



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**The Future of Multilateralism – A Way Forward in the
Economic Development Field**

A UNIDO proposal to enhance system-wide policy coherence and operational effectiveness

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EXECUTIVE SUMMARY

The present proposal is a contribution to the on-going reflection on "The future of multilateralism", which was initiated by the Chief Executives Board (CEB) on Coordination of the United Nations System in 2003 and which it will pursue at the forthcoming retreat in conjunction with its 2004 CEB spring session.

The proposal aims at **renewing the United Nations economic development functions in the context of the Millennium Declaration** and focuses on the need **to redress the current undersupply of specific global public goods such as Market Efficiency, Knowledge and Environment** in order to improve the prospect to achieve the Millennium Development Goals (MDGs) and to make that achievement sustainable.

It should be seen as a means to enrich and complement the current 'corporate strategy' on economic development (i.e. macroeconomic stability, market oriented reforms and good governance), traditionally shaped by the Bretton Woods institutions with years of accumulation of knowledge along a given line of thought. One way of doing so is to refine our research and technical cooperation programs in such fields of major concern for developing countries as the promotion of investment, technology diffusion, trade capacity building, industry's environmental management, energy and private sector development focused on agro-industries.

The proposal contained in this paper makes the case for sharpening the focus and deepening the substance of the United Nations contributions in the field of economic development by means of **improved voluntary coordination mechanisms** such as, for example, **a common business plan**. This way critical mass and accumulation of knowledge can be attained.

The paper presents an example of such a common business plan organized around some preliminary areas of intervention needed to strengthen the supply of the global public goods 'market efficiency', 'knowledge' and 'environment'. (Specific interventions relating to environment will be presented at a later stage).

To help developing countries to achieve **market efficiency**, enhanced operational coordination is proposed in the following areas:

- *Commercial markets integration* and the increase of trade flows, matching programs in the trade negotiation and trade policy fields with programs addressing supply side constraints, standards and technical regulations;
- *Private sector development*, addressing technical, entrepreneurial and management skills of micro, small and medium-sized enterprises in both formal and informal sectors in developing countries; harmonization of research and technical cooperation programmes on market failures affecting developing countries' capacity to attract foreign direct investment; linking to global value chains and heeding guidelines for corporate social responsibility.

For the proper dissemination of **knowledge**, it is suggested to concentrate coordination mechanisms in such areas as:

- *Technological institutional setting*, which is essential to develop a strong and dynamic private sector and participate in international trade flows;
- *Intellectual property rights and competition policies* as an incentive to generate and disseminate knowledge;

As far as the **environment** is concerned, improved operational coordination should be addressed relating to:

- Developing *regenerative approaches to productive development* and
- Facilitating the *diffusion of environmentally sound technologies*

Finally, a mechanism to **benchmark and monitor economic performance** in developing countries is proposed to gauge the capacity of their economies to improve income levels and living standards.

The added focus and substance of the United Nations interventions in the economic development field that would result from such enhanced coordination can be expected to render multiple benefits, including:

- a) Improving the contribution of the United Nations development functions to the achievement of the MDGs through a better integration of the economic development and social programmes;
- b) Enhancing the connection between the United Nations' peace and security activities on the one hand and developmental activities on the other;
- c) Increasing the operational interaction and coordination in the field of economic development among the relevant United Nations programs, funds and specialized agencies and the Bretton Woods institutions through enhanced integration, information exchange and experience sharing, and;
- d) Increasing the relevance for the United Nations development functions by providing donors an incentive to increase the coherence of their funding policies along with value for money.

Furthermore, to ensure real integration of services on the ground, **coordination mechanisms at the field level** need to be strengthened in line with the Secretary-General's efforts to strengthen the Resident Coordinator system.

I. Introduction

1. In 2003, the CEB initiated a new round of discussions on "The future of 'Multilateralism' as a reflection on the changing international attitudes towards, and perceptions about, the role and capacity of the United Nations system. The High-level Committee on Programmes in its report to the CEB Spring 2004 session concludes that the UN system needs to play a proactive role in mounting a collective response to current challenges. To this end, a much greater degree of policy, programme and operational coherence is required within the system and in intergovernmental processes. There would also be a need to devise ways to optimize the normative, analytical and research capacities of the system by strengthening collaboration among the secretariats and focusing these capacities on priority issues of common concern, including the unification and coordination of programming frameworks at the field level.

2. Over the years, the UN has built a solid reputation in the fields of peace and security, humanitarian aid and social programmes. However, the same cannot be said in the field of economic development where the lead has been taken by the Bretton Woods institutions. Indeed, the current 'corporate strategy' on economic development is based on concepts with intensive research and cumulative knowledge by these institutions: macroeconomic stability, market oriented reforms and good governance. The perceptions of major contributors (and many recipient countries) about United Nations programmes in this field underscore the need for improved relevance and for reaching a critical mass.

