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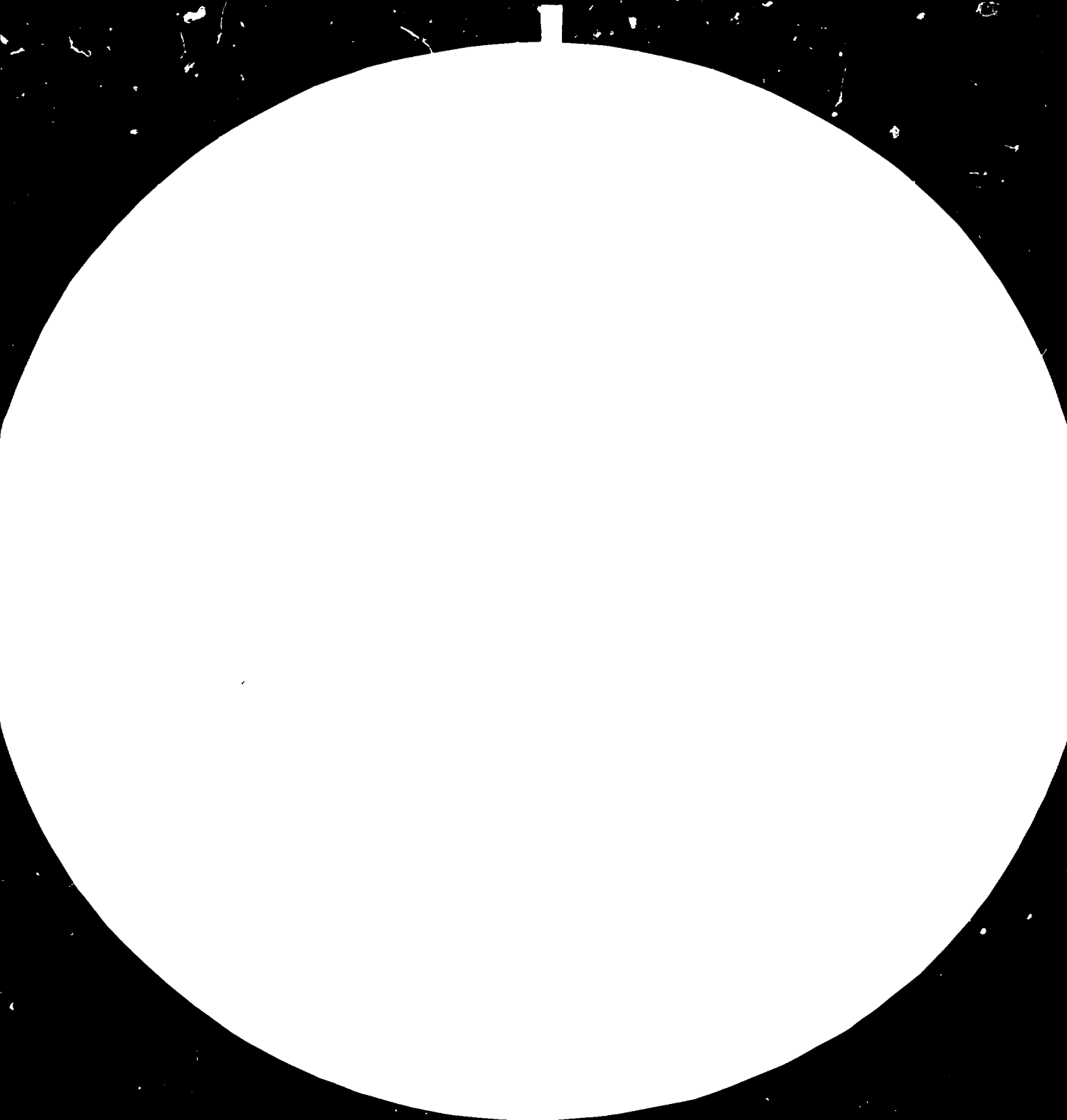
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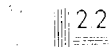
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REPORT OF THE MEETINGS HELD BY DR. ABD-EL RAHMAN KHANE,
EXECUTIVE DIRECTOR OF UNIDO AND MEMBERS OF THE
ETHIOPIAN GOVERNMENT

