



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

GENERAL CONFERENCE

9TH session

OPENING STATEMENT

by

Mr. CARLOS MAGARIÑOS

DIRECTOR-GENERAL

VIENNA, 3 – 7 December 2001

Distinguished delegates,
Ladies and Gentlemen,

Let me extend to you my warmest welcome to this ninth session of the General Conference.

I would first like to express my gratitude to the departing President, H.E. Mr. S. Umer of Pakistan for his excellent work as President of the eighth session of the General Conference. I would also like to congratulate H.E. Mr. J.F. Reyes López for his election as President of the ninth session of the General Conference. Let me also express my gratitude to the high-level representation at this session, particularly to the some 40 Ministers and Vice-Ministers.

In a matter of days I will complete my tenure of four years that I had the honour of being elected for in 1997. And I think that, naturally, what delegates expect and what reality demands from these opening remarks is a realistic assessment of the state of the Organization.

It will be equally natural and necessary during the General Conference to talk about the future. Yet, I hope you will agree, the opportunity for me to do so will come at the conclusion of the work of this distinguished body, at the end of the week, after listening the opinions and suggestions of all Member States.

Initial hurdles

UNIDO's prospects have been really poor for a number of years. The United States of America withdrew in 1996 (without fulfilling its obligations with the Organization and leaving behind an outstanding debt of over \$ 60 million). Australia and Canada followed suit. Other countries like Germany, the United Kingdom and Denmark were assessing whether to follow the same course.

1997 was a year marked by chronic financial instability. The staff didn't know if and when the Organization could afford to meet its obligations. The forecasts did not allow planning beyond a couple of months and the policy of extension of contracts allowed only short-term renewals for periods up to a year.

My campaign of 1997, when I visited 18 countries and spent several weeks in Vienna, is still fresh in my mind. I listened to many complaints from developing countries about the lack of focus and integration in UNIDO technical cooperation activities and some developed countries queried the relevance of having an agency to promote industrialization.

It was clear for me that Member States' discontent was related to three different sets of problems: first, financial performance; second, programmatic focus; and, third, the *raison d'être* for a multilateral institution in the field of industrial development.

With the invaluable help of the "Business Plan on the Role and Functions of UNIDO", approved by the seventh session of the General Conference as a framework of common understanding and agreement among the Member States, I focused all my efforts in tackling these three sets of problems.



Financial Performance

Programmatic Focus

UNIDO raison d'être

Ensuring a sound financial standing

At that time I understood that, without a sound financial position, the Organization would have been utterly unable to restore its credibility among the Member States and the staff. As a result, we devoted our best energies to addressing this problem first.

After three months in office, I announced a new organizational structure, reducing the number of divisions from six to three as well as a fifty percent reduction in the staffing of the office of the Director-General that I had inherited.

At the same time, the staff reduction exercise was completed. This painful staff reduction had become necessary to respond to an additional twenty per cent budget reduction caused by the withdrawal of major contributors to UNIDO.

The staff reduction was implemented at a cost of some \$ 10 million, saving almost forty per cent against the \$16 million approved by the seventh session of the General Conference for this purpose.

However, it is important to note that the cash required for this programme was not made available to the Organization; rather the funds for staff reduction came from UNIDO's regular resources, thus adding additional pressure to an already-reduced budget; \$ 10 million represented sixteen per cent of the regular budget of 1998.

In 1999, we were able to offer, for the first time in several years, longer-term contracts for staff through a policy of extensions for three years. Talk about financial problems and instability stopped; the Organization was on a sound financial footing.

However, I feel it necessary to clarify that the sound financial performance of UNIDO over the past few years has not been the result of a massive influx of capital. It is, first and foremost, the consequence of sound and transparent management and effective use of resources. As a result, we also replenished the Working Capital Fund in 1998.

Notwithstanding prudent cash management, the Organization has experienced some serious shortfalls in its income, resulting from both lower collections against assessed contributions and reduced technical cooperation delivery, partly due to the mandated changes in our technical cooperation portfolio.

In 2000 for instance, the shortfall in our operational income was some \$ 5 million against the budgeted income. In addition, or perhaps even more importantly, the non-receipt of assessed contributions that had been normally received on time and in full in the past, decreased our income by almost \$ 6 million, or ten percent of our regular budget.