3. This perception – or reality – has crucial implications for organizations like UNIDO, which operate in the field of economic development. Although the agency – through internal restructuring, reorganization of its operations and substantive improvements in its approach to research and technical cooperation – has considerably enhanced its performance, its ability to achieve further progress is limited by systemic constraints.

4. The present proposal addresses the need of an agency of the UN system, seeking to collaborate with its sister agencies in order to move forward. This bottom-up approach could contribute to translating into practice the recommendations of the numerous commissions, panels and advisory groups that have been appointed to enhance coordination, reduce overlaps, increase synergies and improve the responsiveness of the UN system.

5. The proposal clearly relates to the next step of UNIDO's reform process. UNIDO's technical cooperation delivery increased from \$68 million in 2000 to \$94.6 million in 2003, an increase of 38%. Last year alone, its delivery grew by 16%. The participation of low-income countries in its technical cooperation portfolio grew from 48% in 1996 to 70% in 2003. We saw the accession of new Member States; enjoyed unprecedented financial stability and increased voluntary contributions, which doubled in the last few years. However, to continue its positive performance, the agency will have to make progress in two related fronts: a) to specialize further around its core competencies; and b) to strengthen its field presence. To achieve these goals, the Organization must clearly define its interventions and effectively join hands with its partners in the UN system in its core competencies as mandated by

6. UNIDO Member States. It must also actively participate in system-wide field coordination mechanisms.

7. Addressing the role of the United Nations system's functions in the economic development field systematically entails breaking the glass ceiling imposed by donor's perceptions. A considerable number of other United Nations institutions, funds and programmes are active in the areas of UNIDO mandate and it would appear that a more focused exchange of experiences and information would reciprocally enhance the value of their respective contributions to the developing countries while adding to their joint impact.

II. THE NEED TO RENEW THE UN ECONOMIC DEVELOPMENT FUNCTIONS

8. The current "corporate strategy" on economic development (i.e., macroeconomic stability, market-oriented reforms and good governance), needs to be enriched and complemented in order to achieve sustained economic growth and ensure that it effectively translates into poverty reduction through employment generation and entrepreneurship development. This is essential to achieve the Millennium Development Goals (MDGs).

9. In recent years, economic ideas of growth and development have undergone significant changes. Recent revisions assign much more importance to the role of total factor productivity (TFP) in understanding economic growth. Such revisions have led to the conclusion that a TFP growth accounts for most of the dispersion in income per capita across countries.

10. Along conventional lines economic progress is explained solely or mainly by increases in capital per worker, with gaps in development bridged essentially through international capital movements that offset capital shortages in poor countries. This simplistic view illustrates one the limits of our current 'corporate strategy' to address how these countries can catch up with most advanced. Economic progress may thus be more easily modeled but only at the cost of missing important points about development.

Sustained economic growth reduces poverty

11. The latest Human Development Report of UNDP shows that the proportion of people living in extreme poverty fell to 23.2% in 1999 from 29.6% in 1990 while the number of people living with less than one dollar per day slipped only to 1.17 billion from 1.29 billion a decade earlier. This improvement disappears, however, if we exclude China's impressive performance with high rates of economic growth, which provides dramatic improvements in its poverty indicators. With China excluded, we find that the number of people living in absolute poverty during the last decade actually increased.

12. The exceptional case of China shows that sustained economic growth contributes to reducing poverty. This observation can be expanded. During the 1990s, East Asia registered a rate of 6.4% annual per capita growth, which resulted in a 15% reduction of people living on less than 2 dollars per day. During the same period, South Asia experienced a rate of 3.3% per annum and reduced poverty by 8.4%. In

13. contrast, regions like Latin America and the Caribbean or North Africa registered lower rates of growth or a slight worsening in their poverty indicators. In Sub-

14. Saharan Africa and Central Asia negative growth rates actually increased poverty levels.

15. The impact of sustained economic growth in reducing poverty is far from being automatic and depends on a number of factors that affect and influence the nature of this growth. For output growth to result in poverty reduction it must translate into incomes for the poor. For wage laborers and salaried workers this depends on the quantity of employment and the rate of pay. To employ more people and pay them better, companies operating in highly competitive global markets need to innovate and operate close to the technology frontier, to achieve productivity gains, penetrate new markets, develop new products and lower their costs. This is also true for self-employed people for whom productivity and returns are crucial and are influenced by technology, inputs and prices. Employment (including self-employment) is the key link between output growth and poverty alleviation.

