



## **General Conference, Eighth session**

### ***Opening Statement of Director-General Carlos Magariños, Vienna, Austria, 29 November 1999***

Mr. President  
Excellencies  
Distinguished Representatives  
Ladies and Gentlemen

It is my special pleasure to warmly welcome you this morning to this eighth session of the General Conference.

Let me say at the outset that I feel deeply honoured that many delegations are led or supported this morning by high-level officials from their capitals.

And I want to pay a special tribute to Ambassador Hans Förster, the outgoing President of the General Conference. Ambassador Förster's insightful leadership was an immense help during the previous session, and I warmly thank him for his support and encouragement during these two years of change. Photo: The Director-General's address

Finally, I have to express my sincere congratulations to Ambassador Umer of Pakistan for his election as President of this session of General Conference. I look forward to fruitful cooperation with him during the next two years, and hope that our work together will allow UNIDO to realize its full potential.

Mr. President,  
As I am about to finish my second year as the head of the United Nations Industrial Development Organization, I will begin my presentation with a review of the decisions, and the actions taken, to comply with the mandate we received from the last General Conference in December 1997.

That mandate, the UNIDO Business Plan, was extremely demanding. Its implementation called for a great deal of work and dedication on the part of the whole Secretariat. But, as many delegates know, the Business Plan and its

accomplishment were always at the centre of my concerns. They underpinned all the decisions I had to take during these last two years.

For these reasons it seems appropriate to me to dedicate these initial remarks to a kind of "settling of accounts" concerning the tasks I was given.

The first two and a half months - that is, from the time I took office until end-February 1998 - were devoted to the emergency measures needed to enable us to stabilize the Organization financially and administratively, and to effect a drastic reduction in personnel.

Thanks to the depth and rapidity of those decisions, UNIDO already had in place a new structure that was completely in line with the Business Plan by the beginning of March. It had three managing directors instead of six. It had new departments in accordance with the new priorities. And it had a new personnel roster with 143 fewer posts (20 per cent of the total). The reduction was achieved with only two thirds of the budget initially allocated for its implementation - which is to say, a saving of almost million.

This process was completed with great speed but also with equity and transparency. As a result, in the past two years the Organization has not had to face a single legal claim before a labour tribunal. Previously this problem consumed considerable resources. We removed, therefore, one of the worst nightmares that hung over this administration.

Immediately following this task, and with a less clouded horizon, we dedicated ourselves entirely to another important assignment. Representatives of Member States, experts from the private sector and distinguished figures from the academic world worked with the Secretariat to draw up a more precise definition of the services and activities of UNIDO. They also articulated a method for formulating technical cooperation programmes with the prime aims of greater interaction - interaction with recipient countries, with the work of other agencies and organisms, and with more cross-fertilization among UNIDO branches. Such programmes would also reflect the new spirit of teamwork within our Organization.

After seven months of intensive work, we presented the new service modules. And, a little later, in November, came the first batch of UNIDO's new integrated programmes. They won enthusiastic approval and support from all Member States.

Since then we have concentrated on adjusting and refining the programming methods, and on introducing quality control for our programmes and activities. We decentralized and delegated authority to intermediate management and to field offices. And we consolidated a matrix working structure designed to invigorate three areas of management.

The new working structure would stimulate the directors of technical branches into transforming their units into centres of excellence in their specialty areas. It would orient regional directors into promoting services and differentiating UNIDO products according to the requirements of each region for which they were responsible. And it would create a system of "team leaders" for its integrated programmes to mobilize and coordinate their colleagues' actions and expertise for maximum impact in the field.

We also developed new strategies for mobilizing funds and, as early as it was possible, we offered three year contracts to fixed-term staff thereby assuring their stability. We also opened the possibility of career development based on fresh resources to be made available in the next budget.

All of these changes contributed to the birth of a new organization - an organization based on a new set of priorities, an organization that is more modern, flexible and decentralized.

