite land and a growing population (of workers and consumers) require that larger amounts of food are produced by fewer people thereby increasing the importance of off-farm livelihoods. Industrialization can address this challenge through

1 UNIDO. Combating Marginalization and Poverty through Industrial Development (2006). UNIDO Research Programme. Vienna. p.4

agricultural technologies and practices to feed growing populations and provide jobs in off-farm sectors. Ultimately, industrialization entails a structural transformation in which the economy moves from high reliance on agriculture and natural resource extraction to activities that foster value addition and related services.

Inclusive and Sustainable Industrial Development

Adopted by UNIDO Member States in December 2013, **the Lima Declaration provides UNIDO with a mandate to achieve inclusive and sustainable industrial development (ISID).** The mandate is based on the recognition by Member States that poverty eradication "[…] can only be achieved through strong, inclusive, sustainable and resilient economic and industrial growth, and the effective integration of the economic, social and environmental dimensions of sustainable development."[2]

Inclusive and sustainable industrial development means that:

- Every country achieves a higher level of industrialization in their economies and benefits from the globalization of markets for industrial goods and services.
- No one is left behind in benefiting from industrial growth, and prosperity is shared among women and men in all countries.
- Broader economic and social growth is supported within an environmentally sustainable framework.
- The unique knowledge and resources of all relevant development actors are combined to maximize the development impact of ISID.

The implementation of ISID calls for a broader range of resources than any single organization can provide. The successful achievement of ISID requires investment not only in industry but also in related infrastructure such as utilities and transport facilities. Achieving ISID also requires policies, strategies and regulatory frameworks designed to facilitate market access, generate employment, attract foreign direct investment, upgrade technology, increase exports and foreign exchange earnings, encourage social inclusion and gender equality, and ensure environmental sustainability.

The Post-2015 Development Agenda and Inclusive and Sustainable Industrial Development

The post-2015 development agenda fully recognizes the crucial role of inclusive and sustainable industrial development. In the ninth of the 17 proposed SDGs, the Open Working Group on Sustainable Development Goals calls on the international community to "build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation".[3] Investing in resilient infrastructure, inclusive and sustainable industrialization, and innovation has also been identified as a prerequisite for achieving a wide range of sustainable development priorities including those found in other proposed SDGs. Inclusive and sustainable industrial development can be a driver not only of job creation and economic growth but also of technology transfer, investment flows and skills development. Combined with appropriate capacity-building, attracting investment in productive activities allows developing countries to advance rapidly in terms of the adoption, application and adaptation of modern technology.

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2 Lima Declaration. Fifteenth Session of the UNIDO General Conference, Lima, Peru. 2 December 2013. Resolution GC.15/Res.1. Available at: http://www.unido.org/fileadmin/Lima_Declaration.pdf.

3 https://sustainabledevelopment.un.org/sdgsproposal. Accessed 23 May 2015.

Financing the Sustainable Development Goals

The seventeen SDGs that will be proposed at the *UN Summit to Adopt the Post-2015 Development Agenda* in New York this September are considerably more ambitious in scope than the Millennium Development Goals (MDGs). They address not only development but also the manner in which it is pursued. As September draws closer, the question of how to finance the SDGs is gaining increasing importance. The sums required are substantial. The United Nations Intergovernmental Committee of Experts on Sustainable Development Financing states that the required annual investment for global infrastructure alone is estimated at $5 trillion to $7 trillion[4] aand concludes that current investment patterns will not deliver sustainable development.[5] Global finance is diverse and the potential for it to support sustainable development is huge. Global savings are estimated at USD 22 trillion a year, and the stock of global financial assets was estimated to be USD 218 trillion in 2011.[6] The UN General Assembly notes that reallocating only a small fraction of these savings to sustainable development could have a considerable impact.[7]

While the investment needs of developing countries have never been greater, the financing landscape has never been more complex. There are an increasing number of financial institutions, including a growing number of multilateral development banks (MDBs) and donors from emerging countries; the private sector is investing unprecedented amounts in developing countries; and non-governmental organizations (NGOs) and private foundations are continuing to increase their role in the post-2015 development agenda. If the SDGs are to be fulfilled, **it is necessary to re-examine how we advance development and involve all these actors.** The World Bank recently stated that "[…] achieving the SDGs will require more than just money. It needs a global change of mindsets, approaches and accountability to reflect and transform the new reality of a developing world with highly varied country contexts."[8]

Partnerships: Strengths and Challenges

Development actors engaged in formulating innovative proposals to finance the post-2015 agenda have realized that the ambition and universality of the new agenda require a global development cooperation framework that attracts and catalyzes resources from diverse sources. Indeed, the Intergovernmental Committee of Experts on Sustainable Development Financing recommends that the approach to sustainable development financing should be a global partnership based on country ownership.[9]

The need for partnerships to achieve the post-2015 development agenda is reflected in the proposed SDG 17 – *Strengthen the means of implementation and revitalize the global partnership for sustainable development.* This proposed SDG, like its precursor MDG 8 *A Global Partnership for Development*, provides the international development community with a clear mandate for partnerships.

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4 United Nations General Assembly. Report of the Intergovernmental Committee of Experts on Sustainable Development Financing. A/69/315. 15 August 2014 p.8/54.

5 United Nations General Assembly. Report of the Intergovernmental Committee of Experts on Sustainable Development Financing. A/69/315. 15 August 2014. p. 5/54.

6 United Nations General Assembly. Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development. Report to the Secretary-General. A/68/357. 3 September 2013.

7 United Nations General Assembly. Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development. Report to the Secretary-General. A/68/357. 3 September 2013.

