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REPORT OF UNIDO MISSION TO THE UNITED ARAB EMIRATES ^{1/}

on

Co-operation in Industrial Management Consultancy
and Factory Establishment

19 - 25 March 1977

by

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Introduction

The United Arab Emirates has a population of 666,000 and consists of seven Federal States: Abu Dhabi, Dubai, Ras Al-Khaimah, Fujairah, Ajman, Sharjah, Umm al Quiwain. The main economic resources are oil and gas. These two economic resources account for more than 90% of the country's economy. Production of oil has started during the last few years, particularly in Abu Dhabi and Dubai. Before the discovery of oil, economic activities in the country were based on traditional crafts, nomadism, and trade; and very little industry existed at the time.

However, the advent of oil has rapidly transformed the social and economic life of the country, and industrial development has increased remarkably. Apart from some major projects in the petrochemical, fertilizer and foreign investment, the economic activity is based on free enterprise in all the sectors, and this trend of economic development is very much encouraged by the Government. However, the Government uses certain tools and incentives to influence development in the direction desired by the Government as a strategy for economic development.

General Policy of Industrial Development

Aware of the long term implications of the dependance of oil as the sole source of income, the Government of the United Arab Emirates has declared a policy of economic deversification including emphasis on industrial development. This would increase the sources of income and foster skills and expertise in various techno-economic fields, thereby building a base for technical and managerial capability in order to bolster and sustain an industrialized economy. Capital generated through oil resources is to be utilized to realize this goal.

Institutions Supporting Industrial Development

1. Ministry of Industry and Finance

At the federal level the Ministry of Finance and Industry has the responsibility of laying down plans for industrial programmes and the implementation of projects as well as the supervision of the

implementation. The Ministry is also charged to establish a base for setting guidelines of industrial growth. Moreover, preparation of industrial studies and research is part of the Ministry's task. More specific functions of the Department of Industry of the Ministry of Finance and Industry include the following:-

- a) Collection of statistical data important for industrial development.
- b) Co-ordination of industrial activities of the various States at the federal level.
- c) Guidance of the industrial policy and strategy of the country.
- d) Formulation and implementation of industrial development programmes at the federal level.
- e) Administration of federal industrial law expected to be published in due course. It is expected that when this law is published the Ministry will have much more effective impact on the industrial development as a whole.

2. EAE Industrial Development Bank

The bank has been established in order to assist industrial development in the country with a view to the Government's policy of achieving diversified industrial growth. As part of its function the bank is to get local entrepreneurs involved in business, particularly light industry, retailing, or some aspects of the service industries. Moreover, capital has been provided to the bank in order to help development in the Northern, less endowed Emirates, mainly in the construction industry.

The bank gives long term, middle term and short term loans to industry. Conditions for loans include:

1. sharing capital investment with private industry;
2. establishment of investment projects and the turning over of these to private share-holding Companies, the shares being sold to citizens. The bank also provides technical expertise such as helping local investors to a certain extent in research and market studies. However, assistance in actual projects implementation and management is marginal.

3. Abu Dhabi Development Bank

The bank has been established to assist mainly light industry. These industries include carpentry, window frame making, building materials, some consumer goods. It advises and assists individual entrepreneurs regarding project identification, feasibility studies, project evaluation and implementation. However, the officials of the bank recognized that this assistance is inadequate and that there was a need for further assistance to local entrepreneurs in project planning, formulation, organizing, implementation and management. Technical expertise in this area would be needed from outside, and in this regard UNIDO's co-operation would be welcomed. Higher efficiency in the industry is essential due to the fact that the country's young, inexperienced industry is exposed to open market competition coming from imported goods in an import oriented economy, at least at this stage. This is apart from the fact that the market is already small for most of the goods with the exception of the construction industry.

In this context it was understood that direct management assistance establishing industries and improving their performance was essential, for otherwise local industrial businessmen would face great risks.

