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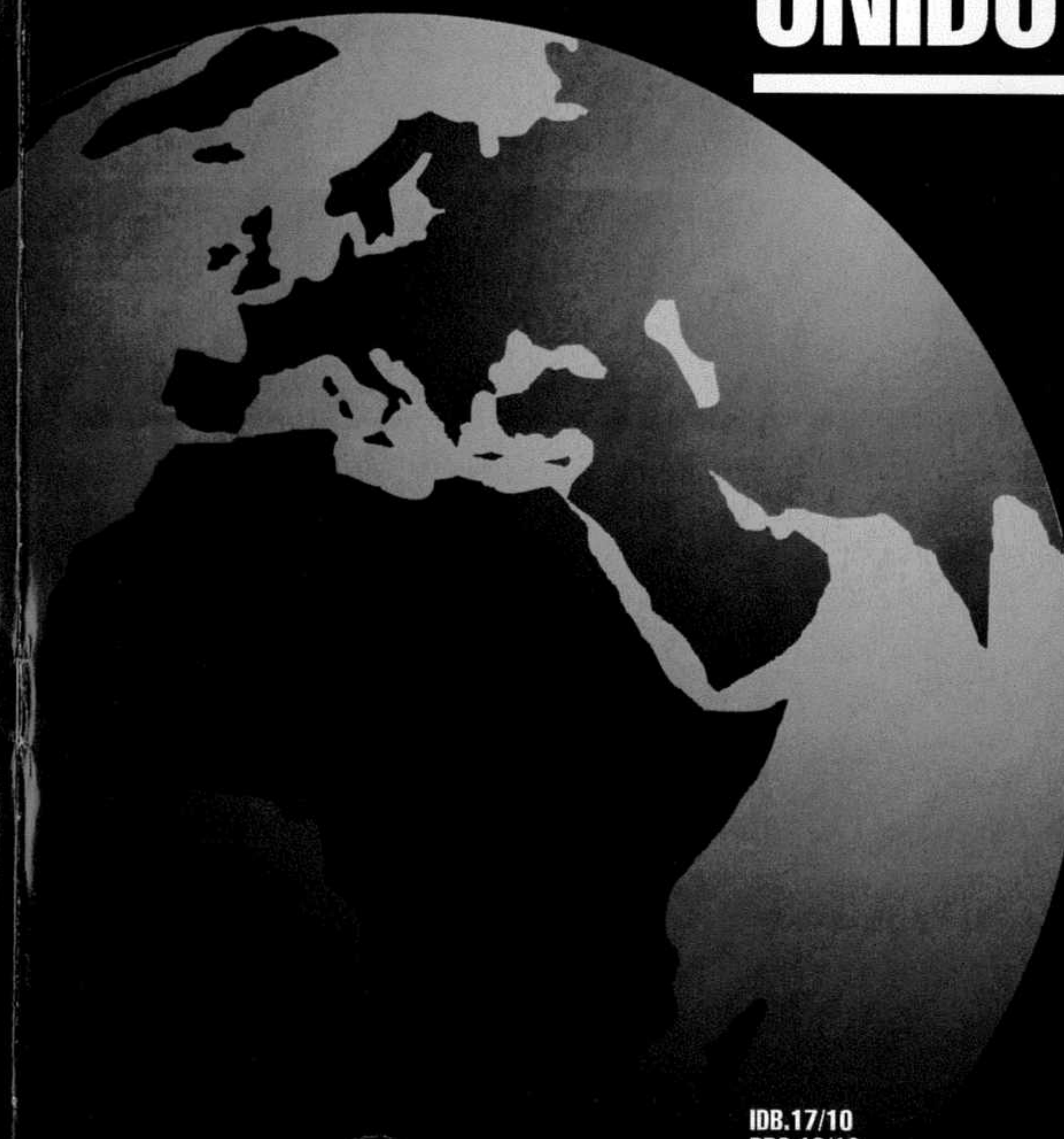
Annual Report

