



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)

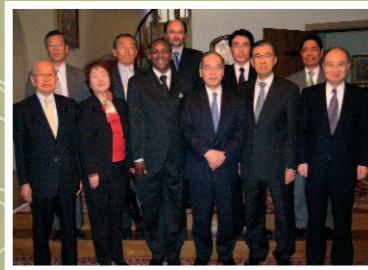
# Annual Report 2006



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION



Signing of MOU with FAO Director-General Mr. J. Diouf



High-Level Delegation, Japan



H.E. Mr. H. Fakhro, Minister of Industry and Commerce, Bahrain, with Graduates of 15th Entrepreneurship and Enterprise Programme



Meeting with H.E. Ms. M. Bachelet, President Chile



Mr. Yumkella with H.E. Ms. H. Wieczorek-Zeul, Development Minister, and H.E. Ambassador K.P. Gottwald, Perm. Rep. of Germany to UNIDO



Meeting with H.E. Mr. M. Singh, Prime Minister, India



Meeting with H.E. Mr. R. Prodi, Prime Minister, Italy



Mr. Yumkella with Mr. W. Clinton, Former President, USA



17th Conference of African Ministers of Industry (CAMI 17)



Meeting with Rt. Hon. Rhodri Morgan, Welsh First Minister, Rt. Hon. Mr. Hilary Benn, Secretary of State for International Development, DFID



10th China International Fair for Investment and Trade

# ANNUAL REPORT 2006

Industrial Development Board,  
thirty-third session

Programme and Budget Committee,  
twenty-third session



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION  
Vienna, 2007

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

This document has not been formally edited.

ISSN 1020-7651

Distr.  
GENERAL

IDB.33/2-PBC.23/2\*  
3 May 2007

Original: ENGLISH

---

\*Reissued for technical reasons.

## FOREWORD

The United Nations Industrial Development Organization (UNIDO) has a special place in the United Nations system: it is the only organization specifically targeting the creation of wealth through manufacturing, in which it mainly focuses on promoting growth in the small and medium enterprise sector, the key generator of wealth in most developing countries. To improve standards of living through industries that are both internationally competitive and environmentally sustainable, the Organization has created the largest portfolio of projects related to trade capacity-building in the United Nations system, and the Organization plays a lead role in, among others, the implementation of the Montreal Protocol for the elimination of ozone depleting substances (ODS) and the Stockholm Convention for the elimination of persistent organic pollutants (POPs).

The reforms that are underway to make the United Nations system an even more relevant force for development, humanitarian assistance and environmental sustainability, also require that the United Nations delivers its message better to build up broad-based support among the many stakeholders in development. UNIDO, as this document will show, is in the vanguard when it comes to reforms. One measure to raise the Organization's profile is to make the *Annual Report of UNIDO*, a legislative document on UNIDO's performance, accessible to a wider public. In this way, it will help to highlight the contribution of UNIDO's core activities to international development objectives, which—although evident to those who work in the Organization—is often not recognized by the outside world.

The *Annual Report* opens with an introductory message by the Director-General of UNIDO, Kandeh K. Yumkella. Chapter 2 reviews the year in brief, starting with a major event, the celebration of UNIDO's fortieth anniversary as a United Nations organization. This is followed by an overview of technical cooperation management, funds mobilization, managerial reforms, advocacy activities to raise UNIDO's profile and efforts to strengthen cooperation in the field with other United Nations agencies as well as partners outside the United Nations system. Chapter 3 discusses the broader framework within which the Organization pursues cooperation with other United Nations agencies: the reform of the United Nations and the very active role UNIDO plays in that context. Chapters 4 to 8 present an overview of UNIDO's operations in the field. The CD-ROM attached to this report includes appendices that provide detailed figures on UNIDO's technical cooperation activities. For those who are unfamiliar with the Organization's activities a brief description of the principles guiding these operations may be useful.

The Organization's assistance is based on two core functions and three thematic priorities.

Core functions:

- Serving as a **global forum** which generates and disseminates industry-related knowledge and provides a platform for all actors in the public and private sectors;
- Designing and implementing **technical cooperation** programmes that support the industrial development efforts of its clients.

Thematic priorities:

- **Poverty reduction through productive activities**, by promoting industry, especially through small and medium enterprises, in less developed areas, with a focus on employment creation, income generation and institutional capacity-building;
- **Trade capacity-building**, by helping countries to develop both production and trade-related capacities, including the capacity to conform to the standards of international markets;
- **Environment and energy**, by promoting industrial energy efficiency and renewable sources of energy, particularly in rural areas, and supporting other activities for sustainable industrial development.

The two core functions complement and support each other: technical cooperation experiences can be shared with policy makers and other actors; both analytical work helps to identify areas of maximum impact for technical cooperation. Because of the complex interrelations among development issues, programmes and projects often spill over thematic borders.

Eight service modules translate the core functions and thematic priorities into action:

1. Industrial governance and statistics
2. Investment and technology promotion
3. Industrial competitiveness and trade
4. Private sector development
5. Agro-industry
6. Sustainable energy and climate change
7. Montreal Protocol
8. Environmental management

The services can be combined in integrated programmes (IPs) or country service frameworks (CSFs), or be used in stand-alone projects.

## CONTENTS

	<i>Page</i>
Foreword .....	<i>iii</i>
Chapter 1. Message from the Director-General .....	2
Chapter 2. The year in review .....	4
A. UNIDO's fortieth anniversary .....	5
B. Technical cooperation management .....	8
C. Funds mobilization and technical cooperation (net approvals and delivery) .....	10
D. Administrative reforms .....	12
E. Human resource management .....	13
F. Sharper focus on thematic priorities .....	15
G. Cooperation with other agencies and actors .....	16
H. Advocacy .....	21
I. The triennial comprehensive policy review .....	24
Chapter 3. Promoting United Nations reform and enhancing field level impact ...	26
A. Towards better technical cooperation .....	27
B. United Nations reform: <i>Delivering as One</i> .....	27
C. UNIDO and the United Nations reform .....	28
Chapter 4. Poverty reduction through productive activities .....	32
A. The key to poverty reduction: growing industrial enterprises ....	33
B. Improvement of the business environment, and the policy and institutional frameworks .....	33
C. Promotion of entrepreneurship and business linkages .....	35
D. Sector-specific support to agro-industry .....	37
Chapter 5. Trade capacity-building .....	40
A. Compete, conform, connect .....	41
B. Building competitive industries .....	41
C. Achieving conformity with market requirements .....	44
D. Inter-agency cooperation .....	46
Chapter 6. Environment and energy .....	48
A. Towards sustainable production and consumption patterns .....	49
B. Promoting resource efficiency .....	49



	<i>Page</i>
C. Eliminating the use of hazardous and toxic materials .....	51
D. Maximizing recycling .....	52
E. Promoting renewable sources of energy .....	53
F. From selling products to selling product services .....	54
G. Abatement of industrial pollution and waste management .....	54
<b>Chapter 7. Cross-cutting programmes and issues .....</b>	<b>56</b>
A. South-South cooperation and the least developed countries .....	57
B. Human security coordination .....	60
C. Research and statistics .....	60
<b>Chapter 8. Selected programme profiles .....</b>	<b>64</b>
A. Boosting camelid fibre textile production in Bolivia .....	65
B. The Bangladesh quality support programme .....	67
C. Regional programme on corporate social responsibility in Central and Eastern Europe .....	68
D. The African Investment Promotion Network .....	70
E. Technology foresight in Central and Eastern Europe and the Newly Independent States .....	72
F. Chemical leasing .....	73
G. Joint formulation of an industrial strategy for Saudi Arabia .....	75
<b>General information on UNIDO .....</b>	<b>78</b>
A. Size and structure of the Organization .....	78
B. UNIDO's primary objective .....	78
C. The policy-making organs .....	79
D. Policy milestones .....	80
E. UNIDO around the world .....	81
F. Budget and technical cooperation .....	81
<b>Member States of the United Nations Industrial Development Organization .....</b>	<b>83</b>
<b>UNIDO's organizational chart .....</b>	<b>84</b>
<b>List of Abbreviations .....</b>	<b>85</b>
 <b>Appendices on CD-ROM</b>	





The Director-General speaks at the fortieth anniversary of UNIDO.

## 1 | Message from the Director-General

Development can only be sustainable when the poor are its principal beneficiaries. Improving the lives of poor people is therefore the fundamental challenge for the international community. It is both morally right and is also in the enlightened self-interest of those with more wealth and power. Simply put, a more just world will also be a more stable and peaceful world.

This year's *Annual Report* outlines how UNIDO's work to promote sustainable industrial development has contributed to global efforts to reduce poverty and achieve the other Millennium Development Goals. Although it includes important chapters on the reforms that have taken place within and outside the Organization, I do not regard these reforms as ends in themselves—rather they are a means to enhance the positive impacts of UNIDO's programmes on the lives of people, in developing countries. While I am proud to say that UNIDO is widely seen to be in the vanguard of the United Nations reform efforts, this pride comes from the firm belief that such reforms will help us to deliver our services better. In the same spirit, our positive approach to the United Nations coherence agenda during 2006 was guided by the conviction that, if properly implemented, it will result in greater impact at the country level.

By 2010 there will be over 700 million more people of working age in developing countries than in 2005. Without increased opportunities to earn a living these people will have

little possibility of fulfilling their potential. Some will undoubtedly become alienated from a society that they see as having failed them. The implications are obvious, and make it all the more important that we work to create wealth and employment in developing and transition countries, including those that are emerging from conflict. In this context, providing employment to the youth is a pressing need.

UNIDO believes that the only way to create the required jobs is to promote the development of a dynamic private sector. Our focus is on small and medium enterprises as they account for the lion's share of the growth in jobs in developing countries. Whether we are working to increase the ability of enterprises to export their goods—through our trade capacity-building work—or training women entrepreneurs, our aim is to facilitate the creation of employment and wealth. We have done so through a number of successful programmes, but much more needs to be done.

In addition to the economic and social dimensions of sustainable development, there is a further dimension which UNIDO helps to address—environmental sustainability. Of all the challenges we face in the coming years few, if any, are as multi-faceted and complex as climate change. Industry—as a major emitter of greenhouse gases and other pollutants—must be helped to reduce its environmental impact, while at the same time becoming more competitive. Our environment and energy work is aimed directly at such activities.

Significant developments in the field of regional cooperation took place. South-South cooperation is increasingly seen as an important element of international cooperation. As countries in the South increase their skills and capabilities they are willing and able to transfer these to other countries. The launch of UNIDO's new initiative on South-South cooperation during 2006 will significantly increase the ability of developing and transition countries to work together better in the future, through exchanging policy experience, transferring technology and promoting intra-South investment flows.

This year saw significant improvements in UNIDO's performance in delivering its mandate. Programmatic continuity was coupled with new initiatives, and sustained levels of technical cooperation delivery were accompanied by high standards of quality. The year has laid a solid foundation for our strategy of "growth with quality" in the years to come.

I hope that you will find the *Annual Report* on our work in 2006 both informative and stimulating. I am convinced that when we come to write the 2007 *Annual Report*, we will have an even more exciting story to tell.





## 2

### The year in review

UNIDO is ready to face future challenges in industrial development.

*december*

200

Mo	Tu	We	Th	Fr	Sa	S
				1	2	
5	6	7	8	9		
12	13	14	15	16		

## **A. UNIDO's fortieth anniversary**

### **An opportunity to celebrate and learn**

The year 2006 was marked by the fortieth anniversary celebrations of UNIDO—an important element in the Organization's efforts to enhance its visibility and raise awareness of its activities. The main commemorative ceremony took place in the morning of 28 November 2006 and was co-hosted with the Austrian Federal Ministry for Foreign Affairs and the City of Vienna. Over 1,200 invitees, including the heads of other Vienna-based Organizations, UNIDO Goodwill Ambassadors, retirees and staff, gathered in the Austria Center Vienna to pay tribute to UNIDO. The programme was interspersed with musical interludes by various international artists, and a special exhibition entitled "UNIDO Value Added—Investment, Business and Partnerships" was organized.

The Director-General opened the morning ceremony. In his speech he characterized the anniversary as an opportunity to celebrate and learn. The President of the Republic of Montenegro, the newest Member State to join UNIDO, then spoke of the Organization's relevance for developing countries and economies in transition alike. This was followed by a short film summarizing the three thematic priorities of the Organization—poverty reduction through productive activities, trade capacity-building, and environment and energy. Short statements from high-level representatives of the Austrian Government, as well as other dignitaries, emphasized the host country's significant involvement in UNIDO's activities and pointed out the ability of the Organization to quickly adapt to changes in the international environment. The Director-General of the United Nations Office at Vienna delivered a statement by the Secretary-General of the United Nations acknowledging UNIDO's valuable role in efforts to eradicate poverty and hunger, protect the environment and help the developing countries build their capacity to benefit from world trade.

### **Looking back . . .**

As the event was also conceived as an opportunity to take stock of the Organization's past achievements, highlights included speeches by four former executive heads of UNIDO, who honoured the event by providing their personal perspective on the history and work of the Organization. The first speaker, Dr. Abd-El Rahman Khane, Executive Director from 1975 to 1985, noted that through its successful adaptation to a shifting development paradigm, UNIDO has maintained the relevance of its mandate for Africa and other developing countries to the present day. The first Director-General, Ambassador Domingo L. Siazon Jr., referred to the eventful year of 1985, when UNIDO became a specialized agency with its own budget and governance structure. Ambassador Mauricio de Maria y Campos, who followed Mr. Siazon as Director-General from 1993 to 1997, spoke about the challenging years of his stewardship and maintaining the Organization

as a relevant specialized agency. Mr. Carlos Magariños, Director-General from 1997 to 2005, emphasized UNIDO's great achievements in the field of trade capacity-building in developing countries.

### . . . and looking forward

Following the speeches that gave a glimpse of UNIDO's past, the current Director-General, Kandeh K. Yumkella, focused on the challenging yet hopeful future of the Organization. He began his speech by pointing out the significance of the past and present in determining the future. The Director-General recounted several UNIDO achievements over its 40 years, such as its involvement in designing the Malaysian Industrial Master Plan; its pioneering role in implementing the Montreal Protocol; its support of the China International Fair for Investment and Trade, which in 10 years grew from 300 to 17,000 participants; and its assistance to the International Centre for Advanced Manufacturing Technology in Bangalore, India.

He also emphasized the Organization's present work on its three thematic priorities. Due to increasingly rapid changes in the international environment, UNIDO's mandate is even more important today than it was 40 years ago. The future will be dominated by the promotion of sustainable and clean technologies for wealth creation in developing countries. Therefore, green technology will be at the forefront of UNIDO's efforts over the coming years.

Before concluding the morning ceremony, the Director-General presented exceptional performance awards to staff members in different categories: sustained outstanding performance, innovation and best performing office away from Headquarters. A total of 26 staff in the General Service, Professional and higher categories received individual or team awards.



The performance of "My African Dream" by Ms. Nomathemba Smiley Divindenz and her choir was one of the highlights of the celebration.

### **Panel discussions: productivity, trade and energy**

In the afternoon, a forum discussed the key challenges that UNIDO was likely to face in the future, and possible responses. The “Davos-style” panel discussions, based on UNIDO’s thematic priorities, were moderated by Todd Benjamin, Financial Editor of the Cable News Network (CNN). Opening the discussion, the Director-General highlighted the importance of interaction, innovation and the need for globalization with a human face. Peter Sutherland, Chairman of British Petroleum and UNIDO Goodwill Ambassador, then referred to the many ways in which major challenges such as damage to ecosystems, food shortages and poverty were interlinked, and urged that practical steps be taken, especially in terms of energy efficiency, emission reduction and climate change.

The first panel focused on the challenges of productivity increase and socially inclusive employment creation through trade. It concluded that UNIDO does much, in partnership with other organizations, to help developing countries meet these challenges so that they can reach their development objectives. Still, it felt that the Organization could do even more, especially in terms of quality improvement, policy advice and formulation, public-private partnerships and support at enterprise level.

The second panel considered the importance of energy for economic growth, as well as its impact on the environment. UNIDO was praised for its activities, and was urged to continue with its innovative approaches in this area, facilitating the sharing of knowledge and experiences on a global scale, and promoting the dialogue on sustainability among all stakeholders in development at the national as well as the international level.

In closing the panel discussions, the Director-General emphasized the need for collective and integrated approaches to poverty reduction and stressed UNIDO’s vital role in the ongoing debate on system-wide coherence within the United Nations.

UNIDO was proud to live stream the entire event using state-of-the-art technology, enabling its offices and counterparts worldwide to follow the celebrations live. Video clips and statements delivered can be viewed on the Organization’s website: <http://www.unido.org/>.

### **Ready for the next 40 years**

With its unique and memorable atmosphere, marked by the participation of numerous representatives of Member States and other international organizations as well as staff members and retirees, the fortieth anniversary celebration was a resounding success. The event helped strengthen relationships with UNIDO’s partners and improved the understanding of its work. The Organization is now ready to face future challenges in industrial development.



## B. Technical cooperation management

### A better review and approval mechanism

After the establishment of a new organizational structure in February, a Programme Approval Committee (PAC) was set up. Replacing the previous four thematic approval committees, it became operational in April. All units responsible for programme development and implementation activities are represented. The Evaluation Group and the Quality Advisory Group (QAG, see below) are also represented, providing advice aimed at ensuring that the technical cooperation (TC) proposals submitted to the PAC are in accordance with the *Guidelines on Technical Cooperation Programmes and Projects*.

The new organizational structure ensures that internal approval processes are further streamlined and simplified. At the same time, it facilitates a more consistent and harmonized approach for the approval of TC programmes and projects prepared on the basis of the *Guidelines* and other applicable operational procedures and administrative instructions. An update of the *Guidelines*, which better reflects the new organizational structure and the three thematic priorities, was issued in August.<sup>1</sup> After further refinement and editing, it is to be distributed desk-to-desk in a user-friendly format. It provides extensive guidance on the management of TC programmes and projects while assigning clear responsibilities, authority and accountability throughout all stages of the TC project cycle.

### Activities of the Programme Approval Committee

Covering all thematic priorities, the PAC reviews and approves UNIDO's programmes and projects, and allocates funds to TC proposals within parameters set by the Executive Board (EB). It also allocates resources for initiating the preparation of fully-fledged documents and for undertaking funds mobilization activities.

The PAC meets every two weeks. It held 20 meetings during 2006 and reviewed a total of 207 programme and project documents. The overall rate of approval for those proposals stands at 79 per cent. Only 9 per cent of proposals submitted were not approved; this mainly happened when there were serious reservations whether the proposal was in line with UNIDO priorities and thematic areas. Table 1 and figure 1 give a breakdown of submissions by type of decision and region. The numbers include both fully-fledged project documents and preliminary proposals in the form of service summary sheets (SSS). About one-third of all documents reviewed, related to TC activities targeting Africa.

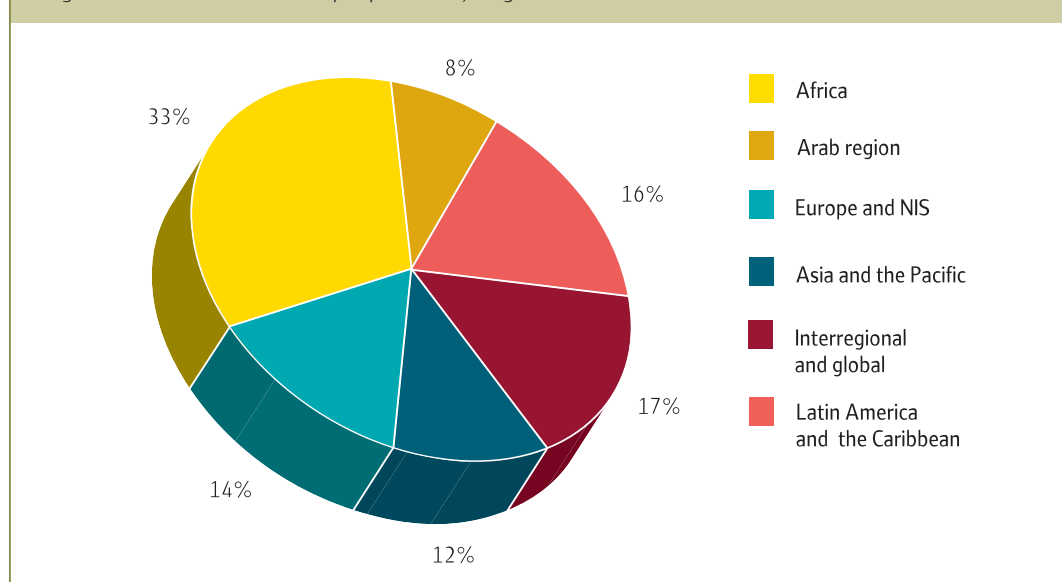
---

<sup>1</sup>DG AI.17 Rev.1.