16-21 October 1979

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I. INTRODUCTION

1. Dr. Abd-El Rahman Khane took the opportunity of his attendance at the Fifth Conference of African Ministers of Industry held at Addis Ababa between 16 and 21 October 1979 to hold discussions with members of the Provisional Military Government (PMG) of Socialist Ethiopia on matters of mutual interest.
2. Accordingly, he was received by the Head of State, Lieutenant-Colonel Mengistu Hailemariam, Chairman of the Provisional Military Administrative Council and of the National Revolutionary Development Campaign and Central Planning Supreme Council. He also held discussions with Ato Hailu Yimamu, Senior Minister and Secretary General of the National Revolutionary Development Campaign and Central Planning Supreme Council; and Ato Tesfaye Dinka, Minister of Industry, who also chaired the Fifth Conference of African Ministers of Industry.
3. During these meetings, exchanges of views were made concerning developments in international economic relations, the role of UNIDO and the current status and future prospects of Ethiopia/UNIDO co-operation.
4. This report, in the following sections, gives a summary of the discussions and indicates points of action for follow-up by the relevant Divisions and Sections of UNIDO.
5. Dr. Khane was accompanied during his discussions by Mr. D. C. Ganao, and Mr. S. Hable-Selassie. Attachment I to this report contains his programme of visits and persons met.

II. MEETING WITH THE HEAD OF STATE, LT. COL. MENGISTU HAILLEMARIAM

6. Dr. Khane was received by the Chairman of the Provisional Military Administrative Council at the Headquarters of the National Revolutionary Development Campaign and Central Planning Supreme Council, on Thursday, 18 October 1979.

7. Recalling the adoption of the Lima Declaration and Plan of Action in March 1975, Dr. Khane noted that progress made in the intervening period by the developing countries had not been satisfactory. There was thus need for a thorough review of problems and prospects in order to accelerate the pace of industrialization of the developing countries. That was the purpose for convening the Third General Conference of UNIDO for the preparatory process of which he had come to Addis Ababa to attend the Fifth Conference of African Ministers of Industry.

8. He informed the Chairman that UNIDO had come up with specific proposals to enable the developing countries make bigger and faster progress towards the achievement of the 25 per cent target that was set by the Lima Declaration. The target was admittedly modest in terms of the size of the population of the Third World countries and in terms of their economic needs. It was incumbent upon the entire world community to redouble efforts in order to achieve the 25 per cent target. UNIDO III would provide the developing countries with a timely opportunity to make clear their needs and to voice their positions.

9. Turning to the work of UNIDO, Dr. Khane stated that the Organization had endeavoured to develop and expand its activities. With particular reference to technical co-operation he noted that a measure of success had been achieved in that the level of assistance to African countries had increased substantially during the last five years and now had reached the level of US\$20 million.

10. UNIDO had, at the same time, been developing important programmes in pursuance of the recommendations of the Lima Declaration and Plan of Action. These consisted firstly of the system of international industrial consultations which had now come to be an important instrument at the service of the developing countries in order to obtain a better view of what could be done through international co-operation and to set up a path for effectively stimulating the restructuring of world industrial production.

11. Secondly, UNIDO had developed a technology co-operative programme to assist developing countries build up their own technologies and to foster exchange of experiences on terms and conditions for the transfer of technology.

These measures would enable them realize significant savings in the acquisition of industrial technology. Thirdly, UNIDO had strengthened its investment promotion programme in order to facilitate the mobilization of the finances required to achieve the Lima target.

12. With regard to Ethiopia/UNIDO co-operation, the Executive Director noted that UNIDO was operating a joint division with the ECA. UNIDO personnel were thus participating in the research and operational activities of the ECA.

13. The main area of Ethiopia/UNIDO co-operation, however, lay in the technical co-operation programme that was being pursued under the IPF and other sources of technical assistance. He recalled the discussions he had held earlier with the Minister of Industry on Ethiopian priority needs in the field of industry and stated that UNIDO was prepared to make a start in the sectors and areas which were identified.

14. He observed that resources available to the Organization were limited but he would like to be informed of the areas to which UNIDO's further contributions should be directed. In conclusion, he stressed the importance of industry as a principal engine for development and that UNIDO was an organization which had capabilities that should be made greater use of by the developing countries.

15. In response the Chairman thanked the Executive Director for his visit and the review of issues he had made. He noted that his own views on international economic relations coincided with those of the Executive Director. The areas of disagreement between the developing and the developed countries are well known. Ethiopia was making her contributions in order to resolve outstanding international economic issues. It was incumbent upon international organizations and countries individually to redouble their efforts in order to bring about a more equitable world economic system.

