

Message from the Director-General

The year 1998 represents my first year as Director-General of UNIDO. I recall when I was first approached about presenting my candidacy for the post of Director-General. I saw it then, as I see it now, as an honour and a challenge.

An honour, first, because as the Secretary-General often says: “... there is no alternative to the United Nations ...”. It is still the best hope for humanity. To have the opportunity to work for development in a United Nations agency, remains to this day a real privilege. I sincerely believe this.

A challenge, because a chance to transform UNIDO was also a chance to participate in the transformation of the whole multilateral system. This is a vitally important mission for all of us. I consider the multilateral development system more necessary today than ever; but not just any multilateral system. Developing countries need a completely new multilateral system, with more integration among its agencies, and stronger links with the private sector and civil society.

I remember five years ago, when I took part in the fifth General Conference in Yaoundé, Cameroon. Member States were already talking about the need for UNIDO’s reform. By the time I presented my candidacy for the position of Director-General, this had grown into a clear demand for change. UNIDO was by then passing through a critical period. Some Member States—among them prominent donors—were leaving, or considering leaving, the Organization. This was despite the fact that previous years had seen a raft of prior “reforms”, substantive cuts in the budget, and draconian staff cuts.

What really encouraged me to take the challenge was the approval by the policy-making organs of the Business Plan on the Future Role and Functions of UNIDO. This, I felt, was an expression of the genuine political will of Member States to “transform” (in contrast to “reform”) the Organization into a very different one. They envisaged a UNIDO that was more focused, leaner, more flexible and much more responsive to changing global needs and the requirements of our clients. It was, in short, a possibility to “transform” a crisis into an opportunity.

You may recall from the outset that I refused to call for a new reform. For me, reform means something to introduce measures to increase productivity where this is in the same line of business. I preferred to talk about transformation, which means much more than this. It means a systemic change. A change that requires a rethinking of the business you are in, a new way of doing business, a new way of working with others — in short, a new working culture, and probably some new investments.

A multilateral organization like UNIDO has to consider a similar strategy. Of course you cannot strictly compare a multilateral organization such as UNIDO with a commercial company. UNIDO is more like a multicultural country, where the concept of productivity has to include some political dimensions. But the analogy is not too strained. The problems and constraints are much more complex. Nonetheless, whatever the strategy it adopts, it has to effect a cultural change throughout its management and staff.

What I learned previously as a government minister in the service of my country has proved useful to what I have tried to do in UNIDO. I learned that you *can* reform the financial system of an organization. I learned you *can* revamp the administrative procedures. I learned you can even try for a better definition of the business you are in. But unless you do all this together, not only in an integrated manner, but in a truly

systemic way, you will not be able to change the *culture* of an organization. And, certainly not an organization as complex as UNIDO. The culture in question is neither the things you are doing, nor the business you are in. It is the way you are doing things and the results you expect.

That is why, this year, we invested all the time needed to prepare the new *service modules* and to do it in a fully participatory manner. A non-participatory, top-down approach, for example, would have been much quicker. But it would not have worked. That is why we introduced a new organizational structure and a completely new set of financial and administrative regulations. And, that is why we came up with a new staff development career system. We did all this to forge a new organizational culture, a new working culture, and a new way of doing business.

What we then had to do was show that the new culture worked, where it really counts, in the field. As detailed in this document, the administrative reforms that we have undertaken have already significantly decentralized our operations and delegated authority. This has benefited our field operations, in particular. I am fully aware that we have to do more in this area, but this should not detract from the achievements we have made. Let me assure you that decentralization remains a number one priority for us. At the same time, as you can understand, it is a difficult process where more than a little sensitivity and care is required. Speed may therefore sometimes have to be sacrificed for proper preparation.

We selected a small number of countries to test the new working methods, the scope of the new integrated approach, and the new service modules. Sixteen case studies are being prepared in five different developing regions—the maximum we could consider given the project workload and the available resources.

How do we know that our transformation works? The answer should be found by analyzing the operational side of the Organization.

