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INDUSTRIAL DEVELOPMENT BOARD

First Session

SUMMARY RECORD OF THE TENTH MEETING

Held at Headquarters, New York,
on Tuesday, 18 April 1967, at 3.15 p.m.

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ID/B/L.1, L.2, L.3) (continued)

PRESENT:

<u>President:</u>	Mr. TELL	(Jordan)
later,	Mr. BRADLEY	Argentina
<u>Rapporteur:</u>	Mr. MBAYE	Guinea
<u>Members:</u>	Mr. BRADLEY)	Argentina
	Mr. VIDAL ETCHEVERRY)	
	Mrs. SAILER	Austria
	Mr. FORTHOMME)	
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	Mr. INCHAUSTEGUI)	
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	Mr. TORNQVIST	Finland
	Mr. ERNEST	France
	Mr. CHADHA	India
	Mr. KAMIL	Indonesia
	Mr. NASRE-ESFAHANI	Iran
	Mr. PISANI MASSAMORMILE	Italy
	Mr. KOFFI	Ivory Coast
	Mr. ABE	Japan
	Mr. SAAD	Jordan
	Mr. KHANACHET	Kuwait
	Mr. LUBBERS	Netherlands
	Mr. OLUMIDE	Nigeria
	Mr. ASHRAF-UZ-ZAMAN	Pakistan
	Mr. FERNANDINI	Peru
	Mrs. KODIKARA	Philippines

PRESENT (continued):

<u>Members (continued):</u> Mr. DUMITERESCU	Romania
Mr. RYAECNYENDE	Rwanda
Mr. GALAN) . VALLAURE)	Spain
Mr. SAHLOUL	Sudan
Mr. HULTNER	Sweden
Mr. DAHINDEN	Switzerland
Mr. BARPUYAWART	Thailand
Mrs. SOLOMON	Trinidad and Tobago
Mr. ALTINEL) Mr. KIRIMLIOGLU)	Turkey
Mr. ANANICHEV	Union of Soviet Socialist Republics
Mr. SALAMA	United Arab Republic
Sir Edward WARNER	United Kingdom of Great Britain and Northern Ireland
Mr. BLAU	United States of America
Mr. MENDIOLA	Uruguay
Mr. MANDA	Zambia

Observers for Member States:

Mr. RAHMANI	Algeria
Mr. BENSON	Australia
U BA YIN	Burma
Mr. MULONGO	Congo (Democratic Republic of)
Mr. SUBERO	Dominican Republic
Mr. MAKAYA-CASTANOUL	Gabon
Mr. SHAI	Israel
Mr. WHITING	Jamaica
Mr. CARRANCO AVILA	Mexico
Mr. CHULUUNBAATAR	Mongolia
Mr. DEVENDRA	Nepal
Mr. STANGHOLM	Norway
Mr. NENEMAN	Poland

PRESENT (continued):

Observers for Member States (continued):

Mr. WALDRON-RAIMSEY	United Republic of Tanzania
Mr. LAVICVIC	Yugoslavia

Representatives of specialized agencies:

Mr. AMMAR	International Labour Organisation
Mr. ATEN	Food and Agriculture Organization of the United Nations
Mrs. THOMAS	United Nations Educational, Scientific and Cultural Organization
Mr. PERINEAM	International Bank for Reconstruction and Development
Mrs. KALM	World Health Organization

Representative of the International Atomic Energy Agency:

Mr. NAJAR

Representative of the General Agreement on Tariffs and Trade:

Mr. HORTLING

Representatives of other United Nations bodies:

Mr. HARLAND	United Nations Development Programme
Mr. NERFIN	World Food Programme
<u>Secretariat:</u> Mr. ABDEL-RAHMAN	Executive Director, United Nations Industrial Development Organization
Mr. QUIJANO CABALLERO	Director, Technical Co-operation Division
Mr. KAIGL	Assistant Director, Industrial Policies and Programming Division
Mr. GRIGORIEV	Director, Industrial Technology Division
Mr. MULLER	United Nations Conference on Trade and Development
Mr. SYLLA	Secretary of the Board

FUTURE PROGRAMME OF WORK AND ACTIVITIES OF UNIDO (ID/B/4 and Corr.1-3, ID/B/8 and Add.1 and Add.1/Corr.1, ID/B/9, ID/B/10, ID/B/11; ID/B/L.1, L.2, L.3) (continued)

Mrs. KODIKARA (Philippines) noted that the work of UNIDO was progressing satisfactorily, despite its limited budget. The new organization should concentrate on improving and expanding existing services before embarking on new activities, and its principal task in the early stages would be the co-ordination of United Nations activities in the field of industrial development.

