



Distr.
GENERAL
GC.11/6
IDB.30/16
26 April 2005

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eleventh session
Vienna, 28 November-3 December 2005

Industrial Development Board

Thirtieth session
Vienna, 20-23 June 2005
Item 6 of the provisional agenda

IMPLEMENTATION OF THE MEDIUM-TERM PROGRAMME FRAMEWORK, 2004-2007

Report by the Director-General

Reports on the implementation of measures contained in General Conference resolution GC.10/Res.2 on the medium-term programme framework, 2004-2007.

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Abbreviations

AAITPC	Asia-Africa Investment and Technology Promotion Centre	LDC	least developed country
AfrIPANet	Africa Investment Promotion Agency Network	MDG	Millennium Development Goal
APCF	African Productive Capacity Facility	MTPF	medium-term programme framework
APCI	African Productive Capacity Initiative	NCPC	National Cleaner Production Centre
BAT	best available techniques	NEPAD	New Partnership for Africa's Development
BEP	best environmental practices	NIS	Newly Independent State
CAD	computer-aided design	ODP	ozone-depleting potential
CCA	Common Country Assessment	OECD	Organization for Economic Cooperation and Development
CEE	Central and Eastern Europe	PAC	project approval committee
CEO	chief executive officer	PCB	polychlorinated biphenyl
COMFAR	Computer Model for Feasibility Analysis and Reporting	PERSGA	Regional Organization for the Conservation of the Environment of the Red Sea and Gulf of Aden
COMPID	Combating Marginalization and Poverty through Industrial Development	POP	persistent organic pollutant
CP	cleaner production	RBM	results-based management
CSR	corporate social responsibility	PSD	private sector development
DFID	Department for International Development (United Kingdom)	SIRM	sustainable industrial resource management
EST	environmentally sound technology	SME	small or medium-sized enterprise
FAO	Food and Agriculture Organization of the United Nations	SPX	Subcontracting and Partnership Exchange
FDI	foreign direct investment	UEMOA	West African Monetary Union
GEF	Global Environment Facility	UNCTAD	United Nations Conference on Trade and Development
ICT	information and communication technology	UNDAF	United Nations Development Assistance Framework
IDR	Industrial Development Report	UNDG	United Nations Development Group
IDSB	industrial demand-supply balance	UNDP	United Nations Development Programme
IFAD	International Fund for Agricultural Development	UNEP	United Nations Environment Programme
INDSTAT	industrial statistics	UNESCO	United Nations Educational, Scientific and Cultural Organization
IPA	investment promotion agency	WHO	World Health Organization
ITPO	Investment and Technology Promotion Office	WIPO	World Intellectual Property Organization

I. INTRODUCTION

1. This document is issued in accordance with resolution GC.10/Res.2 on the medium-term programme framework (MTPF), 2004-2007, as presented in document GC.10/14 and supplemented in conference room paper GC.10/CRP.4. These documents present a coherent and comprehensive overview of the range of services to be provided by UNIDO within the framework of its eight service modules, and also indicate the Organization's areas of emphasis and programmatic priorities as well as its research programme for the medium term. The present text updates the information provided to the Board at its twenty-ninth session in document IDB.29/12.

II. IMPLEMENTATION

Overview

2. The MTPF for 2004-2007 has been implemented successfully and effectively since its approval by the General Conference. This applies both to the general measures taken to ensure that the terms of the MTPF are fully understood by all UNIDO staff members, and to the more specific measures taken to ensure the adoption of the services and priorities stipulated for the conduct of UNIDO's various technical cooperation and global forum activities. These measures were described in detail in document IDB.29/12, chapter I, as was the care taken to ensure that due account was taken of the guidance given by Member States in the Strategic Guidelines "Towards Improved UNIDO Programme Delivery".

3. As reported to the Board at its twenty-ninth session, the programme and project approval process had been streamlined through the establishment of four project approval committees (PACs) (IDB.29/12, para. 10). More recently, a new management control framework for programme and project formulation and implementation was adopted in March 2005. These new guidelines for the programme and project management cycle are related to UNIDO's increased adoption of the principles of results-based management (RBM) in all of its activities as a means of improving the quality (relevance and effectiveness) and impact of these activities. After having gradually introduced the RBM methodology since 2001, UNIDO undertook a critical self-assessment of its work in this field in 2004 to ascertain that it was on the right track. The results of this self-assessment, which were validated by the Department for International Development (DFID) of the United Kingdom, which had funded some of the initial work leading to the introduction of RBM in UNIDO, led to the identification of a number of areas where further progress was possible. Efforts are now being made to realize this scope for progress, with a particularly significant breakthrough having been achieved through the formulation of a results-based programme and budgets document for the biennium 2006-2007. The adoption by UNIDO of the results-based management approach is described in greater detail in the *Annual Report 2004* (IDB.30/2, chap. VI).

4. In addition, measures have also been put in place to enhance the technical competencies and excellence of UNIDO staff in the selected areas of intervention identified in the MTPF. In this connection, an organizational learning programme has been formulated, under which a series of technical workshops and focus seminars were held in the last quarter of 2004. Further seminars are foreseen for the first quarter of 2005. The topics covered include the logical framework approach for project/programme design and evaluation; job design (linkage with organizational processes), innovation for development; technology diffusion and investment promotion; and private sector development, poverty reduction strategies and the Millennium Development Goals (MDGs). Special orientation seminars have also been designed for national officers in the field to enhance their professional excellence.

5. In another measure designed to enhance the impact of UNIDO's services at the critically important field level, the Organization entered into a cooperation agreement with UNDP in September 2004 to strengthen its representation in the field through the establishment of a number of UNIDO Desks within UNDP field offices (document GC.11/7-IDB.30/17 refers). This agreement provides, within an initial two-year pilot period in 2005-2006, for the creation of 15 UNIDO Desks to complement the field network of UNIDO country and regional offices. Over the longer

term, this joint UNIDO-UNDP initiative is intended to lead to an increase in UNIDO's field presence in up to 80 countries. In some cases, in order to achieve greater synergies and further enhance joint operations between UNIDO and UNDP, the possibility of establishing joint UNIDO/UNDP regional technical centres/offices will also be explored. This increased field representation will ensure UNIDO's participatory role in adhering to the Secretary-General's call for increased field-level coordination and at the same time enable UNIDO to play a more active role in the formulation of national poverty reduction strategies and contribute more effectively in the development of field-level coordination mechanism such as the Common Country Assessment and the United Nations Development Assistance Framework (CCA and UNDAF).

