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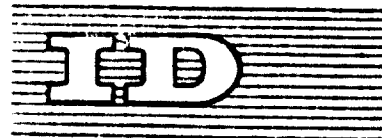
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UNDP/UNIDO AGENCY REVIEW MEETING

(Vienna, 10-11 June 1969)

MINUTES OF THE FIRST MEETING
HELD ON TUESDAY, 10 JUNE 1969, AT 9.45 a.m.

OPENING OF THE SESSION

Mr. Abdel-Rahman (Executive Director, UNIDO), taking the Chair, welcomed the representatives of UNDP and expressed the hope that the discussions would be frank and constructive.

Mr. Paul-Marc Henry (UNDP) said that the resources of UNDP, unlike those of most programmes of its kind, were growing at a regular pace; the rate of increase was about 10-15 per cent annually. Against that must be offset increasing costs, which amounted to about 10 per cent a year. Total contributions had now reached the level of about \$200 million, which had to be divided up between the Special Fund component, the technical assistance component and the "revolving fund". In addition there was the SIS programme, for which the Administrator of UNDP is preparing to submit to the forthcoming meeting of the Governing Council proposals under the Revolving Fund to ensure its continuity. While the identity of the latter programme needed to be preserved it must also be co-ordinated closely with the general programme.

The programme should be looked at as one, and the whole process of preparation, implementation and follow-up of projects should be a continuous process. The policy originally followed in UNDP had been to earmark large sums for projects, but that method, although it provided a guarantee that funds would be available for the 5 years of a project, it was inflexible and did not take into account delays. Sometimes, as in the case of institutions, the classical type of project lasting 5 or 6 years with its three components - experts, fellowships and equipment - was appropriate, but in many fields a different approach may be required. The SIS programme had proved successful, and some of its features could perhaps be introduced in UNDP projects.

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What was now proposed was that the Governing Council should authorize the Administrator to earmark funds for feasibility studies between sessions of the Governing Council, under the "Revolving Fund".

A new policy which was being developed by UNDP was that of programme commitment. A given project would be submitted to the Council as the beginning of a long-term operation involving several stages. It would often be impossible to say what the financial implications of the whole operation would be, but it was to be hoped that additional resources could be mobilized from other sources e.g. the Capital Development Fund.

There was now between 2 and 4 million dollars available in the Capital Development Fund, mostly in non-convertible currency. One way of using such funds would be for the purchase of equipment in local, non-convertible currencies, the shipping costs being paid in convertible currency. It might be argued that such assistance was really bilateral assistance in disguise; which might be true in a sense, but what was important was that the final decision lay with the recipient Government. UNDP could give its approval provided that the necessary technical guarantees were present and objectivity was ensured.

The appointment of industrial field advisers had been a good step forward. The appointments so far had been very successful and UNDP looked forward to more of them. Some countries, such as Tunisia, Algeria and Venezuela, had asked for an overall programme review to be carried out by the UNDP in consultations with the resident representatives and industrial field advisers.

The responsibilities of UNDP were in many cases tending to increase in view of a downward trend in bilateral assistance. In some cases UNDP had been asked by Governments to carry on where bilateral assistance dropped out.

UNDP was grateful to the Executive Director of UNIDO for his efforts to clarify some of the questions affecting inter-agency co-operation.

With regard to the capacity study being undertaken by Sir Robert Jackson, UNDP must naturally carry on as at present until it had been completed; it was expected that the report would be ready for circulation to Governments in the autumn and for consideration by the Council in January 1970.

Mr. Abdel-Rahman (Executive Director, UNIDO) said that many of the problems mentioned by Mr. Paul-Marc Henry were familiar to UNIDO. The policy of programme commitment would certainly help UNIDO in forward planning. As he understood it, a "programme" would be regarded as consisting of a series of steps, which might be simultaneous or successive. It was hoped that the field adviser system could be increased to cover all countries adequately. The field advisers were working very smoothly with resident representatives and regional economic commissions.

He was also interested in the requests received from countries for an overall review of their programmes. UNIDO was attempting to develop a long-range programme, and was approaching the different countries with a view to ascertaining probable technical assistance needs over the coming four or five years. Work in that regard was quite advanced in Libya. In Yugoslavia, UNIDO had tried asking which were the areas of industry in which technical assistance would be most useful; areas identified had been export promotion, the re-organization of industrial enterprises, and special management techniques. Similar efforts had been made in Tunisia and Somalia. Thus a tentative outline of requirements over the coming years could be built up.

