UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Enhancing the contribution of the UN system in the field of Economic Development to achieve the MDGs

A proposal presented by

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I. Introduction

1. The Secretary-General informed CEB members in his letter of 19 August that he intended to issue his report on the implementation of the Millennium Declaration to the 2005 high-level plenary meeting of the General Assembly in early spring next year. He also said that he wanted to consult with Executive Heads during the upcoming CEB session on the focus of his report and the priorities he should underline.

2. In my view, the Secretary-General's report should focus on two main themes that were highlighted at our past two retreats on the future of multilateralism: the need to reinvigorate support for multilateral cooperation and to renew the UN system itself. Our efforts in both respects will be more credible and worthy of support if, as HLCP pointed out in its note to the CEB retreat in Baden, they mirror ***"a demonstrable coming together of the organizations of the system around common objectives, including through the pooling of resources and collaborative programming, and the readiness of the system to devise innovative alliances and partnerships to deliver results"***. Two other points are worth stressing in this regard: the need to maximize our collective capacity to develop comprehensive, effective and sustainable approaches to key issues, and maximize our collective impact on the ground.

3. It is in this context that I wish to offer a proposal that I raised earlier in Baden (see Annex I for a preliminary identification of areas of concentration). The proposal aims to give renewed attention to the role of economic development in achieving the Millennium Development Goals and enhance the capacity of the system for concerted and coordinated action in this area.

4. The underlying consideration behind the proposal is the need for UNIDO to maintain the momentum of reform and renewal that over the past seven years has brought renewed confidence in the ability of the Organization to carry out its mandate. New Member States have joined UNIDO; voluntary contributions have doubled over the past five years; and unprecedented financial stability has been achieved. In addition, programme delivery has risen dramatically -- from $68 million in 2000 to $94.7 million last year -- despite a twenty per cent reduction in staff. And low-income countries are now the largest beneficiaries of the Organization's technical cooperation programme. From 48 per cent of programme delivery in 1996, their share reached 70 per cent in 2003.

5. UNIDO recognized that sustaining these positive trends would be difficult if it continued to work largely on its own. It needed to work more closely with other organizations to extend the boundaries of what could be achieved. This, in turn, required a common framework for collaboration and coordinated action among the organizations working in the area of economic development. Not only will this collective approach produce better results, it would also increase the chances of raising more resources for the UN system. Indeed, this was the underlying rationale behind the cooperation agreement signed recently by UNDP and UNIDO. The agreement is designed to introduce a new model of cooperation by combining, in a mutually reinforcing way, the strengths of UNDP at the country level and in cross-cutting development issues with UNIDO's specialized expertise in the industrial sector. It offers an opportunity for UNIDO to increase its field presence through wider access to UNDP's network of country offices. It also reinforces the role of UNDP in coordinating the system's development activities at the country level.

II. Renewing the UN system's strategic focus on sustainable economic development

6. There is a compelling case for giving renewed emphasis to the work of the UN system in economic development. Studies show that sustained economic growth is a powerful force for reducing poverty. The success of China and other Asian countries in reducing poverty demonstrates how important sustained economic growth is to the eradication of poverty. In the 1990s, East Asia registered an annual rate of per capita income growth of 6.4 per cent with the number of people living on less than $2 a day dropping by 15 per cent. Similarly, South Asia experienced a 3.3 per cent rate of growth in per capita income and a reduction in poverty by 8.4 per cent during the same period. In contrast, negative growth rates in Sub-Saharan Africa led to increased levels of poverty. According to UNIDO estimates, the rate of annual per capita GDP growth required for 30 Sub-Saharan Africa to reach the MDG target of halving poverty by 2015 is about 4 per cent on the average (assuming no changes in income distribution).