Currently, the projects in which the bank is participating include dry battery manufacture, sanitary ware, electric fitting and bulbs, metallic light engineering for building industry, shoe factory, tufted carpets. Here again it was realized that assistance was needed in the establishment of factories and in implementation to achieve maximum benefit return.

4. National Industrial Development Corporation

This organization, with the largest part of its shares sold to the nationals, concerns itself with letting nationals participate effectively in financing, ownership and management of large industrial projects and to obtain immediate benefit from them.

The Corporation established a number of a group of large industries including:

- a) robe production factory with an annual production of 400 tons and with an investment of 7 million Dirhams;
- b) cement production;
- c) paper manufacturing;
- d) factory for the production of equipment for refrigeration, considered to be first of its kind in the Middle East. It has a large production capacity of 1000 units per annum which is expected to rise to a capacity of 40,000 per annum. The products are expected to be exposed to all the States in the Gulf as well as to other countries.

Establishment of industry involving large development of fish industry. A factory for canning has been completed with the production of 250 tons per day. The factory will be provided with a special fleet for fishing.

There are also a number of industries for the production of plaint, dairy products, fishing boat production, material production, industrial production of soap, and aluminium industry.

5. Abu Dhabi Fund for Arab Economic Development (ADFAED)

The fund gives loans to other developing countries on favourable terms with preferential treatment to least developed countries. In a discussion with the officials of the bank regarding the possibility of joint project implementation and other co-operative programmes by the Fund and UNIDO, it was understood that the Fund was a loan-giving organization on cost-sharing basis to projects considered to be viable. Officials expressed interest to co-operate with UNIDO for effective project implementation. In this connexion UNIDO could send experts and consultants to participate in the appraisal of projects to be financed by the bank. The Fund would be willing to consider financial

support for such participants. Well-conceived project proposals prepared by UNIDO would receive due consideration in the Fund's deliberations for project financing. Generally, priority would be given to projects in the fields of management and infra-structure.

6. Infrastructure

Besides the boom in industrial development, there is a great improvement in transport, telecommunications and construction all over the country, and good roads have been built to connect most development areas. The establishment of the physical infrastructure is going on intensively inside the main towns as well as in between them. Major ports are being built or expanded to cope with the potentially growing export industry as well as to handle the great amount of imported goods. For instance, a new port is being built at Khar Khuwair around which certain important industries are being developed. This area has great potential for rock and cement export. Besides, two large shipping centres, Port Zayed and Rashid will feed two large commercial and industrial centres, each interconnected and both easily accessible to the rest of the country by road, sea, air and telecommunications.

An industrial harbour is being built by Jebel Ali (Dubai) where an important industrial estate coupled with an industrial free zone is being developed. Projects planned in this order include a steel plant, an aluminium smelter and oil refinery, a liquification petroleum gas plant, a fertilizer factory, a factory for manufacturing cables, edible oil hydrogenation plant.

Another important industrial estate is being built in Mazrak in Abu Dhabi. It is expected that this industrial estate would contribute considerably to the industrial development effort.

Factors Favouring Acceleration of Industrial Development

Factors contributing to the promotion of industry and related economic activities include:

1. Utilisation of technology and managerial skills of international firms to increase possibilities for export-oriented development.
2. Access to relatively low-cost supplies of unskilled and skilled labour, and some managerial resources and technical skills from neighbouring countries with much lower income level.
3. Freedom of remittance of capital, profits as well as personal income which serve as an incentive for private undertaking of industrial enterprises.
4. Proximity and accessibility to large markets in Asia and Africa.
5. Availability of well located, well equipped ports.

Constraints

The constraints and bottlenecks which hinder development include the following:-

1. Scarcity and high price of land
2. Shortage of indigenous skilled labour
3. Shortage of technical and managerial know-how
4. Very high turn-over rates
5. Great delay in organizing the supply of labour from outside the country.
6. Material shortage and high costs
7. Absolute smallness of the domestic market
8. Import-oriented market situation which create difficulty for development of local industry.
9. Absence of repair and maintenance facilities.