6. The Cooperation Agreement with UNDP also has an important substantive component insofar as it provides for strategic cooperation between the two organizations in all fields of activity covered by UNIDO. Its principal focus, however, is on private sector development, for which a joint programme of technical cooperation is to be formulated and implemented. In selecting this priority area, UNDP and UNIDO sought to provide a dedicated and pioneering response to the analyses, conclusions and recommendations contained in the report of the Commission on the Private Sector and Development presented to the United Nations Secretary-General in March 2004 under the title "Unleashing Entrepreneurship—Making Business Work for the Poor". It calls for actions to be taken in three specific areas:

- In the public sphere to create an enabling environment for private sector development;
- Jointly by the public and private sectors for increased partnership and innovation;
- By the private sector in the areas of mobilization of resources and capabilities.

The joint UNIDO-UNDP programme aims to support all of these activities and objectives within the mandates of the respective organizations, as indicated in detail below with reference to service module 4 (private sector development).

7. The following text updates the information provided to the Board in document IDB.29/12, with references in the respective service module headings indicating the relevant paragraphs in that document.

Service module 1: Industrial governance and statistics

8. In connection with industrial governance, the methodology for strategic industrial diagnosis is currently being reviewed and refined. This process is

expected to be finalized in the third quarter of 2005. In addition, the second international conference on innovation and learning in dynamic city-regions is expected to be held at Bangalore, India, in July 2005.

9. In addition, the Scoreboard of Industrial Development will be regularly updated, with an interval of every two years. This Scoreboard was produced and published for the first time with the *Industrial Development Report (IDR) 2002/2003*. It provides comparative data on selected aspects of industrial performance and on the structural drivers underpinning the industrial performance of countries. The datasets of the Scoreboard will be available on a CD-ROM in the second half of 2005. It will continue to be used to carry out analyses and comparisons, as well as to draw conclusions on country and regional performances. The next update is initially scheduled for 2007.

10. As part of the response to General Assembly resolution 58/233 of 23 December 2003, UNIDO facilitated the adoption of the African Productive Capacity Initiative (APCI) and its associated flexible finance facility (African Productive Capacity Facility—APCF) by the African Heads of State in July 2004. The initiative has been adopted by the New Partnership for Africa's Development (NEPAD) as its policy framework on sustainable industrial development. UNIDO is now gradually taking measures and actions together with Regional Economic Communities, Governments and the African private sector to streamline sectoral action plans and regional road maps within the sectoral priorities of NEPAD. As a result, UNIDO has begun the gradual integration of all UNIDO integrated programmes for Africa into the NEPAD/APCI framework.

11. The implementation of APCI as the NEPAD component on sustainable industrial development is covered in the *Annual Report 2004*, chapter IV.B. It began with a subregional conference in West Africa on improving industrial performance and employment promotion with the active participation of the subregional office of the International Labour Organisation, the Islamic Development Bank and the African Development Bank. The participating stakeholders focused their follow-up actions on three key points:

- Improving industrial performance, including harmonization of industrial policy in the cotton/textile/garment value chain through public-private partnerships;
- Promoting the investment climate to enable the private sector to realize the opportunities given by the largely unexploited resources in the food processing sector;

- Clear commitment of all stakeholders to make concrete proposals to support the African Productive Capacity facility for West Africa, including clear follow-up actions to be built on specific components of UNIDO ongoing and future integrated programmes.

12. Other efforts to translate its global forum activities into the reality of technical assistance in industrial governance include the following activities:

- UNIDO contributed to and participated in a conference on competitiveness organized by the Department of Trade and Industry, South Africa, in June 2004. In addition, it helped to arrange a series of consultative forums on strengthening competencies for governance and economic management, with Ghana and the United Republic of Tanzania among the first participating countries;
- UNIDO assisted the Government of Egypt to prepare a white paper for "A Competitive Egypt", and is starting a major project in Saudi Arabia for the design of strategies to enhance industrial competitiveness and diversification;
- A series of capacity-building programmes involving training in the use of UNIDO's methodology for industrial diagnosis and trade competitiveness analysis are under way, with a focus on Latin America.

13. Noteworthy activities in statistics undertaken in the context of UNIDO's global forum function (IDB.30/2, chap. V, appendix O) include:

- The 2004 and 2005 rounds of the UNIDO-OECD joint annual compilation programme of global industrial statistics;
- The production and distribution of the 2004 and 2005 editions of sales products derived from the UNIDO statistical databases. These comprise, inter alia, the CD-ROM versions of the *Industrial Statistics* (INDSTAT) and *Industrial Demand-Supply Balance* (IDSB) databases, and the hard copy *International Yearbook of Industrial Statistics*. In addition, the 2004 update was prepared of the Internet-based set of non-sales publications, the *Statistical Country Briefs*;
- UNIDO's regular contribution to the international statistical community in the development and promotion of international standards through the Organization's participation in meetings on inter-agency coordination in statistics, statistical metadata development, data quality assurance of multinational databases and promotion of international standard practice among national statistical organizations held under the auspices

of the United Nations Statistical Commission. In this context, UNIDO has initiated, together with the United Nations Statistics Division, the preparation of technical inputs towards the Statistical Commission's review of industrial statistics scheduled for 2006;

- The ongoing construction of a database system on productivity-related statistics to support the research on productivity currently being undertaken by UNIDO in the context of research component 1 as described below. The initial contents comprise the data prepared for the research, and the interface required for the regular updating and secondary processing of the data;
- Technical contributions through statistical proposals and the preparation of an analytical report, to an ongoing UNESCO programme for the development of cultural industries in Asia and the Pacific. For this, two analytical papers based on the UNIDO databases and two methodological papers for the compilation of industrial statistics were produced. These papers were integrated in the joint UNIDO/UNESCO/WIPO proposal presented at the UNESCO senior Expert Symposium for Cultural Industry Development in Asia and the Pacific, held at Jodhpur, India, in February 2005.

