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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**INDUSTRIAL DEVELOPMENT BOARD**

**Twenty-eighth session**

**OPENING STATEMENT**

**by**

**Mr. CARLOS MAGARIÑOS**

**DIRECTOR-GENERAL**

**VIENNA, 25-27 May 2004**

Distinguished delegates,  
Ladies and Gentlemen,

Allow me first to express my gratitude and that of the Secretariat to the outgoing Bureau, and in particular to its President, Ambassador Raimundo Gonzalez Aninat of Chile for his commitment, dedication and hard work. His leadership was essential to conduct the deliberations of the previous session of the IDB.

I would also like to take this opportunity to congratulate the new President, Ambassador Zniber from Morocco and the new bureau on their unanimous election. I very much appreciate, and I am sure I am also expressing the feeling of the Secretariat, what you have said, Mr. Ambassador, about the work of UNIDO, its reforms and the dedication of all its staff. I accept your compliments on behalf of the UNIDO staff at large.

I would equally like to welcome the Ministers of Ghana, Peru, Senegal, Sierra Leone, Sudan and Tajikistan. Their presence is a further testimony of the importance attached by Member States to the work of this session.

Distinguished delegates,

The Secretariat will take the floor several times this morning and during the afternoon to brief you on the actions taken with regard to General Conference resolutions 6, 7 and 10 and to brief you on the general performance of the Organization. The Managing Directors and the Comptroller-General will be responsible for those interventions.

I will concentrate my comments this morning on the topics raised by resolutions 2 and 5 adopted at the last session of the General Conference, responding to your invitation to develop a long-term vision in time to be adopted at the eleventh session of the General Conference in 2005.

Any long-term vision should be based on a careful analysis of the present challenges departing from a proper evaluation of the past. This chart summarizes the last 14 years of UNIDO technical cooperation delivery. As you can see, the first 7 years of this period were dominated by a continuous decline in the levels of technical cooperation with the exception of 1995, which shows a slight and temporary increase. In that period we lost 43 per cent of our technical cooperation.

In the year 1997, that could have started a reverse in the trend, Member States decided to apply a huge budget cut on UNIDO resources. It was not a capricious decision but one related with a reduced membership of the Organization. I started my term in office in 1998 with a very difficult mandate, embodied in the Business Plan approved in 1997 by the seventh session of the General Conference. That mandate gathered a number of complicated assignments, including a huge reduction of 20 per cent of the budget and therefore of the staff of the Organization and the cancellation of a number of technical cooperation activities and programmes, such as those related to privatization schemes or human resources development as decided in the Business Plan.

After the initial years, when we managed to stabilize the decline of our technical cooperation portfolio, the performance of the year 2000 convinced me of the need to renovate the senior

management of the Organization, in order to strengthen the process of supervision and provide adequate leadership to the staff. I implemented those adjustments between 2001 and 2002.

And today we can see with pride the undeniable reality of success of our transformation process. Technical cooperation delivery grew 38 per cent between the years 2000 and 2003 reaching almost the same levels we had before the budget cuts of 1997, which means that between 1998 and 2003 the productivity of the Organization increased by 23 per cent. We are now at the same levels as we were in 1997 with 20 per cent less resources given by the Organization.

The last has been the best biennium since I took office. Only in 2003 we recorded an increase of 16 per cent as compared with 2002 and the technical cooperation levels forecasted for 2004 will score at the same level showing that the growth in our technical cooperation is consistent and sustainable. Our transformation process is consistent and sustainable.

It is evident that not only we considered it so. Your own Governments have a similar evaluation. This perception stems not only from your statements at the meetings of our policy-making organs but also from your funding policy. In the last six years we doubled the resources received from the donor Governments and we also multiplied the resources we received from multilateral sources. I would like to express the gratitude of the Secretariat and of recipient countries for the generosity shown by all donors with regard to our technical cooperation programmes.

Those are the bases on which I have been saying and I would like to repeat today that UNIDO is in a safe position and I see no immediate threat for it. The transformation process has been probably establishing records in the UN system and more importantly placed the Organization in a safe harbor.

And now it is my view that from this safe harbor we may have to start another trip. A challenging journey for which the Organization has been properly equipped through the transformation we undertook together during the last years. I would like to express my gratitude to my new senior management team, which helped me to achieve good results in the last two years and to the entire management and staff of UNIDO for their commitment and dedication.

But I would like to remind them and you, our Member States, that the current successful performance of UNIDO should not be a motive of relaxation. It should rather be the engine to propel the Organization to deal with the new challenges that confront us with courage, confidence and decision.

Ladies and Gentlemen,  
Distinguished delegates,

As explained during the last session of the General Conference, the challenge in front of us is nothing less than to redress the balance of our technical cooperation portfolio by increasing our services in areas like investment promotion, technology transfer, trade capacity-building, private sector and agro-industrial development, energy and environment.

