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**Transition in Eastern Europe – 15 years after**

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## **Round Table 6 Transition in Eastern Europe – 15 years after**

Wednesday, 3 December 2003, 11:30 a.m. - 1:30 p.m.

### **Introduction**

The present paper has been prepared as a contribution to the panel discussion in Round Table 6 on “Transition in Eastern Europe – 15 years after”, organized as part of the Tenth Session of the UNIDO General Conference.

The starting point for this paper, as well as for the formulation of UNIDO programmes for the Europe and NIS region, is the commitment of the Organization to support the efforts of the countries of the region to achieve the long-term objective of the transformation process – this being the attainment of sustainable development. The UNIDO response to the needs and priorities of the countries focuses particularly on assisting them in meeting their policy objectives in the economic, employment, and environmental areas.

The transition process in the region has been as diverse as the countries of the region themselves, and this heterogeneity is explicitly incorporated as a fundamental element of UNIDO’s efforts to respond to the challenges posed by the economic transition process in the region. Within this context, UNIDO aims to fully incorporate in its work the concerns of the policy makers of the region concerning issues of importance (to different degrees in different countries) during the transition process. These have included, or do include, concerns such as the erosion of industrial potential, industry’s declining contribution to GDP, pressing requirements for environmental protection, recovery in the industrial sector, the utilization of aging technologies, the failure of many products to meet international quality standards, the low rate of utilization of productive capacity, the high level of (hidden) unemployment, narrow markets for locally manufactured goods, and the inability to increase the inflow of foreign capital to the industrial sector.

In programming its activities, UNIDO operates within the framework of the United Nations Millennium Development Goals as well as the UNIDO Corporate Strategy. In addressing the needs of the recipient countries, UNIDO works in partnership with all major actors – government, business, other UN agencies, NGOs and CSOs, and the academic and scientific community.

The challenge to the Organization is to design programmes for the future that are complementary and supportive of the policy measures of the governments of the region to meet the policy challenges they have faced and/or are still facing during the transition process. Needless to say, the response to this challenge must at the same time be tailored and shaped to correspond to the resources available to the Organization for its activities in the region.

The role of private enterprises has been fundamental in the restructuring that accompanied the transition process. But the industrial enterprise in the region is very much an *enterprise in transition*. Moreover, the SMEs that will lie at the core of these economies for the next 15 years must be a very different one from the ones which played such a fundamental role over the last 15 years. To ensure their long-term viability, the enterprises will be forced to adopt a *sustainable enterprise strategy* that gives appropriate weight to social and environmental dimensions as integral elements of their business strategy. Policy makers, for their part, will be increasingly forced to adopt a process-oriented *vision and strategy for the future* that systematically looks into the longer-term future and emphasizes the positive interaction of the different stakeholders in the process of sustainable development.

Because of their importance in the transition process, these three themes have been singled out as road signs that may be useful during the panel's analysis of the future for the economies in transition.

### **The Enterprise in Transition**

The evidence on the role played by the SME sector in many of the economies in transition suggests that the sector has clearly been a contributing factor to the growth of GDP per capita of the country. But the evidence is just as clear in suggesting that the private enterprise in the region is an enterprise in transition.

In the market economy it is the private sector and private sector enterprises that are the long-term driving force of industrial development. It is this vibrant private sector that triggers economic dynamism, enhances productivity, carries out the transfer and diffusion of new industrial technologies, and maintains competitiveness. In so doing it also shapes the economic globalization process. At the same time, it must be underscored that the ultimate objective of this process is poverty reduction. (Because of its overriding importance, poverty reduction will be discussed in Round Table 1 on the role of industry in the achievement of the Millennium Development Goals (MDGs)).

Since the objective of UNIDO's work in the area of private sector development is to support the formulation and implementation of overall industrial strategies conducive to strengthening private sector development and to promote small and medium enterprises, the role that UNIDO can potentially play in supporting the policy makers is critical for the future of the transition process in the region.

The strengthening and support of the SME sector is crucial for the future of the transition process, since SMEs directly foster the economic cohesion – a process that has not yet found its full development in these economies - by linking up with, and supporting, large enterprises. (This often takes place in the context of foreign investment inflows and partnerships for development – and hence is also part of the discussion of Round Table 1 on the role of industry in achieving the MDGs, as well as of Roundtable 3 on making trade work for the poor.)