Technical Assistance Briefs

The technical assistance briefs prepared by the Factory Establishment and Management Section served as a useful basis for the discussions with the Ministry of Industry and Finance and the various other Government institutions contacted as well as SIDPA. The Government officials with whom discussions were held showed special interest in the contents and said that they would seek ways of gainfully utilizing them.

The subjects concerned in the Technical Assistance Briefs consisted of the following:-

- Accelerated Factory Establishment
- Impact Teams for Accelerated Factory Establishment
- Industrial Project Implementation
- Establishment of Standards Workshops
- Establishing Industrial Consultancy Services
- Strengthening Industrial Consultancy Services
- Impact Team for Increasing Industrial Efficiency
- Assistance in Management for Public and Private Enterprises
- Management Information Systems for Industrial Enterprises
- Increasing Industrial Capacity Utilization
- Assistance in Industrial Marketing
- Development of Industrial Accountancy Systems and Staff

Possible Future Co-operation with UNIDO

Government officials of the Ministry of Industry and Finance expressed appreciation of UNIDO co-operation in the past and hoped that such co-operation would continue to expand in the future. Particular attention was given to the problem of industrial management which was recognized by all concerned as an important and urgent one. The problem concerned the country's industry in general, and small-scale industry in particular. Acute shortage of skilled manpower resources was making the need for more effective management and consultancy essential. Those who wanted to venture to set up industry

did not have the knowledge or the experience and were therefore scared or sceptical about the idea. They turned, for the most part, to commerce which they thought was safer and in which the returns were quicker. Due to the dearth of local entrepreneurs with management training, the involvement of foreign management skills is inevitable. But this exists in the context of mainly unco-ordinated, isolated industrial programmes and projects.

Formal industrial management institutions which would deal with issues relating to planning and organization, directing and controlling are non-existent. Because of this, rationalization of strong linkages among the various industrial sectors appears to be missing.

During the discussions alternative ways of finding a solution was considered. The officials of the Ministry of Industry and Finance thought that the best way would be to have a consultant for about 2 to 3 months to study the requirements in the area of factory establishment and management. The consultant would come up with recommendations including the possibility of establishing an industrial management and consultancy centre. The project would be finance from funds-in-trust. This proposal seemed reasonable and was supported both by the UNDP Representative Mr. F. Achikzad and the Senior Industrial Field Adviser Mr. A. Abdelwahab.

Recommendations

It is the Government's intention to encourage and support economic development through private initiative as much as possible in conformity with the character and tradition of the economic activity in the country. In order to realize the objectives there should be a concerted action on the part of all the Emirates to co-ordinate and streamline the industrial endeavour of all the Emirates. Presently it appears that industrial development is following quasi-independent streams rather than integrated mutually interacting pattern. While each State should develop industries on the basis of the resources available to it, there should be rationalization of industrial growth without adverse effect to social benefits. Duplication and wastage of resources should be avoided to the extend possible. This can

be done through the establishment of the right institutions including managerial ones. At this stage when the United Arab Emirates is passing through an industrial transition period where the Government is committed to the rapid growth and diversification of the industrial development, it is extremely important that the question of industrial management and consultancy as well as factory establishment be given serious and priority consideration. It is essential to have a built-in managerial capability in industry in order not only to solve existing problems but to take preventive measures against future pitfalls. The country needs the development of the national cadre not only to fulfil its own management needs but for better utilization and guidance of foreign and national investment resources. In short, there should be an integrated management system to provide development in an sustained rational approach. It is considered that the first step to approach the problem would be to send a consultant to the country as mentioned above to undertake the duty prescribed in the Job Description which is annexed to this report.