In 2001, our technical cooperation income increased, as compared to the previous year, but, as in 2000, we did not receive the assessed contributions that would normally arrive on time and in full, valued at around \$ 11 million, which represents a shortfall of around nineteen per cent in our regular budget for 2001.

Financial Performance

1998 – 16% budget reduction

1999 – sound financial footing

2000 – 10% virtual reduction

2001 – 19% virtual reduction

As you can see, the Organization was under financial pressure in 3 out of the past 4 years. However, and despite the shortfalls in revenue, we avoided the kind of actions taken in the past when we were forced to introduce costly staff separation programmes. However, these shortfalls did have an impact on the implementation of the programme and budgets approved by you.

In order to improve the financial performance of the Organization the Secretariat regularly follows up with Member States to settle their arrears, and I would like

to once again appeal to all those Member States that have not yet settled their arrears to do so, as a further sign of their commitment towards the work of the Organization.

At this point, I would also like to express my deep gratitude to those Member States who have paid their assessed contributions in full and on time.

Members without voting rights

1999	2000
67	55
18% improvement	

Presently, there are 55 Member States of UNIDO without voting rights. At the same time in 1999, there were 67 members that had no right to vote– this represents an 18 per cent improvement.

I would like also to point out that the operational budget reserve has increased from \$1.6 million on 1 January 2000 to around \$2.7 million in December of this year.

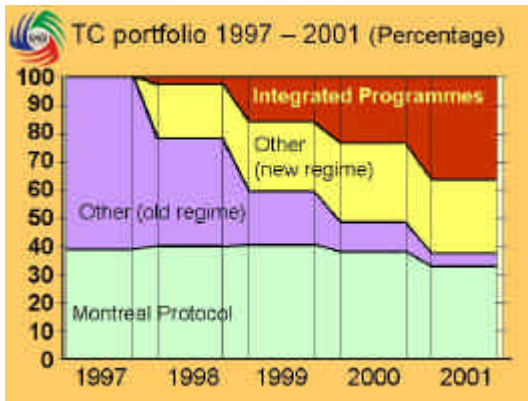
Having dealt with the wanting financial performance of the Organization and introduced major changes in

order to get the respective situation back on track, UNIDO concentrated its attention on the second set of problems, namely, those related to the programmatic focus of the technical cooperation activities.

Programmatic focus of technical cooperation activities

Because of their very nature, the financial problems had to be dealt with by swift and firm action while changes in the programmatic area demanded a completely different approach. Dialogue with and among the staff, due attention to the various visions of the Member States and interaction with new actors, such as the private sector and the NGOs, were extremely important to redress the operational dimension of the Organization.

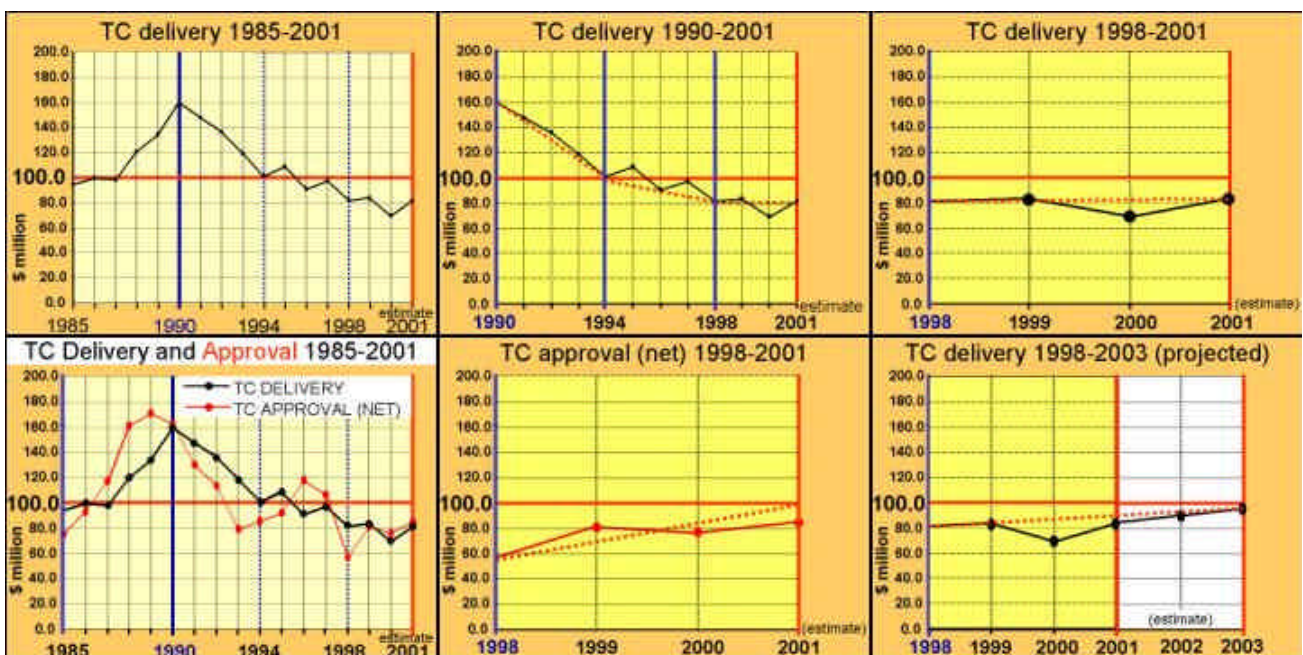
Many thought that it was very unlikely that UNIDO could complete and implement a profound turnaround in its technical cooperation portfolio. And yet, working together, we achieved a remarkable change for a multilateral agency. We redefined our services in a very clear manner through the new service modules.