Naturally, the long-range approach was in no way incompatible with projects of a short-term nature; indeed, it enhanced their usefulness.

Questions involving relations with other agencies had now been largely clarified.

UNIDO was ready to co-operate with UNDP in seeking additional sources of financing. In that regard, much could often be done to further the mobilization of domestic resources in developing countries. UNIDO had moved now into the field of investment promotion in general. An investment promotion meeting had been held in Tunisia, and similar meetings were planned in other countries. The aim was to create a capital market for the financing of projects in developing countries. UNIDO was also attempting to build up a file of specific projects for which finance was sought. At the last session of the Board, the secretariat's efforts in that regard had been criticized and it had been suggested that UNIDO was serving the purposes of private foreign capital, and not those of the developing countries. He thought that such criticisms had been taken into consideration and believed that careful procedures and the recipient countries' own discretions should be capable to cope with such criticism.

The question of financing was closely related to that of the relationship between multilateral and bilateral programmes. In general, it was difficult to separate pre-investment from investment questions in the industrial field.

The meeting was suspended at 10.40 a.m. and resumed at 10.55 a.m.

TRAINING IN DEVELOPED COUNTRIES

Mr. Abdel-Rahman (Executive Director, UNIDO) intervened to mention that two offers had been made to UNDP and UNIDO by Poland and the Netherlands. The Polish offer was for a three-year in-plant training programme in the textile industry for participants from developing countries. It was a small Special Fund project and was a simplification of an original in-plant training programme discussed by the Industrial Development Board and the Governing Council of UNDP. International staff would be reduced to a minimum and training was to be carried out in factories and a textile institute. UNIDO felt it desirable for training outside the country to be included in order to ensure that the programme had an international character. It was hoped that UNDP would accept this as a Special Fund project. The opinion had been advanced that the programme might be financed under the Technical Assistance component, but UNIDO favoured financing under the Special Fund component to give it more flexibility and possible duplication for other sectors and in other places. Furthermore, he emphasized that purely technological in-plant training would not be adequate since the senior personnel participating, at the management or sub-management level, would be concerned with wider problems. The operation as he saw it would be a training and development programme, which would be easier if the Special Fund approach was adopted.

The Netherlands had offered a training programme in the electronics industry to be carried out in the works of Messrs. Philips and the Delft Institute, with periods of training in both. The host government would be responsible for local costs and UNDP would be responsible for fellowships and the limited number of international staff. He hoped that it would be approved as a Special Fund project. He also had notice of potential offers from other countries and wanted authorisation to proceed.

UNIDO was also continuing classical types of training programmes, for example iron and steel in the USSR and the shoe industry in Czechoslovakia.

The proposed Special Fund projects might be referred to as "mini-projects", but they were the top of the iceberg. He hoped that the Governing Council would go along with the idea since the projects did not involve creating new institutions or large-scale physical facilities, i.e. the construction of buildings, there was no long-range commitment and trainees were carefully selected. The content of such projects was not so much in-plant training as a kind of development discussion.

A representative of the Industrial Services and Institutions Division enumerated seven projects that were in hand during the current year. Fellowships and in-plant training were operated both on an individual and a group basis. Such training programmes were not single shots in the arm; there must be continuity and a comprehensive approach.

In reply to a question from Mr. Abdel-Rahman, he gave an account of a UNIDO training project in Turkey and of management training activities and management clinics.

The objective of the project in Turkey was to hold practical courses and provide on-the-job training in factories for young engineering graduates who needed further practical experience. The project was in the initial stage and he hoped that it would become a prototype.

To explain the principle of a management clinic, he mentioned the example of Tunisia, where managers and public servants had met for two weeks to discuss the textile industry, visit factories, diagnose problems and consider solutions. This practical approach had been popular with leaders of business and it was hoped to extend it to other countries.

Mr. Abdel-Rahman (Executive Director, UNIDO) mentioned that in line with its agreement with ILO, UNIDO was not undertaking vocational training and concentrating on training in management and higher skills. A branch-wise approach was adopted and clinics were held in addition to training courses. The idea was to consider management not as a whole but in specific relation to practical questions.