16. According to UNIDO estimates, the rate of annual GDP per capita growth that would be consistent with the achievement of the MDGs for 30 sub-Saharan African countries varies between 2 and 6%. The weighted and unweighted means are 3.2 and 4.2%, respectively. Now, compare these figures with the reality of economic stagnation, if not retrogression, that sub-Saharan countries have suffered over the last three decades.

17. In a world where capital movements would, in and of themselves, forge productivity convergence between the advanced industrial countries and the developing countries, appropriate macroeconomic conditions and unfettered capital flows may suffice. However, in a world where diffusion of technology **is the key factor accounting for productivity convergence**, and where severe structural barriers sharply slow down the process, it is essential to **ensure the provision of the public goods required to fostering the international diffusion of technical knowledge** and thus enabling developing countries to overcome market failures. Capital movements and capital formation remain, of course, vital for development. An adequate balance between them and technology diffusion needs to be ensured. Major policy improvements would be necessary in areas like investments, the promotion of investments, technology diffusion, trade capacity building, industry's environmental management, renewable energy and private sector development focusing on agro-industries to strike that balance.

Economic development fosters social advance

18. Interventions in the social fields are thought of as a contribution to build human capital while economic development policies – basically aimed at the accumulation of physical capital – bear fruit. Social development is often expected to occur automatically once poor countries reach a stage of development at which they can 'take off' and sustain the process by themselves. Unfortunately this has not been the case often enough.

19. We have already seen that, in order to reduce poverty by half by 2015, a rate of growth in per capita income of around 4% is required on average among the poorer countries. Such a rate may not be feasible; however, if for example, we do not successfully counteract the advance of HIV or hunger. The reverse is also true: if we succeed in combating HIV or hunger, but we fail to foster technology diffusion so as to attain substantially higher rates of economic growth. Such success may eventually become ephemeral since the people whose lives are thus saved will be unable to obtain gainful employment and to continue affording the treatments and nourishment they need. From this perspective, for example, the problem is not just how many people lack shelter today, but the rate at which the supply of shelter should grow in order to meet future demand.

20. The MDGs provide the opportunity to close this gap by defining and better focusing UN economic and human development functions. In order to ensure a reversal in appalling growth trends in vast developing regions – and in particular of LDCs, major policy departures are required along with massive efforts to address health, nutrition, environmental and infrastructure constraints. Unless the above is achieved, the trends of the past would continue, with grave human costs. The installation of a new growth dynamic would require changing past policies and upholding current commitments.

Economic development helps rehabilitate countries emerging from conflicts and crises

21. Although the link between poverty and terrorism is not straightforward, it is undeniable that the presence of abject poverty reduces, if not eliminates, the capacity of governments to control internal and cross-border trafficking of weapons, persons and illegal substances. There is growing consensus that future national security policies will have to include a strong development component from the outset in order to succeed in addressing the modern challenges posed by global terrorism.

22. Implementing the proposal described below would help link in a more meaningful way efforts in the peace and security areas with those of the economic departments, agencies, funds and programmes. The case of Afghanistan, just to take a recent example, with an economy that fell into illegal crops growing, provides a good example of the need to make progress in the field of post-conflict economic development interventions.

III. PROPOSED BUSINESS PLAN

Objectives

23. The proposal should be seen as a mechanism to enrich and complement the current set of policy prescriptions comprising macroeconomic stability, market oriented reforms and good governance, with a better definition of implementation efforts in fields such as the promotion of investments, technology diffusion, trade capacity building, industry's environmental management, energy and private sector development focusing on agro-industries.

24. The strategic direction of this proposal is to achieve policy coherence to improve the contribution of the UN's development functions to the achievement of the MDGs. This would be achieved through a better integration of the economic development and social programmes and by enhancing the connection between the United Nations peace and security activities on the one hand, and developmental activities on the other.

25. Its specific purpose is to increase the operational interaction and coordination in the field of economic development among the relevant United Nations programmes, funds and specialized agencies and the Bretton Woods institutions. This would be ensured through enhanced outcome-oriented integration, information exchange and experience sharing; and greater relevance of the United Nations development functions by providing donors an incentive to increase the coherence of their own funding policies along with the concept of value for money.

26. It further aims at overcoming two historical constraints of an enhanced economic development function of the United Nations, including:

a) Achieving critical mass. Not only are resources thinly spread, the command on knowledge, experience and skills vested in the United Nations system, are also dispersed. The same occurs with the outcome of the many initiatives and United Nations programmes in the above-mentioned areas. Articulation of work on a voluntary basis would help to overcome this handicap.

b) Accumulating knowledge along clearly defined tracks. The complexity of issues such as trade, investment promotion, technology diffusion (including environment and energy applications) and private sector and rural development makes it all the more difficult to achieve progress and increase the relevance of our contributions in these areas, particularly when information about what others are doing and the intended outcome of their programmes and experiences is shared partially or not at all.