Even more importantly for the region, SMEs foster social cohesion by reducing development gaps and disparities in the society, thus spreading the gains of industrial development and economic growth to the whole of the population, including women (a topic discussed again in Round Table 1 on industry and the MDGs) and to less developed regions.<sup>1</sup>

While it is a principle that is valid across all economic systems, it is particularly important to stress for the economies in transition that SME development – despite its importance - must not be understood to stand on its own. It must be an integral element of a supportive and conducive policy environment, and one that incorporates the social, the environmental and other dimensions as integral elements.

With this background the panelist in Round Table 6 may wish to address questions such as:

- *How can SMEs from the region participate more fully in the global economy?*
- *How will the industrial sector as a whole in the region look in the future?*
- *How should the restructuring process continue in the future: must there be major changes in the degree of transparency and competitiveness in the industrial sector?*
- *How can the countries of the region overcome the obstacles that exist to the formation and growth of new SMEs in the region – including, among others: lack of access to finance, weakness in economic governance, corruption, and problems with the protection of property rights?*

### **Sustainable Enterprise Strategy**

Following the political and economic transformation in the former planned economies, the enterprises have become more competitive and market-oriented. Many of the enterprises have as of yet, however, to proceed with the transformation process to the extent that they can be competitive in the global market place. In many cases the enterprises still face the challenge of identifying their competitive strengths and developing a strategy based on these strengths.

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<sup>1</sup> UNIDO, “Service Module 4: Private Sector Development”, June 2003. Related UNIDO programmes and projects are discussed in the Position Paper for Round Table 6.

Such a strategy must, however, go beyond traditional elements such as improvements in quality and reductions in costs. Such a sustainable enterprise strategy must combine the essential elements of a business plan with a commitment to social action in the context of socially responsible enterprise behavior with the integration of best environmental practices into their production process. The commitment to socially responsible enterprise behavior will move the transition enterprises into the mainstream of corporate behavior of Europe as a whole. Here corporate social responsibility, and demonstrably ethical, socially responsive, and environmentally sensitive business practices have become the hallmark of progressive business enterprises.<sup>2</sup>

At the same time, the adoption of best environmental practices in their enterprise behavior would bring the enterprises in transition into compliance with the environmental norms of the European Union and of the respective international conventions.<sup>3</sup> (This latter point is discussed in Round Table 2 on industry and environment; such enterprise behavior would also contribute to the achievement of MDG 7 on ensuring environmental sustainability.)

It is only through the incorporation of these social and environmental dimensions into its behavior that the transition enterprises will be able to guarantee their long-term viability in the context of the European-wide (and increasingly the global) marketplace. It is also only through the pursuit of such a sustainable enterprise strategy that the enterprises will be able to integrate themselves into the long-term transition process, with its accompanying social and economic transformation of society, to which the enterprises themselves must belong.

The transition process in the East proceeded without a road map. It is therefore neither a surprise nor a secret that mistakes were made along the way. The adoption of a sustainable enterprise strategy by the transition enterprises would also provide them with a vehicle to compensate and correct in the future some of the mistakes of the transition process in the past. It would also be a vehicle to bring the interests and behavior of transition enterprises more in line with the pattern of corporate behavior of the more established enterprises in the rest of Europe. But the sustainable enterprise strategy would also have to be conceptualized and defined to ensure a realistic and achievable approach for the very different nature and level of enterprise development in the different parts of the region.

Compliance with best environmental practices would also be a vehicle for transforming the SMEs into a motor for introducing and diffusing future-oriented technological change into their societies. This future-oriented pattern of enterprise

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<sup>2</sup> UNIDO, "Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries", 2002, as well as work in progress on CSR in UNIDO/PTC/SME. UNIDO programmes and projects in this area are discussed in the accompanying Position Paper.

<sup>3</sup> Work on sustainable enterprise strategy undertaken by UNIDO in the context of the regional programme on the 'Transfer of Environmentally Sound Technology' is discussed in the Position Paper for this Round Table.

behavior is one that will require the interaction of the very wide set of policy makers and shareholders to nurture this multi-dimensional process.