Table 1. PAC action on proposals received during 2006

	<i>Number</i>	<i>Per cent</i>
Approved	164	79
Decision postponed	10	5
Resubmission requested	15	7
Not approved	18	9
Total	207	100

Figure 1. Distribution of proposals by region



### The Quality Advisory Group

The QAG is composed of two permanent staff members and representatives for each of the three thematic priorities—poverty reduction through productive activities, trade capacity-building and environment and energy—from the Programme Development and Technical Cooperation Division. In 2006, it reviewed and discussed with the submitters 145 new technical cooperation programmes and projects, in the form of preliminary proposals or concepts such as SSSs, programme screening forms or other concept notes (77), project documents (65) and integrated programmes (3).

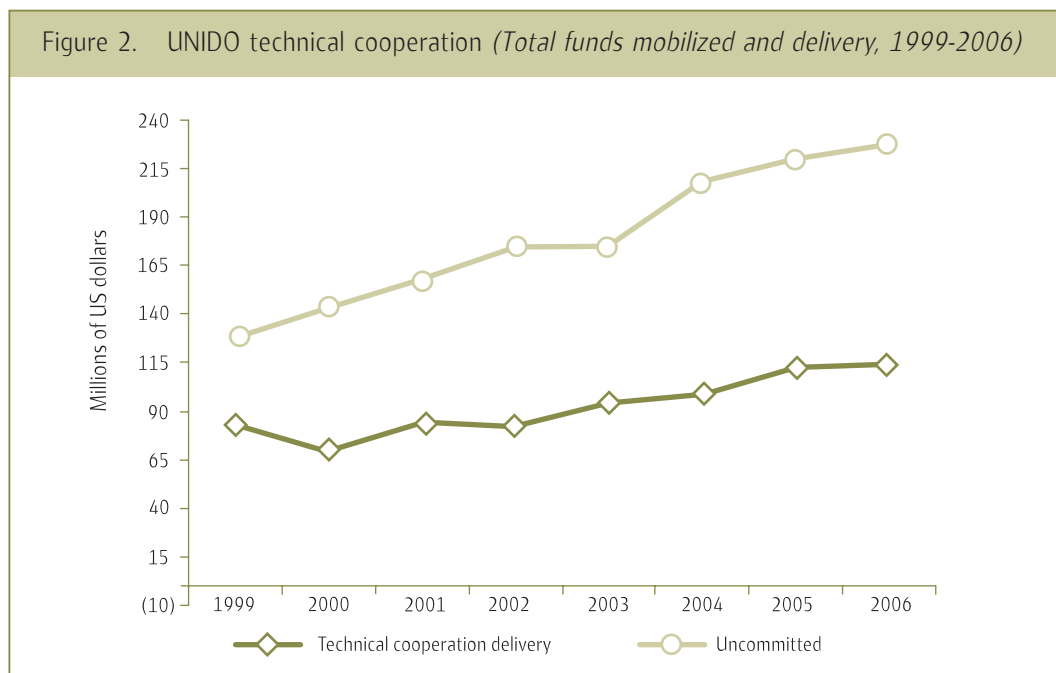
The procedure, fully described in the *Guidelines*, is intended to contribute to the continuous improvement of the Organization's TC activities, particularly with regard to the design of programme and project documents, implementation modalities of programmes and projects and the incorporation of adequate monitoring, reporting and evaluation mechanisms in all TC-related activities. Based on the outcome of this process, the QAG prepares advisory notes for PAC members reviewing the proposals.

It is expected that QAG's advice will not only help improve the quality of the Organization's TC activities in terms of their relevance and sustainability, but will also make an indirect but effective contribution to the achievement of the Millennium Development Goals<sup>2</sup> in countries receiving UNIDO assistance.

### C. Funds mobilization and technical cooperation (net approvals and delivery)

#### Technical cooperation: net approvals and delivery

The total of net TC project and programme approvals from all sources of funds amounted to 104.4 million United States dollars. This is \$24 million lower than in 2005. This difference is fully accounted for by the cancellation, at UNIDO's initiative, of one project that had been approved in 2005 by the United Nations Iraq Trust Fund, and the postponement of a major project payment to 2007 due to slower than expected implementation of the related project. Without these two one-off events, approvals would have been around \$120 million in both 2005 and 2006. At the same time, the level of future payments due under already signed agreements (not included above) increased by \$17.1 million during the year. Therefore the total of funds mobilized amounted to \$121.9 million. As this level exceeds the annual delivery, which stood at \$113.7 million, the gradual build-up of the portfolio of projects and programmes, now standing at \$227.4 million (start of 2007), will support a continuing increase in delivery levels in coming years.



<sup>2</sup>See <http://www.un.org/millenniumgoals/>.

## Funds mobilization

Technical cooperation is mainly funded through voluntary contributions from donor countries and institutions, as well as from multilateral funds and, to a limited degree, the United Nations Development Programme (UNDP). As in 2005, the strong focus on global development priorities and the clearer presentation of UNIDO's programmes in response to these priorities is continuing to have a strong positive effect on funds mobilization, especially from governmental donors. This trend is expected to continue, with closer cooperation on thematic priorities with individual donors.

By thematic priority, environment and energy attracted the largest share: \$60.9 million. Trade capacity-building attracted \$27.4 million and poverty reduction, including most of the activities related to human security coordination, \$13.6 million. Without the cancellation of the project to be financed by the United Nations Iraq Trust Fund, the figure would have been \$19.6 million. Funding mobilized for IPs and CSFs, in which UNIDO services are provided as a package, amounted to \$21.2 million, excluding support costs. This is a lower figure than in previous years, but the submission to donors of a large number of newly formulated integrated programmes, or new phases of these programmes, is expected to increase the figure in 2007.

UNIDO's funding from governmental sources reached \$55.1 million (including support costs), taking account of the cancellation of the United Nations Iraq Trust Fund project and the postponement of a payment referred to in the previous section. The largest contributor continued to be Italy, with a contribution of \$10 million. The second highest contributor was Switzerland, with \$8.2 million, followed by Japan (\$5.7 million), Norway (\$4.2 million) and Slovenia (\$2.4 million). Other major governmental donors in 2006 included Austria, France, Germany, Rwanda and the European Commission (EC), each of which contributed \$1 million or more. The contribution from Rwanda financed a project establishing mini-hydropower stations in that country. The various United Nations Trust Funds finance post-emergency projects in Afghanistan, Iraq, Nigeria and the United Republic of Tanzania; the latter two projects were related to refugee support. Ghana, Sri Lanka and Uganda benefited from three projects under the United Nations Trust Funds for Human Security financed by Japan. Appendix B shows the distribution of Industrial Development Fund and trust fund approvals by region and subject.

In the environmental field, funding from the Multilateral Fund for the Montreal Protocol amounted to \$34.7 million and approvals under the Global Environment Facility (GEF) to \$15.2 million (of the Italian and Japanese contributions mentioned above, some \$5 million also relate to the implementation of the Montreal Protocol).

Two major developments took place in 2006 that are expected to result in considerable new funding in 2007-2008.

The first one relates to a decision of the GEF to allow direct access to all relevant eligible organizations in their areas of specialization. For UNIDO this is expected to generate considerable approvals under the persistent organic pollutants (POPs) programme,

where important preparatory work has been done through the preparation of National Implementation Plans for more than 40 countries. It must be noted that such projects will require considerable co-funding from third parties, especially for projects in the least developed countries (LDCs).

The second major development stems from the new approach of the European Union to cooperation with the African, Caribbean and Pacific (ACP) Group of States, especially at the subregional level. Under the new Economic Partnership Agreements (EPAs), major technical cooperation programmes are being developed that include large components for strengthening the trade capacity of the countries. Based on UNIDO performance with similar programmes in the past and present, the Organization has been invited by the Regional Economic Commissions and the EC to participate in the formulation of these components, which would bring substantial funding with it. As these EC programmes, which are to be implemented by UNIDO require co-funding, this is expected to provide excellent opportunities for bilateral donors to participate in these, politically very important, programmes.

This year has also seen the first major contribution from a group of new donors in Europe. As mentioned above, Slovenia has become a major donor, after the signing of a framework agreement with UNIDO, to facilitate this cooperation. Several other countries have also started funding specific activities, and further increases in contributions from this group are anticipated for 2007.

## **D. Administrative reforms**

A number of administrative reforms were undertaken to strengthen UNIDO's ability to fulfil its tasks. All of these have improved efficiency and effectiveness and were often achieved through decentralization of authority with strengthened oversight and evaluation.

These reforms include rotation of senior managers, refinement of the targeted succession planning and a review of procurement, project personnel recruitment and knowledge management systems. Better accounting and financial arrangements were introduced. Planning is well under way for the United Nations mandated system-wide adoption, by January 2010, of the International Public Sector Accounting Standards (IPSAS), which are expected to provide better information for managerial decisions. In addition, a new Enterprise Resource Planning system will replace the existing United Nations Integrated Management Information System, and UNIDO has taken the first steps towards introducing it. Finally, a new office was opened in Brussels to strengthen UNIDO's capacity to undertake and administer projects funded by the European Union (EU).

To better measure UNIDO's achievements, the Organization's results-based management (RBM) system is being refined, using the experience of other agencies in the United Nations system. To develop a more harmonized approach to RBM within the system, a joint working group has been set up by the High-level Committees on Management and Programmes, to which UNIDO is actively contributing.

## E. Human resource management

### Review of UNIDO's human resource management

A major review of the Organization's human resource management strategy was undertaken. This review involved an extensive consultative process with the participation of a task force constituted by the Director-General to reassess the human resource management systems of the Organization. In addition, a group of senior serving and retired human resource managers from the private sector and international organizations was invited by the Director-General to discuss UNIDO's human resource strategy.

This consultative process formed the basis for recommendations submitted by the task force to the Executive Board (EB). Following approval by the EB, most of the recommendations have been or are being implemented. The approved recommendations will be incorporated in a comprehensive human resource management framework that is under preparation.

A comprehensive review of available skills vis-à-vis the Organization's present and future requirements to determine critical skills gaps, particularly in new growth areas, provided UNIDO with a sound basis for meeting its recruitment needs in a more focused manner. As a result, 71 professional positions were advertised, of which 39 were filled.

The Organization also introduced better competitive selection methods. Based on the best practice in assessment centre techniques, these include a written test, a presentation to the professional staff of the recruiting branch and structured panel interviews. The feedback received so far has been very positive.

### New field mobility policy

A new field mobility policy, drawing on best practices in other United Nations agencies and development institutions, was introduced to strengthen the field presence of UNIDO.<sup>3</sup> More details can be found in chapter 3.C.

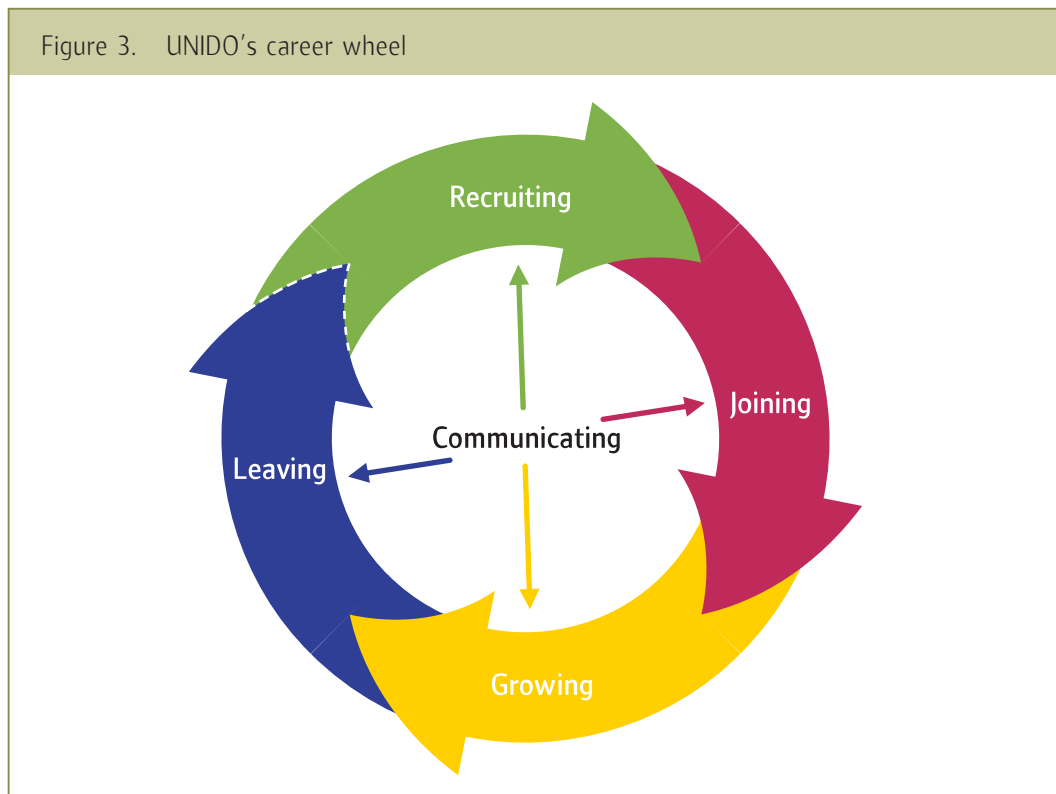
### Career development

The Organization has opened up more career possibilities for staff through the field mobility policy and through Headquarters vacancy announcements. In the year under review 53 staff members were promoted.

Furthermore, to strengthen staff competencies, the various organization units of UNIDO were requested to provide information on the individual and collective learning needs of their staff. A consolidated learning plan for the Organization based on this information was submitted to the Director-General for consideration and approval.

<sup>3</sup>UNIDO/DGB/(M).97.

In addition to the new induction programme for field staff, other programmes to enhance professional competencies were organized in areas such as logical framework analysis, results-based management and communication. Following approval by the EB, preparatory work was carried out on a leadership development programme for senior and managerial level staff. The career wheel model (see figure 3) has been introduced to identify the competencies needed by staff members throughout their career, from recruitment to retirement. A range of instruments has been developed or is being developed for each phase. In 2006, strong progress was made in developing the areas of recruitment, joining and communication.



On the occasion of UNIDO's fortieth anniversary celebrations, the Director-General highlighted the importance he attaches to staff achievements. As already mentioned in chapter 2.A, a number of staff members in both the Professional and General Service categories were awarded for exceptional performance. In addition, another 27 staff members were rewarded under the regular merit award scheme for outstanding performance.

### Performance appraisal

Efforts to strengthen performance appraisal by mainstreaming the RBM approach continued. The performance appraisal cycle was changed from 1 January to 31 December to align it with the Organization's work programme. This will simplify the operation of RBM, as the work plan of the branches can be cascaded down to staff members as individual performance objectives.

Two working groups were established to recommend improved performance indicators for staff in the technical branches and in field offices.

### Communication

The Director-General has repeatedly emphasized the need for an effective flow of information within UNIDO to promote teamwork and information sharing. Apart from communicating directly with staff on policy and management issues through the normal administrative channels, the Director-General has adopted a practice of communicating directly to staff by e-mail. He also introduced the "Dialogue with the Director-General", in which randomly selected staff members meet him with no set agenda to provide feedback on any issue of their choosing.

Finally, in order to address staff grievances, the Director-General also created a Panel on Conflict Resolution and Mediation Mechanisms. Its tasks are:

- To review the internal justice system (for redressing grievances through formal mechanisms) and informal conflict resolution mechanisms;
- To make recommendations on strategies and mechanisms for resolving grievances and conflicts in the workplace, taking into account the mechanisms and best practices of other organizations.

## F. Sharper focus on thematic priorities

Building on the extensive reforms in prior years, UNIDO worked on a sharper focus of its services, enhancing its technical capabilities and making its support services and administration more cost-effective. The primary geographic focus remains on the LDCs and Africa. In terms of thematic focus, energy and climate change are getting increasing attention. In this context, the Organization has taken steps to gain direct access to funding from the Global Environment Facility (GEF). This will facilitate the transfer of technologies with reduced greenhouse gases.

An in-depth review of the IPs was undertaken. IPs, a key result of the Organization's earlier reform process, introduced a process that made it possible to better focus TC at the field level by concentrating services on clearly targeted objectives and taking advantage of complementarities among UNIDO services. As a result of the programmatic review, IPs in some countries are being phased out, streamlined, or strengthened, while a new portfolio of IPs will be launched in different countries in 2007.

New and revised IPs will benefit from the sharper focus of UNIDO's three thematic priorities—poverty reduction through productive activities, trade capacity-building, and environment and energy. The greatest improvements in 2006 were in poverty reduction, where increased integration in global value chains was introduced as a unifying concept for the various services. This sharper focus is the result of extensive analysis and



discussions that took place at the first-ever UNIDO Thematic Retreat, involving senior management of UNIDO and the professional staff of three technical branches.

## G. Cooperation with other agencies and actors

Responding more effectively to major global challenges requires closer cooperation among United Nations agencies. The United Nations reform process, which sets the stage for greater coherence within the system, will be discussed in chapter 3. Meanwhile, UNIDO has taken steps to join forces with other United Nations agencies as well as actors outside the United Nations system, in order to increase the impact of development assistance.

### The UNIDO-UNDP Cooperation Agreement and its assessment

An important step towards greater inter-agency cooperation was the Cooperation Agreement between UNIDO and UNDP concluded in September 2004. The two organizations also concluded a related Framework for Joint UNIDO-UNDP Technical Cooperation Programmes on Private Sector Development.

Ideally, there should be a UNIDO presence in each of its client countries to oversee its activities, coordinate with other agencies and provide feedback to the Headquarters in Vienna. However, the available resources do not permit this. UNDP, on the other hand, has a very wide field presence. The Agreement, which aims to combine the strengths of both organizations through cooperation in a number of areas, focusing on private sector development (PSD), introduced a new model of field representation—the UNIDO Desk. These were to be established in UNDP Country Offices in 15 countries over a pilot period of two years, with a long-term goal of up to 80 countries. A dialogue at country level resulted in the formulation of new Joint Private Sector Development Programmes (JPSDPs). The government and private sector partners in countries where the two organizations are active, benefit from the Agreement through more effective delivery and better quality of development services and programmes.

A joint assessment of the Agreement was carried out from June to September 2006.<sup>4</sup> By that time, 13 UNIDO Desks had been established (see figure 4) and staffed with well-qualified local professionals, designated as Heads of UNIDO Operations (HUOs). The assessment covered both the progress made and recommendations for further developing or adjusting field cooperation and programme coordination.

The assessment concluded that there has been clear progress in three areas:

- Joint programmes: 33 of these are under development, for a total of about \$80 million. The total financial volume of the 14 programmes developed under the Framework is \$52.6 million;

<sup>4</sup>UNIDO Evaluation Group–UNDP Evaluation Office, *Joint Assessment–UNIDO-UNDP Cooperation Agreement pilot phase*, Vienna 2006.

Figure 4. UNIDO Desks established under the UNIDO-UNDP Cooperation Agreement, as of September 2006



- UNIDO projects and programmes: 42 are under development, for a total of about \$30 million. Actual amounts will depend on the success of resource mobilization;
- UNIDO's visibility in United Nations programming: it has been significantly improved through the new projects and programmes, taking into consideration the relatively short period of time since the Agreement was signed and the Desks started operations, between 9 and 18 months.

However, resource mobilization has remained far below expectations, and this will affect cost recovery. It appears unlikely that revenue generated from implementation will offset the costs of the Desks, as envisaged by the Agreement. Different management styles and different areas of interest with regard to private sector development also posed serious challenges. There was no joint strategy, decision-making, monitoring or problem solving. All in all, however, the Agreement has been a success. The assessment recommends not only that it be continued for the envisaged initial period of five years, but that cooperation should be extended to cover additional areas besides PSD, such as environment and energy, with improvements in joint management and implementation, and a better funding method for the Desks.

The main lessons of the assessment can be summarized as follows:

- The driving factors for success have been a tradition of cooperation, shared priorities, as well as commitment and strategic vision at the highest level;
- Sustained stakeholder interest and policy guidance from Member States is the key to starting and continuing the cooperation process. However, cooperation does not automatically lead to financial support;

- Innovation and change require resources, and it should be understood that the host country and the participating organizations should be aware that the potential benefits go well beyond the financial value of the projects and programmes. When the ambition is narrowed down to income generation for the organizations, the country may lose benefits in terms of advice, access to knowledge and networking;
- Despite organizational rigidities, working together at the country level can break the barriers of different organizational cultures, improve mutual understanding and lead to more effective country-level support.