27. To successfully overcome these problems, it is proposed to sharpen the focus and deepen the substance of UN interventions in order to formulate a commonly agreed business plan. A number of organizations in the UN system work on similar aspects of the same topics mentioned above. Overlapping and duplication exist, not by design, but as a result of the randomness of the process at the level of the system as a whole. To some extent, this is also the consequence of donors' policy priorities.

28. A commonly agreed business plan would help to overcome these problems. It is sufficient to compare, for example, the following figures. The IMF has some 2800 staff and an annual budget of about US\$ 830million. If you put at work on a common and shared agenda to accumulate knowledge in a common line of thought, e.g. UN-DESA, UNIDO, UNCTAD, ITC, the five Regional Economic Commissions and the United Nations University, one would gather resources equivalent to almost **4500 staff (approximately 2000 professionals) and a consolidated budget amounting to almost US\$700 million a year.** This does not include the important contributions that could be made by the relevant departments of UNDP, UNEP, or those of agencies like ILO or FAO to mention just a few.

Coordination mechanisms

29. Coordination of efforts could pursue the following objectives:

(a) Producing an agreed, consolidated, business plan for the United Nations system on economic development matters comprising a well-defined, outcome-oriented work plan;

(b) Defining, on agreed terms, the tasks to be performed by the different departments, commissions, conferences, funds, programmes and specialized agencies participating in it, based on their mandates, competencies, resources and expertise regarding the implementation of the business plan; for example, choosing different angles to approach a similar topic like market integration or trade capacity building, and;

(c) Reviewing, monitoring and reporting on the implementation of the business plan.

30. Participation in the mechanism should be voluntary and open to all UN system entities with the mandate to work in the field of economic development. The costs involved (essentially a small secretariat) would be borne by the participating entities. The formulation and periodic revision of the common business plan will foster a process of continuous information exchange and knowledge sharing on actions and resources among the UN entities involved in the designated fields (investment promotion, trade or private sector development, for example). This, in and of itself, will help eliminate duplication and achieve greater synergies.

31. It is essential that the **business plan be organized around specific issues in selected fields**. Specific issues need to be researched and the respective technical cooperation programmes tested to ensure that **investment promotion, technology diffusion, trade capacity building, industry's environmental management, renewable energy and private sector development with focus in agro-industry** actually help governments and civil society to fight poverty more effectively, contributing to the achievement of the MDGs.

32. A suggested list of areas of intervention for a common business plan is submitted in the Annex as an illustration. This with two provisos. First, any business plan needs to be designed so as to accommodate the operational modalities, governance styles and rules and regulations of the participating entities. Second, alternative mechanisms for operational coordination should be contemplated whenever necessary in order to make such coordination feasible.

Global Public Goods addressed: Market Efficiency, Knowledge and Environment

33. Given the diversity and variety of the institutions working in the field of economic development within the United Nations system, it is recommended that areas of intervention be selected through a transparent and clear intellectual framework. This can be done by resorting to the theory of public goods.

34. Global public goods are a relatively new concept brought about by the process of globalization. We need to improve our understanding of their role in a global society and of how to ensure their proper supply. Peace and security, equity and justice, market efficiency and the environment, knowledge, information and health are certainly public goods. The international community is still learning how to best address them and, especially, their mutual interdependencies and the multiple interconnections that exist among diseases, poverty, violence, the lack of development and the absence of human rights.

35. The supply of any global public good by international organizations is expected to occur by way of the implementation of international agreements, the dissemination of information, the establishment of benchmarks for performance comparison, the setting and monitoring of standards and other various forms of information sharing and exchange. It is proposed that the actual and potential contributions of the UN economic development functions be concentrated on redressing the **current undersupply of** the following Global Public Goods: **Market Efficiency, Knowledge and Environment.**

Market Efficiency

36. During the last decade the process of integration of financial and commercial markets around the world reached new heights. As a result, programmes and policies to achieve market efficiency have become ever more international in scope, thus reducing the capacity of national governments to act with irrespective of multilateral commercial and financial agreements. It is necessary to bear in mind that national governments try to balance market efficiency with other objectives like justice and equity, which they pursue by adopting fiscal, external, IPRs, competition, regional and other policies.