Because industrial development was a complex process involving a wide variety of economic sectors and necessitating careful planning, programming, evaluation and implementation, great care must be taken in establishing priorities for the development of industries and related services. UNIDO might concentrate on the manufacturing and mining industries, and on such service activities as programming, evaluation, implementation, location of industry, regional development, land utilization and administrative decentralization. All those spheres of activity would require local experts, as well as experts provided by the new organization. It was important to take the particular economic, social and historical conditions of each country fully into account.

In view of the advantages of sub-regional specialization, UNIDO might wish to give priority to industries which would complement and support existing industries. Import-substitution and export industries could be located in growth areas where the subsequent establishment of industrial complexes would be possible. The optimum location and number of such growth areas must be carefully determined in each country, taking into account the dangers of over-centralization on the one hand and over-dispersion on the other. Industrial development in such areas must be carefully planned, so that economies of scale and of transport could be effected. In that connexion, there must be close co-operation between UNIDO and the Commission for Social Development in such fields as urban construction, population settlement and resettlement, and local government.

In its industrial development programme for 1967-1970, the Philippine Government was endeavouring to stimulate investment in certain priority projects, especially in mining and manufacturing. The programme had three basic objectives: to encourage the development of the metallurgical, chemical and other basic

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Mr. SYLLA	Secretary of the Board
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(Mrs. Kodikara, Philippines)

industries; to help to achieve sufficient agricultural production and reduce the amount of imported food-stuffs; and to develop industries producing basic commodities, such as wood, paper and copper products. The Government also attached importance to the food-processing, petroleum and mining industries.

In drawing up its work programme, UNIDO might wish to take account of a number of industrial projects which had been proposed and approved by the Asian Industrial Development Council and which were of particular interest to Asian countries. The Board might wish to give priority to industries with a high income yield per unit cost, so that the process of industrialization could be hastened and the objective of self-sustaining growth subsequently achieved. The Board could also assess how industrialization fitted into the over-all concept of the United Nations Development Decade, and perhaps set its own development targets; such targets might, for example, envisage an annual rate of growth of between 7 and 9 per cent in the manufacturing sector and give greater emphasis to manufacturing than to agriculture.

Mr. Bradley (Argentina), Vice-President, took the Chair.

Mr. KAMIL (Indonesia) said the developing countries were confident that UNIDO would play an important role in helping them to accelerate their industrial development and thus narrow the gap between them and the industrialized countries. All members seemed to recognize the importance of the Board's first session as the forum in which the groundwork for the sound development of the organization would be laid. Accordingly, the most important task at the current session would be to ensure that the structure and personnel of UNIDO were equal to the demands which would be made of them. Much valuable documentation had been prepared for the consideration of the Board, which should not, however, devote too much of its limited time to an extensive study and evaluation of the documents; rather, they should be treated as additional sources of information to be used in formulating directives to the Executive Director for the implementation of the Board's policies. Those policies, as reflected in UNIDO's programme of operational activities, should serve directly to accelerate the process of industrialization, with particular emphasis on the manufacturing sector, as stated in General Assembly

(Mr. Kamil, Indonesia)

resolution 2152 (XXI). In that connexion, he agreed with those speakers who had stressed the need for a pragmatic, action-oriented approach.

The documentation showed that a great many studies were being carried out with regard to activities and operations which UNIDO hoped eventually to undertake. While long-term projections might in principle be of value, he thought that for the time being the Board should not endorse projects covering other than short-term requirements; for the structure of the organization was in its formative stage, any policies and directives decided on by the Board had yet to be accepted by the membership as a whole, and it was not known with certainty what funds would be available for the activities of UNIDO.