However, the reality and depth of the transformation can be seen most clearly in the radical change in the composition of the Agency's portfolio of projects. Personally, I was always determined not to oversee a merely "paper reform". The project portfolio had, therefore, to show a visible difference.

I am therefore very pleased to be able to report to this session of General Conference that the changes we introduced have indeed shown practical results in terms of improving the Organization's productivity. Thanks to the development of a new, more structured work methodology, we have decreased the time required for pre-evaluation of technical cooperation programmes. We have been able to increase both the average size of the programmes and the number of branches involved in each stage of technical cooperation. Other productivity indicators show, I believe, that we can safely say that the Organization has improved its overall performance. Those improvements, moreover, were achieved in full compliance with the objectives and priorities of the Business Plan.

At this point, and in this connection, I would like to express my special appreciation to my staff - for their dedication, commitment and determination in support of the whole transformation process. It was only through their genuine team spirit and cooperative approach that we were able to obtain these significant results over such a short period of time.

This far-reaching and fundamental transformation, about which we could talk for hours, took place during 1998. Its implementation began in 1999 - without, I would emphasize, the Secretariat asking for any additional resources from Member States. We managed a situation (which included payment of indemnities resulting from the staff reduction programme approved by the previous General

Conference) entirely by using our own funds. The total amount for this purpose was .1 million - corresponding to 15 per cent of the total regular budget of 1998.

It is for this reason, however, that we have been unable to progress more rapidly with the decentralization process, particularly the associated redeployment of resources to the field.

Nevertheless, the whole experience stands in stark contrast to what happened in other institutions, where the reforms could only be implemented with the aid of fresh funds. UNIDO realized its transformation within the strict framework of the approved 1998-1999 budgets - budgets that no-one could describe as generous.

This situation cannot be maintained indefinitely, however. In order for the new service modules and integrated programmes to have impact in the field and to be evaluated it will be necessary to implement them in full. What cannot be implemented, cannot be evaluated.

It is clear, therefore, that in order to continue the implementation of reforms, UNIDO in the future will indeed require more resources in the form of voluntary contributions. And it will require more political participation on the part of its Member States.

As I find myself obliged to mention the problem of voluntary contributions, I would also like to make a clarification, in order to avoid any partial interpretations. Our transformation calls for each and every Member State to make an effort to contribute to the reform objectives according to its own possibilities, no matter what its level of development. This includes timely payment of assessed contributions, above all by those countries where UNIDO undertakes technical cooperation work at their request. I therefore wish to make a strong plea to all Member States to eliminate the arrears, and to sign the paying-in slips for their assessed contributions as rapidly as possible.

In this sense, approval by this session of General Conference of the new budgets will be an important step. Nonetheless, it will also be necessary to be able to count on a more stable and predictable volume of voluntary contributions for future technical cooperation programmes.

We must therefore ask ourselves at this point whether the successful transformation of UNIDO is sufficient in itself to motivate more active participation, and to mobilize a more defined involvement on the part of its Member States.

Certainly, a successful transformation has been the necessary element for maintaining and consolidating the support of our partners. And I am very grateful for the interest and companionship that many of you have demonstrated during these two years of change.

But at the same time I am aware that, in order to arouse more political interest among the Member States and to motivate more focused outlays as voluntary contributions, it is necessary that we devote more time to analyzing the substantive issues that bring us together, and that constitute the leitmotiv of our common cause: industry, the growth process and industrial development, and the potential contributions of this process to the reduction and elimination of poverty and thus to the promotion of equity. We therefore proposed the idea of organizing the Forum on Sustainable Industrial Development within the framework of this eighth session of the General Conference of UNIDO.

A General Conference having a membership as diverse as that present in this room can, and should, ask several questions. - What, in the new international economic system, is the role and the capacity of the industrial sector to contribute to poverty reduction and to promote equity? - How to promote the growth of industry, while taking care and reducing industrial pollution and its impact on the process of climate change? - Is it still necessary in our times for public or international organizations to promote industry? - And, if so, what industry-oriented public goods should be provided by UNIDO? - How will they function and what will be the role of the service modules and the integrated programmes in the framework of the new international economic system?