37. **The global public good 'efficient market performance' helps enhancing GDP growth. This is essential to achieve the MDGs.** In an efficient economy, modeled by the General Equilibrium Theory, resources go to their most productive uses with the price system reflecting the balance between supply and demand. The overall outcome of this efficient economy is an optimized rate of GDP growth, which can be considered a public good outcome.

38. The fundamental theorems of welfare economics also assume completeness and competitiveness of markets and the absence of innovation. In order to provide completeness and competitiveness of ever more integrated markets, the international community has to strengthen its supply of intermediate public goods such as '**international financial stability**' (dealt with by the Bretton Woods institutions) and '**commercial markets integration**'. Furthermore, to ensure that high growth rates effectively translate into poverty reduction, another good is needed to provide employment opportunities; ie a strong and dynamic '**private sector development**'.

Knowledge

39. It is also recognized that innovation, contrary to what is assumed by the theorems, plays a crucial role in explaining productivity growth and disparities in income per capita.

40. The dissemination of knowledge is necessary to level the playing field and is essential to propel the engines of growth in a modern economy. The evolution of economic thinking attaches great importance to the capacity of countries to innovate, enhance productivity and improve the quality of growth. Modern economic history strongly suggests that combining global knowledge with local knowledge is critical for economic development.

41. This is the reason why intellectual property regimes and competition policies play such an important role. The way these two regimes interact affects the pace of development in developing and LDCs. Proper research and analysis in this area (such as that undertaken by the UK Commission on IPRs in its recent report "Integrating IPRs and Development Policy", 2002) and the ensuing policy recommendations is necessary to improve developing countries' chances of succeeding in their development efforts.

42. There is also a great deal of knowledge that is not patentable, but still playing an important role in support of development efforts. Along these lines, it is essential to pay due attention to the building of the **set of institutions** that assist **to adopt and disseminate knowledge** of this kind among developing countries.

Environment

43. The environment is among the most crucial global public goods. International protocols such as those of Montreal and Stockholm, which deal with CFCs and POPs have shown a high degree of effectiveness. These protocols have been effective because there is a clear understanding of what needs to be done, the provision of the necessary funding and the unambiguous identification of timeframes, steps to be taken and by which actors.

44. Extending this approach to broader areas so as to cover the diffusion of environmentally sound technologies and cleaner production at large appears to be the way forward. Knowledge about the health and environmental risks of numerous industrial products and processes is seriously lacking and so are the incentive systems to foster regenerative approaches of productive development. These approaches consist of avoiding damage to health and the environment by design rather than by gradually curtailing such damage a posteriori.

45. Developing countries are followers in the adoption of technology, including environmental technologies. The average age of their equipment and process technology is much older and their environmental efficiency lower than in the advanced industrial countries. To make matters worse, relatively more stringent environmental regulations in the latter countries encourages the migration of the relatively more polluting industrial processes and products towards the former. This

46. raises an important challenge, particularly in terms of funding, that can only be very partially offset by the trading of pollution permits.

IV. CONCLUSIONS

47. In a society driven by the powerful forces of technological change and market integration there is no more room for mismatching our political, social and economic agendas. In our modern society, peace and progress depend more and more on our capacity to win the hearts and minds of the peoples of the world. Unless we succeed in this battle, every country will remain even more vulnerable to the consequences of social unrest and economic deprivation.

48. The MDGs are certainly a genuine expression of the international community's desire to address these problems and to cooperate in order to reduce the extreme disparities of today's world. This task entails the mobilization of resources, institutional building and appropriate policies.

49. The amount of resources dedicated to accomplishing the MDGs will have to be substantially increased if we are serious about reaching the large proportion of the world population living in acute need. At the same time, we will have to strengthen the supply of global public goods by enhancing the institutional setting and the policies required by a "people-centered approach" and achieved Human Security.

50. Neglecting the role of inclusive policies and institutions for skill, entrepreneurial and technological development when addressing such gaps would be a grave mistake. Doing it in a manner that does not guarantee impact would also be unwarranted. Inclusive policies and institutions are not just compatible with current global trade arrangements; they are also indispensable for such arrangements to succeed.

51. To make market economies work properly for poverty reduction in a global market entails the mastery of a level of knowledge that we still do not fully possess. The same applies when it comes to enhancing the role of the United Nations development reconstruction efforts in post-conflict situations. Sharpening the focus and deepening the substance of its contributions in the field of economic development by means of a voluntarily agreed common business plan would certainly enable the UN, (if consolidated as proposed), to create new value and release the full potential of the wealth of knowledge, skills, experience and even resources of institutions that have been working on these endeavors for the last 40 years.