UNIDO 1996



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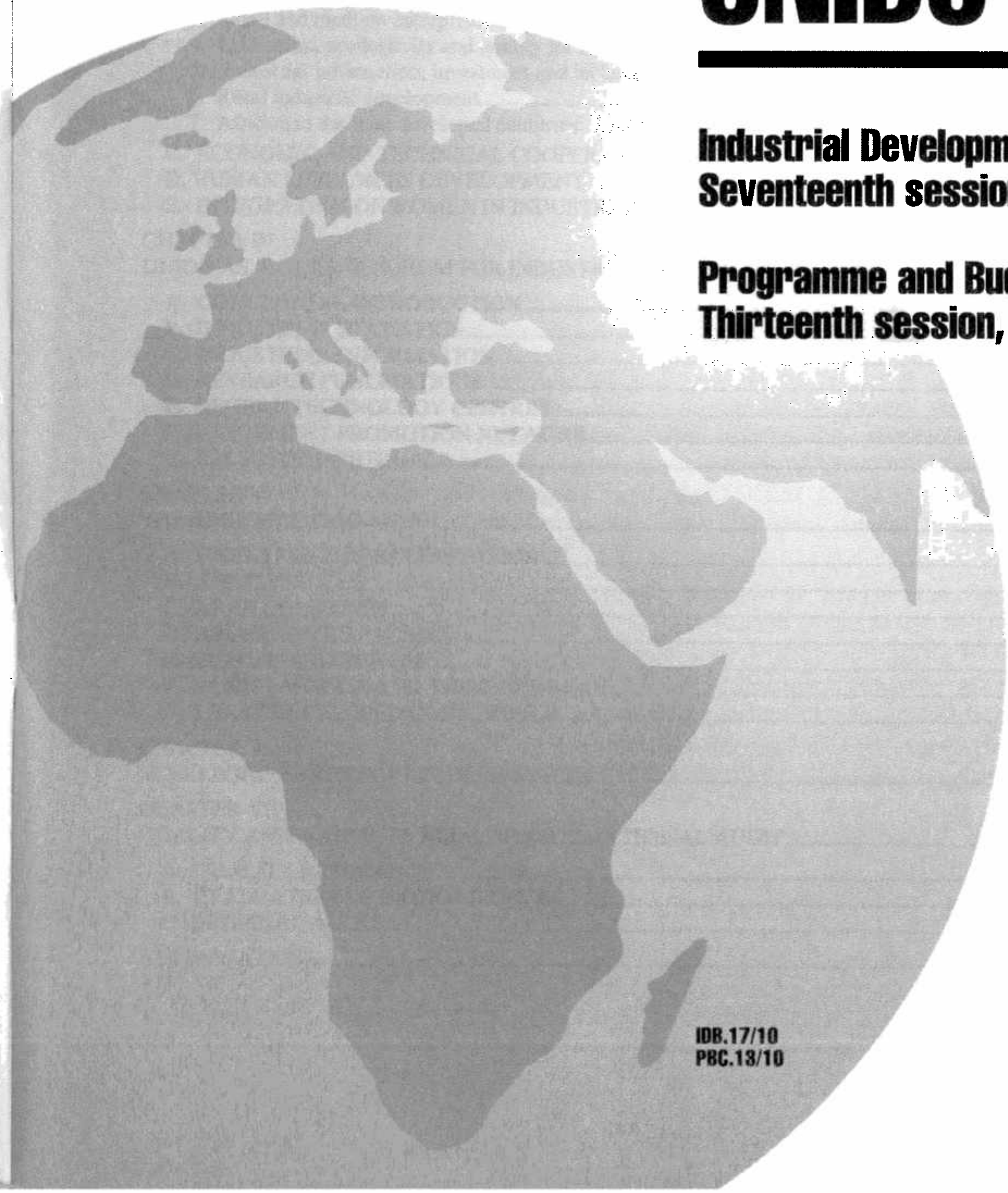
Annual Report

UNIDO 1996

Industrial Development Board
Seventeenth session, 1997

Programme and Budget Committee
Thirteenth session, 1997



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CONTENTS

MESSAGE FROM THE DIRECTOR-GENERAL

In the comprehensive reform of UNIDO, 1996 was the third year. It was the year in which significant staff reductions—certainly the most painful part of the reform process—were implemented. It was also a year that saw the ultimate benefits of our reforms reflected in a remarkable rise in the demand for new UNIDO programmes and projects.

I have always maintained that the expertise of our staff is the most valuable resource of UNIDO. It was with great personal regret therefore, that early in the year I had to undertake a staff reduction programme of large magnitude. This was not anticipated at the beginning of our reforms when our clear goal was to generate a "reform dividend" that would lead to the strengthening of substantive programmes through redeployment of staff. However, shortfalls in our assessed contributions—caused primarily by the continued non-payment and announced withdrawal of the USA—necessitated a budget reduction and, subsequently, a reduction in staff strength. UNIDO lost a great number of long-serving dedicated colleagues whom I sincerely thank for having devoted their professional careers to the cause of development.

At the same time, our unprecedented reforms clearly bore fruit in 1996. The year saw an overwhelming response to the new services UNIDO now offers to the developing countries and countries with economies in transition. The effective demand for our new programmes, as measured in the value of project approvals, rose by an impressive 35 per cent compared with the previous year. We have reinforced our focus on Africa and the least developed countries and have been successful in diversifying considerably our sources of funds.

As a further result of the reforms, we have brought down our administrative and operational support costs in technical cooperation delivery, from 22 per cent in the biennium 1992-1993 to only 14.5 per cent now—the lowest among all comparable United Nations agencies measured. Likewise, staff productivity in terms of per capita delivery has increased dramatically.

The continued relevance of UNIDO was reaffirmed during the year in many fora, most notably in the General Assembly of the United Nations. In its resolution 51/170, adopted in December 1996, the General Assembly stressed the important role of UNIDO in enhancing international cooperation in the field of industrial development and welcomed the "major programme of reform and restructuring process undertaken by UNIDO." The same resolution called upon UNIDO "to continue carrying out its central coordinating role in the field of industrial development in the overall context of existing coordinating mechanisms in the United Nations system."