ANNEX I

Past Co-operation with UNIDO

In the past, projects carried out with the assistance of UNIDO included:

1. Industrial Survey - UAE/73/006

The project completed in 1974 was set up as a base for future industrial development to make a survey of existing industries. The purpose of the survey was to carry out a study of existing industries so as to determine their capacity, performance, and expansion. The survey was also meant to review and evaluate feasibility studies as well as to collect and analyse basic industrial data including natural and human resources. The project which was composed of two industrial economists, an industrial engineer (petrochemicals), and industrial engineer (building materials) and a food technologist did not particularly look into the industrial management requirements.

2. Industrial Adviser - UAE/73/007

The main purpose of this project was to establish a federal industrial law which could promote industrial development by providing attractive incentives and guarantees to investors in industry and to define and elaborate a detailed industrial policy and strategy. The project was also meant to assist in the re-organization of the Department of Industry of the Ministry of Finance, Economy and Industry.

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Project in the United Arab Emirates

Job Description

TF/UAE/75/XXX

POSTE TITLE: Industrial Management Adviser

DURATION: Three months

DATE REQUIRED:

DUTY STATION: Abu Dhabi with travel within the Emirates

DUTIES: With a view to the eventual main objective of building and fostering management consultancy and factory establishment systems for the purpose of achieving maximum benefit in accordance with the Government policy of rapid industrialization:

1. Appraise the performance of existing industry.
2. Investigate and study the organization structure; production methods; raw material sources and acquisition procedures; environmental conditions; equipment procurement and related contractual agreements; repair and maintenance facilities, cost accounting and control systems, financing, staffing; capacity utilization; project planning and formulation; project implementation and evaluation, marketing and distribution.
3. Survey the existing management information systems.
4. Study the industrial linkages and co-ordination systems.
5. Appraise procedures for negotiations concerning factory establishment and purchase of equipment.
6. On the basis of findings recommend a plan of action to deal with existing management problems as well as with those connected with the future industrial expansion.
— Discuss possible UNIDO role through technical co-operation.

QUALIFICATIONS: Degree in industrial management, engineering, business administration or related field with broad background and practical experience in general management and consultancy services.

LANGUAGE: English; Arabic an asset

**BACKGROUND
INFORMATION:**

Contributing more than 90% of source of income, oil is the base of the country's economy. Oil production was started only a few years ago, particularly in Abu Dhabi and Dubai. Prior to the discovery of oil, trading crafts, nomadism, trade and fishery was the only source of income. The advent of oil has transformed the social and economic life of the country and industrial growth has started. Major programmes under execution or planned come under petrochemicals, fertilizers, cement industries and other building materials.

Aware of the long-term implications on the dependence of oil, the Government has declared a policy of economic diversification so as to foster skills and expertise in various techno-economic fields. This, it is recognized, would need technical and managerial capability which should be built within the industrial system in order to enhance high efficiency and performance which are essential for high productivity and economic returns. The institutions which assist industrial development consist of the Ministry of Industry and Finance and the Industrial Development Bank. Since, at the present time, there are no industrial management and consultancy institutions in the country it is considered essential and timely to field a management consultant to investigate and recommend a plan of action.