7. Economic growth alone is not enough to reduce poverty. It must generate jobs for the poor; raise their income levels; and give better access to health, education, nutrition, shelter, safe drinking water, sanitation, and other vital services. Equally important is to effectively address critical challenges such as HIV/AIDS. Nevertheless, it is progress on the economic front that makes it possible to sustain advances in the social sector. While it is important, for example, to make AIDS drugs affordable, it is even more important to ensure that AIDS sufferers have the means to continue to afford those drugs and the nourishment they need. Similarly, the supply of shelter should not just meet current requirements but should keep pace with future demand. All these require a growing economy to generate the resources needed for social advances. The MDGs help to identify the core investments (health, education, infrastructure, etc.) needed for economic growth, particularly in low-income countries.

8. For economic growth to become self-sustaining, productivity must continue to rise. In turn, productivity is dependent on a number of factors, including increasing investments; diffusion of technology and technical know-how; build up of local productive capacity to compete, particularly in foreign markets; environmental and cleaner production management; access to energy, and entrepreneurship development.

9. Economic reconstruction has also become an increasingly important component of the work of the UN system in post-conflict situations. The case of Afghanistan, which fell back to producing illegal crops, illustrates the importance of rebuilding the economy in the process of transition to recovery.

10. While the link between economic development and terrorism is not clear and straightforward, abject poverty and the absence of economic opportunities can lead to situations of despair and discontent that terrorists can exploit. Economic development can provide an antidote to terrorist recruitment by helping remove the conditions under which it thrives.

11. A renewed system-wide, strategic focus on economic development would help enhance the UN system's collective contribution to the achievement of the MDGs. This would, in turn, help close the gap and reinforce the links between (sustainable) economic development, on the one hand, and human development and post-conflict recovery, on the other, as called for in the Millennium Declaration. What is now required is to draw up a common agenda for complementary and mutually reinforcing actions by all parts of the system in the field of economic development.

III. Setting a common agenda for collective action

12. The MDGs provide an organizing principle for the international system, programmatic coherence for the UN activities, particularly at the country level, and the basis for an integrated, multi-sectoral development approach. Yet, individual approaches and independent initiatives still characterize the UN system's work in the field of economic development. Efforts are dispersed and resources spread thinly over a wide range of often-unrelated, and at times overlapping, activities. This tends to limit the collective impact of the system in promoting economic development.

13. It is clear that the UN system can do more to concert and coordinate its work in this field. Consider these facts and figures for example: the combined staff of UN-DESA, UNIDO, UNCTAD, ITC, the Regional Commissions and the UN University total around 4,300, some 2,000 of whom are in the professional category. Together, their financial resources amount to some 1.3 billion U.S. dollars[1]. The collective impact of these combined assets, if deployed in a common or complementary manner, is clearly enormous. While individual organizations can claim that their activities are achieving the intended results, it is difficult to make the same assertion for the system as a whole, or even for the group of organizations mentioned above. What this clearly suggests is that organizations of the system are not unleashing the full potential of their collective capacity to help countries achieve the MDGs.

14. The absence of a framework for collaboration and coordination in the field of economic development has hindered the achievement of a critical mass of expertise and experience in the UN system. It has also made the accumulation of knowledge and experience along common lines of work more difficult. Finally, it has made the measurement of the true value or cost-effectiveness of the system's interventions and its accountability for delivering results equally hard.

15. A common agenda for coordinated action is required not only to overcome these constraints but also to unleash the full potential of the system towards the full implementation of the MDGs. Such an agenda would facilitate a more rational division of work on economic development within the UN system, further specialization around the core competencies of the organizations concerned, strengthen synergies and enhance the system's collective impact. It would also create an incentive for donor countries to increase the coherence of their funding policies and raise the likelihood of attracting additional resources to support the UN system's efforts in the field of economic development.

16. It is proposed that a system-wide, MDG-based operational strategy for sustainable economic development be elaborated building on key aspects of the current approach to development with its emphasis on macro-economic stability, market-oriented reforms, good governance. More specifically, the strategy should aim at:

- Defining the MDGs as the common policy orientation for the work of the system towards sustainable economic development;

- Identifying priority areas for coordinated responses by organizations of the system with a mandate to work in the field of economic development, (see

[1] The figures pertain to regular/operational and extra-budgetary resources for 2004-2005. These figures do not include the relevant components in UNDP, UNEP, ILO, FAO and other organizations that are working in the area of economic development.