The Board should direct the secretariat to ascertain the priority requirements of Member States, especially developing countries, and then to draw up a short list of the most urgent projects to be included in a programme of work. In view of the organization's limited financial and manpower resources, its activities should for the time being be concentrated on a limited number of operations most needed by the great majority of Members. Since Indonesia was situated in a region where agriculture and mining were important, his delegation naturally considered it appropriate that a prominent place on the list should be given to industrial development related to those activities, including the production of manufactured goods both for export and for local consumption, as a means of saving foreign exchange for the importation of machinery and other items needed for industrial development.

Another matter to which immediate attention should be directed was decentralization. The Board might wish to request the Executive Director to make a study of the subject and report to it at the next session. The study should cover the establishment of regional offices for industrial planning, programming and services connected with the promotion and acceleration of regional development, along the lines of the Asian Industrial Development Council; local consulting bureaux which could draw upon the regional offices for information, advice and services to be applied at the national or local level could be set up later. Personnel of the Programme of Special Industrial Services should be attached to the regional offices. The SIS Programme performed a vital function in the developing

(Mr. Kamil, Indonesia)

countries by helping them to carry out crash programmes and cope with emergencies, and he hoped that it would not be encumbered by red tape.

UNIDO would have the task of co-ordinating the activities of existing United Nations bodies which had their own rules, policies and procedures. The Board should give the Executive Director guidelines for the fulfilment of that task; perhaps he could be requested, in consultation with the heads of the bodies concerned, to prepare a working paper on the subject.

In conclusion he hoped that, in the recruitment of staff, the Executive Director would bear in mind the question of regional representation.

Mr. Tell (Jordan) resumed the Chair.

Mr. KHANACHET (Kuwait) observed that industrialization was not an end in itself but a means of achieving social objectives. Each country must therefore make its own decision on priorities, taking into account its particular social and economic conditions, but emphasis should be laid on promoting export-oriented industries, which would enable developing countries to earn the foreign exchange they needed to purchase capital goods and become less dependent on foreign aid.

Although developing countries wished to increase the volume of their exports, the adverse terms of trade which they encountered undermined the stability of their economies and jeopardized their development planning. The joint efforts of UNIDO and UNCTAD would be needed to increase and stabilize the export earnings of developing countries and maintain acceptable prices for manufactured goods in relation to those of primary products.

The establishment of UNIDO demonstrated not only the international community's recognition of the importance of industrial development but also its desire to make a more vigorous contribution to solving the complex problems of industrialization. The success of the new organization would depend on four major factors: its degree of flexibility within the limits of available resources, co-ordination of its work with that of other United Nations bodies, the amount of aid furnished by the developed countries in the form of technical assistance and know-how or in financial contributions, and the use which developing countries made of the assistance they received from the new organization.

(Mr. Khanachet, Kuwait)

While the programme to be drawn up for the rest of 1967 and for 1968 should be action-oriented, it should also take account of the recommendations made by the three regional symposia and by the Arab States, and should be sufficiently flexible to allow the incorporation of any recommendations made by the forthcoming International Symposium on Industrial Development. The particular economic and social conditions of each country must be taken into account in formulating projects, although countries with similar problems could be covered by regional programmes. The problems facing the organization could be divided broadly into eight categories: the survey and assessment of natural resources; the establishment of industrial investment priorities compatible with over-all development priorities; manpower training, productivity and applied research; the transfer of modern technology; patents; technical and economic feasibility studies; the establishment of appropriate institutions for the promotion of industrial activities, particularly in the field of marketing; and financial and capital requirements. In its activities in those fields, UNIDO would have to co-operate closely with such bodies as UNDP, UNCTAD and the World Bank Group.

Regional co-operation was a powerful means of stimulating industrial production, expanding the market and creating economies of scale. The Arab countries were endeavouring to broaden the markets for their agricultural and industrial products by increased specialization and co-operation. However, their efforts to establish an Arab common market must not be seen as a lack of interest in world markets; for it was only if they gained free access to world markets without trade barriers that they could emerge as industrial countries. Seminars on capital investment guarantee and on fertilizers and petrochemicals were to be held in Kuwait during 1967, and the recommendations of the seminars and of the 1966 Symposium of Arab States would be submitted to the International Symposium at Athens.