ANNEX III

List of People with whom discussions were held

UNDP/UNIDO

Mr. G. Faruq Achikhsad, UNDP Representative

Mr. Abdalla Abdelwahab, Senior Industrial Development
Field Adviser

Mr. Abdalla, Administrative and Financial Officer

Federal Ministry of Finance and Industry

Mr. Faraj Al-Mazroui, Under-Secretary

Mr. Labib Al-Saadoun, Adviser to the Department of Industry

Ministry of Planning

Mr. Ahmed Mansour, Under-Secretary

United Nation Emirates Development Bank

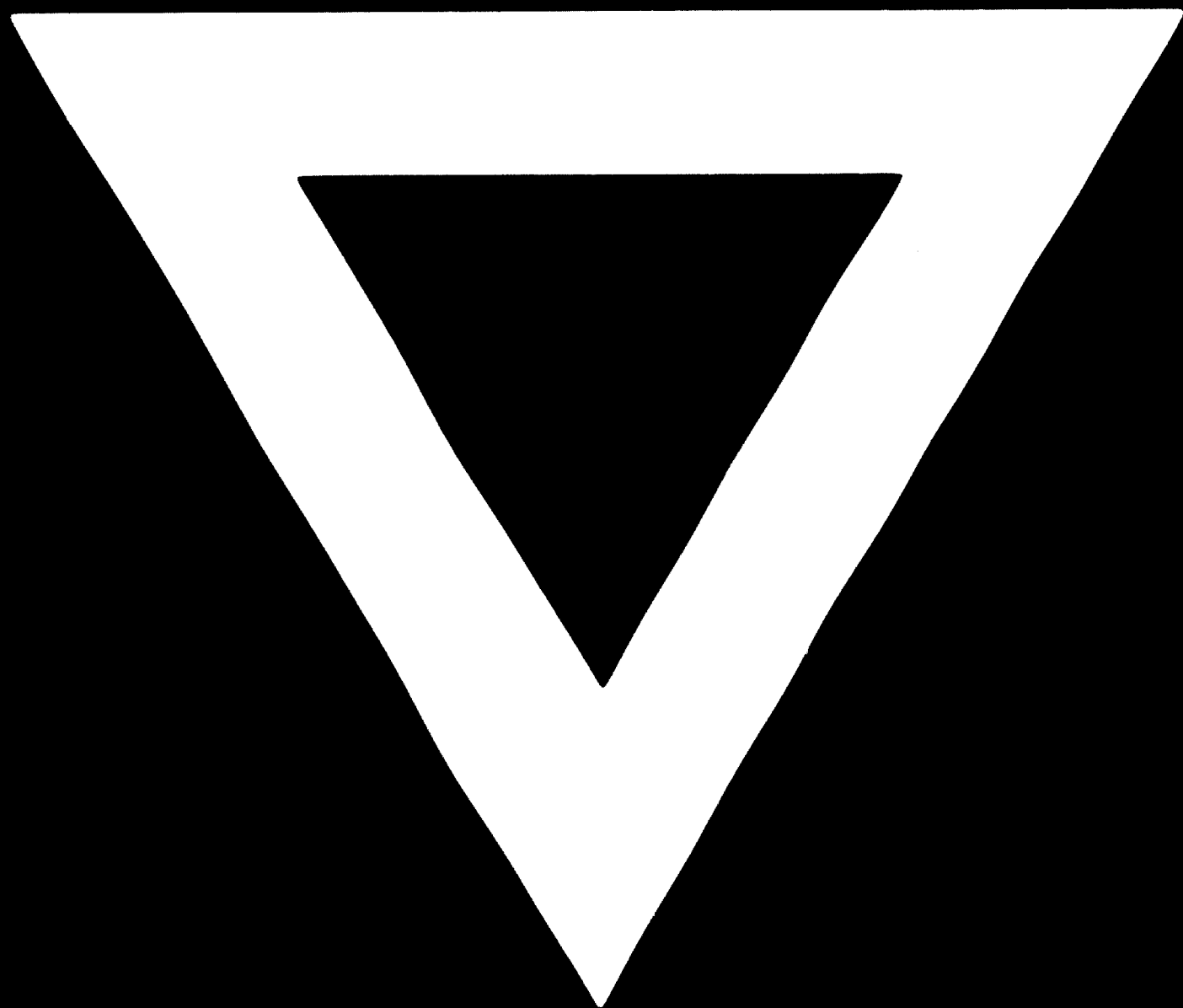
Mr. Mohamoud Safwat, General Manager

Dr. M.S. El-Miteini, Assistant Manager (Projects)

Dr. Aly Ismail El-Embaby, General Manager
Research and Project Evaluation



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