14. These global forum activities in industrial statistics have been accompanied by five important technical cooperation projects to enhance national capabilities in industrial statistics. One project, which was completed in 2004, involves data assessment and statistical analysis for the Sudanese manufacturing sector based on the annual survey results derived from the statistical component of the integrated programme for Sudan. The four other ongoing technical cooperation projects comprise the statistical components of the respective integrated programmes for Ghana, Lebanon, Saudi Arabia and Sri Lanka, and are intended to enhance the capacity of the national statistical offices of these countries dealing with industrial statistics to produce and disseminate high-quality data.

Service module 2: Investment and technology promotion

15. The implementation of the MTPF for 2004-2007 in the field of investment promotion has proceeded along three parallel routes:

- Technical cooperation activities to build and strengthen national capacities to attract foreign direct investment (FDI) through training and organizational assistance to institutions, and the building up of information systems for better

decision-making by investors. The latter includes competitiveness benchmarking of investments in specific subsectors and enterprise profiles. These activities have been implemented mainly within the framework of UNIDO's ongoing integrated programmes;

- Direct promotion of partnerships that could lead to FDI through a number of UNIDO networks and channels including the Investment and Technology Promotion Offices (ITPOs), the Asia-Africa Investment and Technology Promotion Centre (AAITPC) established some five years ago in the context of South-South cooperation, the web-based UNIDO Exchange platform, and a variety of investment and technology promotion forums;
- Global forum activities, including research to generate new data and analyses through surveys and pilot activities, tools such as the Computer Model for Feasibility Analysis and Reporting (COMFAR) and the investment project profile, and the establishment/administration of networks and other platforms such as the Investment Promotion Agency (IPA) Network, ITPOs, and the Subcontracting and Partnership Exchange (SPX).

16. Activities undertaken to date in the field of investment promotion within the context of ongoing integrated programmes have included assistance to eight national IPAs in upgrading their capacities through training and establishment of new programme areas; the establishment of one new IPA; and the formulation and international promotion of 80 investment projects as joint venture opportunities.

17. Progress has also been recorded in the plan of action on investment promotion activities :

- Expanding the activities of the UNIDO- Africa Investment Promotion Agency Network (AfrIPANet) and in particular the investor surveys carried out under its auspices, with the results of the surveys being used to design practical programmes for assisting developing countries in attracting foreign and mobilizing domestic investments. The results of the first such survey carried out in 2003 have been disseminated to the 10 participating countries, and activities have been formulated for implementing the policy recommendations derived from this survey. A second survey has also been initiated to carry out more in-depth analysis of different categories of foreign investors in sub-Saharan Africa. This survey will focus on the respective impact of different kinds of investors on the local economies, and discern links between FDI and trade in the context of the target countries. The results will lead to specific

strategy formulations for the participating countries;

- Exploring the use and application of new financial instruments and tools to support productivity and technology upgrading of private sector enterprises in selected African countries. In this context, pilot operations have been initiated in the United Republic of Tanzania for establishing new financial instruments to mobilize capital market resources for industrial investment projects.

18. Other important activities undertaken in this connection include the promotion of partnerships between Africa and Asia within the context of the AAITPC, and an expansion of the SPX network, inter alia through the establishment of three new exchanges.

19. The implementation of MTPF in technology promotion and diffusion has addressed the following areas:

- Technology cooperation activities to build capacity on technology foresight and roadmapping in the CEE/NIS, Latin America and Asia, involving training, networking, institutional framework development and studies; to strengthen the infrastructure of national innovation systems, through the establishment and management of international technology centres and national technology transfer and innovation centres, including the Ghana Technology Innovation Centre for Capital Goods; and to provide technology needs assessment and upgrading;
- Global forum activities, including the Technology Fair of the Future, as an event of the eleventh General Conference of the United Nations Conference on Trade and Development (UNCTAD) in São Paulo, Brazil, in June 2004; awareness-building, publications and methodologies on technology foresight; an Internet portal for technology roadmapping; and guidelines for technology needs assessment.

20. Specific activities undertaken in the context of the technology promotion programme comprise:

- The technology diffusion and support programme for small-scale industries to develop and implement sector technology upgrading projects in India and establish a new international mechanism for technology diffusion and transfer of best international practices in managing technological change at the level of small and medium-sized enterprises (SMEs) in other developing countries;

- The interregional programme on capacity-building for transfer of energy-efficient and eco-friendly technologies and promotion of local investments in the area of materials based on local resources for low-cost housing in Africa, Asia and Latin America;
- The climate-friendly technology financing facility in China, establishing a venture capital fund to address the financing barriers by providing equity investment and technical assistance to Chinese enterprises through financing transfer, commercialization and application of new technologies and innovations with high clean energy impact at the industrial scale;
- The initiative “Technology Transfer: Assessing Needs—Promoting Action” to strengthen the institutional capacity of participating countries in assessing technological capabilities at national, sectoral and enterprise levels, and to assist counterparts in the development of capability-based technology upgrading programmes at national and sectoral levels, facilitating enterprise-level technology needs matchmaking for techno-economic cooperation.

Service module 3: Industrial competitiveness and trade

21. The implementation of the MTPF in the area of industrial competitiveness and trade has focused on trade capacity-building through technical cooperation activities to help developing countries and transition economies:

- To build and strengthen national regulatory, institutional and human capacities to overcome barriers to trade, and to meet voluntary and mandatory standards and conformity assessment procedures to be able to access external markets and improve the protection of consumers and the environment in internal markets;
- To build and strengthen their institutional and enterprise-level capacities to improve the quality and productivity of industrial production and expand supply capacity.

22. In this context, considerable emphasis has been given to the implementation of the memorandum of understanding signed by UNIDO and the World Trade Organization in September 2003 in Cancun through needs assessments and kick-off seminars in nine pilot countries selected by the two organizations. Efforts have also been made to increase cooperation with other multilateral organizations and programmes involved in trade capacity-building, such as the International Trade Centre, UNCTAD, the World Bank, the organizations participating in the Integrated Framework for

Trade-Related Technical Assistance to Least Developed Countries, and the Inter-Agency Group on Trade Facilitation, and with such key technical organizations as the International Organization for Standardization, the International Laboratory Accreditation Cooperation, the International Accreditation Forum, the International Organization of Legal Metrology and the International Bureau of Weights and Measures.