As I said in my speech to the previous session of General Conference, I am convinced that UNIDO has an important role to fulfil in the new architecture of the international economic system. I am also persuaded that some these issues were discussed, first during the negotiations that brought the Business Plan to light, and later during the process of formulating the service modules and the integrated packages of services. Nevertheless, I know from experience that these are complicated questions, requiring equally complex answers. They involve many dimensions and do not admit rapid or easy solutions. That is why I think it reasonable that - in the absence of pressure to reach political consensus or to complete reforms by a certain deadline, and without having to justify anything in particular - we give ourselves the opportunity of calm analysis in order to pursue the objective of making more effective use of the possibilities open to UNIDO.

Ladies and Gentlemen,

Many changes have taken place in recent years. The share of developing countries in value added manufacturing production has grown from 11 per cent in 1975 to reach almost 25 per cent of the world total today - reflecting, it should be said, the contribution of China, which on its own is responsible for more than one fourth of this participation. To a great extent, this has taken place thanks to the possibilities opened by the expansion of trade, the internationalization of financial and capital markets and the growth in foreign investment.

The underlying element that made it possible for developing countries to participate in the world factory was technological change. The combined impact of the informatics revolution on the technologies of production, and on the design and the reduction in transport and communications costs, produced dramatic changes in the organization of production processes and in the rise of vigorous service sectors.

Thanks to these processes, a new group of countries is now incorporated into the international production network - with positive consequences in terms of their GDP growth, exports, employment and manufacturing value added all leading to significant improvements in the living conditions of the people in those countries.

At the same time, programmes of macroeconomic stabilization and structural adjustment programmes combined with liberalized trading systems and capital markets demonstrated that, although very demanding in terms of social efforts, they are capable of generating substantial improvements among a wider group of developing economies. These measures helped control inflation and increased general productivity of the economy by eliminating unproductive employment in the public and private sectors and by increasing the levels of production artificially depressed by previous macroeconomic disorder.

In summary, the dynamism and innovation of the private sector and the international financial flows were the determining factors in the rise and consolidation of a new and potentially beneficial international economic system.

These are some of the positive results and the lessons of the economic experience of recent years. Nevertheless, as would be expected, problems remain to be solved. New issues have also arisen. They now constitute the work agenda of multilateral organizations like ours. And, regarding those that remain, with your permission today, I would like to refer to three phenomena that seem to me to be important for understanding the problems in the years to come. They constitute the common problems of developed and developing countries: financial market volatility, poverty reduction and income distribution, and environmental deterioration.

Mr. President,

We have seen that the first of these can, in a matter of days, destroy years of social effort. Financial volatility can also diminish political support for democratic forces attempting to restore macroeconomic stability, undertake structural adjustment and open up markets - all indispensable elements for participation in the globalized economy.

The second, unequal income distribution, is the basis of our concerns over the reduction and elimination of poverty and the promotion of equity.

The third, the deteriorating environment, constitutes an objective constraint on our system for producing goods and services.

These are, of course, aspects common to all countries, independent of their relative economic level. And they must be confronted by common efforts. Obviously, I will not deal with them either from an integral or encompassing perspective, but rather from the standpoint of our Organization's field of work: industry. How can industry contribute solutions for these problems?

Market volatility is one of the newer problems we confront as a global society, perhaps because the globalization process has been driven principally by the financial sector. Certainly the speed with which these markets have developed since the 1980s is remarkable. Sufficient to say that in one single day financial markets move id="ucfLayout02" onload="try { OnBodyLoad(); } catch(e) { }; afterload();" trillion - an amount equivalent to one and a half times the annual trade between the European Union and the United States.

The international banking and financial sectors now recognize that the problem of market and financial flow volatility is here to stay, and that in the future we will have to learn to live with it. The range of the discussions goes from the design and development of mechanisms to reforms of the responsible multilateral financial institutions.