He noted that training entailed very high expenditure for the developing countries. An attempt should be made to reduce costs by selective training outside the recipient country, supplemented by training inside the country. Returned trainees would impart the know-how gained to others. Much criticism had been levelled against the high cost of training in certain institutes. It might be unjustifiable to train, say, fifteen persons for a cost of \$100,000, but, if such training were accompanied by project discussions and contacts then expenditure of even \$300,000 might be justified. Follow-up action was necessary to achieve greater effectiveness.

Mr. Paul-Larc Henry (UNDP) said that with his own attitude on the question of Training Institutes in developed countries was favourable. When the subject was discussed last year in the Governing Council in Vienna difficulties had arisen because the debate took a theoretical turn, which he had regretted.

He mentioned the Turin centre, which had become a responsibility of UNDP. Criticism had been levelled against the Centre, mainly on the grounds of the high running costs. The UNIDO's proposals which did not entail the establishment of new facilities but the use of existing facilities were more economical. It was important to note that in these two cases offers and not requests had been received from Governments; these offers had been accepted and endorsed by a number of developing countries. He had discussed these questions with the Governments of the Netherlands and Poland. The contribution of UNDP would come under the Special Fund component. He hoped the idea of such Government offers would spread, and other countries would in the future make similar offers.

Turning to the problem of mobilizing resources, he emphasized that the UNDP contribution should act as a catalyst, with an indirect effect on management and a multiplier effect on the entire industry of the country. In fact, all industrialization had started in that manner. Many large-scale bilateral programmes of this nature were in operation and, if there were combined action, care would have to be taken with regard to the definition, specificity and timing of multilateral programmes to ensure that their identity was preserved.

He was in favour of the branch approach and was gratified with the results of consultation with ILO.

There was a tendency in technical assistance activities to neglect the fellowship component and divorce it from the expert component. Occasionally the fellowship component was used for other purposes; corrective action should be taken in such cases. The fellowship programme should be integrated and there might be a need for more operations of the Opex type. Training should be carried out where it was most suitable and might be carried out locally or outside a country. It might be necessary to take a more comprehensive view of training programmes and consider such questions as manpower surveys, the brain-drain etc.

Training courses had indeed been costly. The approach of an auditor was to divide the total cost of the training by the number of trainees. The results of such calculation often had led to unfortunate propaganda and implications which were not necessarily correct. Nevertheless a more efficient system should be sought. He pointed out that if training was neglected, the result of technical assistance would be nil.

Local costs were the responsibility of the recipient government, but governments could often not continue to meet their commitments in this respect either because the level of local savings was not high or because resources were used for non-productive purposes such as defence. There were two possible solutions, either to grant governments long-term loans or to bring about a reduction in non-productive expenditure. The second course was impracticable.

Mr. Abdel-Rahman (Executive Director, UNIDO) offered to enter into private consultations with UNDP regarding the problem of the Turin centre. UNIDO had ideas to put forward, and, if such unofficial consultations had a positive result, an official approach might follow.

SMALL INDUSTRIAL PLANTS

Mr. Julián-Caballero (Director, Technical Co-operation Division) said that UNIDO had this matter very much at heart. He briefly described the idea behind such plants and asked what the UNDP attitude was.

Mr. Paul-Larc Henry (UNDP) said that UNDP had been dealing with this matter for some time. There were three important questions: the extent of direct financing for small industrial plants that were not pilot plants but rather demonstration plants. Consideration also had to be given to the effect of small

industrial plants on the general economy of the country, and the impact on a whole complex of problems related to rural development.

One important point was to find the minimum optimal size for a small industrial plant if it was to be technically and financially acceptable.

There had been discussion in the previous year on the pyrethrum plant in Rwanda and it had been remarked that it was not a demonstration or a pilot plant, because the processes were already known, but a full-size plant, in view of the scale of the market. It was necessary to avoid mere theoretical discussion and find plants that would demonstrate that small-scale industry was desirable and possible in regard to the supply and selection of raw materials, processes, the type of plant, management, maintenance and accountancy questions etc.