23. Global forum activities undertaken in the context of service module 3 have included research on the impact of new standards on developing countries, enterprise-level surveys on technical barriers to trade and sanitary and phytosanitary standards, development of a metrics system to assess the trade-capacity needs of developing countries focusing on standards and conformity assessment infrastructure, and inputs to the database on trade-related technical assistance and capacity-building maintained by OECD and WTO.

24. The trade capacity-building and market access activities related to service module 3 undertaken in the context of ongoing integrated programmes and single-module projects were characterized by:

- Strengthening the standardization and conformity assessment infrastructure. The work carried out in this context includes several regional projects in the countries of the West African Monetary Union (UEMOA), the Mekong Delta region, South Asian LDCs and Central America. In addition, UNIDO is implementing country projects for upgrading standards bodies, metrology and testing laboratories, and certification and accreditation bodies in 27 countries;
- Competitiveness enhancement through quality and productivity improvements. Activities undertaken in this context include regional projects on total quality management in Asia and e-productivity and quality in the countries of Central and Eastern Europe and NIS, as well as projects in industrial upgrading and the use of UNIDO software, and in food traceability to align with regulations in importing countries.

Service module 4: Private sector development

25. UNIDO's private sector development (PSD) efforts are focused on helping to overcome the constraints faced by SMEs in enhancing their productivity and competitiveness. These constraints relate essentially to their limited access to the technologies, skills, information and knowledge needed to trigger and sustain growth and capability upgrading. Support was provided in an integrated manner and often linked to work done in specific sectors, such as agro-industries, or for specialized

programmes such as trade facilitation, technology transfer or cleaner production. In designing and implementing the programmes, UNIDO followed a target group oriented strategy. The Organization's programmes were thus designed to respond to the differentiated needs of specific target groups of SMEs, from specialized, sophisticated medium-sized enterprises to rural micro-enterprises. These programmes comprised the business partnership programme, information services, SME cluster and network development, export consortia, rural and women's entrepreneurship development, and SME enabling framework and institutional support.

26. *Business partnership programme.* This programme is aimed at more advanced medium-sized and small enterprises seeking to achieve international competitiveness, and is therefore concentrated on linking SMEs to larger enterprises and integrating them into broader global value chains. Considering that conformity to high standards and norms, including the increasing stringent environmental and social standards, can offer enhanced market access, SMEs were supported in understanding and responding to the corporate social responsibility (CSR) strategies of large corporations. The programme on CSR has been built on three pillars: the business partnership programme as the backbone of UNIDO's work with the private sector; UNIDO's participation in the United Nations Global Compact (motivated by the need to meet the specific requirements of SMEs); and a new CSR capacity-building initiative. Consequently, technical cooperation programmes, based on the successful business partnership programme in India and focusing on productivity enhancement, are being enlarged towards the integration of environmental and social issues.

27. Within the framework of this programme, projects were carried out in Croatia, India, Morocco, Nigeria and South Africa. New projects were designed for Indonesia, Nicaragua, the United Republic of Tanzania and Viet Nam. In Croatia, for example, UNIDO is developing a comprehensive CSR policy framework for the public sector and is carrying out parallel company interventions so as to enable SMEs to integrate CSR principles, i.e. environmental and social issues, into their operations, improving at the same time their productivity. The publication *Corporate Social Responsibility and the Development Agenda: Should SMEs Care?* was issued as one of the SME Technical Working Papers series. In addition, based on a workshop conducted in cooperation with UNDP and the Global Compact, the joint publication *Partnership for Small Enterprise Development* was issued.

28. *Information services.* In order to improve the productivity and competitiveness of SMEs, UNIDO has assisted with the establishment of national,

sustainable capacities for information and ICT support activities. Countries that are currently benefiting from the programme are Algeria, China (with the Shaanxi provincial government), Djibouti, Guatemala, Morocco, Saudi Arabia, Uganda and the United Republic of Tanzania. New activities in Uganda have started to extend the national information and ICT support capacity to rural districts in order to better serve local industries, with a particular emphasis on supporting women entrepreneurs.

29. *SME cluster and networking development.* To address the larger target group of small enterprises that supply mainly the national markets but also intend to grow into export markets, UNIDO support focused mainly on cluster development programmes to help SMEs to overcome the obstacles of isolation and to attain collective efficiencies. Such support programmes provided assistance in designing and implementing cluster development strategies and initiatives aimed at promoting local economic systems where firms can network, complement their capabilities and increase their access to resources and markets within a conducive institutional environment. Capacity-building training programmes were provided for relevant government institutions, private sector associations and other organizations, including cluster-to-cluster cooperation activities. Projects have been, or are being, implemented in Colombia, Ecuador, Egypt, India, Morocco, Nicaragua, Nigeria, Pakistan, Senegal and Zimbabwe. A global training course on SME cluster development for government officials and SME practitioners from developing countries was developed within the framework of thematic cooperation with Switzerland and the UNIDO-Italy cluster programme in India and was conducted in 2004 and 2005. The study *Industrial Clusters and Poverty Reduction—Towards a Methodology for Poverty and Social Impact Assessment of Cluster Development Initiatives* was published in 2004 and addresses the relationship between industrial clusters and poverty reduction.

30. *Export consortia.* By forming networks of trade-oriented SMEs or export consortia, often within existing broader clusters of SMEs, joint actions were promoted to enhance their export competitiveness. Projects to foster export consortia are being implemented in Egypt, India, Jordan, Morocco and Tunisia. A new global programme, approved recently by the Italian Government, will extend the support to additional countries. The *Guide to Export Consortia* published earlier was also issued in French and Spanish. Translations in Korean and Portuguese were published by respective national agencies. Furthermore, an expert group meeting is scheduled for September 2005 in cooperation with the Italian Federation of Export Consortia. Another planned initiative is a new global training programme on export

consortia for which the preparatory groundwork has been carried out.