8 World Bank Group et al. "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance". Development Committee Meeting. April 18, 2015. p.1

9 United Nations General Assembly. Intergovernmental Committee of Experts on Sustainable Development Financing. A/69/315. 15 August 2014. p. 5/54.

The partnership approach is integral to the aims of inclusive and sustainable industrial development. Cutting across the prescribed terrain of any individual actor, the promotion of ISID is a complex issue that no single organization or entity can manage successfully on its own. Furthermore, ensuring that industrialization benefits everyone and safeguards the environment requires that we pool together resources and expertise from diverse sectors. Partnerships allow for precisely this collective sharing. Governments facing challenges in executing ISID will have partners to provide guidance and ensure inclusivity and sustainability in each step of the intricate process of industrialization. Because ISID is both an ambitious and urgent priority, partnerships provide an effective mechanism for stakeholders to keep each other accountable and thereby translate commitment into unified and concrete action.

Partnerships present their own unique challenges, however. Having collaborative partners in a multi-stakeholder platform should not replace committed leadership by the particular government pursuing ISID. Likewise, there is the possibility for external stakeholders' interests to overwhelm and possibly distort a country's national development plan. This confusion can arise especially when the terms of a partnership's collaboration and aims are not clearly defined. In fact, partnerships can fail if they do not provide concrete targets. In sum, navigating the different interests of diverse partners in a multi-stakeholder platform is neither simple nor straightforward. **Achieving ISID requires a practical model that is able to address these challenges.**

PART II

The Programme for Country Partnership

In recognition of the challenges facing the implementation of ISID and the proposed SDG 9, UNIDO has developed an innovative partnership model. The Programme for Country Partnership (PCP) supports the implementation of the industrial development plans and programmes of national governments. **The objective of the partnership is to accelerate and deepen the impact of a government's development agenda.** Moreover, the PCP is a model that can operationalize not only ISID but also the post-2015 development challenges in general, including those identified in the proposed SDGs. The PCPs were developed in close consultation with a large number of existing and potential partners and counterparts during 2014.

UNIDO is piloting the first two PCPs in Ethiopia and in Senegal, whose governments are currently leading the implementation of their respective programmes.

Features of the Programme for Country Partnership

The PCP comprises four key features that make it effective:

- First, the PCP is characterized by host government ownership over the entire process. This entails guidance and leadership of the Partnership, alignment with national development goals, and a financial contribution.
- Second, the PCP is a multi-stakeholder platform with strong coordination among the partners – bilateral and multilateral development agencies and financial institutions, the private sector, academia and civil society – to create an effective pooling of resources, collective action, and rigorous monitoring and reporting.
- Third, the PCP is focused on a select number of priority sectors where there is a strong opportunity for future fund mobilization. This allows for a concentration of resources and greater impact. Governments in the pilot programmes have prioritized agro-processing sectors in order to better link small-scale farmers to industry and thereby maximize the potential for poverty alleviation.
- Finally, the PCP facilitates an integrated solution for the delivery of UNIDO's technical assistance, which includes policy advice, feasibility studies, investment promotion and support in the implementation of major industrial projects, as well as industrial skills development and capacity-building.

PCP: Stakeholders and Roles

With an increasingly complex array of actors, strategies and means of intervention, it is important that activities and resource flows are well-coordinated. **The PCP brings together such actors in a multi-stakeholder platform to coordinate and optimize the contribution of each**. Each actor involved in industrial development – whether from a background of private industry, finance or public service – has its own set of priorities, limitations and advantages that may be utilized in a coherent manner that avoids duplication of activities, plays to the strengths of each, and results in an effective synergy. The PCP also identifies and maps the different partner activities related to the target sectors, allowing each actor to make more informed decisions with regard to their own contribution and to understand the effect of their contribution in relation to the overall development of the target sector.

Within the context of the PCP, it is envisioned that **governments provide a strategy with respect to the country's priorities, establish an in-country platform for cooperation, and create conducive frameworks to attract the private sector through the profitability of development initiatives.** The governance structure of the PCP is designed around national ownership and comprises two committees:

- The high-level steering committee is chaired by the leader of the country. It includes all partners and is mandated to provide strategic direction, align activities with the development programmes and priorities of the government, and ensure coordination among partners, mobilize resources and allocate funds for programmes and projects.
- The national steering committee is chaired by the Minister of Industry. It is mandated to coordinate issues related to the implementation of the programme and consists of representatives from organizations involved in the implementation itself such as different ministries, regional governments and private sector associations.

The partners have an important part to play in supporting and up-scaling the country's industrial development plan. In this respect, it is envisioned that multilateral and bilateral development partners support public and private infrastructure and finance technical assistance projects; multilateral development banks (MDBs) provide financing to support the establishment and expansion of industrial infrastructure; and commercial banks provide financing for private sector industrial development. The overall objective of partnership is to increase the amount of private sector investment in the industrial sector.

UNIDO plays two vital roles in the context of the PCPs:

- UNIDO performs a coordinating role as a secretariat. This involves providing support to the two governing bodies in each PCP and ensuring the inputs of partners create an effective synergy.
- UNIDO's technical support to governments can leverage additional resources. Industrialization requires roads and utilities; it needs infrastructure and capital investment; it needs modern technology and market access.

To this end, UNIDO identifies and designs PCP technical interventions not only for their immediate outcomes but also for their strategic impact on the broader industrial development objectives of the host country that allows for the leveraging of additional funds through domestic revenue mobilization, bank loans and private finance. Through this approach, the PCP does not crowd out private investment or government borrowing to finance development, but instead provides assistance that facilitates the crowding-in of large-scale private and public financing. Indeed, the PCP is a partnership model that moves beyond isolated interventions to catalyze diverse resources and help countries achieve inclusive and sustainable industrial development.

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