The first stage might be to undertake a feasibility study, charged to the Revolving Fund, to be implemented by UNDP in co-operation with UNIDO. In the second stage, which would involve a Special Fund project, the Governing Council would be approached for financing. He proposed that if such a procedure should be adopted before embarking on a Special Fund type project, the critical question of the size of the plant, in view of the financial resources of UNDP could be answered. If it proved that a "mini-plant" was possible and might have a catalytic effect on the economy, then the project would then be interesting.

Mr. Abdel-Rahman (Executive Director, UNIDO) said that the objective was to pull the developing countries towards industrialization. It was not enough to establish a production facility in a country, it was necessary to establish one that would have multiplier effect either in the same branch of industry or in industry as a whole. Such a plant might be a pilot plant or a demonstration plant. In the latter case, it would not merely provide technological demonstration but would also constitute a practical laboratory for training in handling industrial problems and, concurrently, would make money through its own output.

Turning to the question of experimental plants in relation to technological development, he said that their purpose would be to decide whether a particular process was feasible and could be applied in other countries. He would also add a fourth point to those mentioned by Mr. Henry, namely that since UNIDO aimed at

industrialization, much might be done through development institutes. Such institutes might incorporate pilot plants which would conduct experiments on the transitory phase and serve a number of industries, even in several countries.

With regard to financing, local sources and bilateral sources might be utilized, thus reducing costs to UNDP.

He accepted Mr. Henry's proposal and said that the important point was to introduce developing countries to industrialization and that small industrial plants would constitute live experiments for this purpose.

A representative of the Industrial technology Division, said that in establishing small-scale plants UNIDO hoped that these plants would represent small cells to introduce technology into a country and around which other plants would cluster.

Some projects were already in hand such as the production of insecticide and if they were successful they would show how to create similar plants in other branches of industry.

He emphasized that the establishment of small industrial plants had an important psychological effect by demonstrating on limited scope manageable by developing countries which would persuade them to build bigger plants.

A representative of the Industrial Policies and Programming Division said that small industrial plants had wider implications. If UNDP could finance only part of such a project it might be possible to obtain supplemental funds from abroad or from the country itself to assist in financing the project. This might apply to the caustic soda plant for Kenya. He thought that export promotion activities should also be covered.

Mr. Abdel-Rahman (Executive Director, UNIDO) pointed out that small industrial plants were not the same as small-scale industry. He suggested that there might be some form of international research on processes that could be used in small industrial plants. He did not favour across-the-board international research unless it was specifically related to some particular problem. He quoted the example of the production of newsprint from bagasse as a process that could be applied in many countries. The idea of establishing an international technological institute should be avoided.

Mr. Paul-Marc Henry (UNDP) raised the question of patents and said that a working party on patents should be established. It was important to consider what action to take with regard to patents in assisting developing countries. Furthermore, UNDP was prepared to finance part of purchases of imported raw materials needed in a country's industry.

Accountancy was a difficult problem, with regard to revolving funds, amortization etc. The developing countries might contribute by amortizing donated equipment and contributing some of the proceeds of sales of goods.

He would not yet answer the question whether UNDP would provide capital in the form of cash: the financing of inputs by UNDP was a difficult question requiring study.

MAINTENANCE CLAIMS

Mr. Quijano-Caballero (Director, Technical Co-operation Division) said that there had been long-standing interest in the question of maintenance, both at the Athens Symposium and in the sessions of the Industrial Development Board. Countries had been approached, through resident representatives, to ascertain their interest in maintenance programmes. This had been followed by visits of staff members to countries who had indicated an interest in the programme to expedite the development of projects.

A representative of UNIDO reviewed the status of UNIDO's activities so far in the repair and maintenance received from interested countries.

Mr. Paul-Marc Henry (UNDP) was in favour of maintenance projects but mentioned certain practical problems. This was not virgin ground and several systems had been tried in various countries. There were the issues of allocating responsibilities and whether maintenance should be organized in a centralized or a decentralized manner. The argument that suppliers would deliver spare parts and maintain equipment was invalid in practice; reliance on such a system had often resulted in cannibalization of equipment.