The Administrator of UNDP and the Director-General of UNIDO fully endorsed the findings of the assessment in a joint management response<sup>5</sup> and agreed to:

- Continue with the collaboration, with modifications;
- Establish a joint Task Force to manage the implementation of the Cooperation Agreement;
- Work to expand the number of UNIDO Desks to 30 by the end of 2009, while maintaining UNIDO's existing field representation;
- Develop a sustainable funding mechanism for the UNIDO Desks;
- Increase efforts to work jointly on PSD and other projects and programmes, including through joint funds mobilization.

On 1 December the Board considered the elements contained in the joint management response and requested the Director-General in consultation with the Member States, inter alia, to pursue the implementation of the Cooperation Agreement for the envisaged period of five years.<sup>6</sup>

In taking the Agreement forward, both organizations will ensure coherence with the wider United Nations country-level reform initiatives.

### Other partnerships for development

While the UNIDO-UNDP Cooperation Agreement stands out as a particularly important step towards coherence in development assistance, UNIDO is also strengthening its partnerships with other United Nations agencies and actors outside the United Nations system for a more systematic pursuit of shared objectives.

UNIDO and the Food and Agriculture Organization (FAO) of the United Nations have signed a memorandum of understanding whereby UNIDO will post staff at FAO headquarters to develop closer links between the two agencies. TC projects in specific areas that rely on the complementary activities of the two organizations—agro-based industrial

<sup>5</sup>Documents IDB.32/11 and IDB.32/14.

<sup>6</sup>Decision IDB.32/Dec.6.

processing and commercially competitive biofuels—will have a much larger impact than individual and separate projects. FAO is also involved in the UNIDO-World Trade Organization (WTO) Regional Cotton Programme in Africa. This programme, which cooperates with the African Cotton Association and the International Cotton Advisory Committee, and in which 11 African countries participate, is expected to increase exports of this major African crop by 20 to 40 per cent in the medium term.

UNIDO launched an initiative on Youth Employment at the Director-General's Ministerial Breakfast Roundtable during the United Nations Economic and Social Council (ECOSOC) meeting in July. The Director-General, the Chief Economist of the World Bank and the Executive Director of the International Labour Organization (ILO) Employment Division led the discussions on the subject. A follow-up conference has been planned in 2007, and there will be a demonstration programme in West Africa involving the African Union, the United Nations Office for West Africa (UNOWA), ILO, and various government and agency participants. UNIDO expects that this will be the first of many youth employment programmes that benefit from improved inter-agency coherence and cooperation.

Under a UNIDO-WTO agreement signed in 2003 to help nine developing countries build up capacities for the production and export of competitive goods, a workshop was organized for the development stakeholders in each of the countries, during which key technical cooperation needs were identified. The two organizations have also been discussing how UNIDO, through its field presence, can assist WTO in service delivery at the country level. The focus of UNIDO is on the development of production capacities and the infrastructure for conformity with technical requirements; the task of WTO is to support the integration of the countries in question in the global trading system.

Other United Nations agencies with which UNIDO is cooperating include the International Atomic Energy Agency (IAEA), the International Fund for Agricultural Development (IFAD) and the United Nations Environment Programme (UNEP). UNEP, for example, has suggested cooperating on the development of biofuels, and widening the role of the UNEP-UNIDO network of National Cleaner Production Centres to cover the identification of promising projects to combat climate change, for funding under the Clean Development Mechanism of the Kyoto Protocol, as well as the implementation of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.

Inter-agency cooperation is only a part of UNIDO's strategy to increase synergies through partnerships. The new agreement with Microsoft, for instance, which primarily focuses on information and communication technology (ICT) for entrepreneurship training, investment promotion and business information in sub-Saharan Africa, shows the Organization's desire to involve the private sector in its efforts. In the field of trade capacity-building, UNIDO has the largest portfolio in the United Nations system and is involved in many partnerships with United Nations organizations as well as with other organizations, the European Union (EU) and individual donor countries.



UNIDO has established strong partnerships with financial institutions such as the Islamic Development Bank Group by signing a memorandum of understanding with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) with regards to cooperation in the field of investment promotion activities, technology transfers and institutional capacity-building. Furthermore UNIDO's Investment Promotion Unit in Jordan co-organized, with the Jordan Investment Board under the High Patronage of His Majesty King Abdullah, the Jordan Investment and Trade Forum in June.

Of particular interest to UNIDO, however, is South-South cooperation with public and private institutional and business partners from developing countries. South-South cooperation is not a new concept, but its potential has greatly increased as a result of the progress made in recent years by several emerging economies, especially in China and India, and the increased flows of trade, technology and investment between developing countries.

A number of new UNIDO initiatives in this field are now under way or under consideration. The most significant one is the establishment of specialized centres for South-South cooperation. Focusing on areas in which the host country or specific institutions in that country have highly developed technological or industrial capabilities, these centres will provide technical support to firms or institutions in less advanced countries. In India, such a centre has recently become operational and a project for a centre in China has been approved. These centres will, among others, transfer know-how on renewable energy for rural electrification and productive use (small hydropower plants and biomass energy) to other developing countries. More details on UNIDO's role in South-South cooperation may be found in chapter 7.A.

In addition to TC, UNIDO has participated in different inter-agency activities designed to foster improved coordination in South-South cooperation. UNIDO's participation in the development of the *South Report*, which is being coordinated by UNDP, is also dis-

cussed in chapter 7.A. The Organization is preparing a report on the role of industry in South-South cooperation, which will provide a context for including industrial issues in country-level South-South cooperation activities involving multiple agencies. Finally, UNIDO hosted the fortieth Meeting of the Chairmen and Coordinators of the Group of 77 and China (G-77) in June, described in the next section.

## H. Advocacy

### New efforts to raise UNIDO's profile

UNIDO is committed to strengthening its global forum functions. These include a wide variety of advocacy activities, ranging from publicity to participation in United Nations-wide initiatives. The thirty-first session of the Industrial Development Board, in June, confirmed the importance of raising the Organization's profile when it adopted decision IDB.31/Dec.2, which, inter alia, called for "the provision of increased information and advocacy in major international events involving UNIDO and through Goodwill Ambassadors". The global forum functions will also be linked better to TC activities, in support of UNIDO's efforts to strengthen field operations described in chapter 3.C.

The Organization has responded with greater efforts to deliver its message and intensified participation in major international events. The most prominent event in this context was UNIDO's celebration of its fortieth anniversary in November, reported in section A of this chapter. This initiative and others are helping highlight the contribution of UNIDO's core activities to international development objectives.

### Delivering UNIDO's message better

To deliver UNIDO's message better and increase the Organization's visibility, UNIDO will engage the services of a public advocacy expert. In addition, major publications are being made more user-friendly and informative. The present document represents an effort to make a legislative document on UNIDO's performance accessible to a wider public. Another example is the *Industrial Development Report*: this flagship publication will be improved both in terms of its style and substance. New policies and procedures have been developed for technical publications, and a new publications committee is being established to review and approve these documents. The UNIDO website will be completely overhauled in early 2007.

The advocacy and visibility effort is also having an impact on information flows in UNIDO's day-to-day work. The programme and budgets process is being refined. Rather than relating resources to static organizational structural units, it will show how the Organization's resources are being used to achieve its overall objectives. This will enable Member States to see the link between funding and impact, rather than merely linking funding to objects of expenditure such as staffing, travel or equipment. At the same time, UNIDO will continue to develop better performance indicators so that more concrete,

specific results can be measured and reported to Member States. More funding has been made available to the field to raise public awareness of UNIDO activities in support of development.

A final activity that added to the Organization's visibility in 2006 deserves special mention. This was a sustained campaign by the Director-General and senior management to explain UNIDO's vision for the years to come. The message—that the Organization has undergone extensive and successful reform, but that consolidation of those reforms and expanded outreach were now needed—was delivered through various channels. Among others, they took advantage of the presence of a large number of world leaders at the sixty-first session of the United Nations General Assembly, in October, to establish and develop contacts to promote UNIDO. Through this campaign, the new directions, plans and priorities of UNIDO were communicated clearly in the first year of the new management—a crucially important element in the efforts to mobilize international support.

### Advocacy at major international events

Among UNIDO's advocacy activities at major international events, one event stands out: the hosting of the fortieth Meeting of the Chairmen and Coordinators of the Group of 77 and China (G-77) in June. This was a major event in driving forward the South-South cooperation agenda, attended by a number of development agencies both from within and outside the United Nations system, such as IAEA, the United Nations Office on Drugs and Crime (UNODC) and the OPEC Fund for International Development (OFID). The Vienna Chapter of G-77 co-hosted the event. The discussions focused on the need for a stronger United Nations system, increasing South-South cooperation, trade capacity-building and energy for development, and the crucial importance of the specialized agencies in addressing these issues. The Organization's work in these areas was highlighted, along with the need to strengthen it and to expand cooperation with other organizations.



Participants of the fortieth Meeting of the Chairmen and Coordinators of the Group of 77 in the Memorial Plaza of the Vienna International Centre.

UNIDO showed its commitment to energy issues at the Iberoamerican Ministerial Meeting on Energy security in Latin America: Renewable energy as a viable alternative in September. This meeting took place in Montevideo, Uruguay and was co-organized by UNIDO, the Secretariat for the Iberoamerican Summit and Uruguay's Ministry of Industry, Energy and Mining. The key elements were discussions on energy security among the region's energy ministries and the development of a regional cooperation programme on renewable energy technologies. One of the main outcomes was a Ministerial Declaration that emphasized the need for regional cooperation to make energy use more efficient, increase the supply of renewable energy, and promote research and technological development in this field. The Declaration supports a UNIDO proposal that calls on governments in the region to study the creation of a regional observatory on renewable energies and rational energy use. The Declaration was forwarded to the Iberoamerican Summit for further consideration and discussions on energy security issues. As a further follow-up to the Ministerial Meeting, a meeting focusing on renewable energy with a global perspective will take place in Brazil in 2007.

UNIDO's efforts to make industrialization an important part of the global development agenda were highlighted during the opening of the sixty-first session of the United Nations General Assembly, when a report on industrial development cooperation<sup>7</sup> was introduced by the Director-General in a speech to the Second Committee, which deals with economic and financial issues. This led to a General Assembly resolution<sup>8</sup> highlighting the importance of industrial development, and reinforcing the importance and mandate of the Organization in coordinating the industrial development activities of the United Nations system.

Another significant event was the third Conference of the African Investment Promotion Network (AfrIPANet III) in Johannesburg, jointly organized by UNIDO, the New Partnership for Africa's Development (NEPAD) and the Department of Trade and Industry of South Africa. The aim of the conference was to discuss the implications of UNIDO's 2005 *Africa Foreign Investors Survey*, which shed new light on the nature and dynamics of foreign direct investment (FDI) in sub-Saharan Africa by countries from the South and provides countries with a basis for better strategies to attract FDI. The discussions at the conference led to the formulation of a regional programme for investment governance, to promote investment and improve the investment climate in sub-Saharan Africa. AfrIPANet is discussed in more detail in chapter 8.D.

UNIDO participated in a variety of other international events to disseminate information on industry-related issues. At the G-77 Ministerial Meeting on Science and Technology, for instance, the Organization presented a paper on *Challenges and strategies for science and technology development in the South: The role of UNIDO*. UNIDO also organized the seventeenth Conference of African Ministers of Industry, in Cairo, in June.

<sup>7</sup>A/61/305.

<sup>8</sup>United Nations General Assembly resolution 61/215.



## I. The triennial comprehensive policy review

The triennial comprehensive policy review (TCPR) of operational activities is a United Nations instrument to establish key system-wide policy orientations for development cooperation and country-level modalities. It is the responsibility of the Economic and Social Council (ECOSOC) to help ensure that these policy orientations are implemented throughout the United Nations system.

The main policy orientations are:

- Integrating United Nations system activities with national plans and priorities, and ensuring national ownership and participation;
- Partnership and support to national capacity-building;
- Capacity of the United Nations system to contribute to development results;
- United Nations reform.

In 2006, ECOSOC undertook a review of the progress of the United Nations system in these areas. UNIDO actively participated in the TCPR progress report,<sup>9</sup> and several branches and units of UNIDO contributed significant inputs.

A number of UNIDO operational activities have been singled out in the report:

- Contributions to capacity-building through various mechanisms, including its integrated programmes and national capacity development in the context of multilateral environmental agreements;
- The development of global networks, subcontracting and partnership exchanges to facilitate South-South technology transfer;
- The use of ICT to foster international cooperation, and ICT solutions for partnership development;
- Support for technology transfers.

On the issue of progress in coherence, effectiveness, and relevance of operational activities for development, the report highlighted the establishment of the UNIDO Desks under the UNIDO-UNDP Cooperation Agreement as well as the Joint UNIDO-WTO Cotton Initiative for African Countries, which were discussed above. UNIDO's technical support for the Mediterranean Exchange for investment and technology promotion and for information networking between Africa and Asia, which UNDP is implementing for

---

<sup>9</sup>ECOSOC resolution E/2006/14.

the Tokyo International Conference for African Development (TICAD), was highlighted as well. The Organization's South-South cooperation activities also featured prominently in the report, with specific references to, among others, the support provided to the African Regional Centre for Technology.

The next chapter will describe the major contributions made by UNIDO, to the achievement of the policy orientations of the TCPR in more detail.



### 3 | Promoting United Nations reform and enhancing field level impact

Great progress has been made in improving field-level impact, with far-reaching implications for industrial growth and the economy in general.

## A. Towards better technical cooperation

Major steps were taken to increase the field-level impact of UNIDO operations and of the United Nations system as a whole. Great progress has been made, with far-reaching implications for development cooperation, especially in its potential to boost industrial growth, and the economy in general, at the country level.

UNIDO, having carried out extensive internal reforms and having learned that pooling resources and strengthening synergies are essential for greater developmental impact, has been very active in supporting the United Nations reform agenda and promoting coherent action in the field. In addition, the Organization sharpened its technical cooperation focus, strengthened field representation and improved administrative procedures. TC will greatly benefit from these measures, which will also enhance the Organization's contribution to the planned improvements in delivery by the United Nations system as a whole.

## B. United Nations reform: *Delivering as One*

In response to the gathering of world leaders at the 2005 World Summit in New York, which resulted in a far-reaching consensus on the priorities of the world community, the Secretary-General of the United Nations established a High-level Panel on System-wide Coherence for Development, Humanitarian Assistance and the Environment. Its mission was to explore how the United Nations can be better structured to help countries achieve the Millennium Development Goals and other internationally agreed development goals, and how it can respond more effectively to major global challenges such as environmental degradation, infectious diseases and armed conflict.

The title of the report submitted in November 2006, *Delivering as One*, refers to the central concept: the United Nations must overcome its fragmentation and deliver its services as one in the areas of development, humanitarian assistance and the environment. This requires a stronger commitment of its many entities to cooperate in implementing a unified strategy, in the pursuit of one set of goals.

The report's main recommendations are:

- Replace the programmes of various United Nations agencies in a country by One United Nations Country Programme, implemented by one country team, with one intergovernmental oversight body to monitor performance, the United Nations Sustainable Development Board;
- Deliver humanitarian assistance through one partnership which includes the United Nations, national governments, the International Red Cross and Red Crescent Movement and non-governmental organizations (NGOs);

- Create one strong system for global environmental protection, with the United Nations Environment Programme as the centre of excellence;
- Ensure the pursuit of gender equality and women's empowerment through one strong entity;
- Establish one clear framework to promote and protect human rights, with the United Nations High Commissioner for Human Rights at its centre.

A time frame of five years is set for the achievement of these goals. To achieve them, changes will be needed in the way the United Nations system is managed and funded. The report suggests the creation of a United Nations Development Policy and Operations Group pooling the expertise of all the organizations in the field of development. The Secretary-General, through the United Nations Chief Executives Board for Coordination (CEB), which consists of the executive heads of the member organizations, should continue to lead the process of changing the United Nations' business practices, and press for full compatibility of human and financial resource planning, common services and evaluations among organizations to promote coherence. Transparency and accountability are to be increased through the establishment of a United Nations-wide evaluation mechanism by 2008. Finally, donor funding should be increasingly pooled for the One Country Programme.

The report expects that the implementation of the recommendations will be a first step towards better system-wide coherence and will make the United Nations system an even more relevant force for development, human security and environmental sustainability.

## C. UNIDO and the United Nations reform

### Consultations and comments on *Delivering as One*

UNIDO, having gone through a reform process to address the same issues that are now being discussed for the United Nations as a whole, is in several ways ahead of the discussion and can offer some valuable lessons to achieve system-wide coherence and cost efficiency. From the launch of the United Nations reform initiative by the Secretary-General in 2005, UNIDO has vigorously promoted its objectives. Senior officials of the Organization actively participated in all sessions of the CEB, the High-level Committee on Programmes (HLCP), the High-level Committee on Management (HLCM), and the United Nations Development Group (UNDG) Principals' Group.

In 2006, the Organization hosted the Vienna thematic consultations on the role of the Resident Coordinator System of the High-level Panel on System-wide Coherence. UNIDO's approach to promoting coherence is in line with the major recommendations made by the High-level Panel on System-wide Coherence in its final report, and can be summed up as follows:

- Sharpening the focus of work and aligning it with internationally agreed development goals;



The Chairperson of the Vienna consultations of the High-level Panel on System-wide Coherence, Ms. Ruth Jacoby, Director General for Development Cooperation in the Swedish Ministry for Foreign Affairs, with Mr. Adnan Amin, Executive Director of the Panel secretariat, and the Director-General of UNIDO, Mr. Kandeh K. Yumkella

- Forging alliances with partners to increase synergies;
- Actively pursuing inter-agency cooperation in the thematic priorities, especially under the auspices of the CEB;
- Integrating activities at the country level;
- Continuously improving the quality and efficiency of programme delivery;
- Harmonizing business practices with the rest of the United Nations system.

UNIDO has been very active in all these areas, as chapter 2 and the sections below show.

In addition, the Organization presented a note entitled United Nations system integration with specialization. The note outlined UNIDO's view that system-wide coherence is best advanced by a clear division of labour among United Nations organizations, with UNDP acting as the manager of the Resident Coordinator system, but withdrawing from areas of work where other organizations have expertise.

With respect to the "One Programme—One Office—One Budget" approach, a number of issues remain to be addressed if it is to produce optimal results. The One Programme would need to be country-owned and led, national plans and donor priorities need to be harmonized and the full range of expertise available in the United Nations system should be drawn upon. The partnership between UNDP and UNEP to counter climate change should remain open to cooperation with other United Nations agencies, particularly those with sectoral expertise on the environment. An adequate, stable and predictable multi-year funding system must be developed for the One Budget. In this context, the potential for attracting additional development resources must be explored. While contributing to coherent operations, the One Office should allow specialized agencies to adopt the most cost-effective arrangement for their field activities. Finally, the role of the CEB should be strengthened. UNIDO is committed to helping solve these issues and moving the One United Nations Country Programme Initiative forward.

### Stimulating coherence among agencies in the field

Apart from the contributions to the United Nations reform mentioned above, UNIDO was involved in several related inter-agency activities. A special initiative for system-wide coherence started by UNIDO was the HLCP-mandated Task Force on Economic Development (TFED). TFED's task is to establish a common framework for collective action among agencies "on sustained economic growth as a key dimension to the system-wide effort to support the attainment of the Millennium Development Goals".<sup>1</sup> In June, the HLCP accepted UNIDO's proposal that work should focus on trade capacity-building (TCB), and in September UNIDO organized a working group meeting to initiate the process. This meeting, attended by 10 United Nations organizations involved in trade and development, agreed that more cooperation was needed to improve system-wide coherence in this thematic area. The first step will be the development of a guide describing the different TCB services offered by United Nations organizations. UNIDO is now coordinating the preparation and publication of this guide, which will then be the starting point for additional TFED activities aiming to increase coherence in the field of TCB.

A similar initiative under the auspices of the HLCP, on the theme of employment and decent work, was initiated by the International Labour Organization (ILO). With ILO, UNIDO is contributing to the development of a toolbox that will enable development agencies in the United Nations system to better mainstream employment and decent work in their programmes and projects. UNIDO intends to increase the awareness and sensitivity of its staff, especially project managers, to employment and decent work issues. This should also result in organizational policies and TC projects that promote labour norms agreed by the United Nations and strengthen the Organization's efforts in the field of job creation, working conditions and other decent work principles.

### Stronger field representation

System-wide coherence requires a strong UNIDO presence in the field. An important instrument in this respect, as discussed in chapter 2.G, is closer cooperation with UNDP. In addition, the Organization introduced a new, comprehensive and transparent field mobility policy<sup>2</sup> drawing on best practices in other United Nations agencies and development institutions. It involves the assignment or reassignment of internationally recruited staff to the field to meet the operational requirements of the Organization. The policy provides a comprehensive set of incentives for a field career and aims to make service in the field system a rewarding and a professionally enriching career move.