Mr. ANANICHEV (Union of Soviet Socialist Republics) said that the Soviet Union had accumulated considerable experience in the field of industrialization, which it was ready to share with all countries striving to attain economic independence. The Governments of many developing countries had made industrialization a key-stone of their economic policy, and over 70 per cent of Soviet aid to those countries was devoted to industrial projects. With the assistance of the Soviet Union, over 600 industrial and other projects were under

(Mr. Ananichev, USSR)

construction in the countries of Asia and Africa, and 200 of them were already operating. His country was also giving industrial assistance to the developing countries through the United Nations, and it therefore attached great importance to the future programme of work of UNIDO.

That programme must have a clearly defined purpose: to solve the key problems of industrialization, while maintaining a proper balance between operational and research activities. His delegation agreed with the Executive Director that UNIDO should not engage in abstract or technical studies or enter into competition with the many national bodies active in that area. Rather, its research work should serve as a guide for the operational activities of the organization. Those activities, in turn, should combine a practical approach to individual projects and a solution of the key over-all problems of accelerated industrialization.

Accelerated industrialization was possible only with the most active participation of the State in the economic life of a country. That was no mere theoretical conception. Even in the developed capitalist countries, the State had assumed a primary role in stimulating production. In a number of developing countries, the increased role of the State in production and distribution was becoming the main factor in economic development. Only the State could withstand the possible negative effects of foreign capital.

The experience of the Soviet Union had made it abundantly clear that the State was in the best position to promote accelerated industrialization. In fifty years the industrial output of the Soviet Union had grown by leaps and bounds, and Soviet industry now produced almost one fifth of the world's output. Rapid industrialization had also been achieved in other socialist countries and in a number of developing countries where the State sector accounted for a large proportion of the economy. UNIDO should therefore do all it could to promote the State sector in developing countries, so that industrialization might be effected as rapidly as possible for the benefit of the nation as a whole. It should also assist in the creation of State agencies for industrial technology, production and planning.

National sources of financing were crucial to industrialization. The volume of State funds allocated to industry was increasing in many developing countries, and in some cases it amounted to more than one half of total investments. The developing countries had taken action to mobilize domestic financing for

(Mr. Ananichev, USSR)

industrialization by encouraging light industry and export industries and through other measures. However, the domestic resources of those countries were not yet sufficient to ensure the accelerated rise in production which was needed. The difficulties were particularly great at the initial stage of industrialization and in the transition to large-scale industry. Because of the general shortage of funds, particularly foreign currency, the developing countries were forced to seek additional resources in the form of foreign capital, both public and private. However, experience showed that external assistance could speed development only if it was geared to national development plans, and it must not be tied to political conditions detrimental to the economy or the sovereignty and national dignity of the recipient country.

UNIDO should help the developing countries to set up machinery to mobilize domestic resources for industrialization, but neither the necessary level of accumulation nor industrialization itself could be attained without radical social and economic reforms. Moreover, the widest possible use must be made of the developing countries' own natural resources.

Although many developing countries, inspired by the example of the socialist countries, had turned to State planning as a means of promoting economic development, the work of various United Nations bodies in the field of planning left much to be desired. In a number of cases, it was proposed that so-called "indicative" or "recommendatory" planning rather than directive planning, should be applied. However, indicative planning could not lead to satisfactory plan fulfilment, because of the gap between forecasting and implementation. UNIDO should intensify its work in that sphere, particularly with regard to plan implementation. Indicative planning was also incapable of bringing about genuine social and economic reforms, since it was designed merely to correct and regulate the spontaneous processes of development.

It was important to achieve a proper balance among the various branches of industry. Failure to maintain such a balance could give rise to complex economic problems and could even nullify the advantages of industrialization. Soviet planning agencies and scientific and research organizations were ready to communicate their experience to specialists from the developing countries, by seconding their own specialists through the United Nations and by holding seminars on various aspects of planning.