16. The Chairman stated that the mainstay of the Ethiopian economy was agriculture. The agrarian reform which was instituted by the Ethiopian Revolution had brought about a substantial increase in the income of Ethiopian farmers and consequently raised their demand for industrial products. The current National Revolutionary Development Campaign which was launched last year was based on that reality.

17. Its objectives were firstly to raise agricultural production to achieve self sufficiency in food supply and generate adequate foreign exchange to increase the country's ability to import industrial intermediates and capital goods; secondly, to develop technologies at the service of agriculture and industry; thirdly, to identify and exploit mineral resources; and fourthly, to move on in a concerted manner to expand the country's industrial base.

18. The Chairman noted that to achieve those objectives no sophisticated plans had been drawn up due to the paucity of statistical data and information. Consequently, Ethiopian planning was at present limited to setting annual production targets and mobilizing domestic resources through the Development Campaign. He concluded by expressing the view that he shared UNIDO's concern and was appreciative of the assistance it had provided to Ethiopia.

19. In conclusion the Executive Director noted that UNIDO was emphasizing the link between agriculture and industry. That was an essential factor for ensuring a thoroughly integrated national development policy and maximizing the benefits to national economies of investments in the two sectors.

20. With regard to energy, he informed the Chairman that UNIDO was concerned with the matter and was developing an important programme mainly directed to the development of alternative sources of energy to solve part of the energy problems which developing countries were confronting. Lastly he mentioned that UNIDO was becoming a specialized agency and recalled that the OAU had, at its recent summit in Monrovia, passed a resolution urging African governments to sign and ratify the new constitution of UNIDO. He was convinced that the developing countries would continue to lend their support to UNIDO regarding its conversion to a specialized agency.

III. MEETING WITH ATO HAILU YIMANU,
SENIOR MINISTER - PMG

21. The Executive Director referred to the meetings he had held earlier with the Minister of Industry and reviewed some of the projects that were discussed. He stated that as a result there were good prospects for further strengthening Ethiopia/UNIDO co-operation. In that connection he was taking the opportunity of his current visit to Addis Ababa to learn more about the priorities of Ethiopian Development Policy.

22. In response the Senior Minister reviewed the efforts of the Government during the last two years to reconstruct the Ethiopian economy. Subsequent to the end of internal upheavals and external wars which had confronted the Ethiopian revolution, he stated that the Government had launched a National Revolutionary Development Campaign to effectively mobilize and co-ordinate the efforts of the Government and those of the broad masses. Thus the Congress which is the central organ of the National Revolutionary Development Campaign and Central Supreme Planning Council Campaign is composed of the members of the PMAC, ministers, provincial administrators, sectoral commanders and representatives of mass organizations such as labour unions, peasants associations etc. The above structure is also replicated at the provincial level in order to fully motivate and mobilize national resources.

23. The first action programme drawn up by the Congress in July 1978 had placed higher emphasis on immediate and urgent needs namely production and effective distribution of mass consumer goods needed after the end of the war. The programme proved successful in that a rate of growth of GDP of 5.2 per cent was achieved. The second action programme was launched on 2 July 1979 with a similar but more expanded ambit and it was hoped that a 7 per cent growth of GDP would be achieved by this time next year.

24. The Senior Minister indicated that perhaps one more programme would be launched in the year following the second action programme. Data and information were lacking to launch long-term plans at present. He thought however, that from the efforts of the three campaigns adequate data and information would be forthcoming to initiate a process of long-term development planning - perhaps a two-year plan to start with.

25. He expressed concern about the inadequate flow and level of investments primarily because of the current weakness of the ministries for generating project ideas and preparing investment projects. The Supreme Council was intending to urge the ministries to set up project preparation units. It itself had set up a Development Projects Agency. In the area of transfer of technology it was getting the assistance of UNCTAD. In that connection the Minister expressed interest in having UNIDO's Technology Advisory Services associated with the project. For that purpose he was prepared to ask one of his assistants to pay a visit to Vienna next month.

26. The Minister further underlined the need of developing national capabilities in project preparation in anticipation of the setting-up of new enterprises and urged UNIDO to extend its assistance in setting up project preparation units in the field of industry. Another area of UNIDO assistance concerned energy development. He stated that Ethiopia's main source of energy was hydro-power. However, rural electrification was based on diesel oil. Ethiopia wanted to diversify her energy sources and in that connection had set up a National Energy Committee. He indicated it would be useful for the Committee to establish contacts with UNIDO's energy programme in order to define concrete projects in the future and thus be able to benefit from further UNIDO assistance in that area.