We also phased out more than one thousand small projects to give life to a new set of activities and modalities of technical cooperation delivery, that is, the Integrated Programs, the Country Service Frameworks and the new stand-alone projects based on the service modules. And we did so while achieving stability in the levels of technical cooperation delivery for the first time in years.

Indeed, technical cooperation delivery had been falling sharply since 1990. This trend was somehow softened in the mid-1990s. And, in the last four years, while

fully restructuring the technical cooperation profile of UNIDO, we manage to stabilize our levels of delivery around \$82 million, after absorbing the twenty per cent budget cut decided in 1997.



The rate of technical cooperation approvals is an encouraging indicator. Throughout the evolution of UNIDO's technical cooperation performance, the approvals of a given year normally indicate the future trend of our technical cooperation delivery.

The period of technical cooperation decline coincides with low levels of approvals in the previous years. Only when the approvals surpass the levels of delivery, we see stability or growth in the following years. I am pleased to be able to report that approvals are growing faster and higher than our levels of delivery and that we can expect an increase in our technical cooperation delivery in the coming years.

The Organization is committed to achieve the levels of technical cooperation delivery outlined in the budget of \$ 90 million for 2002 and \$ 95 million for 2003. This represents an increase of more than 22 per cent as compared with the biennium we close this month and is an accurate estimate we can certainly achieve.

Technical Cooperation activities January 1998 – October 2001			
TC ACTIVITY	No. of PROG. PROJECTS	TOTAL AMT. APPROVED	TOTAL FUNDS RAISED
INTEGRATED PROGRAMMES	44	227.6	100
STAND ALONE SES	35	9.8	9.8
STAND ALONE GEF	10	20.3	20.3
STAND ALONE IPC	86	15.5	8.8
TOTAL		273.2	138.9
MONTREAL PROTOCOL	410	108.8	108.8
ITPO/ICS	17	62	57.7

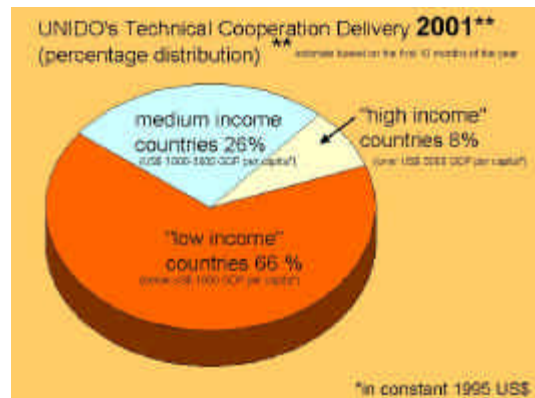
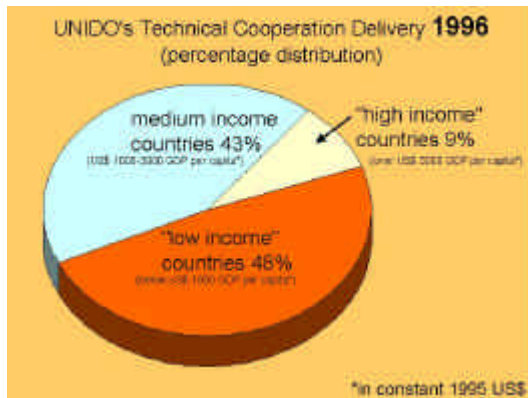
I am very pleased to be able to report that the new UNIDO technical cooperation portfolio, for the period January 1998/October 2001 comprises 44 integrated programmes worth \$227,6 million out of which we have raised almost \$100 million and 131 stand-alone projects valued at \$45.6 million for which we gathered already 38.9 million.