(Mr. Ananichev, USSR)

The developing countries differed widely in geography, natural resources, population and level of economic development. It was important, therefore, that each country should develop the various branches of industry in the sequence most appropriate to its circumstances, and that meant, among other things, that the proper balance should be achieved between heavy and light industry. UNIDO devoted considerable attention to light industry, as was understandable, since light industry, while not requiring large-scale capital investment, helped to replenish domestic resources, increase employment, attract individual savings, expand the domestic market and increase the output of various deficit goods. The importance of light industry in the initial stages of development was largely the result of the difficulties inherent in the transition from a colonial economy to an independent national economy. As a factor in industrialization light industry was, of course, transitional and must be subordinated to heavy industry. A proper assessment of the role of light industry in the industrialization of the developing countries was important for the future work of UNIDO.

The development of heavy industry and manufacturing industry deserved most serious attention and must not be lost sight of among the numerous industrial projects being carried on by the United Nations. At present, sixty-five of those projects concerned light industry and only forty-nine related to manufacturing industry; yet one part of UNIDO's task, as set forth in General Assembly resolution 2152 (XXI), was to promote the industrialization of the developing countries, with particular emphasis on the manufacturing sector. There was, of course, no single answer to the question which branch of industry should be developed first in a given country.

The industrialization of the developing countries should be based on the use of the latest achievements of science and technology. Those countries should use the experience accumulated in the industrially advanced countries to hasten their own industrialization. The many seminars and symposia planned by UNIDO would be very useful in that respect, and the exchange of scientific and technical information should also be stepped up.

One of the main obstacles to industrialization was the acute shortage of qualified cadres in the developing countries. UNIDO should give special attention to the training of specialists at the intermediate level, who were in particularly short supply in the developing countries. The shortage of cadres was aggravated

(Mr. Ananichev, USSR)

by the "brain drain". Most developing countries were still very dependent on foreign aid in the training of cadres. The processes of creating a national industry and training cadres went on simultaneously, but it took longer to train workers than to build an industrial enterprise. UNIDO could help by giving special attention to the training of managerial personnel, the exchange of experience in the latest scientific and technological advances, and the use of computers.

It would not be enough for UNIDO merely to continue the work of the Centre for Industrial Development and to hold more symposia. For a number of reasons, the Centre had failed effectively to co-ordinate the activities of the many United Nations bodies involved with industrial development. It was for UNIDO to co-ordinate and evaluate all such activities and to see that the available resources were properly used. His delegation welcomed the decision, taken at the last meeting of Executive Secretaries of the regional economic commissions, that close links should be established between UNIDO, the regional commissions and appropriate specialized agencies on the basis of specific industrial projects. That was a good way of gearing the activities of UNIDO to the real needs of the developing countries. UNDP should also give increased attention to industrial projects.

The best guarantee of UNIDO's success was its universality. Participation in its activities should therefore be open to all States which subscribed to its purposes and principles and wished to acquire or share experience in tackling the most important problem of the age, namely, accelerated economic development.

Mr. WARSAMA (Somalia) said that the first session of the Board was most important, since it would establish the guidelines for the whole future activities of UNIDO. The new organization must involve itself in every aspect of industrial development. The vicious circle of poverty was not unbreakable, and some developing countries were already overcoming the obstacles to growth.

The use of capital equipment in the poorer countries to produce goods and services for the domestic market was inhibited by the small size of the market or, in other words, by the lack of domestic purchasing power. It was difficult for a new industry to create its own demand. Simultaneous investment in a wide range of industries would have better prospects of success. UNIDO should therefore help Governments to set up many-sided, complementary projects, where feasible.

(Mr. Warsama, Somalia)

It should help in establishing institutions for the guidance and servicing of industry, and undertake country studies designed to give Governments of developing countries a unified presentation of developments in the industrial sector. It should set up machinery to establish direct contact with the authorities of the developing countries and the regional economic commissions, as well as the industrialized countries. The Programme of Special Industrial Services was indeed valuable in providing direct and prompt assistance to Governments.

The Governments of many developing countries were forced to subsidize certain industries in the private sector and to operate others directly at a loss, in the hope that they might later be able to turn them over to private ownership when the main obstacles had been overcome. In the less advanced of the developing countries, UNIDO would have to provide managerial and administrative, as well as financial, assistance for industrial projects. Symposia, seminars and workshops could be used to provide technical assistance in that field.