Notwithstanding this forceful confirmation of our mandate, it is fair to say that some Member States of UNIDO maintained a more critical attitude towards the Organization. This led, at the end of the year, to the launching of an intense consultation process on the future of UNIDO. I welcome this development. I have always emphasized that UNIDO—like all United Nations organizations—is what its Member States want it to be. The political and financial support from our constituency is the basis from which we operate. Therefore, I find it most encouraging that Member States engage in constructive and indeed highly substantive discussions on the priority programmes they want us to develop and implement in the future.

I expect important guidance for our future work from these ongoing deliberations. As part of this process, Denmark launched at the end of 1996 an assesment of UNIDO by an independent team of development experts. At the time of writing this message, the final report of the assessment team had just been issued: It confirms the relevance of UNIDO as a specialized United Nations agency, the high competence of our staff, and our unique role in promoting industrial development.

I am confident that in the course of 1997 Member States will successfully conclude their consultations on the future of UNIDO and that we will emerge from this process with a clear mandate to continue our critically important work.

Mauricio de Maria y Campos

CHAPTER I

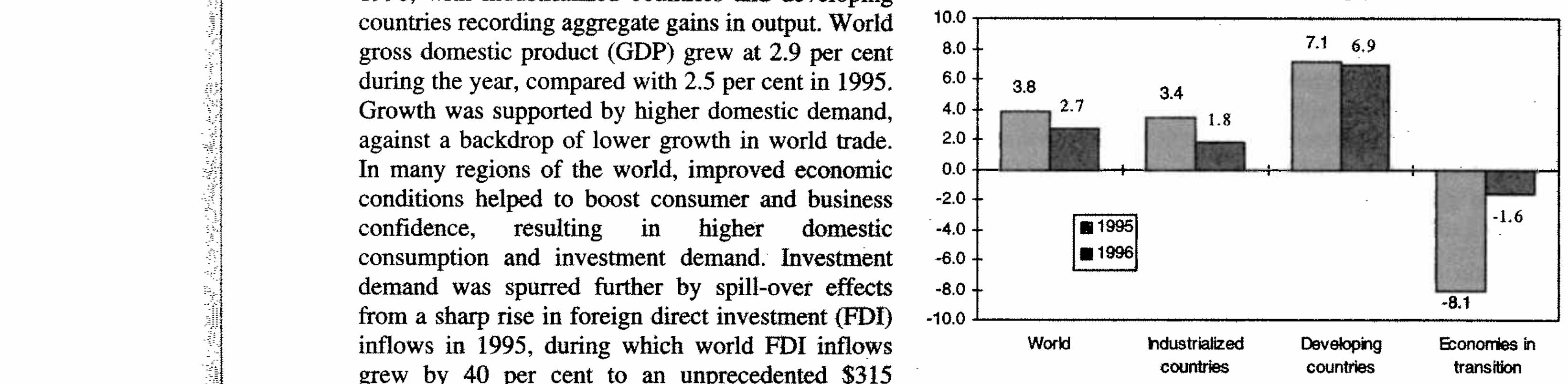
GLOBAL AND REGIONAL INDUSTRIAL DEVELOPMENT TRENDS: ISSUES AND PROSPECTS FOR DEVELOPING COUNTRIES

1. World economic activity continued to expand in 1996, with industrialized countries and developing countries recording aggregate gains in output. World gross domestic product (GDP) grew at 2.9 per cent during the year, compared with 2.5 per cent in 1995. Growth was supported by higher domestic demand, against a backdrop of lower growth in world trade. In many regions of the world, improved economic conditions helped to boost consumer and business confidence, resulting in higher domestic consumption and investment demand. Investment demand was spurred further by spill-over effects from a sharp rise in foreign direct investment (FDI) inflows in 1995, during which world FDI inflows grew by 40 per cent to an unprecedented $315 billion. On the other hand, GDP growth was hindered by prolonged inventory adjustment and slower growth in world merchandise trade. The growth of merchandise trade fell (in volume terms) from 9 per cent in 1995 to about 5.5 per cent due mainly to sluggish import demand from industrialized countries.

2. Despite the higher GDP growth, world manufacturing activity continued to slow in 1996, while growth in the volume of trade in manufactures dropped sharply from 9 per cent in 1995 to 4.2 per cent. Manufacturing value added (MVA) grew at 2.7 per cent in 1996 compared with 3.8 per cent a year earlier (figure 1). The slower growth was largely due to a sharp drop in manufacturing activity and demand for manufactured goods in industrialized countries, which was only partly offset by stronger growth in developing countries and continued recovery in economies in transition.

3. In industrialized countries, MVA growth fell considerably in 1996 for the second consecutive year, to 1.8 per cent from 4.0 and 3.4 per cent in 1994 and 1995 respectively. This occurred despite a small improvement in GDP growth and a sharp increase in FDI inflows during the previous year. In these countries, GDP grew at 2.5 per cent compared with 2.1 per cent a year earlier.