Today all these activities, essential to help low income countries to increase productivity levels, represent only about one-third of our technical cooperation portfolio. The objective should be to

increase their relative share over the next four or five years, while maintaining a strong presence in those areas where we are already very effective. One of the promises I made in 1997 and 1998 was to try to “paint this Organization in green” and you can see the share of our activities in international protocols is already well beyond 50 per cent. Now I am calling your attention to the need to increase the efforts, projects on funding of activities related to our other areas of core competencies.

This is not just an administrative goal to improve our bureaucratic performance. It is a political issue of maximum importance to be discussed, decided and supervised by our policy-making organs. It is on this topic that I propose to concentrate your deliberations over the next years; an issue that needs to be present when we talk about our post-conflict interventions or our decentralization plans. In particular, it should be at the centre of our discussions on how to improve the role of UNIDO in the achievement of the Millennium Development Goals (MDGs). Let me explain why.

To start with, I have to introduce an arbitrary distinction of the Millennium Development Goals between what we could call the income poverty MDGs and the non-income poverty MDGs. This distinction does not entail any prioritization or provides any order of importance. It is simply introduced to better explain UNIDO’s potential contribution to the achievement of the MDGs. In the first column of this chart you see the only income-poverty MDG: to halve the number of people living on less than \$ 1 per day by the year 2015. In the second column you have almost all the other MDGs. The Bretton Woods institutions refer to them, the non-income Millennium Development Goals, as human development and they can certainly be understood as the necessary goals to build human capital in low income societies.

According to our next Industrial Development Report to be published at the end of the next month, to achieve the income-poverty Millennium Development Goal –that is Goal number 1, or to halve the number of people living on less than \$1 per day, for example in sub-Saharan Africa, our priority region according to the Business Plan, the compatible per capita growth rate is about 4 per cent. You can see this is the average value for the whole sample of countries although it could be even higher for the group of land-locked economies reaching up to 5 per cent

Most of these countries are trapped in a low-level equilibrium cycle, suffering adverse initial conditions, including geographical constraints, infectious diseases burdens, high fertility and infant mortality, low education and poor infrastructure that produce low marginal productivity of capital, low savings and low human capital; the basis to generate absolute poverty and to feedback the reverse initial conditions. The MDGs are precisely designed to break this trap and allow low income countries to increase the productivity levels of their economies.

As explained, there are a number of Millennium Development Goals, focusing on promoting the development of human capital to redress the adverse initial conditions in low income countries. They are essential to provide the impoverished societies the potential to achieve higher levels of productivity. I am talking about halving the proportion of people without access to potable water, stopping and reversing the spread of diseases, improving maternal and infant mortality rates, achieving universal primary education and ensuring gender equality.

We have calculated the impact of these so-called non-income poverty Millennium Development Goals in the per capita growth rates of the sub-Saharan economies, and we have seen that they

will contribute between 1.4 and 1.6 per cent to the growth rate of those countries depending whether they are located in coastal areas or they are landlocked or natural-resource rich.

Here you can see how much each of the different Millennium Development Goals will contribute to the improvement of the growth rates of these economies. I think this calculation is original and was done by UNIDO to analyse the impact of its potential contribution to the Millennium Development Goals.

I would like to note and highlight that, as explained before, to halve poverty by the year 2015, the sub-Saharan African economies will have to grow at an average rate of 4 to 5 per cent per capita. As you can see, the contribution of all the other non-income poverty Millennium Development Goals will be between 1.4 and 1.6 per cent. There is a gap here of about 2 or 3 percentage points that needs to be filled. And in our view can only be filled by the dynamism of economic growth led by the private sector. A sustainable growth that cares about environmental conditions.

We expect the LDCs and the low income countries to escape from a low-level equilibrium trap dominated by adverse initial conditions through the combined action of the non-income poverty Millennium Development Goals and the recommendations of the poverty reduction strategy papers. The combined effect of these actions has to help them to achieve economy-wide productivity growth and provide an opportunity to these economies to reach a new cycle of sustainable social advance.

Reversing or dressing the adverse initial conditions can increase the actual per capita growth around 1.5 percentage points, as shown, but more importantly it will increase the potential growth rate of low income economies.

Although necessary, we have to understand that this is not a sufficient condition to ensure that the growth rates of the LDCs and the low income countries will reach the required levels to reduce absolute poverty by the year 2015.

To actually do that and to transform the opportunity into reality seems to be the objective of the Poverty Reduction Strategy Papers. UNIDO is of the view, as I mentioned during the last session of the General Conference, that these Strategy Papers needs to be strengthened to ensure the adequate supply of public goods in some fields, like entrepreneurship development or trade capacity-building that any economy requires to provide for a dynamic performance of the private sector. A few weeks ago, in Washington, three senior UNIDO staff members were invited by the International Monetary Fund to present this view and were asked to provide more recommendations on this particular topic.