27. The Executive Director noted that one priority which had clearly emerged from his discussions was the need to develop and strengthen the country's capability for project generation and preparation. A nucleus of capable personnel to carry out industrial project studies was indispensable for furthering industrial investments. He informed the Senior Minister that UNIDO had wide experience in training project personnel and setting up national centres for feasibility studies.

28. The main source of financing of UNIDO technical assistance activities was the IPF which in the case of Ethiopia was currently limited in regard to the industry sector. However, a beginning could be made through UNIDO's own resources. In this regard UNIDO experts could pay a visit to Ethiopia and discuss areas of Ethiopia/UNIDO co-operation as well as identify specific projects of assistance including the one of non-conventional energy sources.

29. In concluding, the Executive Director stated that there was a great deal to be done and that time was also a constraint. It was, therefore, necessary to concentrate on key projects and to get on quickly to the stage of implementing them. He agreed that one such key area was the strengthening of national capabilities for the design and preparation of development projects and looked forward to developing the concept in forthcoming discussions with the representative of the Senior Minister.

IV. MEETING WITH ATO TESFAYE DINKA,
MINISTER OF INDUSTRY - PMG

30. The Minister of Industry in briefing the Executive Director on the current status and future prospects of industrialization in Ethiopia reviewed the development of this sector in the post revolution period. He stated that one of the steps carried out by PMG was the nationalization of major industries which were now organized in sectoral public corporations. The problems that were encountered during the past five years were (a) lack of technical and managerial skills to operate nationalized industries, (b) lack of maintenance and repair facilities, (c) lack of capabilities for project design and preparation, and (d) shortage of financial resources because of a virtual shut-off of external financial flows due to nationalization.

31. The Minister noted that the main feature of the Ethiopian industrial sector was that it was mainly based on the production of simple consumer goods. A start had not yet been made in the area of basic metals production, engineering and chemicals. Industry was furthermore concentrated in only three major Ethiopian towns, namely Addis Ababa, Asmara and Dire Dawa.

32. Turning to UNIDO's assistance, the Minister highlighted the following areas and sectors:

Textiles: The country had immense potentials for cotton growing. Presently this potential was not being fully exploited. At the same time the country had developed technical and managerial capabilities in the sector which combined with the potential for cotton growing would provide the country with good prospects for entering export markets. He recalled that UNIDO had undertaken studies in the sector and now wished for further studies to be undertaken to be able to draw up long term programmes for developing this sector with the above objective in mind.

Chemicals: The Minister underlined the enormous agricultural potential of the country. Today only 8 to 9 per cent of the arable land was being utilized. Fertilizers were required to develop this potential. He recalled that the study conducted by UNIDO had proposed the setting up of a bagging plant. This was not implemented because the Government felt that the country's demand for fertilizers already justified the domestic manufacture of fertilizers. He stated that the Government attached high priority to this and requested UNIDO's assistance in carrying out a feasibility study.

Iron and Steel: The Government with the assistance of UNDP had recently discovered substantial reserves of lignite and iron ore with 60-70 per cent ferrous content. The problem now being investigated was the viability of setting up a direct reduction plant based on these resources. The Minister wondered whether UNIDO could assist the Government in setting up a small pilot plant to start with.

Foundry: The Minister recalled that UNIDO had assisted in carrying out a study for the setting-up of a foundry development programme. As high importance was attached to developing this industry as a means of developing the metals and engineering industries in Ethiopia, he enquired whether UNIDO experts could make a return visit to carry out further studies and to establish a link between the foundry development programme and the iron and steel project mentioned above.

Training: The Minister stated that there was currently a shortage of technically qualified personnel to manage and operate existing factories and to set-up and operate new industrial facilities. In regard to the latter he underlined the need for training in the field of project design, preparation and implementation.

Institute of Feasibility Studies: While ad hoc training programmes could be provided to project personnel as indicated above, the urgent need for project personnel required a deeper and more comprehensive approach to the problem. The Minister stated that the establishment of an institute for feasibility studies could constitute a first-best solution for developing national capabilities. Such an institute, he envisaged, would facilitate the effective

transfer of skills from international experts and consultants to national personnel through "learning-by-doing-together". He noted that the modalities would need to be discussed and agreed upon with the Central Planning and Supreme Council but nevertheless he wished to request the Executive Director for UNIDO's assistance in realizing this high priority project.