Venezuela had wanted to establish an industry to produce spare parts for vehicles, but the manufacturers of the vehicles then refused to guarantee equipment incorporating parts that they had not manufactured themselves. The question of guarantees had to be solved. UNDP regularly set aside a considerable percentage of its contributions for spare parts.

Governments had a bad reputation in regard to maintenance. He suggested that, while the need for maintenance was completely accepted, projects should first be exploratory and open and therefore flexible, so that further action could take a number of lines. When several projects had been carried out, the situation should be re-evaluated.

There were many questions of principle involved and he would favour project-by-project discussion.

Mr. Abdel-Rahman (Executive Director, UNIDO) said that UNIDO wanted its repair and maintenance activities to take the form of a campaign to change attitudes rather than a project. He agreed to the principle of project-by-project discussion, but emphasized that a "philosophy" was involved here, namely, the proper way of dealing with machinery.

UNIDO intended to hold a symposium on repair and maintenance in 1970 and he asked UNDP for help in preparing the symposium. Maintenance was a complex problem and suppliers, users, financiers and designers should all have their views expressed on the subject.

A case-by-case and not a theoretical approach was necessary; if the situation could be improved in one case, that should be done, and the value of such action should not be minimized. He did not consider it valuable to discuss formal problems of responsibility for maintenance. There were different interests with regard to maintenance; not only foreign manufacturers but also importers of equipment and technologists were involved.

UNIDO believed that action could begin - it might be fragmentary but it would be valuable. It would be possible to enlist the co-operation of FAO with regard to agricultural machinery, ILO with regard to vocational training, WHO with regard to hospital and medical equipment and so on. As a result of the campaign approach, co-operation by other agencies would strengthen action, but the centre of interest would be UNIDO. He welcomed co-operation with other agencies, which represented users of the equipment and machinery.

Mr. John Olver (Director of Financial Management and Policy, UNDP) asked whether UNIDO could arrange a discussion regarding the maintenance of equipment supplied by UNDP throughout the world and of the particular problems of UNDP in this respect.

Mr. Abdel-Rahman (Executive Director, UNIDO) said that UNDP and other agencies were welcome to attend a preparatory meeting for the symposium to be held in October 1969 here in Vienna.

Mr. Paul-Larc Henry (UNDP) mentioned that many maintenance projects were in hand, for example through WHO and ILO. These might represent a valuable fund of experience.

Mr. Abdel-Rahman (Executive Director, UNIDO) said that he welcomed co-operation with other agencies.

ROLE OF UNIDO FIELD ADVISERS

A representative of UNIDO said that an attempt was being made to increase contacts between headquarters and the field advisers. A manual on the role of advisers had been prepared. The adviser stationed in Bangkok had helped, in co-operation with the Resident Representative and an industrial economist, to produce the beginning of a country programme in Indonesia. The field adviser programme was also useful in that UNIDO's activities could be built around them. In that connexion, UNIDO was providing training for senior government officials in UNIDO operations and at the same time enlist a senior UNIDO expert in the hope that these could act as contact men within and outside governments for matters not involving UNDP financing. Ideally, the senior government official would be the opposite number of the field adviser.

Mr. Julian Caballero (Director, Technical Co-operation Division) said that the activities of the field advisers were being concentrated on determining country needs and on country programming. A simultaneous examination of country-by-country needs was carried out at headquarters, with the help of information from regional economic commissions and regional advisers, and this was closely linked with the work done at the country level.