The Director-General made a total of 26 appointments and selection decisions in the professional and higher categories for various field duty stations. While the vacancy rates in the field were around 40 per cent in recent years, with the exception of the UNIDO

<sup>1</sup>Report of the High-level Committee on Programmes at its ninth session (CEB/2005/4), 21 March 2005.

<sup>2</sup>UNIDO/DGB/(M).97.



On 19 April 2006, UNIDO Regional Office in Pretoria, South Africa was officially opened by the South African Minister of Trade and Industry, Madisi Mpahlwa and the Director-General of UNIDO, Kandeh K. Yumkella.

Desks, by the end of this year the vacancy had decreased to 16.7 per cent for Regional Directors and 18.8 per cent for UNIDO Representatives in the Country Offices. The UNIDO Desks are fully staffed.

This reinforcement of UNIDO's field presence, together with associated measures such as upgrading the technical capacities of field offices, is expected to improve programme delivery and better position the Organization strategically in the discussions on United Nations system-wide coherence. Furthermore, a comprehensive induction programme for staff reassigned to the field was organized for the first time. This programme covered all essential aspects of field representation, familiarized staff with UNIDO's products and services and provided other essential skills.

Strengthened field presence will enable UNIDO to play a stronger role in the One United Nations Country Programme framework described above, and thereby will increase its contribution and relevance to the delivery of United Nations system-wide services for development—participating actively in the Common Country Assessment (CCA) and the United Nations Development Assistance Framework (UNDAF) process, providing better technical and advisory services.





## 4 | Poverty reduction through productive activities

UNIDO helps to unleash the underutilized productive potential of the poor. It also helps micro, small and medium enterprises to grow and increase their contribution to the mainstream economy.



## **A. The key to poverty reduction: growing industrial enterprises**

Throughout the year, UNIDO continued to support Member States in addressing the challenge of the Millennium Development Goals (MDGs), in particular the target of halving extreme poverty by 2015. Private sector-led industrial development plays a central role in setting poor countries on a path to sustained economic growth, but in many developing countries, especially least developed countries (LDCs), the majority of the population faces obstacles in starting or expanding industrial activities. Few small and micro-enterprises have the capacity to become stable small and medium enterprises (SMEs) and respond to the opportunities available in the export sector and the global economy.

UNIDO helps developing countries to create a policy and institutional environment that facilitates private sector development and ensures that the sector becomes an effective driver of pro-poor growth, by removing obstacles that discourage local entrepreneurial initiatives, strengthening entrepreneurial capabilities and improving access to skills development and to finance. Assistance in this context aims, on the one hand, at unleashing the underutilized productive potential of the poorer groups in the population and, on the other, at transforming and diversifying micro, small and medium enterprises, helping them to grow and increase their contribution to the mainstream economy.

UNIDO supports its client countries in this endeavour by providing three complementary services:

- Improvement of the business environment and the policy and institutional frameworks for pro-poor private sector development (PSD);
- Promotion of entrepreneurship and business linkages;
- Sector-specific support and access to resources and support services for SMEs.

## **B. Improvement of the business environment, and the policy and institutional frameworks**

In 2006, UNIDO built up national capacities to design coherent SME policies, linked to broader economic and social goals, in a number of countries including Moldova, Rwanda, Saudi Arabia, Syrian Arab Republic, Uganda and Viet Nam. Along with the infrastructure for SME policy formulation and implementation, business development services to SMEs were also strengthened. The project to improve the business environment in Viet Nam provides a particularly important example.

In 2005, the Vietnamese Government announced that it wanted to see the number of registered private sector enterprises double from 250,000 to 500,000 by 2010, with the expectation that these new enterprises would create 2.7 million new jobs and help to

increase the quantity and quality of exports by the SME sector. In line with this goal, UNIDO assisted the Agency for SME Development (ASMED) under the Ministry of Planning and Investment, in the highly participatory and consultative process of preparing the SME Development Action Plan 2006-2010. The Plan, approved by the Prime Minister, consists of 45 specific actions of which 39 aim at improving the regulatory and administrative environment, covering issues that range from business registration and licensing to bankruptcy, accounting and financial reporting, dispute resolution, access to finance, land and technology.

To improve the business registration system, UNIDO helped ASMED complete the plans for a nationwide registration reform programme that will create a computerized single-point business, tax and statistics registration system. It will help lower the cost of market entry as well as the cost and risks of doing business in Viet Nam, providing enterprises with legally valid and nationwide information on potential partners.

The Organization also assisted ASMED and 19 collaborating ministries, agencies and departments in establishing the Government Business Portal ([www.business.gov.vn](http://www.business.gov.vn)). The Portal supports the business community and registration and business licensing agencies. It not only contains about 300 user-friendly business licence fact sheets on all current licensing requirements, complemented with over 7,000 pages of downloadable legal texts, but also basic business advice for small businesses and extensive information on SME support institutions, policies and programmes.

UNIDO has also been involved in helping to improve the flow of FDI to sub-Saharan Africa. The Africa Investment Promotion Agency Network (AfrIPANet), published a survey of foreign investors analyzing existing FDI in terms of motivations, operational characteristics, perceptions and future plans. Discussions on the survey at the AfrIPANet III conference held in Johannesburg in June resulted in a regional programme for supporting private sector investment and for enhancing investment governance in the region. More details can be found in chapter 8.

As the lack of reliable and affordable energy, is one of the main barriers to rural development, UNIDO's rural energy strategy aims at improving access of the poor to reliable and sustainable energy services, and linking these to production. Rural and renewable energy projects are under implementation in Africa, Asia and Latin America. In 2006, with support from the Global Environment Facility (GEF), a project for three mini-grids in remote rural areas in Zambia was initiated. The first steps were to identify sites for the mini-grids, which will use renewable energy sources (solar, biomass and hydropower), prepare feasibility studies and mobilize co-financing. At all sites, specific production activities have been identified to ensure the economic sustainability of the mini-grids and strengthen participation of the local communities in the project. UNIDO is also working closely with the Government to prepare policies ensuring replication of rural mini-grids throughout Zambia.

UNIDO's work in the field of renewable energy is also discussed in chapter 6.E.

### C. Promotion of entrepreneurship and business linkages

UNIDO assistance in this field focused on rural and less developed regions in sub-Saharan Africa and LDCs, with a strong emphasis on developing entrepreneurial skills, know-how and culture, particularly among young people, and removing social and legal obstacles to gender equality in business. The entrepreneurship curriculum programme (ECP) developed by UNIDO is under implementation in a growing number of countries. ICT skills are integrated in the programme with support from Microsoft, as part of the UNIDO-Microsoft agreement mentioned in chapter 2.

Uganda was the first country where the programme was tried out. The Government's *Education White Paper*, recognizing the importance of entrepreneurial skills for the growth of small enterprise, proposed adjustments of the educational system to provide the labour force with more practical skills. With UNIDO assistance and funding from Japan, the Ministry of Education and Sports launched a pilot ECP in 10 secondary schools with 6,000 students in 2002, this programme was scaled up to the national level in 2003. The programme has grown over the years, and by May 69,000 students at 180 secondary schools were taking part in it.



UNIDO assistance in sub-Saharan Africa has a strong emphasis on developing entrepreneurial skills.

As part of a review of its school curriculum, the Government of Mozambique introduced a pilot ECP in the Cabo Delgado province with Norwegian funding in October 2004. From four schools with 960 students in April 2005, the programme had expanded to eight schools with 2,600 students by February 2006. The Government has now decided to scale up the programme to the national level. In 2007, 38 schools and 11,350 students will be

involved, and two years later 214 schools with 129,700 students. An induction programme for education authorities in all provinces was started in September.

The Government of Timor-Leste also requested the Organization to assist it in introducing ECP. This was done with funding from Japan and Portugal. Preparations started in 2005, and by October 2006 the operation had been scaled up to 134 schools with 16,000 students.

Finally, UNIDO has helped the National Institute for Education Development in Namibia to develop the syllabus, teacher's guide and teachers' training programme for ECP and preparations are underway for the introduction of the programme in Cameroon, Nicaragua and Rwanda.

In Sudan, the Organization supports development in the Upper Nile State through the Malakal Vocational Training Centre, which will play an important role in the reconstruction and rehabilitation of local communities struggling with the aftermath of civil war. The project, financed by the Netherlands, will develop entrepreneurial and technical skills, and will provide business development services as well as help in obtaining business licences through a one-stop shop. The intention is to improve the overall standard of living of more than 300 young persons, in particular the disabled and displaced. The project also intends to undertake a continuous review and revision of curricula, provide technical training and support to instructors and young entrepreneurs, as part of a job creation programme, and create a basic infrastructure for youth entrepreneurship by the end of 2007.

The Organization's internationally recognized cluster and networking development (CD) programme continued to expand throughout 2006. UNIDO implemented projects to assist SME clusters and networking at the country level, and responded to the increased demand for these services by consolidating its methodologies and tools in packages for specialized training programmes at the global and regional levels. The global training programme on cluster development conducted in cooperation with the International Labour Organization Centre in Turin has completed its third year. An additional modality of assistance, the PSD toolbox, was launched. The toolbox is an online knowledge sharing facility that assists policymakers and practitioners in designing and implementing support programmes for cluster development.

An in-depth evaluation and assessment of work on clusters was undertaken in one of the largest CD programmes, for the weaving industry in Chanderi, India. The objective of the programme was to help poor weavers by promoting cooperation. Individual weavers in the region could not afford the capital investment needed for better market access, and master weavers and traders skimmed off the gains of improved productivity. The cluster approach was linked to rural self-help to generate income and create jobs. The programme set up 60 self-help groups for weavers in need, which were encouraged to start savings and credit activities, and two producer groups that reduced their dependence on master weavers and traders for their wages and markets. Moreover, 12 master weavers and traders formed their own group, the Silk Club, which reduced their dependence on middlemen.



Small enterprises in India's textile industry have become much stronger through UNIDO's cluster development approach.

The 2006 evaluation showed that the earnings of the producer group members have increased by 15 to 20 per cent because they now sell directly to the market. Beyond that, there were substantial social gains—particularly for women, who also created their own organizations—in terms of self-confidence, literacy and savings. The CD approach has clearly shown that joining forces in a well-structured way helps to reduce poverty.

To speed up the creation of clusters and networks, and widen the adoption of the CD concept in India, UNIDO has initiated work on a licence for qualified cluster managers to be acquired through intensive training. This will help extend the outreach to groups of poor producers, supporting their growth and prosperity.

#### **D. Sector-specific support to agro-industry**

As agro-industry is the largest industrial sector in most developing countries, UNIDO has kept this sector-specific focus, emphasizing activities in rural areas. The support resulted in reduced post-harvest losses, waste minimization and by-product utilization, smoother production flows, improved product quality and packaging, and higher value added. Interventions covered both raw materials and the related processing industries, and food as well as non-food products. The support is partly delivered through technical centres of excellence in agro-processing.

The year 2006 saw the conclusion of a major project for economic recovery of war-affected areas in the Nuba mountains in South Sudan. The population in the region has an average annual income of only \$145. The region has been severely affected by armed conflicts and droughts, leading to an almost complete breakdown of the socio-economic

structures. The project started out with the objective of enabling the communities in the region to plan, implement and manage their own development activities. The skills and equipment of 6,000 households for agricultural production and food processing would be improved, creating a stronger basis for income generation.



UNIDO is helping to promote the local production of agricultural implements in Sudan's Nuba mountains.

As a result of the programme well over 40 community development groups were established and have developed plans for rehabilitation. With and through these groups, UNIDO provided the skills and know-how for the production of regionally-based agricultural products, reaching most of the 6,000 households. Moreover, the groups were taught to construct and repair essential machineries and tools.

Meanwhile in Malawi, poor communities were empowered with better skills and equipment. Most smallholders and micro-entrepreneurs in the country still practise subsistence farming and rely on antiquated production methods and technology. Low productivity is exacerbated by the prevalence of infectious diseases such as malaria and HIV/AIDS. To address the problem, UNIDO has recently launched a programme aimed at securing the livelihood of poor, rural communities in the Salima district. Over 3,200 households are participating in this project. Women head almost half of these, and the households are taking care of more than 1,000 orphans.

The project has already trained village improvement committees in income generating activities and helped initialize them. It has demonstrated the use of labour-saving technologies for a long-term increase and diversification of agricultural and non-agricultural income. It has also sponsored the training of orphans in the use of the equipment and facilities improved by the project, giving them opportunities for the future. The Organization's intervention is accompanied by the training of community development facilitators, to ensure the continuity of long-term services to poor people in Malawi.

The wood processing industry is the target of programmes launched in Ethiopia and Kenya. UNIDO is promoting the bamboo sector to create rural and urban employment and increase the value added of bamboo products, professionalizing production and marketing. Bamboo—"the poor man's timber"—has in recent years become an important raw material in a number of African economies, but subsistence use still dominates and value added is low. The interim reports of this innovative project show a clear advance in technical skills for bamboo processing and in the sustainability of raw bamboo supplies. Additionally, the workers involved have begun training to improve the technical, functional and aesthetic aspects of bamboo products, which will make the final products more marketable. Those who participate are learning to overcome the obstacles to the growth of their enterprises, so that these can make a real difference to the local and regional economy.





## 5 | Trade capacity-building



## A. Compete, conform, connect

Increased globalization and market liberalization provide great opportunities for developing countries and economies in transition to trade their way out of poverty. However, the benefits from open markets do not come automatically: they depend on the ability of enterprises to enter into global production and supply value chains. This means that they must be competitive not only in terms of price and quantity but also of quality, reliability of supplies, and conformity to the buyer's standards.

Through its trade capacity-building (TCB) programme, UNIDO helps developing countries and economies in transition to reap the benefits of trade by increasing:

- The **competitiveness** of industrial enterprises;
- The **conformity** of manufactured goods to standards;
- The **connectivity** of exporters to global markets.

The focus of activities is primarily on the first two of these issues.

## B. Building competitive industries

To develop competitive industries, the potential for domestic value added and international exports must be ascertained. In close coordination with its projects implemented under the thematic area of poverty reduction through productive activities, UNIDO is working on a methodology for trade-related analysis, and creating domestic capacity for competitiveness analyses. The methodology for trade analysis, first developed as a pilot project in Ecuador, was introduced in Paraguay during 2006.

UNIDO implements national and regional programmes to develop industrial capacities in cooperation with international partner agencies such as the Common Fund for Commodities (CFC), the Food and Agriculture Organization (FAO) of the United Nations, the International Trade Centre (ITC) and the World Trade Organization (WTO). A major example is the support UNIDO and WTO gives to cotton producers in West Africa. Under this programme, a *UEMOA Cotton Quality Manual*, consisting of a Quality Plan and five Technical Guides, was published in French. It is a practical tool and reference guide for continuous quality improvement and valorization of cotton in African countries.

UNIDO has also stimulated the diffusion of modern technologies, particularly through its network of International Technology Centres and its support for technology management programmes. It has especially promoted the adoption of modern technologies in agro-processing, so that the sector can respond better to the quantity and quality requirements of world markets. Specific programmes include the introduction of automation technology

and process control, testing and evaluation of agricultural machinery; and production optimization through computer aided design and computer aided manufacturing (CAD/CAM) systems. An example of successful support is the strategy for the leather and leather products industry in Ethiopia, which UNIDO prepared in cooperation with Ethiopia's Ministry of Trade and Industry. The exports of this sector have increased by 20 per cent between July 2005 and July 2006, from \$66 million to \$76 million. Footwear was exported for the first time during this period, with a total value of approximately \$3 million.



Growing and diversified exports prove that the strategy for the Ethiopian leather and leather products industry is successful.

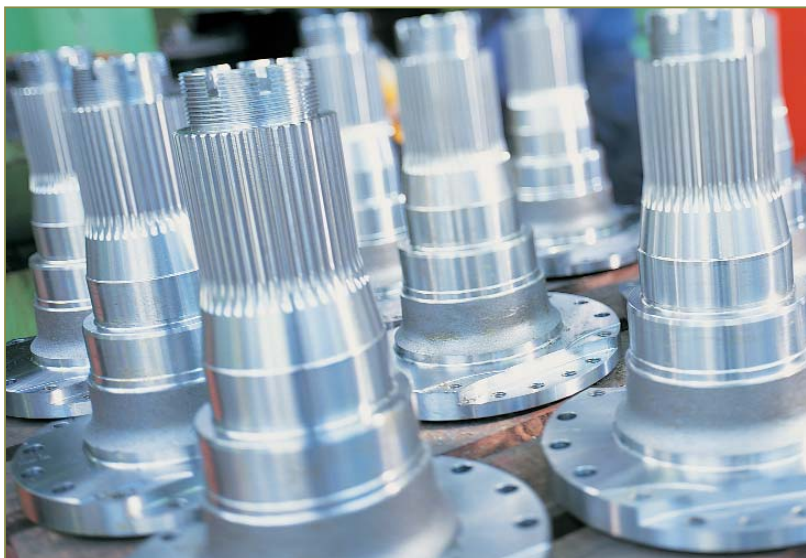
An effective way of helping small and medium enterprises (SMEs) to compete in export markets while limiting their risks is by building export consortia. An export consortium is an SME network that enables the participating firms to improve their exports, cutting the associated costs by combining knowledge, financial resources and contacts.

During 2006, UNIDO implemented export consortia projects in Jordan, Morocco, Peru, Tunisia and Uruguay. This involved training consortium promoters in both the public and private sectors, and improving the institutional and regulatory environment for consortium development. Eleven export consortia have now been formed in Tunisia and more than 10 institutions are engaged in their promotion. The project in Peru is supporting six enterprise groups in the creation of export consortia. Activities included a one-week training programme for 40 export consortia promoters and two seminars to sensitize key institutions on the subject. An international training course on consortia was conducted in cooperation with the Italian Federation of Export Consortia and the International Training Centre of the International Labour Organization (ILO). It was attended by 26 participants from all over the world, representing both public and private SME support institutions.

Corporate social responsibility (CSR) has become an important element in global competitiveness: international buyers are increasingly requiring exporter compliance with CSR principles. There is growing evidence that respecting CSR in strategic planning and in operations leads to increased economic output, or is at least neutral in its effect on company profits in the short-term. Furthermore, a growing number of large companies as well as SMEs have recognized the need to improve their social and environmental risk management strategies, and engage more actively with small suppliers and community groups.

Because many SMEs in developing countries find the application of CSR principles very difficult, UNIDO has launched the Responsible Entrepreneurs Achievement Programme (REAP). REAP contributes to international initiatives for good corporate governance, in particular the United Nations Global Compact and the upcoming international standard on social responsibility (ISO 26000), enabling SMEs to respond proactively to the environmental and social requirements of global markets. At the global level, UNIDO, together with UNODC, is developing a practical guide showing SMEs how to defend themselves against corruption, which is a major obstacle to their development. As of this year, UNIDO has been running an awareness-raising programme on the dissemination of CSR methodologies for SMEs in Bosnia and Herzegovina, Bulgaria, Romania and Serbia as a follow-up to its earlier CSR programme in Croatia.

Business partnerships are an important instrument for encouraging the adoption of CSR principles as well as for productive capacity-building. The business partnership project in the Indian automotive component industry entered into its sixth year in 2006 and has become economically viable and self-sustaining. So far, the institutional framework has been established and engineers and counsellors have been trained and fielded to provide continuous services to the companies concerned.



Through the joint efforts of local and international partners, the programme for the Indian automotive industry has become economically self-sustaining.

### C. Achieving conformity with market requirements

A country needs a globally recognized conformity infrastructure to participate effectively in trade. UNIDO analyzes infrastructure gaps, establishes or upgrades standards and accreditation bodies as well as internationally recognized product testing and calibration services, and helps enterprises in high-potential export industries to achieve conformity. National industrial and technological research institutions are of vital importance in this context. UNIDO has developed a joint programme for these with the World Association of Industrial and Technological Research Organizations (WAITRO), and developed an Internet-based TC portal for laboratories called LABNET.

When countries have recently acceded or want to accede to WTO, UNIDO helps them to improve their conformity infrastructure so that they can comply with WTO's Agreements on Technical Barriers to Trade (TBT) and the Application of Sanitary and Phyto-Sanitary Measures (SPS). UNIDO also provides assistance that enables developing countries and economies in transition to become full members and partners in international standards and conformity assessment bodies such as the International Accreditation Forum (IAF), International Bureau of Weights and Measures (BIPM), the International Laboratory Accreditation Cooperation (ILAC), the International Organization for Standards (ISO) and the International Organization of Legal Metrology (OIML).

During 2006, UNIDO and the World Bank undertook a joint study on the challenges faced by Pakistani exporters in complying with SPS requirements in international markets. The study reviewed the legal and regulatory framework, assessed the roles and responsibilities of ministries and support institutions, and made proposals for an SPS compliance strategy and for support to potential exporters. It also proposed action plans for achieving compliance with SPS requirements in major targeted markets such as the EU, which will serve as a basis for the implementation of the compliance strategy. UNIDO's focus was on the fisheries sector. Pakistan is now upgrading its inspection services, fishing boats, harbour facilities and processing plants in line with the recommendations of the study.