Altogether, the total portfolio amounts \$273.2 millions with \$138.9 million raised.

As I mentioned before, while refocusing our technical cooperation approach, we phased out more than one thousand projects, and today we have only 55 of those old-style activities that are operative with a balance of \$ 9.2 million. These projects will be closed or completed by June next year.

To complete the picture of activities executed in that period we have to include Montreal Protocol activities and the technical cooperation programs of UNIDO's Investment and Technology Promotion Offices and the International Centre of Science and High Technology.

All these changes had a very practical implication: UNIDO increased its attention to the low-income countries (defined as those with *per capita* income below \$ 1000) from 48 per cent of our technical cooperation activities devoted to them in 1996 to 66 per cent in 2001.



After completing the programmatic adjustment of the organization and having UNIDO on a sound financial footing we turned to address the concerns related to the rationale of having a multilateral agency in the field of sustainable industrial development.

The rationale for multilateral cooperation for industrial development

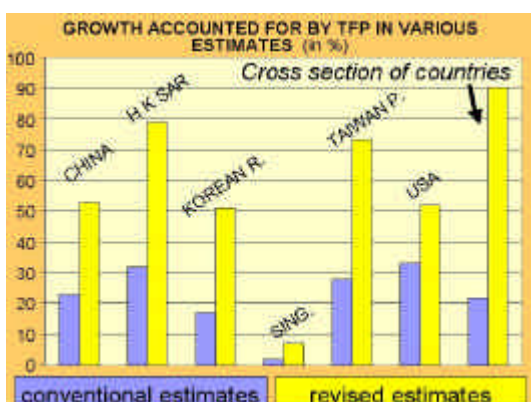
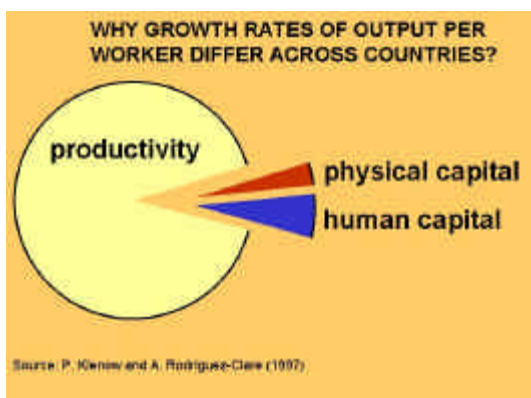
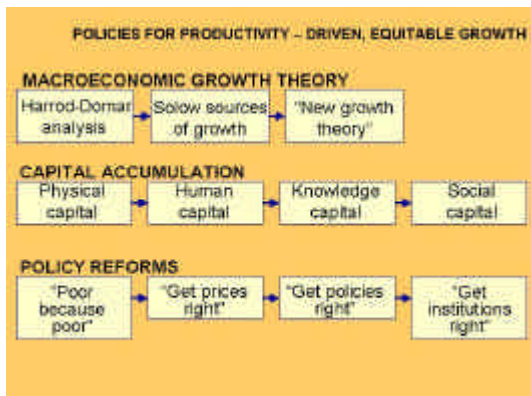
Doubts about the need for having an Organization in the multilateral system devoted to industrial development have accompanied UNIDO since its very inception. These concerns are candidly addressed in our book on "United Nations and UNIDO reform" published recently by Klewer Law International.