Figure 1. Growth of world manufacturing value added, 1995 and 1996 (percentage)



FDI inflows, however, rose an impressive 53 per cent in 1995, increasing the share of world FDI flows accounted for by the industrialized countries to 65 per cent from 59 per cent in 1994. The share of world MVA attributable to industrialized countries dropped to 76.6 per cent, from 77.5 per cent in 1995.

4. In the United States, annual MVA growth fell to 2.3 per cent, from 3.5 per cent in 1995. This was due to weaker growth in domestic and foreign demand for manufactured goods. High levels of household debt dampened consumer spending while exports of capital goods showed a downward trend during the year. Western Europe, which accounted for about a third of world MVA, recorded considerably lower MVA growth, at only 0.4 per cent compared with 3.4 per cent in 1995. The region continued a strict fiscal policy as many countries attempted to meet the Maastricht targets for economic and monetary union (EMU). Slower economic and manufacturing growth led to higher unemployment rates in many countries, notably France and Germany. In Japan, MVA grew at 3.9 per cent, compared with 3.4 per cent in 1995. Exports were the main source of growth, stimulated by a more than 30 per cent depreciation of the Japanese yen against the United

States dollar since its peak in 1995. Public works expenditure increased after the announcement of an expansionary fiscal package in 1995. Housing investment was stimulated by relaxed credit conditions.

5. Developing countries continued to outpace industrialized countries in both GDP and MVA growth during the year, and their share of world MVA increased to 20.6 per cent from 19.7 per cent in 1995. Their MVA grew at 6.9 per cent in 1996 compared with 7.1 per cent in 1995, although growth remained uneven. However, the growth gap among developing regions was narrower compared with that in the previous year due to improved performance in Africa and in Latin America and the Caribbean, and slower growth in Asia. Growth in the former regions was spurred by recovery in major economies and continuing economic reforms, while performance in Asia was dampened by lower export growth, particularly in the electronics sector, as well as by past deflationary macroeconomic policy.

6. In economies in transition, GDP growth continued to be uneven. Central and Eastern Europe registered lower growth while the Russian Federation was still deep in recession. Many countries in the region have, however, continued to make progress in reducing inflation. FDI inflows in the region continued to surge during the year, fuelled by rapid processes of privatization and economic liberalization. As a whole, the GDP of economies in transition continued to shrink (-2.6 per cent in 1996 compared with -3.0 per cent a year earlier).

7. Within the region, manufacturing activity regained some ground, recording MVA growth of -1.6 per cent compared with -8.1 per cent in 1995. Central and Eastern Europe succeeded in sustaining growth, while decline continued in the countries of the former Soviet Union. Export performance was hindered by slower external demand, particularly from neighbouring industrialized countries. In 1994 for example, Eastern Europe exported more than 50 per cent of its manufactured goods to Western Europe. Growth in the Russian Federation remained weak, with domestic investment falling by 17 per cent during the first nine months of the year. Light industries continued to face mounting competition from imports, registering a sharp drop in production while consumer spending continued to be weak.

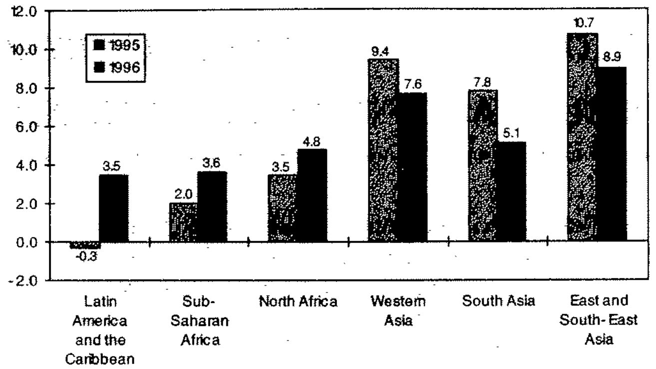
Regional trends

8. Manufacturing performance in developing countries was affected by slower world trade, which had an adverse impact on export-oriented economies, particularly in East and South-East Asia. At the same time, lower FDI inflows to developing economies during 1995 did not bode well for investment growth in 1996. Developing countries accounted for 32.7 per cent of total world inflows, down from 38.6 per cent in 1994. The adverse impact on growth was partly offset by stronger domestic demand, led by high levels of investment in infrastructure projects.

Latin America and the Caribbean

9. Recovering from the recession of the previous year, MVA in Latin America and the Caribbean grew at 3.5 per cent in 1996 (figure 2). This is attributable to strong recovery in major regional economies, notably Argentina and Mexico, where market confidence was restored by continuing economic reform efforts, and higher exports boosted growth. The region accounted for about a quarter of developing countries' MVA in 1995.

Figure 2. Subregional growth of manufacturing value added, 1995 and 1996 (percentage)



10. In Mexico, MVA grew at 5.6 per cent, compared with a fall of 4.6 per cent in 1995. Total export earnings during the first nine months of 1996 were 19 per cent higher than for the same period a year earlier. Domestic demand recovered as consumer and investor confidence was restored by continuing adjustment efforts in the wake of the financial crisis in early 1995. Also in Argentina, manufacturing performance improved and MVA growth rose from -7.6 per cent in 1995 to 3.2 per cent in 1996. Gross fixed investment recovered significantly towards the second half of the year, while total exports rose by 10 per cent during the first nine months. Better performance in agriculture also helped to boost growth, particularly for related industries such as tractor manufacturing and agro-chemicals.