For producers and retailers, food hygiene and food safety standards (ISO 22000) have become particularly important. To facilitate the adoption by the private sector of good hygiene practices and food safety systems, UNIDO helps to develop internationally recognized certification services as well as consultancy and training capacity.

Projects to improve the food safety and quality infrastructure were implemented in Algeria, Bangladesh, Burkina Faso, Cuba, Ethiopia, Ghana, Lebanon, Morocco, Mozambique, Nigeria, Uganda and the United Republic of Tanzania. They have helped to strengthen food inspection services and laboratories, and assisted around 60 enterprises in adopting hazard analysis and critical control point (HACCP) systems, ISO 22000, traceability and organic certification. Most of the enterprises are now applying HACCP. In Ethiopia three enterprises were certified and 11 are in the final stages of certification for ISO 22000.

Traceability of food products is becoming an important requirement, especially in the European markets, where new legislation was introduced in 2005. The Egyptian Ministry of Trade and Industry and UNIDO are cooperating in a project for the traceability of agro-industrial products for the European market. This project adopts an innovative approach to trade capacity-building by linking debt swaps and trade-related technical cooperation, specifically to overcome TBT and SPS constraints. About five million low-income Egyptians in rural areas are benefiting from the positive impact of this project on their livelihoods.



To promote market access, UNIDO supports international accreditation of laboratories.

UNIDO also continues to improve the compliance of enterprises with other international standards, including those for quality management (ISO 9001), environmental management (ISO 14001) and social accountability (SA 8000), and supports producers in performing Self Declarations of Conformity such as the Conformité Européenne (CE) markings for the EU market.

Programmes that harmonize standardization and conformity assessment requirements and organize an efficient division of labour among countries help to promote intra- and inter-regional trade. UNIDO supports such programmes in Central America and the Mekong region, and in member States of the following organizations: the Andean Community, the East African Community (EAC), the Economic Community of Western African States (ECOWAS), the South Asian Association for Regional Cooperation (SAARC) and the West African Economic and Monetary Union (UEMOA). With funding from the Government of India and the Norwegian Agency for Development (Norad), for example, UNIDO has helped to improve the standards, metrology, testing and quality (SMTQ) infrastructure, and hence the competitiveness, of exports in the SAARC region countries of Bangladesh, Bhutan, Maldives and Nepal.

## D. Inter-agency cooperation

The previous paragraphs have already shown that in the field of trade capacity-building UNIDO works intensively with other organizations. The United Nations system-wide coherence exercise and work on the aid for trade initiative—UNIDO helped the African Union (AU) to define its position on this initiative—have underlined the need for inter-agency coordination in the field of trade. To intensify and harmonize the already close cooperation of the AU and UNIDO, an agreement was signed between the two organizations at the Conference of African Ministers of Industry (CAMI 17) in Egypt.

To initiate the creation of a common framework for collective and coordinated action among United Nations organizations, UNIDO, as the issue leader for market efficiency and integration under the auspices of the Task Force on Economic Development of the High-level Committee on Programmes (HLCP), organized a meeting attended by representatives from various United Nations organizations.<sup>1</sup> It was agreed that, as a first step, information on the services and (joint) activities of the participating organizations will be compiled. The information will form part of a resource handbook on TCB. This exercise will provide the United Nations Resident Coordinator system with comprehensive information on capacities and expertise within the United Nations system, and will identify complementarities among the agencies.



UNIDO works intensively with other organizations to create a common framework for collective and coordinated action in trade capacity-building.

UNIDO is a member of the Joint Committee on Coordination of Assistance to Developing Countries in Metrology, Accreditation and Standardization (JCDCMAS), established by the principal international organizations that have mandates to strengthen capacities

<sup>1</sup>FAO, ITC, the United Nations Conference on Trade and Development, the United Nations Department of Economic and Social Affairs, the United Nations Development Programme, the United Nations Economic Commission for Africa, the United Nations Economic Commission for Europe, the United Nations Human Settlement Programme, the World Bank and WTO.

in the fields of metrology, accreditation and standardization. At present, the other members are BIPM, IAF, the International Electrotechnical Commission (IEC), ILAC, ISO, OIML and the Telecommunication Standardization Bureau of the International Telecommunication Union (ITU-T).

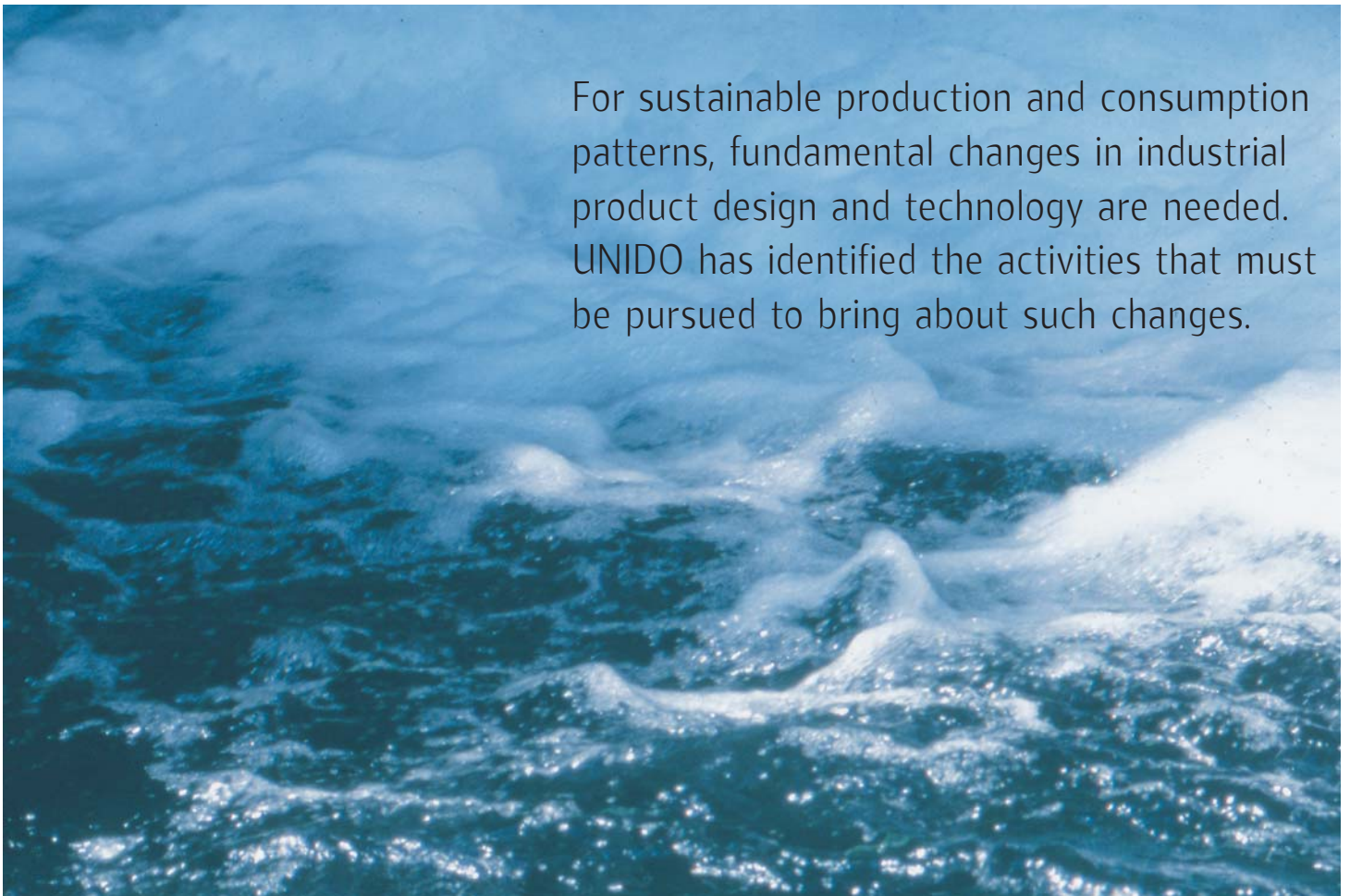
UNIDO currently holds the JCDCMAS Secretariat, promoting international agreements on standards, measurement, certification, testing and conformity, and supporting the development of Multilateral Recognition Agreements (MRAs) by IAF and ILAC. It has also organized a regional workshop in Peru on developing metrology, accreditation and standardization capacities in the Andean region. The workshop aimed to improve the understanding of the importance of non-tariff barriers to trade and identify the needs to modernize the existing technical infrastructure. Against the backgrounds of the failure of the Doha Round of trade talks and the resulting interest in bilateral or regional free trade agreements, the workshop also highlighted the technical assistance needed by the Andean region countries to increase exports through the removal of TBTs.





## 6 | Environment and energy

For sustainable production and consumption patterns, fundamental changes in industrial product design and technology are needed. UNIDO has identified the activities that must be pursued to bring about such changes.



## A. Towards sustainable production and consumption patterns

The Millennium Declaration identifies respect for nature as one of the key values on which international relations in the twenty-first century should be based. The Member States of the United Nations have agreed that “the immeasurable riches provided to us by nature [can] be preserved and passed on to our descendants” only through careful management in accordance with the principles of sustainable development, and that current unsustainable patterns of production and consumption have to be changed “in the interest of our future welfare and that of our descendants”.<sup>1</sup>

For sustainable production and consumption patterns, fundamental changes in industrial product design and technology are needed. While preparing its Strategic Long-term Vision Statement, adopted at the General Conference in 2005,<sup>2</sup> UNIDO identified four activities that must be pursued simultaneously to bring about such fundamental changes:

- Continue to promote resource efficiency and eliminate hazardous and toxic materials;
- Move towards circular production-consumption flows of materials with maximized recycling and reuse;
- Shift industry and all other sectors of society from non-renewable to renewable energy sources;
- Encourage a shift from selling products to selling the services provided by products.

Complete elimination of industrial waste and pollution is not possible. UNIDO therefore also continues to help countries reduce the environmental impacts of industry through end-of-pipe pollution control and waste management, emphasizing the use of environmentally sound technologies (EST).

## B. Promoting resource efficiency

UNIDO promotes resource efficiency in enterprises through a number of its environmental programmes:

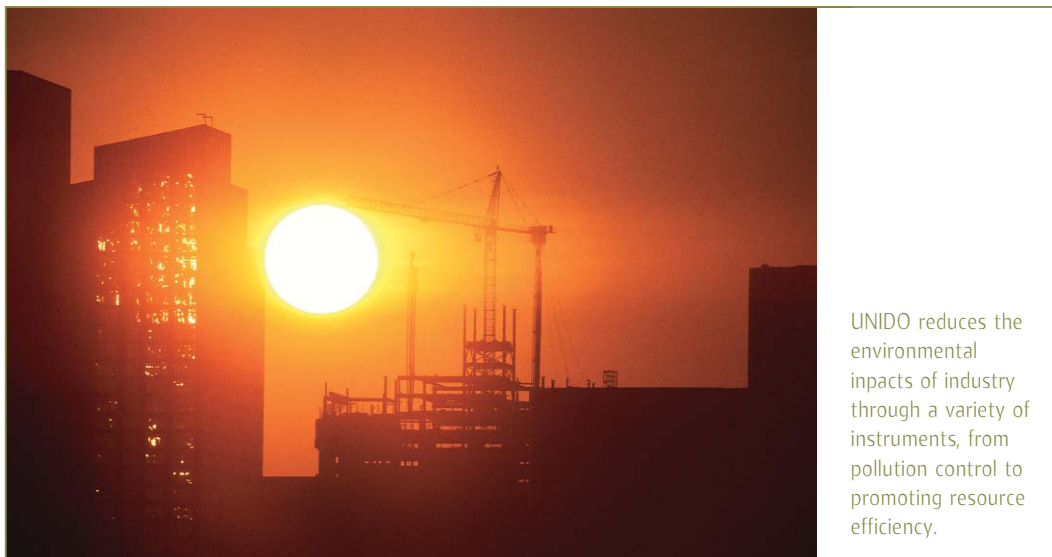
- Under the cleaner production (CP) programme, UNIDO builds up National Cleaner Production Centres (NCPCs). These help enterprises to adopt CP techniques and technologies, reducing waste, pollution, energy and water use in a cost-effective way.

---

<sup>1</sup>United Nations General Assembly resolution 55/2, para. 6.

<sup>2</sup>Resolution GC.11/Res.4.

- The transfer of environmentally sound technology (TEST) programme focuses on eliminating pollution caused by industrial wastewater. It is broader than CP, allowing industry support institutions to offer a complete package of environmental protection services.
- UNIDO's programmes under the Stockholm Convention on Persistent Organic Pollutants (POPs) aim at eliminating the production and use of POP chemicals that are particularly resistant to biodegradation and are highly accumulative in body tissues. The focus of the programme is on eliminating the production of POPs generated as by-products, particularly dioxins and furans, through CP-based best available techniques and best environmental practices.
- UNIDO's industrial energy efficiency programme helps industries and support institutions to adopt a systems approach to lower energy consumption, which can lead to huge efficiency gains.
- In its climate programme, UNIDO promotes the Clean Development Mechanism of the Kyoto Protocol to the United Nations Framework Convention on Climate Change in the developing countries. This mechanism will allow enterprises in these countries to mobilize international investments for the adoption of more energy-efficient technologies.



Material and energy efficiency are stimulated through a number of UNIDO's non-environmental programmes as well, particularly those for the food, textile and leather industries. The Organization's business partnership programme also promotes more efficient material and energy use in enterprises.

An important activity in the CP programme was the pilot project for Internet-based knowledge management systems. Since its inception in 1994, the focus of the CP programme has been on creating national capacity through NCPCs or related national projects. All these were connected through a global CP network, but the flow of information through the network was weak. Recognizing that the network members could be more effective if they could tap into their common pool of experience, UNIDO decided to create regional Internet-based CP knowledge management systems in 2005. The Latin American and Caribbean region was chosen as a pilot area. CPLatinNet was officially launched in February 2006 and can be accessed at <http://www.cp-latin-unido.net>. Currently, 14 countries in the region are participating.

The knowledge management system has a dual function. There is a public communication area with general information on CP activities in the region. This gives the NCPCs and related programmes greater visibility and creates a common image of a strong and efficient network. The Intranet section for authorized users is the main tool for knowledge management and internal communication. It contains technical documents, training materials and information on consultants on CP and EST. There are also working areas for the development of joint initiatives, and where requests for CP and EST services can be posted.

Currently 390 users have access to the platform. International experts are carrying out a validation process of the uploaded documents to ensure their quality. The success of the pilot project has led to plans for three additional regional CP knowledge management systems. The next one will be established in Africa during 2007, followed by Eastern Europe in 2008 and Asia in 2009.

### **C. Eliminating the use of hazardous and toxic materials**

The Organization's CP programme and activities, such as the elimination or reduction of the use of mercury by artisanal gold miners, help to minimize the role and impact of hazardous and toxic materials in industry. The Montreal Protocol programme, which started 14 years ago, is UNIDO's flagship programme in this particular area. It eliminates ozone-depleting substances (ODSs)—chemicals that destroy the Earth's protective ozone layer.

The Montreal Protocol has been very successful. The bulk of the activities under the Protocol will be completed by 2010, and the parties to the Protocol are turning their attention to ODS uses that have been exempted to date. One of these is the use of ODSs in aerosol metered dose inhalers (MDIs), widely used to treat asthma and other respiratory illnesses. UNIDO has started a project in Egypt with the objective of managing the transition to ODS-free MDIs. It helps companies to convert to ODS-free manufacturing technology and assists the Government in implementing a national MDI transition strategy, an important part of which is an awareness campaign to educate doctors prescribing MDIs on the timing and reasons for the transition to ODS-free MDIs. This will be the first of a number of such projects.



The production of ODS-free aerosols in the United Republic of Tanzania was a pioneering project in the Montreal Protocol programme.

The parties to the Protocol are also turning their attention to chemicals that are less ozone depleting but are used in significant quantities, such as the refrigerants used in many chillers. In November 2005 the Executive Committee of the Protocol's Multilateral Fund approved three regional chiller demonstration projects for implementation by UNIDO, covering Africa, Eastern Europe and West Asia, to demonstrate the viability of replacing ODS-based chillers.

#### D. Maximizing recycling

Because of the close links between CP and recycling, UNIDO's CP and TEST programmes also help enterprises to recycle their waste products and use waste materials as inputs. The mercury programme encourages the recycling of mercury where its use cannot be eliminated. Finally, the textile and leather programmes partly focus on the recycling of chemicals used during textile processing and tanning.

One way of maximizing recycling is to turn waste by-products into new products. This allows enterprises to turn a cost, such as management of a waste stream, into an income, thereby offering a new product on the market. The NCPCs in El Salvador, Guatemala and Nicaragua have been helping their clients in the dairy industry to do this. Through their traditional CP work, these centres had already developed much experience in the industry. They decided to join forces to deal with a by-product of cheese production—whey. Whey has always been discharged into water bodies, where its high biochemical oxygen demand levels and salinity cause many problems. Stricter enforcement of water protection legislation meant that dairy enterprises in these countries had to rethink what they did with this by-product. Because traditional end-of-pipe treatment would raise enterprise operation costs, the NCPCs have worked with their clients since 2005 to find environmentally and economically better solutions.

In Nicaragua, after technical and initial market evaluations, a dairy enterprise has decided to reuse its whey for the production of drinks. A market study is being undertaken to identify the most acceptable drink flavours for the Nicaraguan market. It is intended to link up with a national initiative for the provision of one glass of high-nutrition drink per day to school children. The Government is currently distributing milk, but it has been proposed to substitute milk with a whey drink. In El Salvador, a dairy enterprise has decided to reuse its whey for the production of fresh cheese and a cream substitute. With the assistance of the NCPC, it installed the ultra-filtration technology required to reprocess the whey; the new products will be marketed in 2007. In Guatemala, yet another solution has been adopted by a dairy enterprise. After evaluations during 2006, it has decided to reuse its whey for yogurt production, substituting the powdered whey it previously purchased. During 2007, the enterprise will adopt the necessary reverse osmosis technology, with the continued assistance of the NCPC.



Turning whey into a new product reduces the environmental impact and increases the earning of the dairy industry.

## E. Promoting renewable sources of energy

UNIDO mainly promotes the adoption of renewable energy sources through its rural and renewable energy programmes, which particularly target rural areas without connections to the national electricity grid. Activities during 2006 under this programme are described in more detail in chapter 4.

There was an important development with regard to biofuels this year, reflecting the rapidly growing global interest in their potential contribution to the energy mix of countries. Since biofuels can replace fuels from non-renewable sources and thus present a possible response to climate change, and in view of the high price of traditional hydrocarbon-based fuels, UNIDO has initiated the development of a strategy for biofuels with the following areas of emphasis:

- The creation of profiles of sustainable biofuel provision and use, emphasizing that fuel use comprises far more than transport;
- South-South transfer and market introduction of technology for the gasification of solid biomass, building on the successful establishment of UNIDO's Centre of Excellence for biomass gasification in Bangalore, India;
- The conversion of waste residues, especially from the food industry, into ethanol as a short-term priority;
- The promotion of decentralized biodiesel production and links between local rural biofuel developments and global trade and markets;
- Setting up a clearinghouse service on biorefineries as a contribution to global knowledge platforms within the United Nations system.

## **F. From selling products to selling product services**

This comparatively new activity for UNIDO, which was launched in 2005, has primarily been undertaken within the context of the CP programme. The new business model of selling the services of products rather than the products themselves, which is now being adopted in the developed countries, is being introduced by UNIDO to developing countries and economies in transition. It can lead to dramatic reductions in the environmental impacts of products throughout their life cycle, from manufacture to final disposal. The Organization has focused its initial work on the chemical industry. A more detailed description of these activities during 2006 can be found in chapter 8.

## **G. Abatement of industrial pollution and waste management**

While promoting more sustainable production and consumption patterns, UNIDO recognizes that industrial pollution and wastes cannot be eliminated fully. To minimize their impact, UNIDO promotes environmentally sound abatement practices through the TEST programme and its sector-specific programmes for textiles and leather.

In the context of the Stockholm Convention, UNIDO focuses on the elimination of old stocks of POPs. Often these are obsolete pesticides, but stocks of industrial POPs, such as polychlorinated biphenyls, which have seen heavy use as oils in electrical transformers and other equipment, must also be eliminated.