The active debate of the 1960s and 1970s about the merits and shortcomings of command versus market economies provided the conceptual underpinnings in favour or against alternative development paradigms. The debate at that time was *not* about whether industrialization was desirable or not but, rather, about *how* to attain it.

POLICIES FOR PRODUCTIVITY - DRIVEN, EQUITABLE GROWTH

HIGHLIGHTS ON THE EVOLUTION OF ECONOMIC THOUGHT

- Significant progress has taken place in understanding the development process.
- However, the controversy on the sources of growth and growth policies has not yet been settled.
- The jury is still out on the relative weights to be assigned to factor accumulation vis-à-vis productivity growth.



With the fall of the Berlin Wall and the ensuing political developments, the focus of the debate underwent a sharp change, which was dramatically exposed by the important decline subsequently experienced by international development cooperation flows.

The view began to prevail that multilateral development cooperation was a thing of the past and arguments were put forward to discredit its functionality and rationale. This shifted the terms of the debate on industrialization: it was no longer just a matter of *how* to attain it. Its very fundamentals were also put into question. This, of course, was not unrelated to the "eclipse" of manufacturing observed in the developed world, which resulted from its much faster productivity growth *vis-à-vis* the service sector, while facing a demand with a much lower income elasticity.

But, in the meantime, as discussed during our 1999 General Conference, development thought also evolved, providing new underpinnings to the understanding of the process of industrialization and industrialization strategies. In a nutshell, previous ideas tended to emphasize the need for industrialization as part of a process of factor, particularly, capital accumulation required to make poorer countries converge with richer ones. The new ideas, largely based on the most recent evidence, shifted the attention towards the decisive role of productivity growth as the key to narrowing the gaps in economic development.

A good example of the relevance of this new approach is newly found evidence on the proportion of growth accounted for by total factor productivity in various estimates for a selected group of countries.

On the basis of this new strand of thought on development - which has gained great resonance among development thinkers and practitioners worldwide - the role of UNIDO regained centrality. The challenge to achieve growth and defeat poverty is not anymore just to accumulate physical capital but also to increase total factor productivity throughout the developing world and particularly in the LDCs, a task for which the renewed UNIDO is very well equipped through its newly designed service modules and integrated programs.

Industrialization is no longer seen as an end in itself. Instead, it is justified on grounds of its actual contribution to productivity growth. It is on this basis that I said already in 1997, in my inaugural speech, that UNIDO had an important role to play in the architecture of the international economic

system. And it is on these grounds that attention is now drawn once again towards industrialization as a tool to achieve effective progress in the fight against poverty and for the productive integration of developing countries into the global economy.

That is precisely the topic of this year's forum.

Conclusions

It is ultimately for this reason that we have been working for reform over the last four years and why we have submitted the Medium Term Programme Framework for consideration by Member States. This Framework proposes to uphold the agreements attained in the 1997 Business Plan, while building on them by sharpening the definition of UNIDO's work in various areas.

You may have noticed that the budget for the current biennium already reveals the effort made by the staff of UNIDO to refine the focus of our technical cooperation activities by reducing the number of service modules from 16 to 8, based on experience gained through implementation during the last three years.

REFINING THE FOCUS: Service Modules from 16 to 8	
Industrial policy formulation and implementation	
Statistics and information networks	
Metrology, standardization, cert. and accreditation	
Continuous improvement and quality management	
Investment and technology promotion	
Environmental policy framework	
Climate convention and Kyoto Protocol	
Energy efficiency	
Renewable energy development	
Cleaner production	
Pollution control and waste management	
Montreal Protocol	
SME policy framework	
Policy for women's entrepreneurship development	
Entrepreneurship development	
Upgrading agro-industries and related technical skills	

REFINING THE FOCUS: Service Modules from 16 to 8	
Industrial Governance and statistics	
Investment and technology promotion	
Quality and productivity	
Small business development	
Agro-industries	
Industrial energy and Kyoto Protocol	
Montreal Protocol	
Environmental Management	

We would like to have your reactions and thoughts about the Framework and about the relative emphases to be given by UNIDO to the areas of standards, environment, technology and investment.

A definition on this will be necessary to increase the integration of UNIDO activities in the implementation phase of our technical cooperation programs and to create even more synergy between our technical activities in the area of capacity-building and in the environmental field.