31. *Rural and women's entrepreneurship development.* This programme is designed to address the specific needs of micro-enterprises and small businesses as a direct contribution to the achievement of MDG 1 on poverty reduction and of country-level poverty-reduction strategies. The support given by UNIDO in this area is focused on fostering bottom-up growth strategies to encourage the broad-based rise of entrepreneurial initiatives, including the formation of self-help entrepreneurial groups and associations, especially by women and rural people. The programme is aimed at promoting the transformation and diversification of micro- and small-scale enterprises to growth-oriented activities, and at increasing the productive capacities of women and rural people to enable them to participate effectively in the national economies. During the period under review, new projects for women and rural entrepreneurship development were formulated or launched in Afghanistan, the refugee hosting zones of Guinea, northern Namibia, Sierra Leone, Sudan, Timor-Leste and a number of South Pacific Island countries. Several existing projects were expanded, inter alia, in Kenya, Morocco, Mozambique, the Mindanao region of the Philippines, Uganda and Viet Nam. In addition, UNIDO promoted new initiatives for youth entrepreneurship development through curriculum development in schools, for cultural industry development in collaboration with UNESCO, and for the special needs of countries in post-crisis situations.

32. *SME enabling framework and institutional support.* In order to be effective, the targeted support programmes mentioned above need to be embedded in an enabling policy and institutional environment for private sector development. UNIDO support towards that end has focused on building national capacities in designing coherent SME policy and institutional frameworks linked to broader economic and social goals; strengthening appropriate institutional infrastructure for implementation of SME policies and strategies as well as improving regulatory frameworks towards promoting SME development. For example, in Viet Nam, UNIDO is assisting the Government in the start-up activities of the national and provincial support structures for SME development, and helping to set up knowledge and information bases that will support SME policy and programme development.

33. A guide for the policy review process and strategic plans for micro-, small and medium development entitled *Effective Policies for Small Businesses* was published by OECD and UNIDO as a follow-up to the OECD/UNIDO Forum on Entrepreneurship and Enterprise Development. The guide draws on conclusions of meetings with experts

from transition economies, OECD countries, international institutions and private sector representatives within the framework of the Forum. Furthermore, UNIDO is assessing the feasibility of creating a policy toolbox for private sector development, which would be an online, guided manual on specialized knowledge of policies, legislation and best practice for development of the private sector, with special emphasis on SME development. Topics such as trade capacity-building, innovation, technology upgrading, investment promotion and SME development would be covered. The needs assessment and scoping exercise is currently under way, and an expert group meeting is scheduled to be held in Vienna in May 2005. Based on the results of the exercise, a detailed proposal for a comprehensive policy toolbox will be prepared and submitted for approval.

34. As indicated above, UNIDO concluded a cooperation agreement with UNDP in September 2004 to develop joint technical cooperation programmes in the area of PSD. The purpose is to enhance the impact of the support programmes implemented by the two organizations in this field, and thereby to strengthen the contribution of the private sector to the achievement of the Millennium Development Goals. It is envisaged that the programme will initially be piloted in some 10 countries, which will be selected jointly by the two organizations on the basis of commitment of the respective Governments, the private sector and other stakeholders. Technical assistance activities will be supplemented at the global and regional levels by workshops, seminars and research programmes and also by the joint development of manuals, software packages and other tools for specific areas of private sector development. While the initial programmes will be partly funded by the two organizations, the mobilization of external resources from private and public sector donors, at the country and global levels, will be essential for the successful implementation of the programme. To date, the design and formulation of joint PSD programmes is progressing well in a number of countries, including the Lao People's Democratic Republic, Nicaragua, Nigeria and the United Republic of Tanzania.

Service module 5: Agro-industries

35. This service module continued to provide technical support to UNIDO's beneficiary countries in accordance with the priority services identified in the MTPF for 2004-2007. These services comprise post-harvest systems in the food sector, fibre processing, product innovation and diversification for enhanced market access, and enhancing rural community livelihood through efficient agro-supply chains. UNIDO's support in these areas was provided both directly in single module projects based on specific services covered by the module, and in the context of

broader programmes and projects implemented in conjunction with the services contained in other service modules.

36. With regard to post-harvest systems in the food sector, eight pilot post-harvest centres were established in Uganda for the drying of tropical fruits and vegetables, which are destined for export. A programme financed by IFAD, FAO and the World Bank and implemented by the Ministry of Agriculture has requested UNIDO to assist in the establishment of 40 further centres in the south of the country which will also deal with products in other sectors, such as dairy. Meanwhile, in the People's Democratic Republic of Korea, UNIDO has embarked upon a project aimed at installing a goat milk-processing unit, financed by the Republic of Korea, with the objective of strengthening the national capacity to secure the availability of safe food with a high nutritional value in both rural and non-agricultural areas. In Zimbabwe, UNIDO has completed preparatory work towards formulating a project to increase food security in drought-stricken areas through productivity-enhancing equipment and methodologies. It is expected that this project will be financed by the United Nations Trust Fund for Human Security. Another project has been prepared jointly with WHO for integrated intervention for community development and stabilization in the city of Shendi in Sudan, and the funding for its implementation has been mobilized.

37. In the context of fibre processing, UNIDO has undertaken a large number of projects in the textile and garment industries in particular. These include projects concerned with the introduction of computer-aided design (CAD) facilities in these industries in Cuba and Guatemala, the establishment of testing and laboratory systems in the Argentinean cotton industry, a project to improve the quality and competitiveness of the textile and garment industries in Bangladesh, and the establishment of a pilot centre of excellence in cotton processing in Mali. Outside the textile and garment industries, new CAD facilities have been introduced to the footwear industries in Egypt, Eritrea and the Russian Federation.