What concerns us is what can be done by industry to protect developing countries from financial markets' volatility. It is undoubtedly a difficult question. I will nevertheless risk an answer.

As we all remember, the flow of private finance to the emerging economies fell drastically in 1997 and on into 1998. Nevertheless, if we analyse what happened in more detail, disaggregating the capital flows by type of investment, we can see that the behaviour has not been the same in all segments. Equity investment, in particular, has been far more stable than portfolio investment or bank lending.

This means that if our work in UNIDO contributes to the strengthening of the real sectors of the economy and, therefore, to the supply of equity investment in a given country, we would in principle be contributing to a reduction in exposure to market volatility in that country. This can be done, and in fact is done, by implementing proper policies to mobilize information, knowledge, skills and technology for agricultural enterprises, agro-industrial firms, manufacturers and service firms. It is also work in which our Organization, at least in the industrial field, has broad experience.

The second problem that I mentioned is poverty reduction and inequality.

In contrast to the problem of capital market volatility, inequality must be one of the oldest of those with which our productive system must contend. Furthermore,

contrary to what was thought in the past, the long-awaited "convergence" of average productivity among economies does not appear to occur automatically - despite the progress toward consistent market opening and deregulation. The gap in per capita income between the poorest and the richest sectors of the world's population is widening at an accelerated pace as a consequence.

Inequality, we can say, means that one part of the world population lives "disconnected" from the possibilities offered by the global economy. What is worse, the phenomenon is not only evident between developing and developed countries: the increase in inequality is also to be found between distinct social groups within countries, including the more advanced ones. Inequality is responsible for internal and international migrations - showing that if the global economy fails to reach people where they are, then people will try to move to participate in it.

What can be done about this problem? How can industry be used to "reconnect" the populations of developing countries to the global economy? In my view it is clear that the most stable and long lasting improvement in the quality of people's lives - the way out of poverty and towards equity - derives from their ability to sustain productivity increases.

We have already learned that, in order to achieve any productivity gains, a stable macroeconomy must be in place. There must also be an economic structure based on solid fundamentals, such as a market open to international flows of trade in goods and capital. These are the achievements of what we can call first generation reforms.

The importance of continuing that first generation while introducing a second generation of reforms has also been clearly understood. This second generation includes all the reforms associated with improving health care and educational systems, the functioning and strengthening of institutions, the judicial system, as well as increasing transparency and fighting corruption. First generation reforms yield one-off productivity gains, for example those that accrue when inflation is reduced or when the underutilized capacity of a productive system is recovered. The second generation reforms foster productivity gains in the long term, such as those that emerge from better health and education systems and the elimination of corruption.

But I believe that, in order to maintain democratic support for the reform process, it is also essential to find mechanisms that make it possible to achieve medium-term productivity gains through the expansion of the private sectors of emerging economies.

From an industrial perspective, this means contributing to the development of new small and medium-sized companies that can move toward high productivity

activities and participate in the international trade flows. This is what, in the final analysis, makes possible the "supply side response" that developing economies need in order to "connect" their people with the global economy. It also means that we must work together with national and foreign investors on the value chains and on the development of supplier relationships in order to amplify the impact of direct investment.

These further reforms, which have to do with mobilization of information, technology, skills, and knowledge to support the dynamic and enterprising private sectors have to be focused on "connecting" macroeconomic stability with microeconomic performance in developing economies. I have no doubt that this deserves more attention and research. I also believe that, with time, this approach will make it possible to create a third generation of reforms. The recent joint publication by UNIDO and OECD giving policy guidelines and recommendations for Entrepreneurship and Enterprise Development in Transition Economies is one interesting effort in this direction.

Thirdly, there is the issue of the environment. This is perhaps not totally new. Throughout history, all goods-producing systems have been associated with some form of environmental deterioration in the course of their development. What is absolutely unique is the scale that this problem has reached in our own times. Our level of technological development has, for the first time, generated a global threat to the ecological stability of the planet. It establishes objective limits to the pollution of our present productive system.