ANNEX: A SUGGESTED MENU OF TOPICS FOR THE BUSINESS PLAN

Preliminary areas of intervention

1. Market Efficiency

52. Market efficiency requires commercial markets integration and the development of the private sector.

a) Commercial markets integration

One of the most powerful tools to generate higher growth rates in developed and developing countries alike is the increase of trade flows. A central component in achieving this is to advance multilateral trade negotiations. Understandably, most multilateral cooperation in this field has been geared towards building negotiating capacities in the developing countries to enable them to defend their interests and participate effectively in trade negotiations.

It goes without saying the importance these negotiations could have in the fight against poverty, if the subsidies and market distortions in agriculture and textiles were finally removed.

However, it is important to realize that trade negotiations have been oversold as means to achieve growth and therefore reduce poverty. The most trade negotiations can do is to create business opportunities for developing economies, which confront serious problems ranging from plant specific, through the business environment to the physical and technological infrastructure.

These problems often eliminate whatever natural or acquired comparative advantages the countries involved may enjoy. They relate to the supply side response to trade opportunities and the compliance with standards and technical regulations.

i) Supply side problems

The many years of experience of the Yaoundé, Lomé and Cotonou Conventions, as well as other schemes of tariff concessions and import duty reductions have demonstrated the need to move international cooperation in the area of trade well beyond its traditional focus on training negotiators. For developing countries and in particular for the LDCs, to seize the opportunities opened by multilateral or regional trade agreements means to address the absence of exportable production capacity.

Intensive technical and managerial upgrading and other export-related technical assistance services are indispensable to enable developing countries and LDCs to reap the potential benefits from trade negotiations.

The productive systems of developing countries and LDCs suffer from their small-sized productive facilities that undermine their capacity to reap economies of scale. Productive systems were originally built to serve relatively small domestic markets. Often the production mix, i.e. the number of different products and models produced in a single facility, is quite large and diverse, further worsening the problem of achieving economies of scale. Operations far from the technology frontier, increased cost of transport, insurance and other export-related support services are only a few examples of the problems that need to be considered to evaluate the real capacity of developing economies to profit from the opportunities of multilateral or regional trade pacts.

ii) Standards and technical regulations

The ability to meet standards and technical regulations contemplated by the Uruguay Round, is a fundamental problem for most developing countries. This inability relates to technological backwardness affecting product and process specifications and the quality infrastructure including testing, accreditation and certification facilities and institutions. The provision of the public goods that are required to address these constraints is essential. In addition, product and process standards and technical regulations in the advanced industrial countries are becoming ever more stringent as a result of the increasing awareness of consumers and governments about risks posed by extant practices to human and animal health as well as to the environment.

Specialized, expert assistance in these highly technical fields needs, therefore, to become a vital component of aid packages. Consolidating cooperation programmes in the trade negotiation and trade policy fields with programmes that support export market development is the right way to proceed.

b) Private Sector Development

There is no doubt that economic development is increasingly private sector-driven. This explains why the development of a strong and dynamic private sector is another pre-condition for market efficiency and integration. Private firms are a means of non-market coordination that is indispensable for market efficiency. It would be futile, therefore, to aim at such efficiency in the absence of the necessary entrepreneurial and organizational capabilities for decentralized decision-making to perform.

However, the policies and institutions required for private sector development do not receive the attention required. A clear example is provided by the weak role envisaged for the private sector in MDG-related poverty reduction strategies, particularly in the poorest countries. Once again, this relates at least partly, to the legacy of received theory, according to which access to capital is nearly the only requisite.

Clearly, ensuring conditions for the supply of risk capital is key. However, the technical, entrepreneurial and management skills that underlie private sector development do not necessarily flow towards where they are most needed. In fact, the opposite appears to be the case. Resources allocated to skill formation in developing countries in this field are characteristically lacking as is the supply of non-financial services for private sector development, particularly those relating to

entrepreneurial and technological development and foreign market access. Small and medium-size enterprise development receives not nearly the attention it requires as a bedrock of entrepreneurial talent. Finally, institutional innovations to address the linkages between the rural and the urban economies and between the informal and the formal economies by tapping into the potential of micro-entrepreneurship are also extremely rare.

The multiple initiatives and activities action of the United Nations system in this field would benefit from system-wide articulation, focus and synergy and therefore gain critical mass. Examples could include technology diffusion for which private enterprise is the key vehicle, or trade facilitation, whereby private enterprise is supported to cope with technological challenges to reach foreign markets.

i) *Investment Promotion*

This is an area of major concern for developing countries. Private investment flows play an important role in the development of all economies. Yet, FDI largely bypasses the developing world with the exception of a few emerging economies. The typical prescription in this field consists of recommending good governance coupled with sound macroeconomics and the improvement of the business climate through the adoption of investment codes, the establishment of investment promotion agencies, one-stop shops for investors, and like measures.