We need to achieve greater interaction between our activities aimed at fostering technology transfer, market access and investment promotion on the one hand, and those pertaining to the environment and energy, on the other, to really help and encourage entrepreneurship development.

I also expect the regional dimension of our programs to become a distinct feature of the UNIDO approach to technical cooperation and to become more sector specific in our undertakings.

But we will have time to discuss this during the week. The Secretariat will be looking forward to your comments and your guidance.

In the meantime I would like to express my gratitude to the UNIDO staff at all levels and departments of the Organization for its commitment and dedication to the Organization and the program of transformation. Without their help none of the facts and figures reported today could have been ever possible.

Let me finalize by expressing my sincere thanks to the Member States for their support and commitment to the Organization. Your decisions and many financial and non-financial contributions during the last four years did encourage us to work hard to achieve a better performance.

Distinguished Delegates,
Ladies and Gentlemen,

My message today is simple: we have accomplished the mission you gave us four years ago. Against all odds we have completed a very difficult task and overcome turbulence and instability to give birth to a renewed Organization, removing all and each cause of criticism.

We can feel proud of the work we have done while working together. We have been brave enough to rebuild a multilateral agency. We are an Organization with a central mandate: to help developing countries achieve productivity growth through industry to defeat regression into poverty.

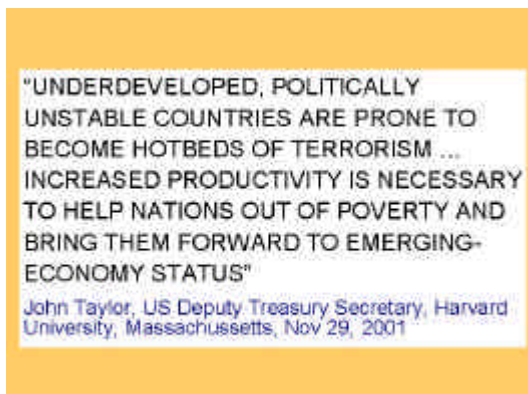
TC ACTIVITY	No. of PROG/ PROJECTS	TOTAL AMT APPROVED	TOTAL FUNDS RAISED
INTEGRATED PROGRAMMES	44	227.6	100
STAND ALONE SES	35	9.8	9.8
STAND ALONE GEF	10	20.3	20.3
STAND ALONE IPC	86	15.5	8.8
TOTAL		273.2	138.9
MONTREAL PROTOCOL	410	108.8	108.8
ITPO/ICS	17	62	57.7

Let us now to be brave enough again to move UNIDO forward during the next years. The conditions are there both inside and outside UNIDO.

Inside UNIDO we have articulated a robust and coherent portfolio of technical cooperation activities. And we need to complete its implementation. For that it will be essential that all Member States pay in full and in time the assess contributions and that UNIDO gets a bigger share as implementing Agency of many multilateral funds. It will also be unavoidable to increase our Industrial Development Fund and I sincerely hope our donor partners will do even more in the future in this regard.



Outside UNIDO many things have changed in the last years. We have referred to the “evolution of development economics” theory. But the very concepts of national security are also evolving rapidly. After the atrocities of September 11, it became more evident than ever that the world needs a global coalition around global shared values to defeat violence. And that national security policy should include a development dimension to be accurate and complete.



In my view, the new UNIDO approach - promoting productivity growth through industry - is at the centre of the development dimension. Even for those that criticized the old UNIDO in the past, our new strategy looks relevant and meaningful.

This strategy is particularly important for the LDCs. Although we recognize the need to strengthen the presence of UNIDO in the so-called middle-income countries I committed the Secretariat to maintain it

priority and focus on the poorest countries of the world.

All the praise about our transformation process will only have sense if we make a difference among the poorest of the world. And I am confident your decisions this week will enable us to play our increasingly important role to defeat violence, poverty and marginalization.

In the Millennium Declaration the international community committed itself to a set of International Development Targets that, although ambitious, are no less necessary and urgent. To achieve them, substantial investment will be required. However, investment alone will not suffice. The current prospects of international economy will make it more necessary than ever to understand better the deep sources of growth and the relationships between growth and poverty reduction. And I think that our UNIDO approach is fully in line with this strand of thought. Please, have no doubt about it: UNIDO is now a powerful tool endowed with the necessary commitment to achieve its goals.