38. Projects undertaken in the context of product innovation and diversification for enhanced market access have also focused to a large extent on the textiles and garments sector. A particularly important project is being implemented in the UEMOA region of West Africa, which has involved an analysis of the challenges facing the region's cotton exports, the promotion of a special cotton label for UEMOA cotton, the establishment of appropriate processing machinery, and training in the fields of the classification, ginning and commercialization of cotton. Also in West Africa, support has been given to Ghana to upgrade national skills in marketing, product development, industrial

textile engineering and applied research in the textile sector. Across the continent, in Uganda, a project has been initiated to build the capabilities and capacities of women entrepreneurs in the textile industry to manufacture innovative quality products that are competitive in both domestic and export markets, inter alia through an outreach programme in garment production and product development, surface design and handloom weaving. In Madagascar, assistance has been provided to the silk industry, including the introduction of new equipment, such as broad looms. Similar assistance has also been provided to leather products manufacturers in a number of northern and eastern African countries (Egypt, Ethiopia, Kenya, Morocco and Tunisia) to help them gain market access through upgrading programmes and participation in trade fairs.

39. With regard to the priority area of enhancing rural community livelihood through efficient agrosupply chains, a project has been formulated for Ghana to enhance the capacities of rural banks and business support institutions to stimulate business creation by creating linkages between the informal agricultural sector, which is mostly driven by women, and formal sector companies catering to local and export markets. In Burkina Faso, a project launched in 2002 to reduce poverty by developing the production and marketing capacity of the artisanal cotton textile sector continued to be implemented.

40. In the context of providing technical assistance within the framework of UNIDO's post-crisis initiative, a project on community-building for food security and poverty alleviation financed by the United Nations Trust Fund for Human Security was initiated in the Nuba Mountains region of Sudan. The same Fund also financed a project to assess the rehabilitation prospects of a textile factory in Gulbahar, Afghanistan. In addition, funding has been obtained from the United Nations Development Group (UNDG) for a programme aimed at promoting cottage industries in rural and urban areas of Iraq.

Service module 6: Sustainable energy and climate change

41. In the energy area particular attention is given to the priority services "rural energy for productive use with emphasis on renewable energy" and "energy efficiency".

42. UNIDO's rural energy programmes aim at:

- Studying the feasibility and demonstrating the social and economic viability of the different energy-generating approaches;

- Encouraging sustainable local enterprises that can deliver reliable energy services based on renewable energy technologies;
- Identifying income-generating activities related to the production, generation or use of energy in rural areas.

43. The provision of rural energy services for productive use conforms to the MDGs and UNIDO's corporate strategy. Energy can reduce poverty and prevent hunger by facilitating income-generating applications, and the establishment of micro-enterprises, as well as providing power for pumping water, processing or grinding food, and cooking. One example of UNIDO's rural energy projects is that for renewable energy-based electricity generation for isolated mini-grids in Zambia, which was approved for financing by the Global Environment Facility (GEF) in May 2004. With a total budget of \$7.8 million, the project aims at improving the living conditions of rural people by providing modern energy services and promoting income-generating activities. Other projects based on renewable energy systems are being implemented in India and Mexico.

44. In the case of energy efficiency, UNIDO adopts a systems-based approach, which aims at optimizing the efficiency of the energy systems that factories use to deliver the services provided by electricity, gas and other fuels to the point of use in the plant. These efforts do not need the introduction of newest (and possibly expensive) technologies but are based on the transfer of knowledge, skills and information, which, once acquired by the recipient, can be replicated through in-country training and support to service-provider businesses. Efficient use of energy reduces pollution, reduces energy intensity, and improves productivity and competitiveness. UNIDO's projects in this field are exemplified by the assistance being given to the hand tool, ceramic and glass industries in India by introducing energy-efficient technologies and processes, undertaking energy audits, improving quality standards and establishing market linkages. These projects are aimed not only at improving energy efficiency but also at reducing pollution, including the emission of greenhouse gases.

45. In keeping with the systems-based approach noted above, UNIDO has initiated the China motor system energy conservation programme, which provides a unique and widely applicable systems-based training curriculum to Chinese trainees to enable them to undertake motor systems optimization (IDB.30/2, chap. IV.D). The highlights of this project include:

- The training of almost 1,000 industrial plant personnel in the procedures required to optimize motor-driven systems;

- The first 38 industrial plant assessments conducted by Chinese engineers who had received this system optimization training resulted in the identification of almost 40 million kWh in potential annual energy savings, equivalent to an average per-system saving of 23 per cent;
- In the case of a specific example, the Shanghai Energy Conservation Centre was able to assist the New Asiatic Pharmaceutical Plant to reduce the electricity consumption of its cooling system by 62 per cent. The investment will pay for itself in less than two years.

46. In addition, UNIDO is actively promoting business partnerships to support energy efficiency and clean technologies for enhancing productivity and competitiveness of selected industries in several countries. For example, the Organization has initiated a joint project in India with the Federation of Indian Chambers of Commerce and Industry and ICICI Bank. This project was launched by the Director-General on 11 March 2005, and focuses on agro- and food processing and on the pulp and paper sectors.

47. In the priority area of climate change, UNIDO's activities continue to be oriented within the framework of the Kyoto Protocol. Specifically, the services provided by UNIDO are aimed at building the national capacities of participating countries and fostering innovative partnerships to identify and undertake Clean Development Mechanism (CDM) projects and bring certified emission reductions to the carbon market.

48. Despite the absence of a financial mechanism similar to the Multilateral Fund for the Montreal Protocol or the GEF for activities in a wide range of other environment-related fields, UNIDO is making progress with the mobilization of funds for projects in this important area. Negotiations are at an advanced stage with potential donors such as Austria, Italy and Japan for funding projects under the CDM in countries such as Algeria, Cameroon, China, Côte d'Ivoire, Morocco, South Africa and Viet Nam. Discussions have also been initiated with Canada, France, Germany, Israel and Spain.

49. After the recent entry into force of the Kyoto Protocol, a rapid acceleration of this programme can be expected. Examples of the expected UNIDO services in this area include:

- Capacity-building activities related to CDM in Mexico, Nigeria, South Africa and Viet Nam;
- Organizing, chairing and participating in side events and sessions at international climate change meetings;

- Promotion of public-private partnerships for CDM operations in Brazil, India, Morocco, the Philippines and South Africa.