11. In Brazil, tight monetary policies introduced in mid-1995 have lowered economic growth to a more sustainable level. In line with lower GDP growth, MVA growth slowed to 2.8 per cent compared with 3.0 per cent in 1995, above all due to a considerable slow-down in the production of capital goods. However, FDI inflows remained strong, fuelled by privatization and a surge in joint-venture agreements with multinational automobile manufacturers. In Chile, both GDP and MVA growth moderated from 8.5 and 6.1 per cent in 1995 to 4.7 and 3.3 per cent respectively in 1996. Domestic consumption declined considerably, although gross fixed investment remained strong, while FDI inflows grew sharply during the first nine months of the year at 35.3 per cent.

12. Against a backdrop of rapid globalization, Latin America and the Caribbean faces the challenge of sustaining and enhancing economic growth and international competitiveness. This entails continuing economic reform and liberalization efforts, raising saving and investment rates, upgrading technological capabilities, restructuring industries and developing human capital. The saving and investment rates of the region, both below 20 per cent of GDP, were considerably lower than those for East and South-East Asia. FDI inflows in the region, which grew at only 5 per cent in 1995 (compared with 30 per cent in 1994) and which accounted for about 27 per cent of total inflows in developing countries, were also much lower than for East and South-East Asia.

13. Unlike countries in East and South-East Asia, industries in the region are still dominated by labour-intensive and resource-based manufacturing. In terms of MVA, the top three manufacturing industries in 1995 were food manufacturing, chemical products and petroleum refineries, which have a combined MVA share of about 32.5 per cent. Transport equipment was the fourth largest industry, accounting for 7.6 per cent of total MVA, while skill-intensive industries such as electrical and non-electrical machinery accounted for 5.6 and 4.9 per cent respectively.

Sub-Saharan Africa

14. In 1996, sub-Saharan Africa as a whole continued to register encouraging manufacturing performance, spurred by continuing macroeconomic reforms and privatization programmes. MVA grew stronger (its third consecutive year) at 3.6 per cent, led by recovery of major economies from the recession in the previous year. MVA growth outpaced that of GDP, which slowed to 2.5 per cent from 3.3 per cent in 1995. A number of the larger economies recorded higher growth while many LDCs registered lower growth compared with the previous year. In Cameroon, Nigeria and Zimbabwe, MVA growth was higher at 5.0, 0.8 and 4.9 per cent respectively in 1996, compared with -1.0, -6.2 and 1.5 per cent in 1995. The three countries accounted for more than a quarter of the subregion's MVA share. On the other hand, about 20 of the 33 LDCs in the region recorded lower MVA growth compared with 1995.

15. The main challenge facing the subregion is to raise and sustain real per capita growth in incomes. This is made more difficult by population growth, which averaged 2.5 to 3.0 per cent *per annum* from 1980 to 1995. Pervasive poverty has led to low consumer demand, and saving and investment rates, hindering growth and productivity.

16. The subregion continued to be marginalized from the trend towards economic globalization, as reflected by its small share in world FDI inflows and weak manufactured exports. In 1995, the subregion accounted for only 2.9 per cent of total FDI inflows to developing countries and only 0.9 per cent of total global inflows. Such inflows have also been erratic, falling by 3 per cent in 1995 compared with a sharp growth of 65 per cent in 1994. At the same time, political uncertainties, and constraints in infrastructure and human resources development, have all hindered the growth of FDI inflows.

17. In terms of exports, sub-Saharan Africa is still highly dependent on agriculture. The subregion accounted for less than 2.5 per cent of world trade in manufacturers in 1994. Less than 10 per cent of total exports are manufactured goods. Moreover, its manufacturing base is not only small (accounting for less than 0.4 per cent of world MVA in 1995), but continues to be based narrowly on the primary processing of local agricultural and mineral commodities, which have low income elasticities in international markets. In 1995, labour-intensive food, beverage, tobacco and textile industries accounted for slightly more than 40 per cent of the subregion's MVA, while skill-intensive transport equipment, electrical and non-electrical machinery accounted for a combined share of less than 8 per cent.

18. A priority of the subregion is to accelerate manufacturing activity and build a diversified and efficient manufacturing base. This quest for manufacturing growth must be closely linked to agriculture to exploit initial comparative advantages in a relatively short time. Eventually, the subregion will have to face the challenge of broadening and deepening its manufacturing base and expand into skill-intensive industries producing goods with higher income elasticities. This process will require upgrading technological capabilities and developing human capital. The participation of foreign investors and the domestic private sector would help to quicken the process.