The response by our Organization has been categoric. We transferred expertise from our sectoral units (for industrial chemistry, metallurgy etc.) to two new branches dedicated to the implementation of multilateral environmental agreements. The decision allowed us to become multilateral organization leaders in terms of the costs and speed of implementation of this kind of technical assistance, according to, for example, the Montreal Protocol Secretariat. A recent evaluation by that Secretariat awarded UNIDO 192 points out of a possible 200 - well above the World Bank with 180 and UNDP with 176 points.

This was also an example of how, by mobilizing technologies (in this case, a specific kind of technology for cleaner production) together with knowledge for their application, our Agency can contribute from a specific sector - industry - with a part of the solution to a global problem.

In fact, what this brief review of three significant economic phenomena of our time - all of high concern to the international community - shows is that a number of common elements would permit us to reposition the value of industry in the modern economic agenda. It is through the mobilization of information, knowledge, skills and technology that we can achieve the productivity gains needed to convert problems into opportunities.

I believe that industry is the sector from which we can best do that. I believe also that in order to be effective in mobilization of these factors we have to do more to modernize our working methods. I would like to propose, for example, that we abandon the old interventionist approaches that went under the heading of promotion of industrial policies. We need to seek out more modern forms of interaction with the different economic actors, for instance the approach adopted in the exercise of "industrial foresight". Foresight methodologies bring together all the partners in the national economy - business people, politicians, academics, civil servants and other officials - in order to have them evaluate together where business is going in the global economy and what measures have to be taken to ensure national economic competitiveness in the long term.

Technology foresight, the dimension of most importance for industry, has been applied successfully in Japan over several decades, also more recently in Europe and the United States. UNIDO will help introduce similar thinking to developing countries, with an experts' meeting next week in Trieste, taking the Latin American region as a case study.

Mr. President,

Ladies and Gentlemen,

We would have many other ideas to suggest - for example, the contribution that UNIDO can make to trade expansion by promoting the participation and adoption of international standards by developing countries. This would help assure that they are in a position condition to comply with the obligations they assume periodically and voluntarily in the various rounds of trade negotiations - like the one due to be launched this very week in Seattle at the meeting of the World Trade Organization.

But this is neither the time nor the place for me to go further on such matters. I have offered a preliminary treatment, rather than an exhaustive examination of the issues, in order to explain why we proposed the organization of the Forum on Sustainable Industrial Development within the framework of the eighth session of General Conference.

We wanted all of us to have the opportunity to discuss, on a solid, scientific and independent basis, the changes that have been taking place in industrial production systems, and also their contribution to economic development. By analysing together the problems and opportunities that our countries face when the economy globalizes, we can also define the contribution to their solution that can come in the form of providing "public goods" from an Organization such as UNIDO, maximizing their impact in the field.

Having said this, I want to emphasize that UNIDO is principally, and will continue to be, an Agency specialized more in "doing" technical cooperation than in "thinking" about it. It is in "doing" technical cooperation that all of our attention, energy and resources are focused. I simply want to suggest that a proper balance between "doing" and "thinking" and "thinking" and "doing" has a very

useful double purpose: refining the quality of our service modules and our integrated programmes in order to assure an maximum impact at the field level; and renewing the interest of our Member States in the ongoing, and in my view increasingly relevant, social development contribution of sustainable industrial development - the business of UNIDO.

It is not necessary, in order to do this, for us to develop a great theoretical debate. Nor need we alter our priorities. We simply have to step up our interaction with academic circles - as we have already been doing through memoranda of understanding which we have signed this year with Oxford University and with the Lomonosov Moscow State University. These will continue with agreements now being formulated with other centres of excellence in Italy, France and Japan, and with various countries in the developing world. I foresee, in fact, the creation of a special unit within the Office of the Director-General to coordinate these tasks.