Service module 7: Montreal Protocol

50. UNIDO is currently implementing 995 Montreal Protocol projects in 75 developing countries worldwide. These projects have a total budget of approximately \$406 million and are intended to phase out substances with an ozone-depleting potential (ODP) of some 40,000 tonnes. In addition, UNIDO provides institutional strengthening support to 10 countries through 25 projects, including new phases/renewals. In line with priority service 1 of service module 7, UNIDO has formulated and received approval for a total of 45 national and sectoral phase-out plans, including methyl bromide phase-out projects, which effectively assist developing countries in their compliance efforts.

51. UNIDO has increased its portfolio to reach an amount of \$42 million in 2005, with further increases to a total of \$62 million projected for 2006 and 2007. This sum excludes potential projects in new sectors such as hydrochlorofluorocarbons and chillers, which are likely to be included in the new replenishment exercise for the Multilateral Fund for the Implementation of the Montreal Protocol due to be considered at the end of 2005, at which a further \$420 million will most probably be pledged for the 2006-2008 triennium.

Service module 8: Environmental management

52. This service module addresses the issue of environmental sustainability in accordance with MDG No. 7. The priority services under this module include cleaner and sustainable production and water management. The cleaner and sustainable production (CP) strategy of UNIDO is implemented through a network of National Cleaner Production Centres (NCPCs), and pursues the following objectives:

- The diffusion of quality and productivity enhancing environmentally sound technologies (ESTs);
- Assisting developing countries to gain access to export markets.

53. In this connection, it may be noted that UNIDO has initiated a review of its cleaner production strategy. This process began with the holding of a regional conference on sustainable industrial resource management (SIRM) at Hyderabad, India, in September 2004. This was followed by the preparation of a working paper on UNIDO's approach to SIRM entitled "From Cleaner Production to Sustainable Industrial Resource Management: Closing the Loops", which was distri-

buted to Member States for comment in February 2005. In the meantime, several projects have been formulated on the basis of this revised strategy. These include a project to be implemented in partnership with NCPCs in a number of countries for the development of “chemical leasing” capabilities, whereby producers of chemicals used in industrial processes are given an incentive to recycle such chemicals after “leasing” rather than selling them to their customers. A further SIRM project is being developed for the dairy sector in Central America, and other similar projects are under consideration for the textile and rice processing sectors.

54. Similarly, UNIDO’s services in the field of water management provide for the transfer of ESTs to prevent discharges of industrial effluents into international waters (rivers, lakes, wetlands and coastal areas) and thereby protect water resources for future generations. This aims of this service include:

- Assisting the artisanal and small-scale gold mining sector to minimize the discharge of highly poisonous mercury used in gold extraction;
- Assisting Governments to operate collectively in the management and sustainable use of integrated transboundary river basin, wetland, coastal zone and large marine ecosystems.

55. Implementation of the global GEF/UNDP/UNIDO project dealing with the mercury pollution of water has continued. The ultimate goals and/or achievements of this project are:

- To reduce mercury pollution of international waters by emissions emanating from small-scale gold mining;
- To introduce cleaner technologies for gold extraction and to train the miners in their application;
- To develop capacities and regulatory mechanisms to enable the sector to minimize mercury pollution;
- To introduce environmental and health monitoring programmes; and
- To build capacity of local laboratories to assess the extent and impact of mercury pollution.

56. Beyond this, UNIDO’s international water programme includes the regional project for Africa on combating living resource depletion and coastal area degradation in the Guinea Current large marine ecosystem through ecosystem-based regional actions, which covers 16 countries. Execution of this project has begun following its approval and funding by GEF with a grant of \$21 million. In addition, UNIDO has successfully concluded negotiations with the

International Maritime Organization and the Global Programme of Action for the Protection of the Marine Environment from Land-based Activities of UNEP for the implementation of a land and maritime pollution management project. A similar agreement has been concluded with FAO and the Institute of Marine Research in Norway for cooperation in, and co-financing of, a project dealing with fisheries and living marine resources trawl assessments and management.

57. Also in this connection, UNIDO has successfully organized the first regional meetings under the GEF Project Development Facility Type B for the preparation of a UNIDO/UNEP/GEF project on enhancing the conservation and rational utilization of medicinal, aromatic and pesticidal plants through sustainable land management in Guinea, Niger, Nigeria and Sierra Leone, and constituted the project steering committee comprising representatives of the four countries, private sector counterparts, NGOs and international organizations. The project is intended to demonstrate the role of public-private partnerships in the achievement of the MDGs (especially MDG 1 on poverty alleviation and MDG 7 on environmental sustainability).

58. In addition, UNIDO is actively engaged in supporting the implementation of the Stockholm Convention for POPs. In this area, which has a direct linkage to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes, UNIDO has assisted almost 40 countries in carrying out enabling activities or drafting national implementation plans for the elimination of these pollutants. These initial activities have now been completed, and UNIDO is now entering a new phase in preparing large-scale projects in many countries, which are intended to deal with the elimination of stockpiles of chemicals controlled by the Convention, or the reduction of emissions of such chemicals, including dioxins and furans, produced by their industrial sectors.

59. As a result of UNIDO’s success in this field, the Organization has been granted direct access to GEF funds in the POPs priority area. The unique expertise of UNIDO in the field of industry-related activities has resulted in increased GEF funding, and consequently in an increasing number of countries requesting UNIDO’s assistance. In addition to 39 ongoing activities with a total value of \$23.7 million, UNIDO has recently submitted seven project proposals totalling \$11.7 million. Besides, UNIDO’s portfolio for 2005-2008 includes 44 activities in this area with an estimated value of \$120 million.

60. Examples of the ongoing projects include:

- A global project aimed at fostering active and effective civil society participation in

preparations for the implementation of the Stockholm Convention, which has been approved by GEF;

- A global programme entitled “Demonstration of Viability and Removal of Barriers that Impede Adoption and Effective Implementation of Available Non-combustion Technology for Destroying POPs”, to be implemented in Slovakia, has been endorsed by the Government and is being re-submitted to the GEF Secretariat for the approval of the chief executive officer (CEO);
- A project brief entitled “Demonstration of Viability and Removal of Barriers that Impede the Successful Implementation of Available Non-combustion Technology for Destroying POPs”, which relates to a project intended to be implemented in the Philippines, was approved in the GEF Council meeting of May 2004;
- In China, a project entitled “Building the Capacity of the People’s Republic of China to Implement the Stockholm Convention on POPs and Develop a National Implementation Plan” was endorsed by the CEO of GEF on 10 September 2004 for direct implementation by UNIDO.