33. The Executive Director in responding to the above stated that in principle UNIDO could make its contribution to most of the projects mentioned above. The main constraint was the question of resources. In view of that there was need for being selective and for approaching the problems on a step-by-step basis. With particular regard to the areas of assistance indicated, he made the following observations:

34. Firstly, with regard to maintenance and repairs, he noted that this was a problem of underdevelopment. There were technical problems that needed investigation which UNIDO's Factory Establishment and Management Section was tackling. UNIDO could make contributions in this area.

35. Secondly, the development of metal working industries fell definitely in line with what UNIDO was encouraging. For the developing countries to make fast progress, capabilities in the metal working, engineering industries would need to be developed. Projects directed to the achievement of these objectives required large scale resources and considerable time which could most effectively be provided through IPF. However, UNIDO could make a contribution through UNIDF at some specific stage or another.

36. Thirdly, UNIDO had also helped several countries in the past in foundry development frequently utilizing bilateral inputs. UNIDO could render assistance to Ethiopia along the same lines.

37. Fourthly, as to the iron and lignite resources project mentioned by the Minister, the Executive Director pointed out that mineral resources exploration was dealt with by the United Nations Department for Technical Co-operation for Development. The transformation of these resources however fell within the mandate of UNIDO which had established widely recognized expertise. He suggested that as a first step the UNIDO Interregional Adviser for Iron and Steel pay a visit to Ethiopia in order to elaborate a project for the

effective utilization of these resources. As to the suggestion of setting up pilot plants, he noted that this was a costly undertaking. UNIDO would need to examine ways and means of locating and mobilizing the requisite resources. Thus UNIDO could assist Ethiopia in promoting multilateral assistance for the purpose of setting up a pilot plant.

38. The Executive Director referred to the assistance that UNIDO could provide to develop the fertilizer and chemical industries in order to effectively tap the country's immense agricultural potentials. A start could be made to update UNIDO's past studies in this area and headquarter staff could pay a visit to Ethiopia in order to elaborate and specify UNIDO's contribution.

39. Concerning the textiles industry, similar assistance could be rendered by UNIDO headquarter staff in the initial stage and subsequently further assistance could be rendered particularly in developing managerial capabilities. He also underlined the importance of developing pharmaceutical industries from the social point of view and the role that UNIDO could play in assisting developing countries in this area based on local raw materials.

40. Referring to training of managers and technicians, the Executive Director noted that training was a costly undertaking. UNIDO's resources were not commensurate with the needs of the developing countries. He pointed out that it might be useful if UNIDO's assistance were to be directed to building up infrastructures. Ethiopia's requirement for trained personnel was bound to grow. It would seem therefore that UNIDO could make a start by helping in assessing needs, mapping out a plan of action and mobilizing external assistance.

41. The Executive Director observed the proposal to set up an institute of feasibility studies as being a particularly deserving area of UNIDO assistance. UNIDO had carried out a number of projects in other developing countries. Consequently it had no difficulty in understanding the concept and approach discussed by the Minister. It was important for all concerned to be involved and to be convinced of the vital role that such institutes could play in furthering industrialization objectives. This indeed was an area which deserved a generous contribution from the IPF. He indicated to the Minister that UNIDO was prepared to make a start with UNIDO/SIS funds to assist the Government sort out the project concept and advise on follow-up actions.

42. Dr. Khane also drew the attention of the Minister to other initiatives pursued by UNIDO since the adoption of the Lima Declaration and Plan of Action. These concerned firstly the system of consultations which is an instrument at the service of the developing countries aimed at promoting the restructuring of world industry. He underlined the importance of the participation of developing countries in consultation meetings.

43. Secondly he outlined the objectives of UNIDO's investment promotion programme, the importance of which lay in mobilizing industrial investment resources to achieve the Lima targets. The programme encompassed public sector investments also. UNIDO could make available information concerning the programme so that Ethiopia could benefit from the possibility of mobilizing external resources.

44. Thirdly, the Executive Director referred to the forthcoming Third General Conference of UNIDO and drew attention to the serious financial constraints which the developing countries faced in mobilizing resources for industrial financing. Specific proposals and mechanisms of industrialization had been put forward in the Joint Study prepared by UNIDO. Should developing countries find potential utility in these proposals, then no doubt they would voice their positions at the Delhi Conference.

45. In concluding Dr. Khane assured the Minister that what had been outlined as Ethiopia's priority needs fell at the core of UNIDO's activities and that UNIDO would make every effort to initiate and expand the new areas of activities identified during their discussions.