The provision of global and local public goods to ensure financial stability, market integration, the diffusion of knowledge and dissemination of technology are essential to allow private sector development to minimize the gap between the potential and the actual growth rates. This is precisely the field where UNIDO can make the best of the contributions and the reason behind the need to redress the balance of our technical cooperation portfolio.

Ladies and Gentlemen,  
Distinguished delegates,

With these objectives in mind, during the last months, the Secretariat has provided some measures to start to redress the balance of our portfolio of technical cooperation and increase the relative share of our programmes in the field of investment promotion, technology transfer, trade capacity-building, private sector and agro-industrial development, energy and environment.

This is obviously a medium- or long-term task that will take several years to materialize and needs to be developed in a framework of participation and interaction between Member States and the Secretariat.

The actions taken by the Secretariat are aimed at working at two levels: within the Secretariat, which is our direct area of responsibility, and with the rest of the United Nations system.

Within the Secretariat we decided to redeploy authority for project approval from the Executive Board to the Board of Directors with the purpose of increasing the formulation of project proposals and approving more funding for the activities we want to prioritize. This decision was based on discussions held at the last Senior Management Retreat.

We established four committees for project approval in the areas of Poverty Reduction through Productive Capacities, Trade Capacity-Building, Human Security and Energy and Environment, each of them chaired by a Managing Director and composed of Branch and Bureau Directors. Each committee received an amount of funding earmarked by the Executive Board, which retains a supervisory role. We have distributed a short explanatory note introducing the new procedures for your information and we will remain at your disposal to clarify any remaining aspects you may wish to understand of this new procedure.

We expect that bringing closer to the staff the project approval process in this manner will help to increase the quantity and the quality of the projects in terms of metrics and budget calculations in the areas prioritized in the medium-term programme framework.

A second field where we need to work to enlarge UNIDO's portfolio of technical cooperation is regarding the process of decentralization. To increase our levels of technical cooperation in such areas as investment, technology, trade or energy and environment, we need to be present at the field level in an effective manner.

We will formally make a proposal during this session of the Board to restructure our field operations and we expect the guidance of Member States to secure that the enlargement of the UNIDO portfolio in selected areas will be truly demand-driven and will be fully integrated with the coordination mechanisms for the UN system at the field level, such as the Poverty Reduction Strategy Papers. I would like to express my gratitude as well as that of the Secretariat for the work done by the informal advisory group on decentralization.

But we also need to work at the level of the United Nations system, because you know well there are many United Nations agencies, funds and programmes working in the fields of investment promotion, technology transfer, trade capacity-building, private sector and agro-industrial development, energy and environment.

Last December after the tenth session of the General Conference I forwarded a proposal to the Secretary-General of the United Nations and last month here, in Vienna, the same proposal was debated quite extensively at the meeting held of the Executive Heads of United Nations. Next Friday, I will participate in a meeting in Geneva to further develop this idea with the Heads of ILO, WTO, DESA and UNCTAD.

You have a copy of the proposal in front of you. The core of it is based in the diagnosis I presented earlier on the Millennium Development Goals. It basically aims at redressing the current undersupply of public goods in developing economies with the purpose of increasing our chances of achieving the MDGs by means of organizing, on a voluntary basis, a business plan for the United Nations system on economic development.

If we reorganize the supply of public goods we can improve the metrics and the budget calculations for policy advice and technical cooperation programmes in the field of investment, technology, trade, private sector and agro-industrial development, energy and environment and improve the impact of the UN contributions in those fields.

Additionally the proposed Business Plan would facilitate the exchange of information on programmes carried by different agencies providing a possible better interaction with the World Bank and International Monetary Fund and a more useful role for the UN in the formulation of the poverty reduction strategy papers. It could well become a Business Plan to achieve the MDGs as seems to be understood by the Special Adviser of the Secretary-General on MDGs and the colleagues of the Millennium Project.

Ladies and Gentlemen,  
Distinguished delegates,

Today we are off track to achieve the Millennium Development Goals. If you discount the progress made by Southeast Asia in general and China in particular the number of people living on less than one dollar per day actually increased during the last decade. Only sustained economic growth, as proved by those regions, seems to provide durable success in the fight against abject poverty. Sustained growth requires some necessary conditions to reverse those adverse initial conditions I listed before, but should be complemented with a dynamic performance of the private sector in developing economies.

We have perhaps for the first time the means, the knowledge and the technology to change the course and help low income countries to increase productivity and reach a virtuous cycle to improve the living conditions of their people. We have to increase aid flows to redress the adverse initial conditions in those countries and we have to strengthen the supply of the relevant public goods to stimulate private sector led economic growth.

The Poverty Reduction Strategy Papers need improvement and UNIDO can provide for that. We have to make some more room for policies related to trade capacity-building and private sector development to help reduce poverty through the upgrading of productive capacities. This is essential to improve our chances to achieve the Millennium Development Goals. I am confident you will help us in this task.

Let us work together at UNIDO and at the United Nations system to do that.