Technical cooperation delivery in 1998 was \$81 million, as compared to a 1997 delivery level of \$97 million. This represents a drop of 16.5 per cent. Operational budget income shows a corresponding decline from \$13.3 million in 1997 to \$11.4 million in 1998, or a drop of 14.3 per cent.

The administrative and financial Controller has made an analysis to identify the major causes for the decline in technical cooperation delivery and operational budget income in 1998. The implementation of technical cooperation projects is lower than forecast. I think that it is important to add perspective to know that, since 1992, implementation levels have always been overestimated.

Aside from this overestimation, the Controller's analysis has concluded that roughly 60 per cent of the decline could be explained by the one-time effect of the transformation exercise: such as structural re-organization and staff re-assignment, the additional work to define the new service modules, the new service delivery system, as well as the discontinuation of some services that are not in line with the Business Plan. The remaining 40 per cent of the decline is probably due to external factors beyond UNIDO's control and also the cyclical fluctuations experienced within each biennium, whereby the first year of the biennium shows low delivery and the second year shows a relatively higher one.

As the one-time effect of transformation is worked out, it is expected that delivery will go up in coming months. I have also taken several concrete measures to accelerate delivery.

Approvals of new projects, if we exclude the integrated programmes, were also lower than usual. This indicates, certainly, that the transformation process is changing the real life of the Organization. On the other hand, it will also reduce our revenues from technical cooperation activities—with consequent pressure to reduce costs in order to keep the operational budget in balance.

This is a price we may have to pay. But we should consider it as *our* investment in our transformation process. Our investment in our future. It is an investment, above all things, in achieving the mandate of the Business Plan that Member States approved. And it is an investment in providing conditions that will better serve the interests and needs of our constituency, both donor and recipient countries alike.

But we shall also need further investment from our Member States. Not, it must be quickly added, investment to finance administration, bureaucrats or experts. I shall *not* ask for a bigger regular budget. As you well know, the regular budget and number of staff members of UNIDO have been cut by 50 per cent in the past five years.

The investment we are seeking at this time is to support new technical cooperation activities. Now is the time to work together to transform something else that is crucial—the nature, structure and size of the voluntary contributions UNIDO receives to finance technical cooperation. If this is not done, we shall not be able to provide the integrated packages of services to developing countries and economies in transition—called for in the Business Plan. We will not be able to operationalize the new focus and relevance that we have worked so hard to develop in these last few months.

Last year, 40 per cent of the voluntary contributions approved by government donors for UNIDO went to support Investment Promotion Services, research centres and other institutions in the donor countries themselves. In 1996 the amount was 47 per cent. While we have to recognize the important role of these institutions, we also have to admit that these funds are not likely to be used directly for technical cooperation in least developed countries. Over the past four years, of \$116.5 million in voluntary Government contributions to the Industrial Development Fund and special trust funds, only \$73.5 million, or 63 per cent, supported technical cooperation projects in developing countries and economies in transition. At the same time, 37 per cent of voluntary contributions supported institutions in donor countries.

A comparison with the figures for 1990-1993 shows that the trend is to the disadvantage of the developing countries. In the first four years of the nineties, total new approvals by donor Governments amounted to \$118.5 million, of which only \$25 million, or 21 per cent, went to support donor country institutions. \$93.5 million, or 79 per cent, supported the UNIDO technical cooperation programme in recipient countries.

If UNIDO's integrated programmes for low income countries in Africa and other parts of the developing world are to have a significant impact, more resources will be needed to finance these programmes. I, therefore, call upon donor countries to increase the amount of their voluntary contributions directed towards technical cooperation, particularly in Africa and least developed countries.

I am fully aware that to operationalize our new focus we need to give our clients—recipients and donor countries alike—a sense of ownership. And, that is why I am very pleased to highlight in this report the first seven integrated packages of services that UNIDO initiated in 1998. These first seven integrated packages of services amount to almost \$30 million, or almost half of the total technical cooperation of UNIDO in 1997 or 1998. These packages of services obviously needed to be refined and broadened in coverage, particularly to other developing regions. But they are a significant step in ensuring that UNIDO services are demand-driven, have a sustainable impact and are

fully coordinated with the efforts of the United Nations system as a whole and other important programmatic initiatives.