46. The Director of Small-scale Promotion Section of the Ministry, Ato Bekelle took the opportunity of the meeting to thank the Executive Director for the assistance provided through the Handicraft and Cottage Industries Development Agency (HACIDA). He recalled that the project had experienced certain difficulties of recruitment and fielding of experts at the beginning. However he was now pleased to note that the project had managed to field 3-4 experts. The programme had increased four-fold and he himself had undertaken a study tour to the Socialist countries in the field of industrial co-operatives which had proved very useful.

47. As follow up, specific projects were forthcoming for UNIDO assistance in co-operation with the International Co-operatives Alliance (ICA). Terms of reference had been drawn up for model co-operatives in regard to garment, sheet metal products, agro-based rural industries, leather goods and agricultural implements. He pointed out that Ethiopia needed assistance along the lines of other countries, notably, Senegal, Nigeria and Afghanistan.

V. FOLLOW-UP ACTION BY UNIDO

48. The points of follow-up action by the Divisions and Sections of UNIDO are summarized here below:

(i) Survey of training needs: To initiate steps in consultation with the Ministry of Industry and the Resident Representative with a view to mounting a mission to assist the government elaborate a training programme of action.

(ii) Formulation of a foundry development programme: To review UNIDO's past study and elaborate an assistance project in the field of foundry development for financing under bilateral programmes.

(iii) Strengthening of maintenance and repair facilities: To carry out investigations of needs initially through the office of the Resident Representative and subsequently by mounting a field mission.

(iv) Sub-sector studies: To review past studies undertaken by UNIDO in the fields of textiles, fertilizers and pharmaceuticals and formulate assistance projects.

(v) Iron and steel development: To provide initial assistance by a mission to be undertaken by Mr. Nijhawan to investigate the possibility of setting-up a direct reduction pilot plant based on the iron ore and lignite resources identified.

(vi) Energy development: To contact the Ethiopian National Committee on Energy to find out their needs and identify the areas in which UNIDO could make contributions.

(vii) Technology advisory services: To hold discussions with Ato Shifferaw Jammo, Chief Planner of the Central Planning Supreme Council on the on-going UNCTAD Transfer of Technology project with a view of UNIDO providing inputs. Ato Shifferaw is due to visit Vienna early in November 1979.

(viii) Training of project personnel: To continue negotiations with the Ministry of Industry so that the short-term training proposal submitted by UNIDC could be implemented at the earliest possible opportunity.

(ix) Institute of feasibility studies: To continue discussions with the Ministry of Industry with a view of launching a preparatory assistance phase under UNIDF.

(x) Industrial co-operatives: To be prepared to respond speedily to requests of assistance currently being prepared by the Ministry of Industry through the UNIDO/ICA co-operative programme.

(xi) On-going projects: Mr. Hable-Selassie to make a review of on-going projects and report to the Director of IOD in light of the discussions held with the Ethiopian authorities.

(xii) Investment promotion: ICPO to give thought to how best the Programme could help mobilize external public resources and provide information of UNIDO's services in this area.

(xiii) Ethiopia/UNIDO relations: Following-up on points raised by the Executive Director during his discussions especially regarding the signing of UNIDO's constitution, contribution to the UNIDF, Ethiopian representation at the Industrial Development Board and participation in the system of consultations.

(xiv) Future visits: The Head of State having invited the Executive Director to pay an official visit to Ethiopia, the matter would need to be kept under review until a mutually satisfactory date is agreed upon.

Attachment I

PROGRAMME OF VISIT AND LIST OF PERSONS MET

Tuesday, 16 October 1979 : 3.00 p.m.

Mr. Tesfaye Dinka	Minister of Industry
Mr. Mamano Bahta	Permanent Secretary, Ministry of Industry
Mr. Woldu Gabre-Michael	Head of Planning, Ministry of Industry
Mr. Bekelle	Head, Small-scale Industries Promotion Section, Ministry of Industry

Thursday, 18 October 1979 : 11.00 a.m.

Lt. Col. Mengistu Hailemariam	Chairman of the Provisional Military Administrative Council (PMAC): Head of State
Col. Hadis Tedla	Member of PMAC in charge of Economic and Social Affairs and Vice-chairman of the Central Planning Supreme Council
Mr. Hailu Yimanu	Senior Minister and Secretary General of the Central Planning Supreme Council (CPSC)

Friday, 19 October 1979 : 10.00 a.m.

Mr. Hailu Yimanu	Senior Minister and Secretary General of CPSC
Mr. Shifferaw Jammo	Chief Planner of CPSC
Mr. Philippos Wolde-Mariam	Head, Industry Department, CPSC