The importance of promoting export-oriented industries in the developing countries was widely recognized, and the activities of UNCTAD in that sector were already appreciable. In order to achieve maximum benefit, however, the definition of those industries must include import-substitution industries, which should be given special attention. Intimately connected with that objective was the identification of individual investment opportunities. UNIDO should help developing countries which could not afford to operate investment promotion centres to attract capital and know-how. In other words, it should bring investment opportunities to the attention of prospective foreign investors. Such promotion services would be extremely helpful to countries like his own. For instance, considerable deposits of iron ore had been discovered in Somalia as a result of United Nations assistance, but Somalia had neither the capital nor the technical know-how to exploit those resources; UNIDO could help by bringing them to the notice of prospective investors.

A complete departure from the traditional pattern of foreign investment was not at present foreseeable. In the past, such investment had often constituted merely an adjunct of the advanced creditor economy, to whose needs it had catered; it had not been able to promote the economic development of debtor countries. In the past, foreign investors had operated mostly in extractive industries,

(Mr. Warsama, Somalia)

meeting the needs of the industrial creditor countries for cheap food-stuffs and raw materials.

In order to attain its objectives, UNIDO must establish close co-operation with the specialized agencies and other bodies concerned with industrial development, particularly UNCTAD, UNDP and the ILO. At the same time, it should not lose sight of its responsibility for co-ordinating industrial activities throughout the United Nations system. The Executive Director could perhaps report to the Board at its next session on the progress made in that respect.

Mr. FERNANDINI (Peru) said that, in the view of his delegation, the success of UNIDO would depend largely on the work of the first session of the Board. He therefore hoped that the Board would formulate precise principles which would constitute a firm foundation for the future work of the Organization.

There seemed to be some difference of opinion as to whether item 6 referred only to the biennium 1967-1968 or to an indefinite period. His delegation believed that the Board should formulate principles which would have continuing validity.

As the work of UNIDO in promoting industrial development would supplement the plans of each country, the organization should, first and foremost, be in a position to evaluate the industrial development plans and programmes and the industrial potential of any country seeking its assistance. Such an evaluation, made jointly by UNIDO and by experts of the country concerned, could do much to accelerate the implementation of national development plans. The Executive Director could perhaps set up teams of specialists and work out a programme with a view to making an evaluation in all the developing countries. As that would be a research project, it could be financed from the regular budget of the United Nations. If it was given priority, funds now being used for studies which seemed less essential could be diverted to it. At the same time, a programme designed to identify industrial development priorities could be carried out in co-operation with the authorities and specialists of the countries requesting it.

The fundamental purpose of the developing countries in calling for the establishment of UNIDO had been to defend their independence; for as long as a country could not use its natural resources and raw materials to the benefit of its own people, its independence could not be called complete. For that reason,

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(Dr. Bernardini, Italy)

His delegation felt that the most urgent task of UNIDO was that set forth in General Assembly resolution 16 (XXI), section II, paragraph 2 (a) (viii). Accordingly, in formulating its work programme, UNIDO should give preference to activities which would promote the exploitation and efficient use of natural resources, industrial raw materials, by-products and new products of developing countries. These countries did not intend to discontinue exporting their mineral and agricultural products, but they felt that a certain proportion should be retained for the benefit of local industries.

One of the Board's tasks at its first session was to work out a programme of cooperation with the specialized agencies, including FAO. He observed in that connexion that, while many speakers had mentioned the importance of agriculture in the economic development of developing countries, the purpose of UNIDO was, after all, to promote industrial development, and it could not give too much of its attention to problems affecting agriculture exclusively.