In Slovakia, full-sized demonstration projects for various technologies that destroy POPs without using combustion were launched. In the past, POPs were usually burned, but because of controversies surrounding the use of incinerators the Stockholm Convention proposed to explore whether non-combustion technologies can offer an effective, or more effective, way of destroying these compounds. The project in Slovakia builds on several

years of assessments and evaluations, as well as the identification of stockpiles of POPs that could be the subject of a demonstration project. UNIDO's first step was to set up the management structure of the project. The Organization then invited nine technology suppliers to make presentations of various technologies. In 2007, technology suppliers will be chosen on the basis of their bids, and demonstration projects will be set up.

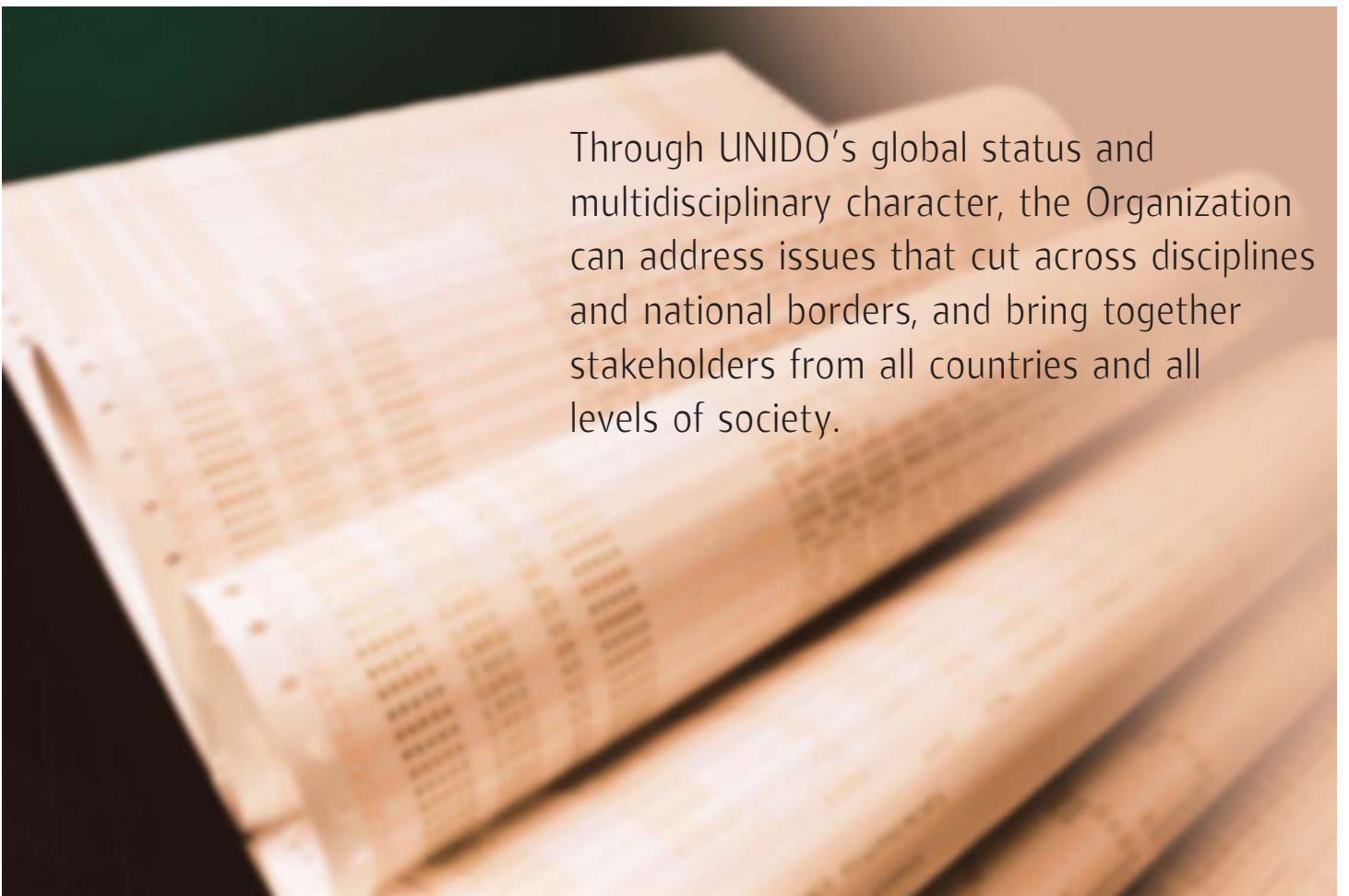




# 7

## Cross-cutting programmes and issues

Through UNIDO's global status and multidisciplinary character, the Organization can address issues that cut across disciplines and national borders, and bring together stakeholders from all countries and all levels of society.



## A. South-South cooperation and the least developed countries

Early this year UNIDO established a special unit to develop and coordinate South-South cooperation activities. The links between UNIDO's activities in LDCs and the promotion of South-South cooperation were intensified. South-South cooperation was stimulated in various ways:

- Mapping the potential in more developed countries in the South for support to other developing countries, with emphasis on LDCs;
- Building partnerships among developing countries, particularly to strengthen production capacities in LDCs;
- Promoting regional trade and regional cooperation;
- Supporting institutional networking through centres of excellence in the South;
- Enhancing triangular cooperation between the North and the South, with a special focus on LDCs. In triangular cooperation, the North, or an agency based in the North, among others in the context of the Tokyo International Conference on African Development supports a programme of South-South cooperation.

UNIDO's TC in LDCs is primarily aimed at fulfilling the following commitments of the Brussels Programme of Action:<sup>1</sup>

**Commitment 4:** Building productive capacities to make globalization work for LDCs;

**Commitment 5:** Enhancing the role of trade in development;

**Commitment 6:** Reducing vulnerability and protecting the environment.

The focus is on increasing the value added and developing supply chain systems for SMEs in agro-based industries. The activities are in line with and contribute to the Millennium Development Goals.

UNIDO's TC services covered many areas that benefited LDCs in the framework of South-South cooperation. Highlights include:

- Promoting business linkages in the SME sector, including cluster and network development;
- Supporting market access and trade facilitation in LDC members of the South Asian Association for Regional Cooperation (SAARC);
- Quality improvement in the countries of the West African Economic and Monetary Union (UEMOA);

---

<sup>1</sup>The Programme of Action (A/CONF.191/11) was adopted by the Third United Nations Conference on the Least Developed Countries in Brussels on 20 May 2001.

- Capacity-building and technology partnerships linking African, Asian, Caribbean and Latin American countries through the International Centre for Advancement of Manufacturing Technology (ICAMT) established by UNIDO in India;
- The development of small hydropower plants in East and West Africa through the International Centre for Small Hydro Power (ICSHP) established by UNIDO in China;
- The transfer of biomass technologies for rural and industrial energy needs;
- The implementation, with the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), of the Guinea Current Large Marine Ecosystem project for 16 countries for the Gulf of Guinea. This programme was endorsed by NEPAD.

To streamline and deepen its South-South and LDC activities through better institutional mechanisms, the Organization has embarked on a new initiative: The establishment of South-South industrial cooperation centres in the emerging economies of the South.

The first South-South industrial cooperation centre opened in India in January 2007. A similar centre is to be established in China. The aim of these centres will be to mobilize technical, financial and managerial resources to enhance production capacities, provide a platform for sharing development knowledge and solutions, promote regional trade and encourage the replication of best practices for poverty reduction. Negotiations are underway to establish a centre in Egypt, and further centres in Brazil and South Africa are envisioned for the future.

A breakdown of TC delivery and project allotment documents (PADs) for LDCs is given in tables 2 and 3. Both show a strong increase.

Table 2. Technical cooperation delivery to LDCs by year, in thousands of dollars

	2002	2003	2004	2005	2006
End of year delivery	9,342	10,505	8,157	9,363	15,283

Table 3. PADs to LDCs by year, in thousands of dollars

	2002	2003	2004	2005	2006
End of year	12,957	14,927	12,021	16,174	18,912

Furthermore, UNIDO has strengthened its relationship with the G-77, as discussed in chapter 3. Interaction and coordination with other United Nations agencies implementing the Brussels Programme of Action have been improved. UNIDO's sectoral report<sup>2</sup>

<sup>2</sup>Industrial development cooperation. Note by the Secretary-General (A/61/305).

submitted to the United Nations General Assembly session in September 2006, reflecting the Organization's role and contribution to TC in LDCs, was well received by all Member States. The Organization is working with UNDP's South-South Cooperation Unit on a global South-South report which will cover topics such as:

- The definition of South-South cooperation;
- South-South cooperation in industry;
- Beneficial outcomes of South-South initiatives;
- South-South cooperation beyond government—the private sector as a possible motor for cooperation in industry;
- UNIDO's role in promoting South-South cooperation.

The Organization's work on South-South cooperation was also reflected in a document on the implementation of the medium-term programme framework 2006-2009, submitted to the thirty-second session of the Board.<sup>3</sup> During the session, strong support was expressed for the Organization's efforts to strengthen United Nations inter-agency cooperation and to support the industrial development efforts of the South, and in particular the LDCs, through special initiatives.



In line with the guidance provided by its policy-making organs and United Nations mandates, UNIDO will continue to consolidate and sharpen its activities to promote South-South cooperation, focusing on LDCs.

<sup>3</sup>IDB.32/13 and IDB 32/CRP 5.

## B. Human security coordination

Human security focuses on the most vulnerable groups of a society: those living below the poverty line, who cannot satisfy their basic human needs because their access to water, food, shelter and energy is not secure, or because they lack a secure source of income. In developing countries, these groups are mainly found among rural populations, women and youth. At the beginning of the twenty-first century there are many threats to human security, ranging from endangered livelihoods to disease and violent death. In 2000, the poorer half of the world adult population owned barely 1 per cent of global wealth.<sup>4</sup>

At UNIDO, the Human Security Coordination Unit is part of the newly created Special Programmes group. It undertakes both crisis prevention and post-crisis assistance. Among the different kinds of threats, UNIDO addresses economic insecurity, environmental hazards and lack of social capital at the community level. Projects tackle these problems in various ways: by improving or restoring production capacities and infrastructure, by re-building the institutional support infrastructure, by attracting foreign and domestic investment. Some examples of projects include:

- The training of around 300 households in furniture making, carpentry, tailoring, embroidery and other crafts in Lhokseumawe, Indonesia, to overcome the effects of the tsunami;
- Support to over 40 villages in the Nuba mountains in south Sudan, boosting income and employment among poor and marginalized farmers, artisans and former refugees (see also chapter 4.D);
- Feasibility studies on tapping renewable energies for productive activities by particularly vulnerable population groups in Haiti, Liberia and Sierra Leone;
- Attracting domestic investment to earthquake-affected areas of South Asia, to initiate a process of locally-led recovery.

## C. Research and statistics

Research and associated activities observe three guiding principles:

- Topics and fields of work are chosen from an area—defined by structural change, international trade and growth—in which the classic themes relating to industry in development can be analyzed fruitfully;
- The choice of specific fields of work from this area, and of some others related to it, is guided by UNIDO's general mandate, reducing poverty through sustainable industrial growth, and informed by the Organization's three thematic priorities;

---

<sup>4</sup>United Nations University-World Institute for Development Economics Research: *The World Distribution of Household Wealth*, 5 December 2006.

- The formulation of individual research projects is motivated by the usefulness of their results for fine-tuning the Organization's programmes as well as for the design of policy-related components in TC.

### Economic research

Most research is concerned with the first thematic priority—poverty reduction through productive activities. Research on productivity in developing countries continues to provide insights that are relevant to this priority area. An important step is the presentation of results in the form of a World Productivity Database that will go online early in 2007 and be made available to Member States, international organizations, academia and other interested parties. Furthermore, an investigation of the factors behind country performance differences was initiated. Both domestic and international factors play important roles. Technology transfer through imports of intermediates, capital goods and increased international integration are particularly significant, the latter however only in the case of good domestic absorptive capacity. The quality of institutions, competition and structural transformation away from agriculture, are also important.

A dismal message on the technology gap between rich and poor countries was delivered at a meeting at the National Bureau of Economic Research in Boston, United States of America. UNIDO has measured the gap using six different approaches, which all showed that the gap is not only wide but increasing. Unless action is taken, the gap will continue to widen. A glimpse of hope, however, is provided by a handful of Asian countries (the original "Tiger" economies and some emerging "Tigers" such as China, India and Thailand) which are developing rapidly.

To determine the capacity of countries to participate successfully in global trade, in line with UNIDO's second thematic priority (trade capacity-building), preparatory work has been carried out for a study on patterns of trade in manufacturing, the corresponding international specialization trends and the implications for industrial as well as overall growth.

Research has started on energy issues, which is part of UNIDO's third thematic priority—environment and energy. A model for analyzing current and future energy needs for industrial development was applied to the case of China. It recommends improvements in industrial energy efficiency, an increase in energy supply and more cost-effective sustainable energy generation. The model is readily applicable to the regional and country assessments (see below) and can also help Member States to design and implement long-term energy policies and end-use strategies.

The research programme Combating Marginalization and Poverty through Industrial Development (COMPID), funded by Denmark, published five studies on the contribution of industry to the achievement of the MDGs. The recommendations in these reports provide a basis for policymaking and industrial development strategies in low-income countries. The reports also contain UNIDO-specific advice on TC.

## Country assessments

UNIDO's competitiveness diagnoses help to assess and benchmark the competitive performances of national industries at global, regional and sectoral levels. The methodology developed and used by UNIDO for this purpose has been refined and expanded, allowing wider assessments of the prospects for sustainable industrial development at the country and regional levels. It also provides the Organization with a standardized method for systematic analyses, which in turn, constitute a key input for future programmes and projects. A first test study on Rwanda has been completed and its results are to be used as an input in the preparation of a new UNIDO programme for technical cooperation to this country.

At a more general level, UNIDO's Industrial Development Scoreboard helps governments, the private sector and knowledge institutions, to monitor and benchmark industrial production and trade. Preparatory technical work has been carried out on updating the Scoreboard's core performance indicators. On this basis, a new version of the Scoreboard is to be produced in 2007, which will help the stakeholders improve assessment and benchmarking.

## Industrial governance

UNIDO offers a range of services to developing countries and economies in transition that aim at improving the ability of government agencies as well as private sector institutions to formulate, execute and monitor industrial strategies and policies. This is a complex, long-term process. It requires dealing with and coordinating different stakeholders and levels of governance, from local business associations to government ministries. Feedback loops are part of the project or programme design, so that lessons learned during implementation can be used to improve service delivery. The Organization's multidisciplinary character is essential for dealing with the complexities of this type of project.

Further information on some of the most important activities in the area of governance that took place in the context of the IP entitled Strategies to Enhance Industrial Competitiveness and Diversification in Saudi Arabia can be found in chapter 8.

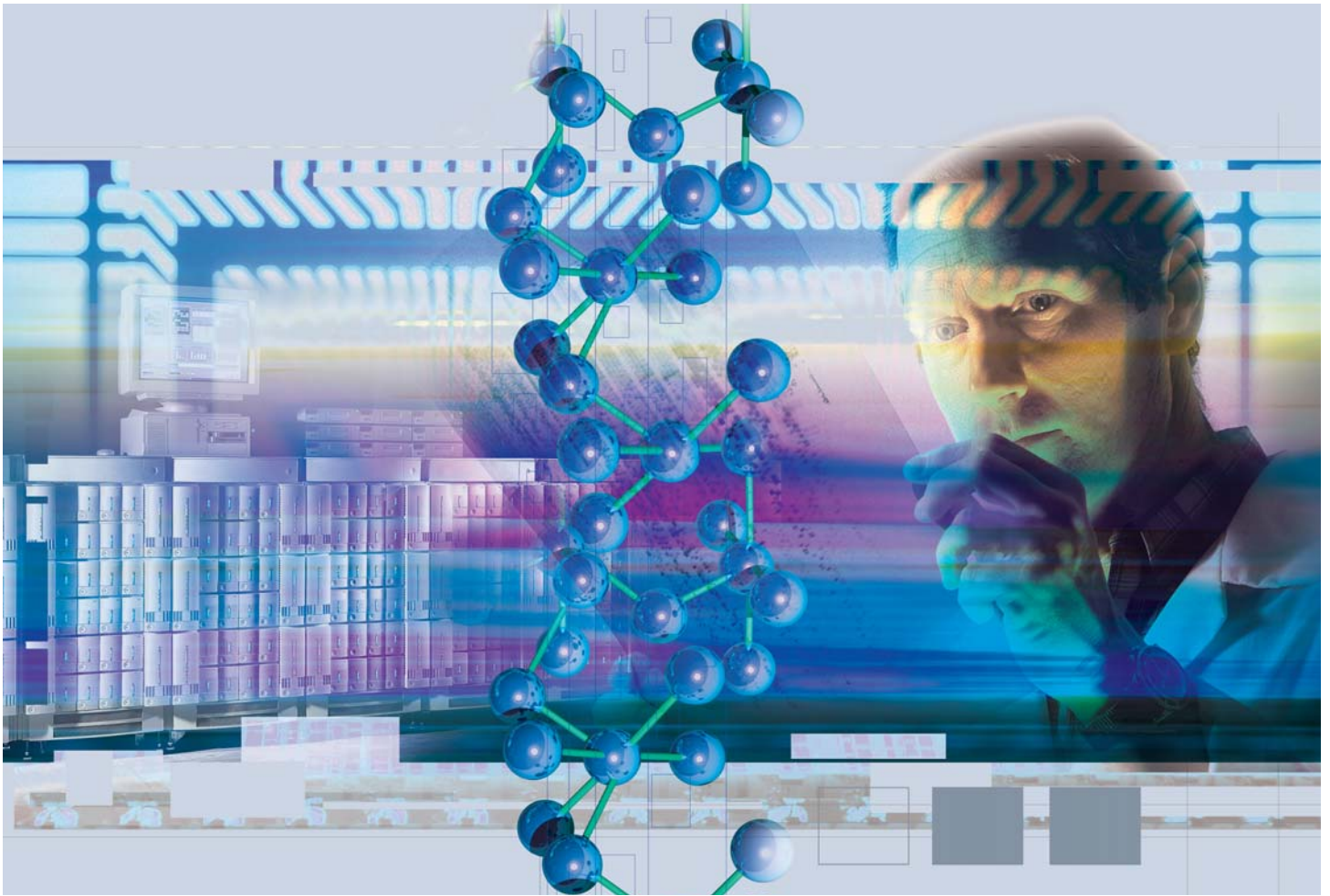
## Statistics

UNIDO has a United Nations mandate to compile and disseminate industrial statistics worldwide. The 2006 annual compilation of key industrial statistics was carried out in collaboration with the Organization for Economic Cooperation and Development (OECD). After improving the international comparability of the data reported by countries and incorporating estimates made by UNIDO, the databases were disseminated worldwide. To the extent possible, data compilation and dissemination were carried out in accordance with the internationally recommended methodological standard, the Statistical Data and Metadata Exchange (SDMX). Products derived from the databases and disseminated in 2006 are shown in appendix P.

In addition to industrial statistics databases, the Organization updated another unique database on sectoral and sub-sectoral manufacturing value added at constant prices. A new Industrial Statistics Databases (INDSTAT) database at the two-digit level of ISIC-Revision 3, which contains a historical time series on the INDSTAT variables, was initiated. Systemization and methodological upgrading of the Industrial Development Scoreboard, to increase data consistency and comparability of indicators, has also begun.

As part of its inter-agency responsibility for the development and promotion of international standard methodology and practice for statistical operations, UNIDO, together with the United Nations Statistics Division, played the leading role in the preparatory work for two new United Nations manuals on industrial structure statistics and industrial production indices. The Organization also built up capacity for statistical surveys in four developing countries and one economy in transition, and cooperated in one regional training workshop on industrial statistics.





## 8 | Selected programme profiles

UNIDO builds up medium- to long-term visions for industrial and economic development through a process of mobilizing key actors for joint action.



## A. Boosting camelid fibre textile production in Bolivia

**Programme component:** Development of agro-industries.

**Objective of the component:** To improve the competitiveness, flexibility and productivity of agro-based industries.

**Planned outcome:** Value chain in agro-industries enhanced.

**Performance indicator:** Seasonal wool yield in the area covered by the project has increased from 0.8 to 5.0 tons through improved shearing equipment.

The llama, a member of the camelid family, is a very important factor in the economy of the Bolivian highlands. Llama wool, for example, is the traditional raw material for textiles produced by the indigenous population. The best quality llama wool is better than alpaca wool, which is one of the most expensive camelid fibres in the market. However, the productivity and competitiveness of Bolivia's camelid fibre-based textiles industry is low due to poor stock breeding methods as well as inadequate wool processing methods.