Mr. President,

When they see the enormous effort mounted by UNIDO in developing and putting into practice our service modules and our integrated programmes in such a short time, and in such a significant number, as we have done here, no-one, I believe, can claim to have been misled. For us, "doing" is our primary task. I am one of those who think that even the best of ideas and the most innovative of the initiatives lack meaning if they do not resolve or contribute to resolving people's concrete problems.

This is why I now ask you to participate more actively in analyzing our integrated programmes, in the discussion of their method of formulation and implementation, and options for deepening them. I am not just asking you to invest money in these programmes; I am also suggesting that we work together, with team spirit in their definition and implementation. Together we will define better and more clearly what we expect in terms of impact in the field from them.

I would like to propose a meeting specifically for these objectives. I am sure that this joint endeavour will permit us to increase the number of programmes that we formulate and to perfect the definition of the impact we are looking for.

To date we have formulated 29 integrated programmes around specific cooperation requests that we have received. These are in the initial phase of implementation. Their total value is 0 million and cover time periods of three to four years. Bearing in mind that UNIDO may allocate close to million annually from its own regular budget to technical cooperation programmes, especially in Africa, the need for voluntary financing reaches and average of around million each year. This does not seem to be an impossible amount when we consider that we will be working to promote industry all over the world. (For this reason also, it ought to be in the interest of all countries, and particularly those that receive assistance, to pay their obligatory obligations in full and on time.)

This year, which has all the characteristics and difficulties of a year in which a new method of working was put in place, we hope to have in hand around million. To me, this indicates that we can be reasonably optimistic about the future. Obviously, we can also be more ambitious. UNIDO currently has a further 14 programmes under formulation and our regional programmes plan to produce a similar number in the year 2000.

While I recognize that this is, indeed, an ambitious goal I do not believe we should worry unduly over the funding requirement. We have learned that approval of programmes, given their complexity, can only be done twice a year. Because of this, programmes formulated in any given year are only ready to be implemented the following year.

Nevertheless, let me say with total frankness that not all of the programmes are of the same quality. Working systematically, we have considerably improved their design and formulation and expect to continue on this path in the future, thanks to the quality control, technical analysis and the balance between "doing" and "thinking" which I mentioned earlier. It is also true that no-one can expect all the programmes to attract the same attention, or to enjoy the same priority on the part of the potential partners.

Nevertheless, questions abound. How many programmes should we produce annually? Is the regional and thematic concentration that we are following correct? On what criteria should we base our selection of the next countries to benefit from technical cooperation? What are the criteria for impact that we should take into account in evaluating our activities?

Some of the answers are contained in the Business Plan, and Member States will periodically verify their achievement. Others may be answered through discussions and debate in our governing bodies - relying on the same cooperative and enriching spirit with which we have been working so far.

Mr. President

Ladies and Gentlemen,

We have done a great deal together in these past two years and I am very grateful for your support and consideration. The results of this joint effort encourage us to go forward and advance the implementation of our new technical cooperation programmes. But, in all honesty, I want to urge you that, while we have done much, there is still much to do.

I know that for some it may seem like an ambitious goal. But how many of us would have wagered two years ago that our Agency would be able to sort out all of its difficulties and be in the condition that it is today?

I invite you to take advantage of this opportunity - to renew our vow to work together to defeat poverty, inequality and backwardness. This new UNIDO offers that opportunity. It is a practical and concrete tool for converting our good intentions into concrete actions in search of practical results.

This and nothing else is our great challenge. And that is the way it should be. We should have the possibility to take on a different challenge every two years. Such is the measure of our progress. Organizations, like human beings and societies, progress when they have the possibility to face, every now and then, new challenges. I am sure that with a renewed partnership of our Member States we will measure up to this new challenge.

Meanwhile this new UNIDO stands in front of you, full of ideas and promise - and ready to fulfil the tasks you give it.

Mr. President, Honoured Delegates Ladies and Gentlemen I thank you for your attention, and look forward to hearing your views in the Forum and in the general debate.