Transformation of UNIDO has never been the end goal in itself. That is why we have carried out the transformation process as quickly as possible. As a result, the operational mandate given to us in the Business Plan is almost fully implemented, even though we still have some things to do. The definitive test, let me underline, is whether, as a result of our transformation, we are able to effectively link the interests of developed and developing countries. Whether we can use sustainable industrial development to fight poverty and unemployment, while, of course, taking care of the environment. This is a test, not only of the effectiveness of our transformation, but also of the will and seriousness of the international community to use its outcome to the benefit, especially of Africa and the least developed countries.

A transformed UNIDO is a UNIDO that has a clear idea of its core competencies; an organization that has a clear idea of what it can do best or its comparative advantages. And what it cannot do; what it cannot do alone and must do with others, if it is to tackle the multi-faceted problems of development and make a sustainable impact. With the service modules, we have defined our core competencies. We have therefore the basis now to establish a clear identity in the multilateral system—particularly the United Nations system—as well. To further this process, in support of the Secretary-General's reform proposals to achieve greater coherence and effectiveness in the United Nations system, we have initiated concrete collaboration with a number of agencies. These include, in particular: the United Nations Conference on Trade and Development (UNCTAD); the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), with whom we have signed memoranda of understanding. We have also initiated important new cooperation with the World Trade Organization (WTO), the International Trade Centre (ITC), UNCTAD, UNDP, the World Bank and the IMF in the implementation of WTO's "Integrated Framework of Assistance to LDCs" aimed at improving their trade sectors and trade-related activities.

We see these collaborative arrangements as vital, not only to achieve system-wide coherence, but more importantly, sustainable development. In this context, we shall actively support integrated approaches at the field level. Here, I am referring in particular to the United Nations Development Assistance Framework (UNDAF), the United Nations Development Group Office, common premises such as United Nations houses and the coordinating role of the new United Nations Resident Coordinator system.

In terms of our cooperation with the private sector, an interesting development in terms of our new agreement with Fiat should be mentioned.

I would like to take this opportunity to express my sincere gratitude to the staff of this Organization and Member States who worked so hard to ensure our success throughout the year.

At the last meeting of the Administrative Committee on Coordination in New York, and in other important meetings, UNIDO has been given recognition for its achievements. We should all be pleased with what we have achieved. This report should give you a good idea of what "transformation" means in a practical sense. I do not pretend that we have not made mistakes. But on balance, we can conclude we are firmly on the right track. We all have to feel proud for the cooperative atmosphere in which we have been working during UNIDO's transformation, and the encouraging results we have achieved.

In the following pages, you will find a summary description of the vision behind what we have tried to achieve in UNIDO, as well as the measures we have taken to ensure a "real transformation" in my first year in office. The range and speed of the changes

you see there are not due to me. They are especially the result of the combined efforts and commitment of a growing community of people—inside and outside the Organization—that wanted, needed and deserved something different from us. It is through these innovations that a new organizational culture is being built up.

In this year's report as a significant departure from past practice, I have chosen to highlight a sample of the many projects undertaken by UNIDO in recent years that have had a definitive impact on the lives of people in terms of their economic, social and environmental well-being.

Finally, let me reiterate my basic message to you. UNIDO has been given a mandate. A demanding mandate, I may add. We have almost fulfilled this. It is now time to go back to the real and substantive discussion, that is, how can we significantly enhance sustainable industrial development—our three Es—in our client countries. The transformation process is only a means to this end. We have done all we can in this regard. I feel sure that Member States will support our efforts and that the commensurate level of investments for our new integrated services will follow.

Because, I am sure we all share the ideal that the test of our progress as human society is not whether we add more to the abundance of those who have much; rather, it is whether we provide or help to provide enough for those who have too little.

Carlos Magariños
Director-General