However, an important number of countries failed in attracting FDI even after having championed the implementations of the prescriptions outlined above; or obtained FDI only in public services or extractive activities with limited capacity to produce spillovers in the rest of the economy.

A consolidated business plan could help sharpen the focus and deepen the substance of United Nations research and technical cooperation programmes dealing with this matter. This could be achieved by addressing the number of government and market failures affecting developing countries capacity to attract FDI and attempting to work with private sector investors, global corporations and investment banks in developing of new financial instruments and mechanisms (in association, for example with the World Bank group's International Finance Corporation-IFC) to help reduce transaction costs and risks associated with investments in developing economies.

Examples of institutions working in developed countries but widely unknown in the developing economies are risk assessment boards or companies and those specialized in qualifying risks levels of individual companies and informing on this to all actors in the financial system in order to facilitate rates competition in the supply of commercial loans. Another mechanism to be studied to facilitate equity investments in developing country companies is the organization of investment portfolios with companies from different countries and sectors (aimed to diversify risks). These portfolios can be organized through the use of securities to offer a fixed rate of return in financial markets, therefore allowing them to go public.

Instruments such as those referred to above are meant to generate and disseminate information to allow market agents to assign resources more efficiently.

ii) Global Value Chains

The ability to connect the global economy with global markets is a key factor to ensure the development of a strong and dynamic private sector in today's globalized economy. Global markets are served by global value chains. Spread around the world, enterprises in global value chains perform related activities to bring a product (or service) from design and development to production, marketing and sales to consumption, after-sales services and eventually recycling.

The focus of interest of these chains is not just the enterprises; it is also the shifting links and contractual relations among them. Enterprises expand their product lines, and expand internationally by forging new links with enterprises already active in the global economy, dominated by criss-crossing global value chains encompassing research and development, production, logistics, marketing and exchange where all the links are between enterprises rather than between countries.

The impetus for the formation of these global value chains lies with enterprises in advanced countries, either as buyers or producers. For developing countries enterprises to participate, the crucial factors are not only the hard facts of price, quality and punctuality but also the capacity to learn and absorb advice from the lead enterprises. Global value chains can unleash enterprises but they can also constrain them. Particularly in manufacturing, the insertion of local activities in wider networks is a great opportunity for developing countries to upgrade their capabilities.

To enable participation in these global value chains, the right set of institutions to support the necessary innovation and learning process as well as to support business advisory services was developed in most of the advanced economies. Similar institutions are needed in the developing world to allow their private sectors to participate in one of the most dynamic fields of the global economy.

iii) Corporate Social Responsibility

Corporate Social Responsibility (CSR) plays an increasing role in the business environment. Due to the globalization of trade, increased size and influence of companies, the repositioning of governments and the rise in strategic importance of stakeholders relationships and brand reputation, the past twenty years have seen a radical change in the relationship between business and society. CSR has been a pragmatic response to consumer and civil society pressures. These have mainly been focused on multinational corporations (MNCs) serving advanced markets but often operating in developing countries.

In that context the Secretary General's "Global Compact" encourages MNCs to comply with international standards in labor, human rights and environment. That compliance by multinational corporations poses both a challenge and an opportunity for developing countries' small and medium enterprises that seek to become members of the supply chains of global multinational corporations.

Corporate social responsibility is a field where both the multinational corporation and the multilateral development community have to search for synergies and opportunities, since the understanding of how compliance with international standards can become a source of opportunity for developing economies requires dedicated analysis, research and policy assessment.

2. Knowledge

For the proper dissemination of **knowledge** there is a need to strike a balance between the application of *IPR* regulations and the administration of *competition policies* as well as the need to develop the right set of *institutions to disseminate knowledge*.

Technological institutional setting

Technology (just as capital) does not flow easily towards the countries and regions where it is most scarce. If such countries and regions are to develop a strong and dynamic private sector and participate in international trade flows while meeting increasingly stringent commercial, environmental and social standards, they will need to acquire, adapt and absorb technology inflows competitively.

Costly learning processes are involved, however, the market often fails to convince rational private decision-makers to invest in these processes. Therefore, the provision of vital public goods and conducive incentives are needed in order to address the ensuing deficit. However, these kind of public goods and incentives are rarely part of the conventional prescriptions, partly because of the lack of an agreed theory.

In fact, advanced industrial countries have a rich experience at providing such public goods by means of sophisticated technological infrastructures. These have also been key to the successful industrializing countries of East Asia and elsewhere. However, the international system has largely failed, just as the markets themselves did, to ensure that the respective institutional experience and expertise flow to the developing world at large as needed. Addressing this downside is high on the international agenda.