61. Newly-approved projects in this field include a project in Romania on the disposal of polychlorinated biphenyl (PCB) wastes, while pipeline projects include the following:

- A project on measures to plan the disposal of the PCB waste stockpiles of the railways and other PCB waste holders in the Czech Republic;
- The introduction of best available techniques (BAT) and best environmental practices (BEP) to reduce or eliminate releases of toxic chemicals from sinter plants in Egypt;
- A regional project in Ghana and Nigeria to develop appropriate strategies for identifying contaminated sites by chemicals listed in annexes A, B and/or C of the Stockholm Convention;
- A regional project in the member countries of the Regional Organization for the Conservation of the Environment of the Red Sea and Gulf of Aden (PERSGA) to promote regional strategies to reduce the unintentional production of POPs.

Research programme for the medium term 2004-2007

62. The implementation of the research programme has commenced, and significant steps have been initiated with regard to all of the four separate components covered by this programme.

63. *Research component 1* is intended to analyse the contribution of industry to development and poverty reduction. It calls specifically for the establishment of a database on productivity and economic indicators, and for an assessment of productivity performance and structural change, and their contribution to poverty reduction. Both of these issues are being addressed by an ongoing research project on productivity performance in a broad cross-section of 17 developing countries. The research project is divided into two parts:

- In the first part, the project will review the empirical literature on productivity analysis and the methods of measuring productivity. It will then proceed to create a database of productivity data that can be used for comparison among countries. The research project will then identify and analyse the deep determinants of productivity across countries;
- In the second part, 17 countries have been selected for in-depth country case studies. These case studies will examine country-specific productivity experience and provide an interpretation against the backdrop of these countries’ overall growth performance. In addition, the country case studies will examine the major determinants of the productivity experience in the countries concerned, and in this context assess the strengths and weaknesses of these countries with regard to five broad groups of determinants of productivity growth. Finally, the case studies will analyse the policies adopted by the individual countries that have an explicit or implicit impact on productivity developments. The results of the project are expected by December 2005.

64. *Research component 2* is intended to assess the role of technology diffusion in productivity enhancement. In particular, it is intended to address the issues of how interactions between economic agents, markets and institutions can be strengthened to enhance the effectiveness of international trade and investment flows, and how divergences in the needs of industry and the environment can be reconciled through the development and diffusion of technology. One project is currently being implemented in this field under the title of “The Determinants of Environmentally Sound Technologies (ESTs) Utilization in Selected Developing Countries”. The project examines the contextual as well as firm-specific factors that influence the utilization of environmentally sound technologies in developing countries, building upon a dataset that was generated in the context of a preparatory activity for the World Summit on Sustainable Development at Johannesburg. The objective is to review policy instruments for stimulating the diffusion of ESTs and promoting

environmentally sound technological development. The project will be completed in mid-2005 with the publication of a research brief.

65. *Research component 3* deals with policy choices in the new economic order. It provides for the formulation of an industrial development policy toolbox attuned to the challenges posed by the multilateral system, and for an assessment of how best global value chains can contribute to enhance domestic capabilities. Two important projects have been developed in the context of this research component:

- One project, entitled “Public Goods for Economic Development”, is under implementation, and involves a joint research programme with the Universidad Complutense in Madrid. The project addresses the role of public goods in economic development, their proper provision and policy implications at different levels, including the role of international organizations, and UNIDO in particular. Interim results will be presented at conferences during 2005. The outcomes of the project will be presented at the next General Conference;
- The other research line aims to identify and assess, with a subsectoral focus, how best to leverage participation in global value chains and global production networks for enhancing competitive capabilities of domestic industry, and what the institutional and policy underpinnings of these processes are. Starting from 2003, a series of publications was launched to address these issues. In 2004, a working paper was published under the title *Inserting Local Industries into Global Value Chains and Global Production Networks: Opportunities and Challenges for Upgrading, with a Focus on Asia, China’s Rising Competitiveness and Phasing-out of Multi-Fibre Arrangements*. Following positive reactions to these publications and requests for a wider sector and issue coverage received from various stakeholders, another publication entitled *Global Value Chains and Production Networks: Prospect For Upgrading By Developing Countries* will be published in the course of 2005. This publication will provide a full set of information and recommendations regarding global value chains and their role for economic development. These insights can be used for strategy, policy and technical cooperation purposes.

66. *Research component 4* is intended to analyse the most efficacious strategies to foster the contribution of SMEs to dynamic industrial growth. The implementation of one project in this field began in September 2004, in cooperation with Harvard University. The project will examine and assess the importance of CSR strategies and the related challenges faced by SMEs in their efforts to gain access to new markets. It will then proceed to identify industrial subsectors in which the adoption of CSR practices by SMEs is likely to result in increasing market shares, stemming from consumer preferences for responsible and sustainable consumption. It will also explore the relationship between CSR, quality management and productivity enhancement at the company level as well as the case for collective action in the context of public-private partnerships. The project is expected to be completed by the end of 2005.

67. As an integral part of its research activities, UNIDO is currently finalizing the three-year strategic research programme “Combating marginalization and Poverty through Industrial Development” (COMPID) (IDB.30/2, chap. V.C). This comprises five separate projects: overcoming market failures and providing public goods; poverty alleviation through industrial development; challenges for SME development; operationalizing social capital; and technological development for sustainable industrialization. The programme is focused on marginalized, low-income countries, and aims to strengthen the analytical foundation of UNIDO’s activities in these countries. In line with the aim of the programme, each project was meant to draw general and UNIDO-specific policy implications within each area of research. The research findings and implications were presented and discussed at a two-day meeting in April 2005, involving the researchers, peer reviewers and UNIDO staff. It is foreseen that pertinent recommendations will subsequently be integrated into relevant UNIDO activities in low-income countries. The final output will be disseminated in a series of publications in the course of 2005.

68. A more detailed presentation of the UNIDO research programme is provided in a separate conference room paper.

III. ACTION REQUIRED OF THE BOARD

69. The Board may wish to take note of the information in the present document.