To address these problems, the Bolivian Government and UNIDO initiated a camelides project in 2005. The longer-term aim of the project is to improve the whole wool production chain, from llama breeding to spinning and weaving by local artisans. If llama farmers and artisans can produce wool that meets the requirements of Bolivian textile manufacturers competing in world markets for high-quality camelid wool textiles, then not only the farmers, but the country as a whole, will benefit. Apart from improvements in llama breeding methods and shearing and processing equipment, training courses are planned for 120 persons to transfer expertise on the various stages of the camelid wool chain. Cooperation and dialogue with other organizations and projects, within and outside the United Nations system, of which only a few are mentioned in this brief overview, are a key element in the project.

The first activity under the project was the supply of shearing equipment to indigenous farmers in the southwest of the country in November 2005. The problem of highly dispersed, small-scale production was tackled by providing portable low-voltage electric shearing equipment. With the new equipment, traditional shearing methods producing limited quantities of low-quality wool, that fetches low prices in the market, could be abandoned. The new, far more productive equipment also solved the problem of labour shortages due to the large number of young people migrating to urban areas. While the low-voltage equipment can be powered by electricity generators, collaboration was initiated with a Government project to install photovoltaic power systems—a low-cost, decentralized, sustainable form of energy supply—in remote rural areas.

Consistently obtaining high-quality wool requires high-quality stock. Working with the FAO, genetic improvements, with a focus on obtaining a larger proportion of fine, white fibres (in the market, white fibres fetch \$0.50 per kilo more than coloured fibres), are to be introduced through a project component promoting genetic management through a participatory approach which targets innovative farmers.

Future commercialization options of the increased llama fibre production were discussed during a roundtable meeting with regional associations of llama farmers, spinning and textile mills and various support institutions. In addition, the project received great exposure at the International Camelides Export Fair in Bolivia.



UNIDO's camelid wool projects are boosting farmers' incomes in several Latin American countries.

A mid-term evaluation of the project in May suggested a number of adjustments to ensure effective implementation and enhance the impact of the project. The original idea of letting the regional llama farmers association manage the Centre for Innovation and Technology Transfer (CITTE), which would provide support services to producers, including equipment for common use, was reconsidered because of the limited managerial capacity of the association and its problematic financial situation. The Danish-funded Indigenous Centre for Sustainable Food Production (CIPAS) project, managed by a Bolivian NGO, has been approached with the aim of sharing facilities, and an intensive dialogue was established.

As a result of the camelides project, the seasonal wool yield has already increased from 0.8 to 5.0 tons, resulting in significant increases in sales and earnings by the farmers involved.

## B. The Bangladesh quality support programme

**Programme component:** Strengthening standards, metrology, testing and conformity assessment infrastructure.

**Objective of the component:** To strengthen standards, metrology, testing and conformity assessment infrastructure.

**Major planned outcomes:** Laboratory capacity for sampling inspection material, product testing and industrial and legal metrology strengthened; capacity of accreditation bodies for the accreditation of testing laboratories and certification bodies strengthened.

**Performance indicators:** Four laboratories have been upgraded or are at the planning stage; an accreditation board has been established.

Despite sustained domestic and international efforts, Bangladesh remains a poor and over-populated nation with 36 per cent of its population living below the poverty level. Bangladesh is still a predominantly agricultural country and agro-based industries—such as leather goods, ready-made garments, jute products, processed fish and seafood—play an important role in industrial production and exports. An increase in exports of these products could make a significant contribution to poverty reduction.

Nevertheless, the agro-based industries face major challenges. For example, they lack quality assurance, practical institutional support and market intelligence. Bangladesh used to be the world's second largest supplier of jute, but global demand for jute and jute products has declined dramatically. Finally, agro-industries are major polluters. The leather industry, in particular, is responsible for high levels of contaminated effluents and large quantities of untreated solid waste. Groundwater is contaminated with arsenic.

The UNIDO Country Service Framework (CSF) for Bangladesh addresses these problems by improving industrial productivity and market access, and introducing clean technologies. Funding has been provided by, among others the European Commission (EC), India, Japan, the Norwegian Agency for Development Cooperation (Norad) and the Swedish International Development Cooperation Agency (SIDA). Implementation started in January 2006 and much has been achieved during the first year.

The Bangladesh Quality Support Programme (BQSP), in particular, has been a major catalyst. In the context of BQSP:

- The Bangladesh Accreditation Act was passed in July;
- The Bangladesh Accreditation Board has been established. UNIDO continues to support its development into an internationally recognized accreditation authority;

- Control of the National Institute for Textiles Training and Research (NITTRAD) was transferred from the Government-owned Bangladesh Textiles Mills Corporation to a newly formed governing body with strong representation from the private sector. This will allow NITTRAD to achieve its full potential as a world-class training and research institute;
- The metrology laboratory of the Bangladesh Standards and Testing Institute is being modernized and upgraded with UNIDO assistance, and staff have been trained;
- Designs and specifications have been prepared for three new laboratories for the inspection and quality control department of the Department of Fisheries, to be completed by June 2007. This activity is supplemented by training and the introduction of a comprehensive quality assurance and traceability system for seafood exports;
- UNIDO has strengthened the Bangladesh Consumers' Association through consumer awareness training and infrastructural support, and by stimulating cooperation with Consumers International. This will enhance the involvement of consumers in standards setting and market surveillance, which should lead to greater transparency in the field of standards. The Association's long-term assistance needs were also identified.

Finally, in the field of human security, equipment to remove arsenic from groundwater has been purchased and installation is under way.

By 2009, the CSF is expected to have realized its full impact, with the successful mobilization of the funds that are still required and implementation of all its projects.

### C. Regional programme on corporate social responsibility in Central and Eastern Europe

**Programme component:** Small and medium enterprise (SME) export consortia and corporate social responsibility (CSR).

**Objective of the component:** Improved access of SMEs to global markets.

**Planned outcome:** Increased awareness and response capacity of SMEs to meet the economic, social and environmental standards required in global value chains.

**Performance indicator:** The know-how of actors capable of supporting SMEs in CSR programmes was improved.

Adherence to CSR principles, as pointed out in chapter 5, is becoming a key competitiveness factor. Central and Eastern European (CEE) enterprises are under increasing pressure to adhere to CSR principles in EU markets and elsewhere in the OECD. In 2004 and 2005, UNIDO and Croatia implemented a project that focused on the exchange of good management practice and CSR experience, building capacities for CSR-related services and



Intensive discussions during a meeting on corporate social responsibility at UNIDO Headquarters.

disseminating a practical method for cost-effective implementation of CSR concepts in SMEs. The Croatian Government was supported in defining incentives and policies promoting adherence to CSR principles in the private sector.

As a result of this programme, UNIDO was requested to extend the CSR programme to other countries in the CEE region. UNIDO, the Government of Croatia and the Croatian Cleaner Production Centre, supported by the Government of Hungary, organized a Regional Forum on CSR for Small Businesses in CEE in Zagreb in March 2006. Representatives from ministries, business communities, academic institutions and NGOs from most CEE countries as well as from Sweden and France attended the Forum. The main objectives were:

- To present and discuss the achievements of the Croatian CSR project, especially in the environmental area;
- To explore possibilities for extending the concept to other countries in the region;
- To generate commitment for comprehensive CSR policies as well as support for existing initiatives through public-private sector cooperation.

The outcomes of the project were greatly appreciated by participants and triggered a lively debate on the transfer of Croatian experiences to other countries in the region. This debate on the current status of CSR policies in the new EU member States provided valuable insights on harmonization with EU policies and the adoption of high standards while coping with global competition.

The Forum recommended the establishment of a regional CSR Centre serving as a platform for the exchange of experience and information on best practices. The Croatian Government has offered to host such a centre in Zagreb; its establishment is planned for 2007. The Centre will help private sector networks formulate and implement CSR activities and disseminate best practices throughout CEE.

UNIDO is preparing an issue paper on the current status of CSR in four countries in CEE: Bosnia and Herzegovina, Bulgaria, Romania and Serbia. The paper will include case studies as well as a general and SME-related review of the application of the CSR concept. In a second stage, the Organization will select counterpart institutions, such as business associations and NCPCs, to undertake a joint analysis of the client bases and their respective CSR needs. The aim is to develop practical CSR services and training concepts. In 2007, UNIDO plans to organize a series of workshops in the target countries to provide training on CSR-related matters. This includes the use of a comprehensive but user-friendly CSR monitoring system made available as software under the REAP discussed in chapter 5.

## D. The African Investment Promotion Network

**Programme component:** Promotion of domestic investment, foreign direct investment (FDI) and alliances.

**Objective of the component:** To stimulate domestic and foreign direct investment.

**Planned outcome:** National capacities in designing and managing policies, strategies and instruments for investment increased.

**Performance indicator:** A large volume of investment information was generated and published, providing public and private stakeholders in development with detailed profiles and performance assessments of different types of investment as well as information on investment growth trends. In addition, the impact of various types of FDI on the host economies was analyzed.

The last two decades have witnessed an unprecedented pace of technological innovations, trade liberalization, and globalization of the world economy. Investment, both foreign and domestic, is a key element in these processes. It is therefore integral to each of the thematic priorities of UNIDO and plays a central role in its activities. Productive capacity is built up, or its competitiveness improved, through investment in plants and equipment. Adoption of environmentally friendly technologies or development of clean energy needs investment. Expansion of trade requires a sophisticated articulation of investments to meet the requirements of the global market and to establish partnerships with global players.

However, the bulk of investment inflows to many developing regions, especially sub-Saharan Africa, is directed towards natural resource exploitation and is limited to only a few resource-rich countries. Against this background, the Africa Investment Promotion Agency Network (AfrIPANet) was established in 2001. It helps the investment promotion agencies (IPAs) in the region develop strategies for FDI inflows. A biannual survey of foreign investors analyzes existing FDI in terms of motivations, operational characteristics, perceptions and future plans.

The survey of 2005, the third in the series, deepened the understanding of the nature of different investor types outside the hydrocarbon and mining sectors and their impact on the host economies. The enterprise level analysis provided new insights into the performance and growth of individual investors, their actual investments and many of the productivity enhancement issues associated with FDI flows. It provides policy makers with essential information to better target investors, leverage their impact on local development, and tailor the required services and policy interventions.

The survey responds to the need to move away from a solely quantitative view of FDI. It sheds light on the increasing diversity of foreign investors in terms of dynamism, local impact in terms of employment and value added, perception of risks and location factors. It highlighted new trends such as the increasing proportion of investors from other developing economies in the South and stand-alone investors or foreign enterprises that are not subsidiaries of international companies. The changing profile of foreign investors and the growing relevance of foreign enterprises and transnational corporations (TNCs) from the South in emerging sectors, signal the need to re-examine the promotion strategies and priorities of African governments.

The survey results were presented at the AfrIPANet III conference held in Johannesburg in June 2006. AfrIPANet III was jointly organized with the NEPAD and the South African Department of Trade and Industry. The conference prompted wide debate among the participants on how to use the survey's findings to support the African IPAs, particularly to reinforce their policy advocacy role and to strengthen their ability to target investment and implement investment promotion and servicing strategies. The discussions yielded the outlines of a regional programme for supporting private sector investment and for enhancing investment governance in the region.

UNIDO is implementing the recommendations of the AfrIPANet meeting and intends to execute the survey throughout the region. A regional programme to address the problem of slow growth of employment and income generation in the sub-Saharan region of Africa has been drafted. Its basis will be a monitoring platform built on data collected through the surveys. Its aim is to facilitate:

- Assessment of the investment climate;
- Improvement of the investment climate through policy measures, regulatory interventions and targeted services;
- Measurement of the effects of these policy measures on investor actions, performance and impact;
- Increased foreign investment flows, maximizing their potential to connect with and stimulate the local private sector;
- Generation of domestic investment through localization of foreign subsidiary supply chains and stronger linkages between financial intermediaries and local enterprises;
- Regional trade through a better empirical information base; and
- Generation of business indicators such as rankings, indices and benchmarks.



An expert group meeting will be held in March 2007 in Addis Ababa to bring together regional and national stakeholders representing both the public and private sectors, to finalize the programme. The final design will be submitted for endorsement to the Conference of the African Ministers of Industry (CAMI) in April and subsequently submitted for adoption by the African Union Heads of State Summit in June 2007, as a priority for the industrialization of Africa.

UNIDO's future investment promotion strategy will be based on monitoring platforms that assist countries in calibrating their policy interventions and support services. These will provide a unique data system from which indexes can be derived that capture the essential components of the investment climate as well as those of environment and energy trends, resulting in a set of indicators and reference benchmarks for future country-driven measures to promote investment. The platforms will also assist investors in identifying investment opportunities and reducing their high-risk perception of developing markets. At the same time, national capacities will be built up to use the monitoring platform to enhance FDI quality and create stronger links between FDI and domestic investment, maximizing the positive impact on domestic investors. In this context, partnerships with equity funds and other financial institutions, to link investment promotion with international and local capital markets, will be an integral component of UNIDO's investment programme for 2007.

## E. Technology foresight in Central and Eastern Europe and the Newly Independent States

**Programme component:** Technology management and technology road-mapping and foresight.

**Objective of the component:** To enhance technology management for improved competitiveness.

**Planned outcome:** National capacities in designing and implementing technology management programmes strengthened.

**Performance indicator:** A regional technology foresight centre was established; stakeholders in countries from four regions had their skills improved.

UNIDO's regional technology foresight (TF) initiatives have targeted Asia, Central and Eastern Europe and the Newly Independent States (CEE/NIS), and Latin America. The aim is to build medium- to long-term visions for economic and technology development through a systematic, participatory process mobilizing actors for joint action. The response in the CEE/NIS region in particular, has been very positive.

With financial support from the Czech Republic, Hungary, Slovakia and Turkey, a series of training courses was organized. The purpose was to upgrade skills of different stakeholders—organizers, practitioners, decision makers and corporate managers—in the foresight process. Each of the above-mentioned countries hosted a course, which was

coorganized by a local counterpart. While most of the participants came from the CEE/NIS region, participants from the Arab region, Asia, Latin America and sub-Saharan Africa were also present. The training courses will be replicated for other participants in 2007.

The foresight methodology was strongly promoted in the last few years in projects for the Russian Federation. A technology foresight programme for the Irkutsk oblast, to be funded under a self-financing contribution to UNIDO by the oblast government, was approved by UNIDO in October.

To ensure better coordination of the increasing number of TF initiatives in the CEE/NIS region, and facilitate the exchange of information and the planning of future activities, a Regional Virtual Centre (RVC) for technology foresight was established under UNIDO auspices. Its Service Unit is located in Budapest and is co-sponsored by the Governments of the Czech Republic and Hungary. The major beneficiaries will be the policy makers and practitioners.

UNIDO's Member States have reacted positively to this initiative, and the interest of CEE/NIS countries in the RVC was confirmed by the first meeting of the RVC steering committee members and focal points, nominated by 12 countries from the CEE/NIS region, in November. It was agreed to prepare a proposal on TF activities by the Centre and the distribution of work among participating focal points. This will be reflected in the RVC work programme for 2007-2009.

In implementing TF programmes, UNIDO also works closely with the EC, to better complement and coordinate activities in the CEE/NIS region. For instance, the EC has committed to financially support UNIDO's project entitled Healthy and Safe Food for the Future, which covers Bulgaria, Croatia, the Czech Republic, Hungary, Romania and Slovakia. The implementation of the project will start in 2007.

The TF programme in CEE/NIS will be expanded in 2007. The Technology Foresight Summit, an important event focusing on water productivity, is scheduled for 27-29 September 2007 in Budapest. The summit is being co-sponsored by the Governments of Austria, the Czech Republic, Hungary and Slovenia.

## F. Chemical leasing

**Programme component:** Cleaner and sustainable production.

**Objective of the component:** To promote sustainable industrial resource management in developing countries and countries with economies in transition.

**Planned outcome:** Greater resource efficiency of production chains in countries where sustainable industrial resource management projects are located.

**Performance indicator:** Decreased quantities and toxicity of waste and pollution generated per unit of final product.

Chemical leasing is a business model in which chemicals manufacturers shift from selling chemicals to selling the functions performed by these chemicals—for example their cleaning function as in solvents or their coating function as in paints. The number of pieces cleaned or pieces coated becomes the basis of payment. In this business model, manufacturers accept including the use and disposal of the chemicals in their responsibilities.

The advantages for the industrial users of chemicals are clear:

- The manufacturers know the properties of the chemicals better than the users. Therefore, the manufacturer will use the optimal amount of the chemical and can ensure that they are used in a safe way;
- The manufacturer knows best how to deal with the chemical once it is too contaminated for further use, which will often mean lower disposal costs.

Due to these advantages, industrial users of chemicals can expect costs for the purchase of chemicals to be lower.

The advantages for manufacturers are more subtle. In general, chemical leasing means selling less, because chemicals are used more efficiently, and that the manufacturers become responsible for waste disposal. However, these disadvantages can be outweighed by:

- More stable, long-term partnerships with the users, who are less likely to change suppliers in this business model than in a standard product purchase model;
- A much more interesting package for customers: not only can manufacturers reduce the costs of using chemicals, but they can also relieve customers of the burden of dealing with unfamiliar, often hazardous or toxic materials.



In addition to this, the environment also gains: chemical use is reduced, which lowers the production of chemicals and there are smaller quantities of waste chemicals, which are managed in a more environmentally acceptable manner.

The partnership of a manufacturer and an industrial user of chemicals can be extended to include plant and equipment suppliers and companies recycling chemicals. Key elements of successful chemical leasing are proper benefit sharing among all participating companies, high quality standards for the final product and any recycled chemicals, and mutual trust among participants.

In cooperation with the Austrian Ministry of the Environment, UNIDO's Cleaner Production Programme began promoting chemical leasing business models in developing and transition countries in 2005. During 2005 and 2006, projects involving around 20 companies were being implemented with the NCPCs in Egypt, Mexico and the Russian Federation. The NCPCs promoted the projects amongst their clients, and once partnerships were established, they monitored and validated their performance.

In Egypt, one of the partnerships is between AKZO Nobel Powder Coatings SAE as the supplier of electrostatic powder coatings and ABB Arab, a manufacturer of high and low voltage equipment, as the industrial user of the chemical. AKZO Nobel's product is used to coat the frame components of ABB's power equipment. Under the chemical leasing model adopted, AKZO Nobel is offering the service of coating instead of selling its powder-coating chemicals. ABB Arab pays a fee per square metre of final product coated per day. The fee covers the powder used, the supervision of the coating line, which includes a transfer of know-how on the techniques of powder application, and the recycling of waste powder.

The main environmental benefits of this partnership are:

- A reduction in the amount of powder coating used on ABB Arab's premises, with a consequent reduction in all the environmental impacts of coating powder production;
- The recycling of the waste coating powder, which was being landfilled before;
- Improved working conditions in ABB Arab, because of better coating process control and better maintenance of the coating powder line;
- Reduced environmental impacts, previously generated by imperfectly maintained equipment.

In addition, both companies now have a long-term business relationship.

## G. Joint formulation of an industrial strategy for Saudi Arabia

**Programme component:** Technical cooperation services in industrial governance.

**Objectives of the component:** To improve the decision-making capabilities of Governments, private sector and support institutions in the formulation, implementation and monitoring of industrial strategies, policies and programmes.

**Planned outcome:** Improved effectiveness of systems of industrial governance based on public-private partnerships and consultations.

**Performance indicator:** The Government worked directly with other stakeholders in the formulation, implementation and monitoring of an industrial strategy.

In its *Vision 2020* strategy document, Saudi Arabia commits itself to reducing its dependence on oil. Income from the oil industry is to be used to build up a diversified economy, with the private sector and the highly skilled Saudi labour force as the major drivers. In the transformation of a natural resource-intensive economy into a knowledge-based economy, the manufacturing sector will play a critically important part. UNIDO supports the efforts of the Government with the integrated programme strategies to enhance industrial competitiveness and diversification in Saudi Arabia.

The *Vision 2020* recognizes that its ambitious aims can only be reached through an intensive dialogue among the main stakeholders in development: the Government, in particular the Ministry of Commerce and Industry, private businesses and the national innovation system, including universities and research institutes. On the basis of a UNIDO assessment of the industrial sector, interviews and meetings were held with all stakeholders to define strategic concepts for the sector. This step-by-step process was guided by a Steering Committee on which all key players were represented, ensuring the continuity of the dialogue.