Annex A of the attached paper for an indicative menu of topics drawing on the concept of global public goods);

- Elaborating a well-defined, results-oriented, work plan built around an agreed economic agenda and designed to draw fully on the capacities and comparative advantages of different parts of the system;

- Developing the appropriate mechanism or modality for coordinated interventions on the basis of the agreed work plan;

- Exploring alternative avenues for mobilizing the required resources; and

- Reviewing, monitoring, and reporting on the implementation of the agreed MDG-based work plan to CEB.

IV. Next steps

17. As the UN system prepares for next year's high-level political event to review progress in implementing the Millennium Declaration, serious thought should be given to advancing proposals that would help reinvigorate support for multilateral cooperation and demonstrate the shared determination of the system to improve its own functioning. Enhancing the capacity of the system for concerted and coordinated action in the field of economic development is an important step in this direction.

18. CEB may wish to take note of the present proposal as set out in paragraph 16 above and request the High-Level Committee on Programmes to consider how best to advance its implementation and submit a progress report to the Board's Spring 2005 session.

ANNEX: A SUGGESTED MENU OF TOPICS FOR THE BUSINESS PLAN

Preliminary areas of intervention

1. Market Efficiency/Market Integration

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

a) Commercial markets integration

Expanding trade flows are of the most powerful growth engines for developed and developing countries alike. Multilateral trade negotiations are a central component in achieving this. Understandably, most multilateral cooperation in this field has been geared towards building negotiating capacities in the developing countries to enable them to look after their interests and participate effectively in trade negotiations.

It goes without saying how important these negotiations can be in the fight against poverty, particularly in the hypothesis of a removal of subsidies and market distortions in agriculture and textiles.

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

These problems often offset 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 trade cooperation well beyond its traditional focus on training negotiators. For developing countries and the LDCs in particular 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 key to most developing countries. The difficulty 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 hence becomes a vital component of aid packages. Consolidating cooperation programs in the trade negotiation and trade policy fields with programs that support export market development is the right way to proceed.

b) Private Sector Development

Economic development is increasingly private sector-driven. The development of a strong and dynamic private sector is another pre-condition for market efficiency and integration. Private firms are means of non-market coordination 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 UN research and technical cooperation programs 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.

iv) Informal Sector and Rural Development

Because most poverty in the developing world is concentrated in the rural areas, private sector development cannot be addressed there irrespective of rural development.

Rural development in the poorest countries necessitates strengthening the supply of public goods addressed to non-income poverty and related basic needs, such as those aimed at health, nutrition, water and sanitation, energy and feeder roads. These, by themselves, can have a direct impact on agricultural productivity and, indirectly, on the development of productive non-agricultural rural activities.

Agricultural and non-agricultural rural development, in turn, make it necessary to address ways to integrate the informal and formal sectors of the economy so as to prevent the growth of an increasingly segregated low-productivity informal economy and to tap available entrepreneurial energies.

2. Knowledge

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

a) Technological institutional setting

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

However, costly learning processes are involved. The market often fails to persuade rational private decision-makers to afford them. Therefore, the provision of public goods and relating incentives are needed in order to address the ensuing deficit. Still, these kind of public goods and incentives are rarely part of the conventional prescriptions.

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 markets themselves did, to ensure that the respective institutional experience and expertise **flow to the developing world at** large as needed. Addressing this downside ought to be 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 quality of institutions to foster economic development is widely recognized key importance. Ownership rights are prominent among them.

IPRs, that is, those rights 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 the developed worlds, since it crucially affects market entry and the channels of technology flow, 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

Promoting economic development in a modern society implies to articulate output growth and 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 programs in this field will 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 programs 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, programs 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.