North Africa and Western Asia

19. In North Africa, MVA growth rose to 4.8 per cent from 3.5 per cent in 1995. GDP growth increased in 1996 to 3.7 per cent compared with 1.7 per cent in 1995. Algeria, Egypt and Morocco, with a combined share of subregional MVA of close to 75 per cent, recorded higher MVA growth of 2.3, 4.0 and 5.0 per cent respectively, compared with 1.4, 3.6 and -0.5 per cent in 1995. These countries have all made progress in achieving macroeconomic stability and liberalizing external trade.

20. In Western Asia, MVA growth slowed to 7.5 per cent from 9.4 per cent in 1995. Strong MVA growth in the Islamic Republic of Iran was offset by lower growth in many other countries in the subregion. MVA in the Islamic Republic of Iran grew by 6.7 per cent, compared with 4.0 per cent in 1995, led by higher production in petroleum-related industries. Higher demand for petrochemical exports also strengthened growth. In Turkey, MVA growth fell to 9.4 per cent from 13.9 per cent in 1995, while MVA growth in Saudi Arabia remained stable at 5.4 per cent.

21. Manufacturing activities in North Africa and Western Asia, which are concentrated in oil and oil-

related sectors, have stayed at relatively low levels over the past decade. Investment has largely been driven by the public sector with limited, albeit growing, private sector participation. FDI inflows into the subregion accounted for less than 5 per cent of total inflows to developing countries in 1995. The growth of these inflows continued to contract, at -5.7 per cent in 1995 compared with -6.5 per cent in 1994. The subregion faces the key challenges of raising FDI inflows and diversifying its manufacturing base. Enhanced long-term growth will require sustained economic reforms, together with increased saving and investment rates and greater participation of the private sector.

South Asia

22. MVA growth in South Asia slowed to 5.1 per cent in 1996, down from 7.8 per cent in 1995, in line with slower GDP growth. India, which accounts for close to 80 per cent of the region's MVA, recorded MVA growth of 5.5 per cent, compared with 8.0 per cent in 1995. Growth of total exports slowed significantly during the year while tighter monetary conditions also reduced output. High interest rates, lower demand and high inflation had a negative effect on corporate profits during the year. Growth in Pakistan and Sri Lanka also fell to 3.7 and 5.3 per cent from 4.4 and 7.8 per cent respectively in 1995.

23. The subregion has benefited considerably from economic deregulation and liberalization in recent years. It has been able to exploit its comparative advantage in labour-intensive industries, and competitive pricing (rather than quality) has enhanced performance in international markets. The subregion's MVA and exports are still dominated by low value-added products such as textiles. As liberalization continues and tariff rates fall, domestic industries face mounting competitive pressure from imports. The subregion faces the challenge of enhancing its industrial competitiveness through a more diversified and efficient industrial structure. In addition to an appropriate policy context, this requires constant upgrading of technological capabilities and human capital, greater private sector participation and development of an efficient physical infrastructure.

East and South-East Asia

24. East and South-East Asia, including China, continued to record the highest rate of MVA growth in the world. MVA growth, however, slipped to 8.9 per cent in 1996, from 10.7 per cent in 1995. Stronger domestic demand helped to partly offset the sharp fall in the region's export growth. In China, despite tight monetary policies, MVA growth remained strong at 11 per cent, compared with 12.2 per cent in 1995. However, monetary policy did help to curb inflationary pressures significantly and effect price stability, paving the way for more sustainable growth. Total exports slowed significantly, falling by about 3 per cent during the first nine months, while private consumption and FDI remained buoyant.

25. Growth was also lower in Asian newly industrializing economies, with the exception of Hong Kong. Singapore, the Republic of Korea and Taiwan Province of China were adversely hit by the global exports slow-down, particularly in the electronics sector, and their MVA growth fell sharply in 1996 to 5.8, 6.9 and 3.0 per cent from 10.3, 12.0 and 4.0 per cent respectively in 1995. Electronics account for a large percentage of export revenues in these economies. In Singapore, electronics account for about 40 per cent of manufacturing output and more than 60 per cent of non-oil exports. During 1996, world demand for semiconductors plummeted, owing to overproduction in the previous year.

26. Among the ASEAN countries, MVA growth remained strong in Indonesia and Malaysia and moderate in Thailand. These countries registered MVA growth of 13.8, 13.7 and 7.9 per cent in 1996 compared with 13.7, 13.6 and 10.1 per cent respectively in 1995. Buoyant domestic demand, particularly from infrastructure investments, helped to support growth as exports moderated. The Philippines turned in better MVA growth of 5.1 per cent (compared to 4.8 per cent in 1995) fuelled by higher foreign investment and improved manufactured exports.

27. East and South-East Asia comprise a diverse group of economies at varying stages of economic development. On the one hand, it contains about one-fifth of the world's LDCs, and on the other hand, some of its rapidly industrializing countries have attained a level of per capita income similar to that of industrialized countries. Growth fundamentals in the latter countries remain strong despite occasional cyclical slow-downs (such as the slump in electronics exports experienced in 1996). High levels of domestic demand and expanding intra-regional trade have both helped to support growth. However, these countries face increasing competition in international markets from many developing countries, notably from other ASEAN countries and China. The challenge for the rapidly industrializing countries is to maintain their market position by increasing productivity, and ascending production ladders, against a backdrop of rising costs.