The UN system is actively involved in this field. However, there is a need to establish system-wide priorities and enhanced operational coordination to ensure synergies and consequently effectiveness and impact.

b) IPRs and Competition Policies

The critical importance of the quality of institutions to foster economic development is widely acknowledged. Ownership rights are prominent among them.

IPRs, that is, those that protect the ownership of knowledge assets, are crucial for economic development in that they do not only relate to the incentive to generate

knowledge, but also to disseminate and use it. IPRs have become increasingly important since the Uruguay Round due to their ever widening scope, which now covers not just intangible assets held by private enterprises but also much broader social and public assets such as health, education and biodiversity.

For private enterprises generating and disseminating knowledge are often not easily reconciled with one another and small and medium-sized enterprises are normally at a disadvantage. Therefore antitrust or antimonopoly legislation has been developed to ensure a level playing field in industrialized countries.

LDCs in particular have to pay a high price for introducing IPRs. They have to enhance their scientific and technological capabilities and monitor market power enticed by IPRs, to avoid that the full enforcement of IPRs ends up impoverishing their potential in this area. In addition, relatively more advanced developing countries also suffer from the lack of ability to deal with the impact of IPRs in their own economies. Ultimately, the problem lies in ensuring the right extent of preparedness of domestic enterprises before being subject to cutthroat R&D and innovation-driven competition.

Although acute in both the developing and in the developed world, since it crucially affects market entry and the channels of technology commercialization, the diffusion of competition policies in the developing world is not nearly as significant as that of IPRs. While important inroads have been made to adopt and enforce the latter, this has hardly been the case with the former.

If the diffusion of technology is to be given the priority it requires, as discussed above, this problem needs to be tackled head-on, particularly in view of the increasing diffusion of ICTs, biotechnologies and other advanced technologies.

3. Environment.

Promote economic development in a modern society implies to articulate output growth with the incorporation of clean technologies and new materials in order to protect the environment from further deterioration and, whenever possible to recuperate previously polluted areas.

The same logic applied to the implementation of multilateral protocols such as Montreal regarding CFC and the Stockholm convention regarding POP's should be extended to several industrial sectors to achieve regenerative approaches of productive development, fostering environmentally sound technology transfer to developing countries and boosting their business opportunities.

A detailed description of actions and programmes in this field would be developed at a latter stage.

4. Benchmarking and monitoring of economic performance in developing countries.

Productivity growth results from improvements in economic governance, including the definition of standards relating to the functioning of markets, the diffusion of knowledge and the impact of economic activity on society and the environment. These are addressed, among others, by a large number of microeconomic interventions such as those in the fields of competition, intellectual property and environmental and social conduct. The gauging of productivity growth also provides guidance on the directions to be pursued for technology diffusion and private sector development.

Emphasis on productivity performance certainly does not override other considerations, such as those relating to employment; fair labor relations and good pay for labor services. Actually, the very fact that this dichotomy is most likely to be raised every time that reference is made to productivity is a clear symptom of the failure to duly articulate the economic and social agendas.

Catch up in productivity is key to the narrowing down of the egregious growth disparities in the world economy referred to earlier on. It is also a pre-condition for sustainable social improvement while conversely, enhancing human capital is a pre-condition to succeed in productivity catch up. Private sector-led productivity growth may provide developing economies with the opportunity not just to increase market efficiency but also to match it with other objectives such as equity and social justice. For this to occur, in addition to drawing on a wide variety of policies and actions, it will be also necessary to ensure that *technology diffusion* and PSD are fostered so that developing countries can effectively and competitively connect with, and draw from, global trade, financial and technological flows to foster economic growth.

There is little doubt that the international community and, in particular, developing countries, need better standards to assess the performance of economic reform programmes and to make it consistent with good governance. However, the information and research outputs required to do so are not forthcoming. The measurement and monitoring of productivity performance at the various levels of aggregation is a vital but neglected area of attention in the developing world. The tools and policies available to developing countries to foster productivity performance are particularly weak. Such performance is considered key in the advanced industrial economies, which pay to it the attention it deserves. This experience ought to serve as a useful guide for the developing world. Productivity performance is not just a field of intellectual interest for abstract discussions but a very practical gauge of sustainable improvements in income levels and living standards.

A United Nations business plan that duly monitors productivity performance in the developing world relying on the consolidated contribution of all the relevant agencies, programmes and funds, would entail a quantum jump in the scope, reach and impact of their action in the field of economic development. It would also provide an excellent tool to gauge the impact of the efforts aimed at building social capital on economic performance, as is the case in the advanced countries.