These considerations lead to questions such as the following:

- *How can the business community in the economies in transition be transformed from a passive partner to an active and equal partner in cooperation with the international community in the development process?*
- *How great is the threat to social cohesion in the countries of the region from an enterprise sector that focuses exclusively on short-term enterprise profitability?*

### **Vision and Strategy for the Future**

One process-oriented approach that emphasizes partnership among these different actors is that of ‘foresight’, a process of systematically attempting to look into the longer-term future of science, technology, the economy, the environment, and society, with the aim of identifying the emerging generic technologies and the underpinning areas of strategic research likely to yield the greatest economic and social benefit.<sup>4</sup>

Particularly because of its emphasis on partnerships among the various actors, foresight appears to be a process through which the different stakeholders – including government, industry, NGOs, the scientific and academic community, and other interest groups - can discuss the sort of world they would like to create for the future.

While the focus and application of the process is different in different countries, foresight is a methodology that has been utilized in countries such as Austria, France, Germany, Japan, the Netherlands, Sweden, the United Kingdom and the United States in their vision and strategy building. As the transition process has proceeded, it has also begun to attract attention as a policy-making tool for strategy and policy formation in the countries of the Eastern part of Europe as well.

The process is well suited to the conditions in the region because it collects locally existing knowledge and experience in a systematic matter, and creates confidence among participants in the exercise that they are part of the society through their participation in the process-oriented dialogue. Most importantly, it creates strong unity and partnerships among participants.<sup>5</sup>

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<sup>4</sup> Ben Martin, “*Technology Foresight in a Rapidly Globalizing Economy*”. In: UNIDO, International Practice in Technology Foresight, 2002, pp. 7-31.

<sup>5</sup>“*Medium-term Programming Framework, 2002-2005: The Business Plan and Medium-term Programme Development*”, para. 66. In: UNIDO, Strategic Guidelines: Towards Improved UNIDO Programme Delivery, 2003. UNIDO regional and national programmes and projects in technology foresight are discussed in the Position Paper for Round Table 6.

Panelists may wish to consider questions such as:

- *How can countries generate the necessary commitment from all participating partners in the foresight process?*
- *How can frequent flaws in foresight activities, such as the abandonment of continuous monitoring, the equation of technical feasibility with market demands, or the overestimation of the speed of change, be avoided in the region?*
- *Is it possible to transfer the technology foresight methodology from Western countries to the countries of the region without changing the nature of the process?*

## Summary

A thread running through the discussion above is the argument that, in a number of dimensions, the transition to a market economy in the economies of Eastern Europe is 'work in progress'. The challenge of fully developing a market economy that permeates the fiber of the society and transforms the socio-economic fabric of the country is one that is still facing the policy makers in these countries. One of the paths for achieving this objective is to integrate policies on enterprises in transition designed to improve quality management with policies to improve the social and environmental impact of the operation of these enterprises. Through improved foresight, policy makers will be better able to move from separate consideration of economic, social, and environmental issues in the transition economies towards policy and strategy formulation for sustainability management.

In this context, it would follow that an analysis of the transition process in Eastern Europe would include, *inter alia*, the following themes and the following challenges (as well as those enumerated earlier):

1. ***the enterprise in transition***, and challenges such as: *What should be the nature of the policy of the government towards the SME sector in the region? What is the optimal mix of government policy towards industrial enterprises and government policy on innovation?*

2. ***sustainable enterprise strategy***, and challenges such as: *How can the role for civil society in the region be strengthened? How can a government policy to foster enterprise development also be a policy supportive of social and environmental development?*

3. ***vision and strategy for the future***, and challenges such as: *How do we best motivate both public and private stakeholders to create and act on the basis of a long-term vision of the development of society? Do the necessary instruments for participatory policy making between government, science, and the private sector exist in the region?*

What appears clear is that it is not an option to consider or not to consider all the dimensions of the process of transition such as these and others discussed above. It is much more the question of their optimal integration in the overall policy and strategy of the country towards sustainable development.

As a decade and a half of transition comes to an end, it is crucial to understand that the transition process in the region compressed generations of development into less than one generation. As social development is a more complex and slower process, it did not move at the same pace as industrial and economic development. Moreover, in the West the rules of the game were developed over a long process of economic evolution. In the East, on the other hand, there was no textbook, and the development took place and the rules were often deduced from practice ex post.

The result is that the transition economies are still facing extraordinary challenges in their drive towards sustainable development. Experience has also shown that there are no simple solutions in the market place. But the experience thus far has significantly enhanced the knowledge of policy makers of the transition process and will allow the countries of the region to move forward to a new Europe with wisdom and understanding.