28. China and the ASEAN countries face another set of challenges. Concerns over current account deficits and economic overheating have arisen in many of these countries in recent years. Measures have been taken to restrain domestic demand and to remove capacity constraints by investing in infrastructure projects. There is also a need for these countries to enhance their international competitiveness by investing in upgraded technological capabilities and human capital.

CHAPTER II

UNIDO REFORM: 1996

1. Following a comprehensive report on the UNIDO reform to the sixth session of the General Conference in December 1995, the Director-General was requested to continue to implement the reform process, including a new organizational structure and a coherent application of the identified priorities by further focusing the activities of the Organization. The Industrial Development Board, during its fifteenth session in May 1996 and in its sixteenth session in November 1996, requested the Director-General to continue efforts to implement and conclude the reform process, whereby the Board in both sessions requested action in specific areas, as reported below.

New organizational and staff structure

2. Based on the results and recommendations of the UNIDO reform process and in accordance with the merger of Major Programmes as contained in the approved programme and budgets, 1996-1997 and related contingency plans, a new organizational structure of UNIDO took effect on 1 March 1996.

3. A new Policy Coordination Office was established within General Management to consolidate critical planning and oversight functions. This new office effectively links the Organization's strategic planning and thematic priority setting with the development, approval and evaluation of its substantive programmes and projects. It oversees the entire process of managing UNIDO services (project cycle management), including in particular the promotion of cross-organizational teamwork and consolidated reporting on the Organization's services to Member States. The neutrality of both quality assurance and evaluation has been reinforced by their organizational delinking from any programme development or implementation considerations.

4. The former Country Strategy and Programme Development Division and the former Mobilization and Management of Financial Resources Division were merged into a single Country Programmes and Funds Mobilization Division, thus ensuring that the programming and the funds mobilization functions are discharged as integrated and simultaneous activities.

5. The Industrial Information Section was redeployed to the Investment and Technology Promotion Division, resulting in enhanced synergy effects of these closely interlinked programmes. The Operational Support Services Division was merged with the Division of Administration and an overall significant streamlining of administrative and support functions ensured the safeguarding of UNIDO's basic delivery capacity for substantive services.

New programme initiatives - enhancing UNIDO's relevance

High-impact programmes

6. Five such programmes, which reflect the focus on the Organization's new thematic priorities and respond to expressed priority demands of Member States, were developed in 1995 and implementation began in 1996. Specifically, these programmes concern: (a) integrated advisory services for industrial policy formulation and competitiveness strategies; (b) quality control in food processing in sub-Saharan Africa; (c) global abatement of mercury pollution in gold-mining; (d) development of entrepreneurship for women; and (e) promotion of competitive and innovative small and medium enterprises. For all five high-impact programmes, full funding has been obtained from donors.

Alliance for Africa's Industrialization

7. The Alliance represents UNIDO's special effort complementary to the Secretary-General's United Nations System-wide Special Initiative on Africa that was formally launched in March 1996 and that calls upon United Nations agencies to work collectively for the enhancement of African development. Details of all relevant features of this special new initiative are provided in chapter V.B of this report.

Private sector involvement

8. The growing importance of the private sector as the main agent of industrial development had been identified at the beginning of the reform process as one of the strongest trends to which a renewed UNIDO would have to respond. The Organization has thus endeavoured to ensure not only that its services ultimately benefit the private sector—which applies to the great majority of technical cooperation projects—but also to involve private sector entities, above all private sector institutions and associations, more directly as project counterparts.

9. This increasing involvement has significantly broadened the range of UNIDO counterparts and has led to direct interaction with industry and industrial associations. As a result, the services demanded from UNIDO have become more specific and sophisticated: up-to-date expertise is needed to advise, for instance, on competitive and clean technologies and on quality management. As a consequence, UNIDO staff has to be highly specialized and must command direct industry-level experience so as to be able to compete in a market-driven environment calling for rapid responses. As is evident from the activities described in the various chapters of this report, private sector involvement is noticeable throughout the various technical cooperation programmes of UNIDO, e.g. in enterprise development and restructuring, industrial policy and strategy advice, small and medium industries promotion, environment-related activities, investment promotion and technology transfer.

10. Based on discussions and recommendations emanating from the open round table of industrialists during the sixth session of the UNIDO General Conference in December 1995, UNIDO has further developed two complementary approaches aimed at extending and strengthening its links with the private sector in an advisory capacity, i.e. the establishment of international and national business advisory councils (see chapter IV.G of this report).

Other specific programme initiatives

11. In the course of the year, the Organization not only further refined and enhanced its activities addressing the thematic programme priorities, but specifically reformulated its strategies and programmes for the least developed countries (chapter V.G). In recognition of UNIDO programmes and achievements in response to the growing need for South-South cooperation, the Organization was invited to participate in the substantive preparation of the Group of 77 South-South Conference on Trade, Finance and Investment, and also participated in the Conference itself in Costa Rica in January 1997 (see chapter III.C).