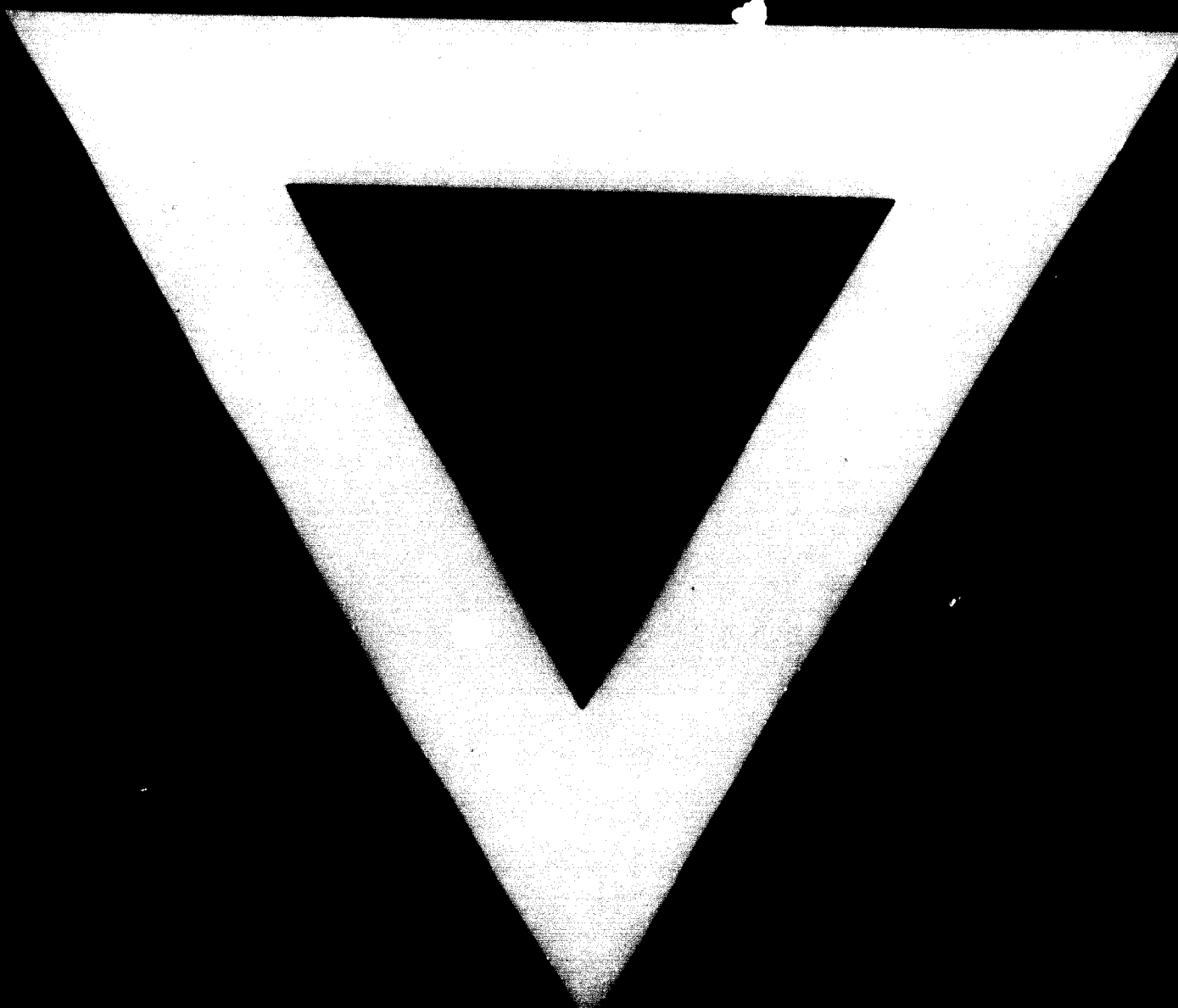
Mr. Abdel-Rahman (Executive Director, UNIDO) said he hoped that the number of field advisers could be raised from ten to twenty in 1970 and thirty in 1971. The development of long-range programming was a very difficult task, and field advisers could assist through consultations with governments and through their knowledge of the situation in the country concerned. The advisers were also useful in ensuring liaison with the regional economic commissions, with regional banks and with intergovernmental organizations. There were bound to be problems, but an effort was being made to overcome them.

The adviser programme helped to strengthen contacts between UNIDO and the field, bearing in mind the fact that UNIDO had no representatives or correspondents in the developing countries.

Mr. Paul-Marie Henry (UNDP) said that possible expansion of the programme of field advisers was a matter for discussion. The essence of the system at present was that the adviser offered advice to resident representatives. The question of representation of agencies in the field might in due course come to lose importance. He was concerned, however, at the suggestion that there should be a parallel system inside and outside the governments. The question of project promotion was a delicate one, and he had doubts about the proposal to have a local industrial correspondent. In a great many developing countries, the local situation was far from ideal and there was a whole complex of industrial advice. He would not like to be understood as giving any kind of approval to a parallel system at present. An integrated rather than a competitive approach was required.

The meeting rose at 1.10 p.m.





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