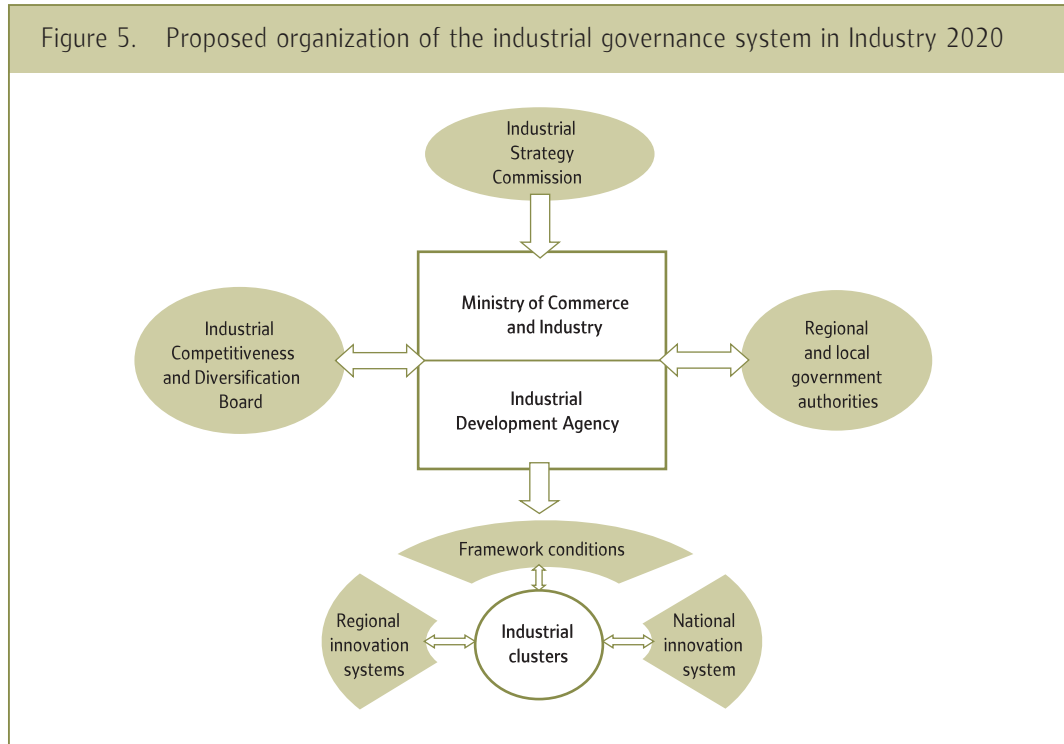
The outcome of the process was a draft strategy presented by the UNIDO project team to a stakeholders' meeting chaired by the Minister of Commerce and Industry. The final strategy document, *Industry 2020—Partners in Building a Promising Industrial Future*, was submitted to the Government for approval in December. Its strategic pillars are:

- Building up domestic capabilities in areas such as skills, research and development, information and communication technologies and investment promotion;
- Creation of a more stimulating business environment, especially for SMEs;
- Creation of an industrial innovation system at the national level as well as in the country's different regions;
- Promotion of industrial clusters;
- A stronger system of industrial governance at the national, regional and local level (see figure 5 for its composition) to guide the implementation of the strategy.

An action plan with concrete programmes for each of the pillars was formulated, with a budget of \$3.9 billion. The lessons learned from the implementation of projects will be used to develop industry-related activities for the new Five Year Plan which starts in 2010.

The successful process of dialogue and cooperation among development stakeholders, leading to the formulation of *Industry 2020*, can be seen as a major result of the integrated programme. However, other outcomes of the process deserve to be mentioned as well, such as a plan for cluster formation, publication of a statistical survey, improvements in the industrial data system, workshops on new forms of industrial governance for the stakeholders, and training of the Ministry of Commerce and Industry staff in analysis, policy formulation, implementation and monitoring.

Figure 5. Proposed organization of the industrial governance system in Industry 2020





## General information on UNIDO

### A. Size and structure of the Organization

UNIDO was established in 1966 and became a specialized agency of the United Nations in 1985. The Organization currently has 172 Member States.

UNIDO employs 654 staff members at Headquarters and other established offices. In addition, UNIDO draws on the services of some 2,100 international and national experts annually who work on projects throughout the world. The Director-General of UNIDO, Kandeh K. Yumkella (Sierra Leone), was appointed by the eleventh session of the General Conference (28 November-2 December 2005), and assumed office on 8 December 2005.

The structure of the Organization is shown in figure 6 below.

### B. UNIDO's primary objective

The primary objective of the Organization is the promotion of industrial development in the developing countries and economies in transition. To this end, UNIDO also promotes cooperation on the global, regional, national and sectoral levels.

## C. The policy-making organs

UNIDO has three policy-making organs: the General Conference, the Industrial Development Board and the Programme and Budget Committee.

### General Conference

The Member States of UNIDO meet once every two years at the General Conference, the supreme policy-making organ of the Organization. The Conference determines the guiding principles and policies, approves the budget and work programme of UNIDO and appoints the Director-General. It also elects representatives to the Industrial Development Board and the Programme and Budget Committee. The eleventh session of the General Conference took place from 28 November to 2 December 2005.

The twelfth session of the General Conference will take place from 3 to 7 December 2007.

### Industrial Development Board

The Industrial Development Board has 53 Members and reviews the implementation of the work programme, the regular and operational budgets and makes recommendations

Box 1. Present composition of the Industrial Development Board

Afghanistan	Guatemala	Russian Federation
Algeria	India	Saudi Arabia
Austria	Indonesia	Senegal
Belgium	Iran (Islamic Republic of)	Slovakia
Bolivia	Ireland	South Africa
Brazil	Italy	Spain
Burkina Faso	Japan	Sri Lanka
Chile	Kenya	Switzerland
China	Luxembourg	Syrian Arab Republic
Colombia	Mexico	Thailand
Côte d'Ivoire	Morocco	Tunisia
Cuba	Netherlands	Turkey
Czech Republic	Nigeria	Ukraine
Egypt	Norway	United Kingdom of Great Britain and Northern Ireland
Ethiopia	Pakistan	Uruguay
France	Paraguay	Zimbabwe
Germany	Poland	
Ghana	Republic of Korea	
Greece		



to the General Conference on policy matters, including the appointment of the Director-General. The Board meets once in General Conference years, and twice in other years. The thirty-first and thirty-second session of the Industrial Development Board took place from 6 to 7 June and from 29 November to 1 December 2006, respectively.

The present composition of the Board is shown in box 1.

### Programme and Budget Committee

The Programme and Budget Committee, consisting of 27 Members, is a subsidiary organ of the Board. It meets once a year and assists the Board in the preparation and examination of the work programme, the budget and other financial matters. The twenty-second session of the Programme and Budget Committee took place from 5 to 6 September 2006.

The present composition of the Committee is shown in box 2.

Box 2. Present composition of the Programme and Budget Committee		
Algeria	Germany	Poland
Austria	Greece	Republic of Korea
Burkina Faso	Guatemala	Russian Federation
China	Hungary	Switzerland
Côte d'Ivoire	Iran (Islamic Republic of)	South Africa
Cuba	Italy	Tunisia
Democratic People's Republic of Korea	Japan	Turkey
Ethiopia	Mexico	United Kingdom of Great Britain and Northern Ireland
France	Pakistan	
	Peru	

## D. Policy milestones

- The Business Plan on the Future Role and Functions of UNIDO, adopted by the Industrial Development Board (IDB.17/Dec.2) and endorsed by the seventh session of the General Conference in 1997 (GC.7/Res.1), provided the basis for UNIDO's organizational and programmatic transformation. It concentrated the Organization's activities in two areas: strengthening industrial capacities, and cleaner and sustainable industrial development. The Business Plan requires the Organization to undertake both technical cooperation and global forum activities in these areas. It continues to form the basis on which UNIDO operates.
- Recognizing the need for UNIDO to adapt its functions and priorities and orient its activities to the new realities and requirements of the changing global economic

environment, the Strategic Guidelines “Towards improved UNIDO programme delivery” were adopted by the Industrial Development Board at its twenty-sixth session in 2002 (IDB.26/Dec.7). The Guidelines were conceived as an important contribution to the efforts to make UNIDO a more efficient and effective organization; they seek to further sharpen the focus of UNIDO’s technical cooperation activities.

- The vision for the future of UNIDO is set out in the Strategic Long-term Vision Statement 2005-2015, adopted in resolution GC.10/Res.2 at the tenth session of the General Conference in 2005. Responding to international development priorities, it presents a flexible vision for operations around three thematic priorities:

**Poverty reduction through productive activities**, by promoting industrial growth in less developed areas, focusing on employment and income generation, as well as institutional capacity-building and the development of small and medium enterprises;

**Trade capacity-building**, by assisting countries in building and developing both production and trade-related capacities, including the capacity to conform to the standards of international markets required for participating in international trade;

**Environment and energy**, by focusing on and promoting renewable sources of energy and supporting programmes which maximize industrial energy efficiency, as well as other activities promoting sustainable industrial development and supporting the implementation of international environmental agreements.

## E. UNIDO around the world

- In 2006 UNIDO maintained a field network of 12 regional offices and 16 country offices, some of which cover more than one country. Thirteen UNIDO Desks have become operational since the Cooperation Agreement with the UNDP was signed in 2004.
- A network of 15 Investment and Technology Promotion Offices (ITPOs) and four Investment Promotion Units (IPUs) promotes investment and technology flows to developing countries and countries with economies in transition.
- In addition to the above, there are 34 National Cleaner Production Centres (NCPCs), established by UNIDO and UNEP, with another five currently under establishment, and nine International Technology Centres at various stages of development that work closely with the ITPOs.
- UNIDO maintains liaison offices in Brussels (European Union), Geneva (United Nations) and New York (United Nations).

## F Budget and technical cooperation

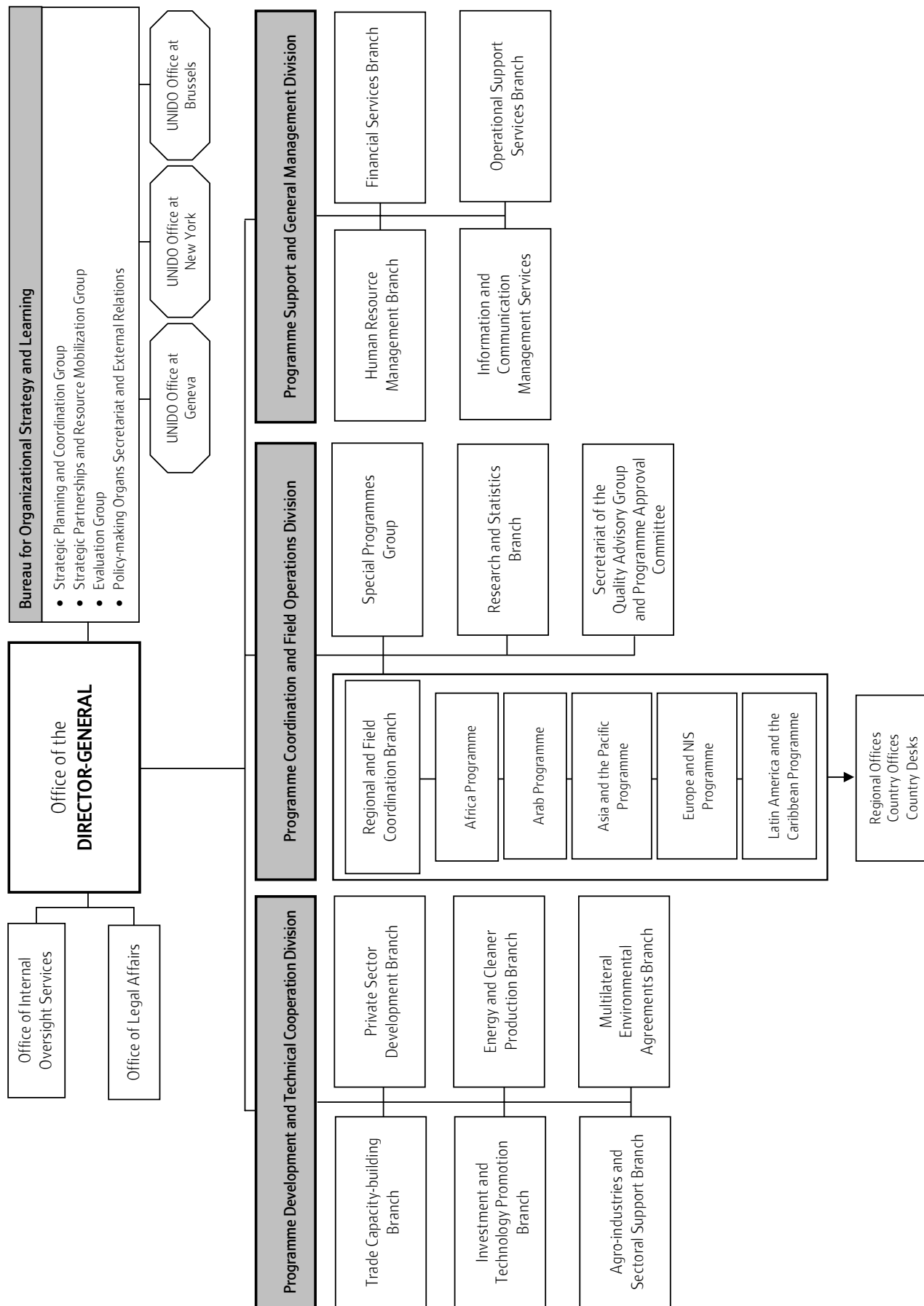
- Budget: the estimated volume of UNIDO operations for the biennium 2006-2007 is €356 million.

- The value of UNIDO's ongoing technical cooperation programmes and projects totalled \$494.6 million as of 31 December 2006.
- The value of technical cooperation delivery in 2006 was the highest since 1993, amounting to \$113.7 million. This represents an increase of 65 per cent over the corresponding figure for the year 2000 and consolidates the growing trend of UNIDO's technical cooperation services.

## Member States of the United Nations Industrial Development Organization

Afghanistan	Djibouti	Libyan Arab	Saudi Arabia
Albania	Dominica	Jamahiriya	Senegal
Algeria	Dominican Republic	Lithuania	Serbia
Angola	Ecuador	Luxembourg	Seychelles
Argentina	Egypt	Madagascar	Sierra Leone
Armenia	El Salvador	Malawi	Slovakia
Austria	Equatorial Guinea	Malaysia	Slovenia
Azerbaijan	Eritrea	Maldives	Somalia
Bahamas	Ethiopia	Mali	South Africa
Bahrain	Fiji	Malta	Spain
Bangladesh	Finland	Mauritania	Sri Lanka
Barbados	France	Mauritius	Sudan
Belarus	Gabon	Mexico	Suriname
Belgium	Gambia	Moldova	Swaziland
Belize	Georgia	Monaco	Sweden
Benin	Germany	Mongolia	Switzerland
Bhutan	Ghana	Montenegro	Syrian Arab Republic
Bolivia	Greece	Morocco	Tajikistan
Bosnia and Herzegovina	Grenada	Mozambique	Thailand
Botswana	Guatemala	Myanmar	The former Yugoslav Republic of
Brazil	Guinea	Namibia	Macedonia
Bulgaria	Guinea-Bissau	Nepal	Timor-Leste
Burkina Faso	Guyana	Netherlands	Togo
Burundi	Haiti	New Zealand	Tonga
Cambodia	Honduras	Nicaragua	Trinidad and Tobago
Cameroon	Hungary	Niger	Tunisia
Cape Verde	India	Nigeria	Turkey
Central African Republic	Indonesia	Norway	Turkmenistan
Chad	Iran (Islamic Republic of)	Oman	Uganda
Chile	Iraq	Pakistan	Ukraine
China	Ireland	Panama	United Arab Emirates
Colombia	Israel	Papua New Guinea	United Kingdom of Great Britain and Northern Ireland
Comoros	Italy	Paraguay	United Republic of Tanzania
Congo	Jamaica	Peru	Uruguay
Costa Rica	Japan	Philippines	Uzbekistan
Côte d'Ivoire	Jordan	Poland	Vanuatu
Croatia	Kazakhstan	Portugal	Venezuela
Cuba	Kenya	Qatar	(Bolivarian Republic of)
Cyprus	Kuwait	Republic of Korea	Viet Nam
Czech Republic	Kyrgyzstan	Romania	Yemen
Democratic People's Republic of Korea	Lao People's Democratic Republic	Russian Federation	Zambia
Democratic Republic of the Congo	Lebanon	Rwanda	Zimbabwe
Denmark	Lesotho	Saint Kitts and Nevis	
	Liberia	Saint Lucia	
		Saint Vincent and the Grenadines	
		Sao Tome and Principe	

Figure 6. UNIDO's organizational chart



## List of Abbreviations

### A

ACP	African, Caribbean and Pacific (Group of States)
AfrIPANet	Africa Investment Promotion Agency Network
ASMED	Agency for Small and Medium Enterprise Development

### B

BIPM	International Bureau of Weights and Measures
BQSP	Bangladesh Quality Support Programme
BSTI	Bangladesh Standards and Testing Institute
BTMC	Bangladesh Textiles Mills Corporation

### C

CAD/CAM	Computer aided design/computer aided manufacturing
CAMI	Conference of the African Ministers of Industry
CCA	Common Country Assessment
CD	Cluster and networking development
CE	Conformité Européenne
CEB	Chief Executives Board for Coordination
CEE/NIS	Central and Eastern Europe and the Newly Independent States
CFC	Common Fund for Commodities
CIPAS	Centro Indígena de Producción Alimentaria Sostenible
CITTE	Centro de Innovación y Transferencia de Tecnología
CNN	Cable News Network
COMPID	Combating Marginalization and Poverty through Industrial Development
CP	Cleaner production
CSF	Country service framework
CSR	Corporate social responsibility

### E

EAC	East African Community
EB	Executive Board
EC	European Commission
ECOSOC	United Nations Economic and Social Council
ECOWAS	Economic Community of Western African States
EPA	Economic Partnership Agreement
ECP	Entrepreneurship curriculum programme
EST	Environmentally sound technologies
EU	European Union

### F

FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment

### G

G-77	Group of 77 and China
GEF	Global Environment Facility

## H

HACCP	Hazard analysis and critical control point
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome
HLCP	High-level Committee on Programmes
HLCM	High-level Committee on Management
HUO	Head of UNIDO Operations

## I

IAEA	International Atomic Energy Agency
IAF	International Accreditation Forum
ICAMT	International Centre for Advancement of Manufacturing Technology
ICSHP	International Centre for Small and Hydro Power
ICT	Information and communication technology
IEC	International Electrotechnical Commission
IFAD	International Fund for Agricultural Development
ILAC	International Laboratory Accreditation Cooperation
ILO	International Labour Organization
INDSTAT	Industrial Statistics Databases
IP	Integrated programme
IPA	Investment promotion agency
IPU	Investment Promotion Unit
IPSAS	International Public Sector Accounting Standards
ISO	International Organization for Standardization
ITC	International Trade Centre (UNCTAD/WTO)
ITPO	Investment and Technology Promotion Offices
ITU-T	Telecommunication Standardization Bureau of the International Telecommunication Union

## J

JCDCMAS	Joint Committee on Coordination of Assistance to Developing Countries in Metrology, Accreditation and Standardization
JPSDP	Joint Private Sector Development Programmes

## L

LDC	Least developed country
-----	-------------------------

## M

MCI	Ministry of Commerce and Industry
MDGs	Millennium Development Goals
MDI	Metered dose inhaler
MRA	Multilateral Recognition Agreement

## N

NBER	National Bureau of Economic Research
NCPC	National Cleaner Production Centre
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organization
NITTRAD	National Institute for Textiles Training and Research
Norad	Norwegian Agency for Development Cooperation

**O**

ODS	Ozone depleting substances
OECD	Organization for Economic Cooperation and Development
OFID	OPEC Fund for International Development
OIML	International Organization of Legal Metrology

**P**

PAC	Programme Approval Committee
PCB	Polychlorinated biphenils
POP	Persistent organic pollutants
PSD	Private sector development

**Q**

QAG	Quality Advisory Group
-----	------------------------

**R**

RBM	Results-based management
REAP	Responsible Entrepreneurs Achievement Programme
RVC	Regional Virtual Centre

**S**

SAARC	South Asian Association for Regional Cooperation
SIDA	Swedish International Development Cooperation Agency
SPS	Sanitary and phyto-sanitary measures
SSS	Service summary sheet
SME	Small and medium enterprise
SMTC	Standards, metrology, testing and quality
SDMX	Statistical Data and Metadata Exchange

**T**

TBT	Technical barriers to trade
TCB	Trade capacity-building
TC	Technical cooperation
TCPR	Triennial comprehensive policy review
TEST	Transfer of environmentally sound technology
TF	Technology foresight
TFED	Task Force on Economic Development
TNC	Transnational corporation

**U**

UEMOA	West African Economic and Monetary Union
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNODC	United Nations Office on Drugs and Crime
UNOWA	United Nations Office for West Africa

**W**

WAITRO	World Association of Industrial and Technological Research Organizations
WTO	World Trade Organization









**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**

Vienna International Centre

P.O. Box 300, 1400 Vienna, Austria

Telephone: (+43-1) 26026-0

Fax: (+43-1) 2692669

E-mail: [unido@unido.org](mailto:unido@unido.org), Internet: <http://www.unido.org>