Global forum role

12. The global forum role, responding to the increasingly globalized and interdependent world economic environment, provides an opportunity for UNIDO to take the lead in the international dialogue and exchange of experience on industrial development issues. Within this global forum role, UNIDO also carries out industry-related normative activities designed to enhance economic and social welfare at both national and global levels.

13. Work began early in the year on the conceptualization of "normative activities", drawing on technical competence and knowledge in fields in which UNIDO is a leader as reflected in the Organization's established credibility and recognition as an impartial and neutral international force. As a first step in this direction, efforts concentrated on enhancing the application and dissemination of in-house knowledge, expertise and databases, i.e. increased dissemination and aggregation of industrial statistics; extension of the activities on metrology, standards and quality control from a national to an international level as well on formulating a UNIDO industrial development index as an analytical instrument to monitor country-level achievements.

Inter-agency coordination

14. An essential dimension of the UNIDO reform process relates to the division of labour and responsibilities among the various entities and funding organizations of the United Nations system, and specifically to the required definition of programme focus and clear-cut delineation of areas of expertise. UNIDO therefore in early 1996 began a coordination initiative on industrial development in the United Nations system, exploring the cooperation potential with selected agencies.

15. As a further step in this direction, the Director-General of UNIDO and the Secretary-General of the United Nations Conference on Trade and Development intensified efforts relating to cooperation and coordination between the two organizations based on existing mandates and core competencies. A joint communiqué was signed in April 1996 covering regular consultations and supporting the improvement of working relations at all relevant levels; cooperation in science and technology, investment promotion and enterprise development, especially for small and medium enterprises; and the improvement of coordination across the board to use resources more effectively and efficiently, particularly for the interrelated issues of information, investment and technology promotion.

16. A memorandum of understanding between UNIDO and the Inter-American Development Bank was signed in February 1996, establishing a model agreement for services to be provided by UNIDO in respect of technical cooperation projects financed by Bank loans. This model agreement is the first of its kind between UNIDO and an international development financing institution. Similar agreements are expected to be concluded with other such institutions.

Management of UNIDO services

17. One of the main areas of the UNIDO reform process concerns the streamlining and simplification of the entire UNIDO programme and project cycle, i.e. programming and project development, approval and implementation.

18. Early in 1996, internal concept papers for all seven thematic priorities were developed, clearly outlining for each priority relevance and objectives as well as the focus and component programmes for the biennium, connected with the relevant cross-organizational cooperation arrangements. At the same time, UNIDO undertook to significantly streamline the development process for its services. Two bulletins were issued by the Director-General providing detailed policy guidelines on the development of programmes and projects under the thematic priorities, defining the roles and responsibilities of the various organizational units in this process; redefining the functions, authority, responsibility and accountability of the Programme and Project Review Committee as the approval body for UNIDO programmes and projects; and establishing rules of procedure for discharging its responsibilities.

19. A Director-General's bulletin on principles and procedures for project implementation was under preparation in 1996 for issuance in 1997. It will be based on lessons learned during 1996 pilot operations with regard to the decentralization of certain operational support functions. Delegation of authority and accountability will form the main cornerstones of the new guidelines.

20. The new proactive and focused programming approach—which is expected to lead to a more limited number of larger programmes/projects with higher impact—is complemented by a rigorous screening of *ad hoc* requests for UNIDO services.

Improvement of supporting processes

21. A revised recruitment scheme was introduced in 1996 with enhanced delegation of authority to line managers. In the selection process for all vacant posts, high participation by senior staff and supervisors is now ensured from the screening of candidates through interviews to the final selection. A new placement and promotion system was introduced, enhancing the principle of competitiveness in filling vacancies for all categories of staff. Similarly, a new staff performance evaluation system went into effect, underscoring the importance of managerial effectiveness and accountability, while also stressing the link between individual and organizational performance. Training programmes and facilitation guidelines for these new systems supported their implementation by managers and staff.

22. An internal cost accounting system allowing comparison between cost incurred and income earned at the programme level was developed and put into operation. The management information expected to be derived from this system will allow better allocation of operational budget resources in line with proven demand for technical cooperation services earning supporting cost income.

23. Work has continued on the formulation of a new Management Information Service strategy and policies, which are expected to provide the framework for the management of information as an institutional resource and will define the goals to be achieved for the next three to five years as well as the means to achieve such goals. The strategy will include: (a) an overall needs analysis of the support that information technology should provide to business processes as well as to administrative services of UNIDO; (b) an assessment of the current situation; (c) a technical architecture in the form of overall standards of hardware, software, databases and networks; (d) an organizational architecture; and (e) a prioritization based on available human and financial resources.

24. In line with the new management principles, new procedures and administrative guidelines have been developed to simplify administration and give greater autonomy and flexibility to Investment Promotion Service offices. A further decentralization and delegation of authority to UNIDO Country Director offices is envisaged following the proposed introduction of subregional offices. Meanwhile, a new quarterly reporting system for UCDs was introduced, linked to the annual work programme of field offices and establishing uniform reporting requirements.