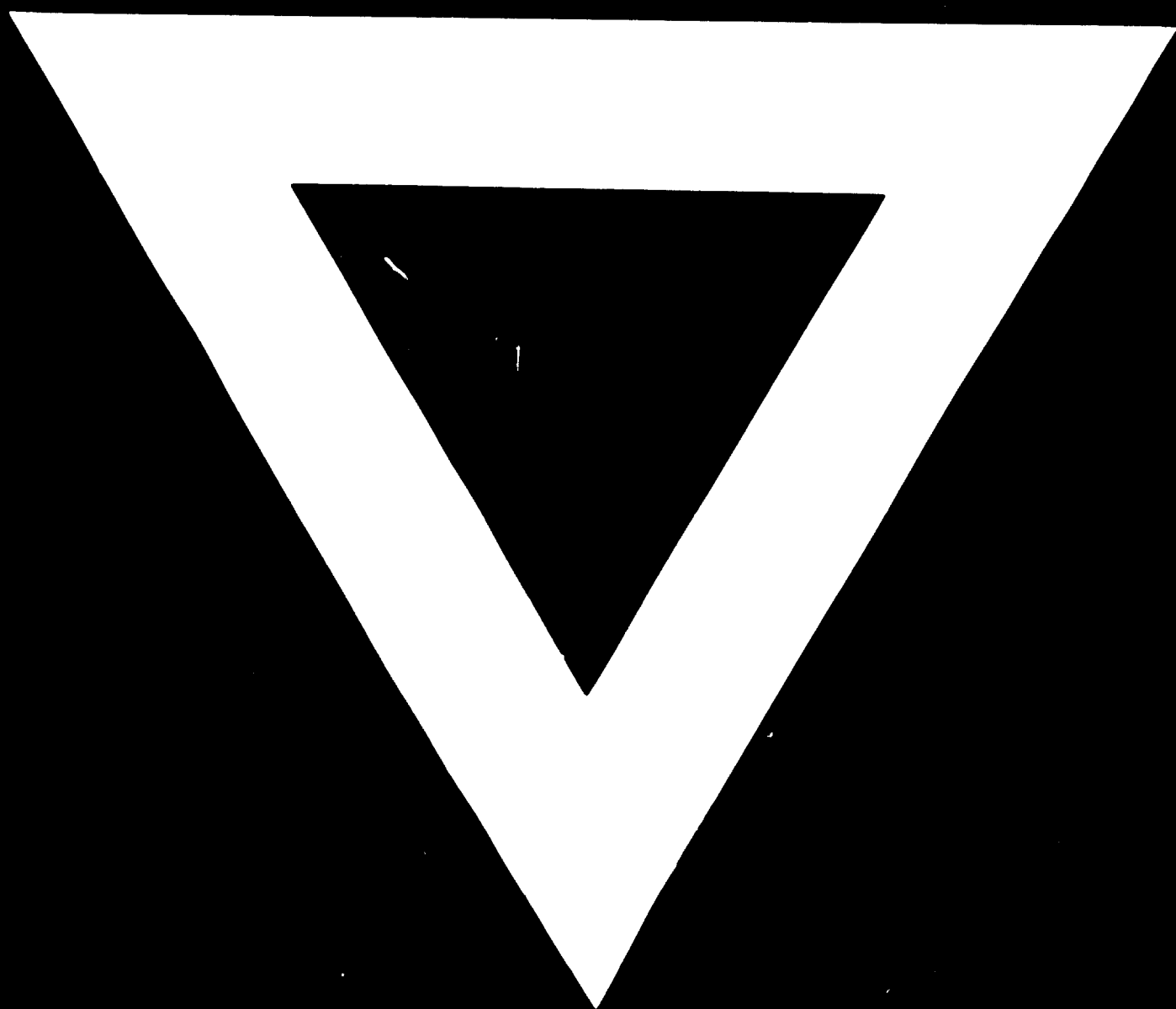
With regard to the need for decentralization, there would naturally be a tendency among personnel at UNIDO headquarters to become involved in studies; yet it was generally agreed that the emphasis should be on operational activities. His delegation therefore believed that part of the staff should be permanently stationed in Africa, Asia and Latin America, where they could familiarize themselves with local languages, customs and requirements, and they should be ready to go from one country to another within these regions, as their services were needed.

The effectiveness of UNIDO would be enhanced if provision was made for flexibility in its regular budget, so that the Executive Director could transfer funds from one activity to another as needed or could apply to urgent projects the savings which would be realized when certain activities were discontinued and which would otherwise simply revert to the United Nations budget in general.

As UNIDO would be able to accomplish nothing unless it had the requisite funds, he hoped that the goodwill expressed by the industrialized countries would be manifested in substantial contributions.

With regard to the administrative machinery, the Board should have a permanent committee which would examine all proposals before they were decided upon by the Board at its annual sessions.

Finally, it was important that UNIDO be able to draw the work of the various national symposia which were being held and that it should implement their



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